IESE

University of Navarra

PROCESS ISSUES IN ALLIANCE MANAGEMENT: A PANEL DISCUSSION

Africa Ariño*
José de la Torre**
Yves Doz***
Peter S. Ring****
Gianni Lorenzoni*****

RESEARCH PAPER No. 403
November, 1999

* Professor of General Management, IESE
** Professor, The Anderson School at UCLA
*** Professor, INSEAD
**** Professor, Loyola Marymount University
***** Professor, University of Bologna

Research Division
IESE
University of Navarra
Av. Pearson, 21
08034 Barcelona - Spain

PROCESS ISSUES IN ALLIANCE MANAGEMENT: A PANEL DISCUSSION

The purpose in this series of papers is to examine different perspectives on the evolution of the process of collaboration and the management challenges therein by focusing on a single case experience. The literature on alliance and collaboration has grown immensely in the last few years. Much attention has been given to the economic rationale for intermediate organizational forms, the so-called "swollen middle" (Hennart, 1993) that lies between market and hierarchical solutions, and to the conditions under which such structures are optimal (Hennart, 1988; Balakrishnan & Koza, 1993; Buckley and Casson, 1996). More recently, there has been a virtual explosion in the treatment of the managerial challenges involved in inter-firm collaboration, ranging from issues of negotiation and conflict resolution to the role of strategic intent or prior experience, as well as numerous attempts to conceptualize and measure that most ephemeral and abused concept, trust (1).

The initial paper in the series introduces the specifics of the case on which our discussion is based, and presents a view on the role that perceptions of efficiency and equity between the partners within a relationship have on the evolution of their collaboration. As elaborated in the paper, efficiency perceptions refer to the partners' views on the potential for value creation within the alliance, relative to other organizational choices. Equity perceptions relate to the expected balance between the partners' relative costs and benefits in the alliance, that is, the potential for fairness in value appropriation. The paper starts by summarizing the facts of a failed international joint venture, and chronicles the process of its disintegration through a series of events in its 3-year history. The concepts of efficiency and equity are then defined and formalized. Next, the authors provide their own interpretation of the case data and propose a structure for the analysis of the inter-partner relationship. Finally, they offer a model of the evolution of collaboration that is driven by the maintenance of relational quality among the partners, including the accommodation of changes in both the business environment and the strategies of the partners over time.

---

(1) The various Special Issues on collaboration, alliances and trust published by the *Academy of Management Journal* (1995 and 1997), the *Journal of International Business Studies* (1996), the *Academy of Management Review* (1998), *Organization Science* (1998) and forthcoming in *Organization Studies* and the *Strategic Management Journal* are evidence of this burst of research on these topics.

Note: This collection of papers is based on a special panel session held during the Annual Meeting of the Strategic Management Society, in Barcelona, Spain, on October 8, 1997. The authors are grateful to the organizers of the panel, to the SMS audience for their insights about the issues discussed during the session, and to three anonymous reviewers who contributed greatly to enhance the coherence of this series.
This series has been also included in the CIBER Working Paper Series, The Anderson School at UCLA as Paper No. 99-11.

Last edited: 2/16/00

The three other papers in the series elaborate on this interpretation and bring a broader set of concerns derived from each author's own research trajectory. Since two of the authors were responsible for earlier models on which the initial case analysis was based, they have a unique opportunity to revisit their original thinking and to reinterpret it in view of the facts presented. They take a more dynamic view and incorporate more recent theoretical insights from the management process literature to the collaborative process. The last paper ventures beyond the dyadic framework of the original analysis to examine the lessons that can be drawn for broader networks of collaborative alliances. A final section on conclusions summarizes the arguments and suggests where there may be convergence, as well as proposes new avenues for research.

EQUITY AND EFFICIENCY IN COLLABORATIVE PROCESSES: THE NAMCO-HEXAGON JOINT VENTURE CASE

The JVCO Case History (1)

JVCO was a 50/50 joint venture between two multinational companies –NAMCO from the United States and Hexagon from Europe– operating in the household products industry. Both parents had independently developed a successful ecological household cleaner for the Scandinavian market. Aware of a large potential market and the difficulties entailed in extending this new product category on a worldwide basis, the two companies opened discussions on combining their capabilities for this purpose. The two project champions were top executives from each company who saw JVCO as a legacy to their respective companies. Following a short negotiation process, a stand-alone equity joint venture was created in March 1990. After three years of operations, it was dissolved in December 1993.

JVCO's initial purpose was to manufacture and distribute ecological liquid cleaners for both personal and household use. Additionally, the partners decided to add hypoallergenic skin care products as well as dietary supplements as possible future extensions of the product portfolio. The rationale was to provide for some degree of diversification and give a higher volume to the venture. NAMCO's contribution would consist of access to its extensive network of company-owned and independent affiliates throughout the world –who customarily performed product mixing, packaging and distribution functions– and its trademarked name. Hexagon contributed its widely known trademark, Hexa, its existing ecological liquid cleaner formula, and its production technology and know-how.

NAMCO's name, one of the most valuable franchises in the world, was to be used only in connection with JVCO's name and not on its products. The Hexagon trademark, on the other hand, would apply directly to the venture's products: Hexa-Kleen for ecological cleaners, Hexa-Care for skin care products and Hexa-Slim for dietary supplements. NAMCO's production/ distribution agents were occasionally part owned by the parent company. In most cases, however, they were independent but closely linked to the parent for all operational and marketing decisions. The venture was structured as a 50/50 subsidiary, with cost reimbursement for the use of either parent's existing resources (plus a moderate fee in the case of new developments), and royalty payments of 4% of sales to each partner for the use of their respective trademarks.

The parents intended all research and product development activities to be subcontracted to Hexagon. Product mixing, packaging and distribution would normally be subcontracted to NAMCO or to its independent agents. These functions, however,

(1) See Ariño and de la Torre (1998) for a detailed description of the case and related facts. The names of companies and many identifying facts have been disguised to protect the confidentiality of the participants. The methodology note in the Appendix provides a description of the techniques of data collection and analysis employed.

could be handled separately by either Hexagon, independent third parties, or JVCO's own facilities if need be. Despite the parents' willingness to consider the eventual development of JVCO's own mixing and distribution system, they strongly encouraged JVCO's management to avoid resource duplication. Some flexibility was necessary, however, due to Hexagon's preference for a high-temperature mixing process that NAMCO's distributors could not perform without additional investment.

Management of the joint venture was entrusted to a group of eight executives seconded from both organizations (5 from NAMCO and 3 from Hexagon). All senior posts were thus filled with veterans who had, collectively, 116 years of prior service with the two companies. An executive board, with three representatives drawn from the top management (executive vice-president or above) of each parent, governed the joint venture. The two joint venture champions were named co-chairs of the board.

Initial Steps and a Shift in Goals

The parents' early behavior within the alliance signaled a cooperative relationship. Hexagon unilaterally transferred its North American Hexa-Care business to the joint venture, and a quick agreement was reached on product development issues to satisfy Hexagon's temperature requirements, including a formula for calculating transfer prices between JVCO and Hexagon (see Table 1 for a listing of all critical events). When the first product launch for Hexa-Kleen was planned for Germany, Hexagon's formulation proved inadequate for local tastes. NAMCO stepped in with its own product formulation, thus allowing for a timely launch.

Table 1. Major events in JVCO's history

Pre-Formation	
Before 1990	Casual but frequent contacts between two senior executives of NAMCO and Hexagon, both with direct responsibility for European operations (inter alia).
1989	Discussions intensify on possible collaboration to launch a line of ecological cleaning products worldwide, based on successful experiences by both companies in Scandinavia.
November 1989	Letter of agreement signed by two venture "champions."
March 1990	Contract signed and JVCO launched. Product scope widened from ecological cleaning products (Hexa-Kleen) to include hypoallergenic skin care products (Hexa-Care) and possibly dietary supplements (Hexa-Slim).
Post-Formation	
1. Q2 1990	Hexagon transfers existing North American Hexa-Care business to JVCO.
2. Q2 1990	Agreement reached to use Hexagon's high-temperature process for Hexa-Care even if this is not accessible to NAMCO's distributors. Later modified (Q3 1992) to include low-temperature process.
3. Q3 1990	NAMCO steps in to contribute product formulation for Hexa-Kleen launch in Germany after Hexagon's formula is proven inadequate.
4. Q1 1991	JVCO faces market resistance to Hexa-Kleen and shifts strategy to emphasize Hexa-Care in North American market. Issue of cannibalization surfaces (Q2 1991) and festers. Distribution agreement modified as a result (Q3 1991) but not implemented until Q3 1992.
5. Q1 1991	NAMCO's Retail Division obtains favorable treatment from JVCO.
6. Q2 1992	Three members of JVCO's executive committee, including both venture champions, retire from their respective parent companies and are replaced on the committee.
7. Q1 1992	Hexagon announces the acquisition of American Beauty, a U.S.-based cosmetics company, which gives it alternative distribution capabilities.
8. Q2 1991	Southern Distributors, a partly-owned subsidiary of NAMCO, relieves Hexa-Care competitor from non-competing clause in contract following its cancellation in exchange for $1.5 million in compensation.
9. Q2 1992	Following a request from JVCO, Hexagon cancels commitment to supply Hexa-Slim to the joint venture.
10. Q4 1992	Hexagon's request for distribution help in Asia for an unrelated product is turned down by NAMCO.
11. Q3 1992	Proposal for long-term compensation system for JVCO's senior management is approved by NAMCO but taken under advisement by Hexagon.
12. Q3 1992	NAMCO announces the creation of a new administrative unit ("New Products Division") to assume control over JVCO products' distribution.
13. Q2 1993	Proposal to launch an Asian-style skin care product is opposed by Hexagon.
14. Q3 1993	Decision taken to terminate JVCO effective December 1993.

Shortly thereafter, in early 1991, JVCO's management decided to shift its initial focus to Hexa-Care. Hexa-Kleen was a new product category requiring major development efforts, whereas the market for Hexa-Care was showing signs of rapid growth. This shift in goals had important implications for NAMCO. Whereas Hexa-Kleen distribution required investment in new special displays –an investment to be shared by the two partners–, Hexa-Care distribution used NAMCO's facilities exclusively and competed for shelf space with its other products. As this implied potential cannibalization, NAMCO demanded additional compensation for JVCO's use of its distribution system. Hexagon was reluctant to accept NAMCO's demands that JVCO invest in new distribution equipment. Simultaneously, JVCO encountered resistance from NAMCO's regional offices to convince local distributors to handle the Hexa line. Discussion of these issues in the executive board was at first inconclusive. In the meantime, NAMCO's Retail Division (direct sales to beauty salons/hairdressing establishments) had obtained a more favorable transfer price for the Hexa-Care line on the basis of its strong market position.

Southern Distributors and the Rival Corporation

Hexagon perceived NAMCO's reticence as a lack of commitment to the joint venture. A few months later, an incident with one of its distributors exacerbated Hexagon's suspicions. Prior to the JVCO agreement, some of NAMCO's agents were performing mixing, packaging and distribution functions under contract for BigName, an independent company that had entered the hypoallergenic products market with a strong brand name in a related business. In late 1990, BigName's President called NAMCO's CEO to question the impact that the JVCO agreement would have on BigName's contracts with its distributors. NAMCO's CEO argued that those contracts did not involve NAMCO directly and, thus, were unaffected by the JVCO agreement.

Shortly thereafter, BigName canceled its contracts with the NAMCO distributors and formed a joint venture similar to JVCO with Rival Corporation, NAMCO's strongest competitor in its core business. These contracts, however, included a one-year non-competition clause in the event of unilateral cancellation. Faced with this obstacle, BigName approached a number of NAMCO's distributors with the offer to buy this clause out. Southern Distributors, a large regional agent in which NAMCO held a minority equity position, was the first one to accept payment of $1.5 million in order to release BigName from its contractual obligation. Others soon followed. Hexagon's President learned of these developments through a telephone call from NAMCO's CEO one day before the news was reported in the press. Hexagon's management could not understand how NAMCO, one of Southern Distributors' main shareholders and a key supplier, could allow this to happen, particularly given that NAMCO's CFO sat on both Southern's and JVCO's boards. The subtleties of fiduciary rights and minority shareholder obligations were not obvious to the European company.

Some Additional Events

Other issues contributed to a deteriorating relationship between the partners. In mid-1992 Hexagon acquired American Beauty, a U.S.-based corporation that could perform some of the packaging/distribution functions now filled by NAMCO's agents. This reduced Hexagon's dependency on JVCO and the uniqueness associated with the venture. Simultaneously, NAMCO's earlier offer to give administrative credit to its regional offices for the sales of JVCO's products through its distributors was yet to be implemented.

Also in 1992, three members of JVCO's board retired, including the two venture champions. As this took place before the joint venture's purpose had been institutionalized, issues that may have been easily solved by the founding fathers were now requiring long discussions. Cultural differences at both the national and corporate level also served to delay decisions and cause misunderstandings. One example involved the adoption of a long-term compensation package for senior management of the venture. NAMCO, accustomed to these reward packages, approved it immediately, whereas Hexagon took the proposal under advisement and never gave its approval. Finally, at the end of 1992, NAMCO rejected Hexagon's request for distribution help on an unrelated product in Asia.

A Frustrated Attempt to Improve the Relationship

The August 1992 board meeting was critical to the developing relationship. Hexagon agreed to allow NAMCO's distributors to mix and package Hexa-Care using a low-temperature process more suitable to their equipment and promised to develop a formula to this effect. They also accepted that JVCO would contribute to the purchase of new distribution equipment, something the initial deal did not contemplate, while NAMCO agreed to implement the administrative credit accord not yet put into effect. Having removed these apparent obstacles to greater collaboration, both parties expected their respective behavior to reveal their real commitment to the venture.

However, as these agreements were reached, Hexagon learned that NAMCO's Retail Division had demanded special treatment once again and had agreed with JVCO to split all Hexa-Care profits through that channel on a 50/50 basis. This was a breach of the initial agreement and meant that the NAMCO organization would now receive 75% of profits from this channel. As a consequence, at the end of 1992 Hexagon canceled the transfer of any dietary products to the venture and delayed providing the new product formulation it had promised to develop.

JVCO's Dissolution

By May 1993, Hexagon's representatives were skeptical about Hexa-Care's success. Earlier in that year, the product had been transferred to NAMCO's New Products Division, resulting in increased costs. Hexagon questioned the advantages of a transfer that resulted in less attention being given to the product. The final straw came with NAMCO's interest in launching an Asian-style skin care product. As Hexagon considered that their brand name was not particularly strong for this kind of product, and as they wanted to keep focused on Hexa-Kleen, the partners agreed to dissolve the joint venture by the end of the year.

Efficiency, Equity and Relational Quality

JVCO's history suggests an evolutionary path for joint ventures where perceptions of the relative efficiency and equity of the agreement are constantly being updated, action is taken as a result, and perceptions are reassessed accordingly. In order to develop a common language to discuss these events, we designate the focal firm as "F" and its partner as "P." We can then express the value the firm expects to gain from its collaboration, at time t, as $\overline{V}_{Ft}$. This value is dependent on many factors, including current expectations of future environmental conditions, the firm's strategy, its own and the partner's expected contributions ($\overline{C}$) to the venture and the outcome distribution rules in effect at that time. Expectations about the firm's and the partner's future contributions will be conditioned by these distribution rules (that is, by the economic incentives designed to elicit the "appropriate" behavior from both parties), and by the quality of the relationship that exists between the partners at that time (1).

For the *efficiency condition* to be met, the expected value created through the venture at the time of its establishment must exceed the expected value from any alternative organizational arrangement from both partners' point of view. Therefore, given the venture's initial business definition and scope, a set of outcome distribution rules consistent with the desired partner behavior and some approved governance procedures, we obtain the following relationships:

$$0 < \overline{V}\ (Alt)_{Fo} < \overline{V}_{Fo}$$

and

$$0 < \overline{V}\ (Alt)_{Po} < \overline{V}_{Po}$$

Fulfillment of the *equity condition* requires that both firms be initially satisfied that the relative value of the alliance to each partner be proportional to its contribution. In this sense, reciprocity is sufficient but equivalence is not necessary. Thus, strict proportionality need not exist, certainly not at every point in time. In other words, one may posit the existence of an "equity coefficient" within an interval around value "1" that marks the boundaries of acceptable degrees of inequality. We can express this equity condition as follows:

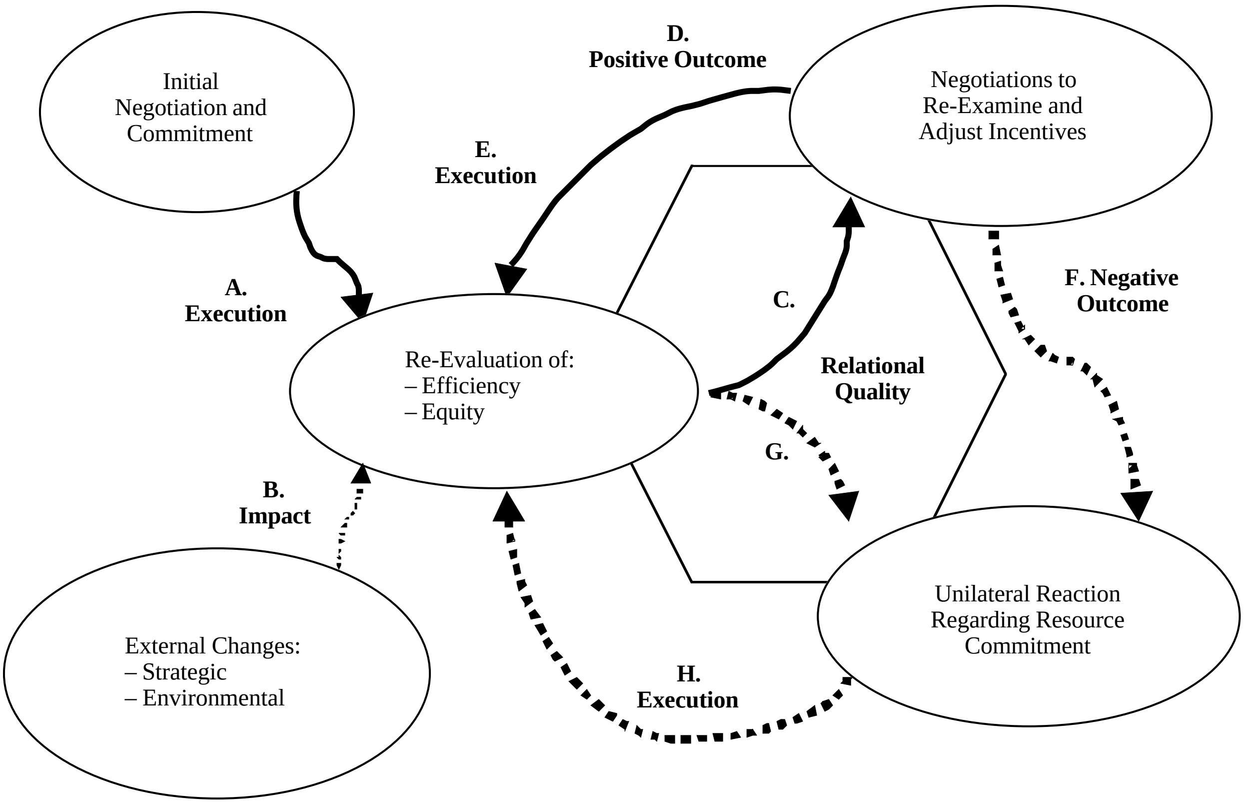
$$(\overline{V}_{Ft} / \overline{C}_{Ft}) = k * (\overline{V}_{Pt} / \overline{C}_{Pt})$$

where: $k = 1 \pm \partial_t$, and $\partial_o = 0$

Discussion

As illustrated in Figure 1, after a process of negotiation and commitment has established the initial conditions for the collaborative venture, execution of those commitments allows each company to learn about its partner (Ring and Van de Ven; Doz). The collaborative venture is evaluated in terms of its relative efficiency and equity, as described above. As long as the collaborative venture is judged to be within acceptable efficiency and equity boundaries, the partners will execute their commitments and even go beyond them, as they build up a reservoir of good will towards each other. The first events in our narrative are examples of this.

Figure 1. Alliance Evolution



External changes may force efficiency and equity conditions outside acceptable boundaries (Path B in the figure). The affected firm may react by engaging its partner in a renegotiation process so as to adjust their respective contributions and/or the distribution rules (Path C). If this renegotiation is successful (Path D), the partners will execute their new commitments, and the collaborative venture will be re-evaluated accordingly (Path E). Any successful renegotiation along the C-D-E path (solid line) should also result in an enhanced quality of the relationship, as the partners will have dealt positively with adverse circumstances. JVCO's decision to focus on Hexa-Care rather than Hexa-Kleen affected the efficiency and equity conditions of the venture in dramatic form. When the partners tried to renegotiate the terms, Hexagon appeared unwilling to accept NAMCO's loss of value due to the cannibalization problem. NAMCO's decision to provide administrative credit to its regional offices for the venture's sales could have resulted in an enhanced relationship, but they failed to deliver on this commitment. As a result, Hexagon lost faith in NAMCO's commitment.

Whenever such renegotiation is unsuccessful (Path F), or if one of the companies, instead of engaging in a renegotiation process, reacts selfishly and unilaterally to unfavorable external changes (Path G-H), its attempt to re-establish equilibrium in this fashion may unleash an equivalent reaction by the partner. In any event, the relationship quality suffers as a result (dotted paths), making future engagements in renegotiation processes less likely. NAMCO's failure to live up to its commitment regarding administrative credit (their unilateral attempt to avoid loss of equity) and the Southern Distributors incident made Hexagon reluctant to engage in further renegotiation and prompted it to start to slow down (again unilaterally) its contributions to the venture. The acquisition of American Beauty by Hexagon reduced the venture's efficiency value to Hexagon by providing it with a credible alternative to achieve its purposes. The retirement of the champions and other disagreements arising from cultural differences also contributed to the deterioration of the relationship. Following the realignment of the profit split between JVCO and NAMCO's Retail Division in late 1992, Hexagon accelerated its own attempts to reestablish balance, once again through unilateral actions.

As efficiency and equity conditions moved far from acceptable boundaries, and as the relationship quality suffered as a result of the continued disappointments the partners had with each other's behavior, the future viability of the venture was increasingly placed in question. NAMCO's decision to form its New Products Division and launch a new line of products that competed with Hexa-Care was evidence of the search for alternative structures outside JVCO. Hexagon's request for distribution outside the agreed scope was wrongly interpreted through the now biased filter of a poor relational quality level. Finally, NAMCO's suggestion to launch an Asian-style skin-care product outside Hexagon's competence or scope was the final straw. The relationship quality reservoir was exhausted and the efficiency conditions were no longer valid.

In conclusion, we suggest that our interpretation of the evidence from the JVCO case enhances our current understanding of collaborative venture developmental processes. One strand in the literature has suggested that success follows repeated ventures with the same partner, driven by trust building that emerges from past experiences (Gulati, 1995; Harbison and Pekar, 1998). On the other hand, current frameworks of collaborative venture processes (Ring and Van de Ven, 1994; Doz, 1996), while useful to understand successful collaborative ventures, fall short in explaining failure. We provide a model that explains the emergence of inter-partner trust by means of relational quality. The model also explains the path to both success and failure, and treats perceptions of equity as both an independent and a dependent variable in the process. Finally, it accommodates the influence of external, non-venture events and changes that may impact the future success of a collaborative venture.

SCOPE VARIATIONS, PROCESS AND SUSTAINABILITY OF COOPERATION IN STRATEGIC ALLIANCES: A DISCUSSION OF THE HEXAGON-NAMCO ALLIANCE

Prof. Yves Doz

The case of the NAMCO-Hexagon joint venture, as presented by Ariño and de la Torre, shows the interaction, over time, between the scope covered by an alliance –in this situation defined in terms of its geography, product categories, and functions performed– and the feasibility of cooperation between the partners. I interpret the evolution of the Hexagon-NAMCO joint venture from the perspective of a model of alliance evolution developed from earlier research (Doz, 1996 and Doz and Hamel, 1998). In the discussion I argue that poorly thought through changes of scope, made by managers in a rather disjointed fashion as they build a strategic alliance, may undermine the very value creation logic of the alliance and lead to its demise, particularly in the context of other factors affecting the alliance process. These other factors include the a-priori level of trust, decision-making modes, and adaptation to change.

Hexagon-NAMCO: An Analytical Interpretation

NAMCO and Hexagon had been competing in Scandinavia with a new product category very successfully. Thus, they decided to join forces to develop the business on a worldwide basis, starting in North America (Ariño and de la Torre, 1998). Initiation of the joint venture's activities, though, proved more difficult than expected, in particular as Hexa-Kleen, the joint venture's initial product, was a completely new category in the market. Although market potential was considerable, market development would probably be slow and difficult, since neither consumers nor the retail channels had much experience of this type of product.

The partners, though, had formed expectations of performance, at least informally, on the basis of the success met in Scandinavia. Faced with the discrepancy between what they now understood of the difficulty of developing the market elsewhere and the expectations harbored by their parent firms, the managers of the joint venture decided to reorient their efforts largely toward another of Hexagon's products, Hexa-Care. When the venture's contract was negotiated, the partners made a last minute addition by which they left the door open to the joint development of the Hexa-Care business at some time in the future. Hexa-Care was thus considered as a secondary product that might be handled in the future. Whilst Hexa-Kleen did not impact NAMCO's business –it was a new product category claiming additional shelf space– Hexa-Care did. It competed against other NAMCO products for the same shelf space and, further, NAMCO distributors and contract manufacturers already had agreements with other suppliers of products in the same category. The scope of the joint venture's business now overlapped with that of NAMCO and the overlap created negative interdependencies: Hexa-Care's success might cannibalize some of NAMCO's and NAMCO's distributors' products. No such problem existed for Hexagon, as Hexa-Kleen and Hexa-Care would signify incremental volume. Put more abstractly, the value created for Hexagon was to be increased by the scope variation brought about by the new focus of the joint venture's activities on Hexa-Care. But the value created for NAMCO might well be reduced if the rivalry between the joint venture's product and its own, or the products its key distributors procured from other companies, became detrimental.

The apparently rather disjointed nature of decision-making between the two partners and the joint venture (whose management took the initiative to launch Hexa-Care in the United States, but whose parents let it go ahead), and the lack of participation of the distributors in the agreement (nor of any apparent concern for them by the two industrial partners), may explain what looks, in retrospect, like a rather careless expansion of the joint venture's scope.

Intriguingly enough, once the scope variation of the alliance makes it highly favorable to Hexagon, Hexagon seems unaware of this asymmetry, or unconcerned with the dilemma it creates for NAMCO. As reported by Ariño and de la Torre, Hexagon's understanding of NAMCO's difficulties seems very limited (see also Ring's analysis in this set of papers). One possible explanation is that the Scandinavian success and the pre-existing trust that surrounded the creation of the joint venture had shaped Hexagon's expectations of NAMCO's behavior. This might have led Hexagon to expect –somewhat blindly– cooperative behavior from NAMCO, and not to appreciate that the structural conditions underpinning the alliance had now changed drastically. The early unilateral and positive commitments of the partners increased their already high expectations to levels that would be very hard to sustain in the future.

Paradoxically, whilst now NAMCO benefits less than Hexagon from the alliance (and may well benefit not at all, or be impacted negatively if the alliance sours its relationships with distributors), NAMCO makes contributions to Hexagon that are more unique to Hexagon than Hexagon's contributions now are to NAMCO. Put differently, NAMCO can easily find other sources of Hexa-Care equivalent products (Hexa-Kleen was a more unique product), but Hexagon depends on NAMCO's distribution strength for that type of product. Alternatives may not be readily available since Hexa-Care equivalents are widely distributed and other potential distributors would fall far short of NAMCO's market strength with the retail trade. The alliance is now unbalanced both in output (where Hexagon gets more benefits) and in inputs (where NAMCO contributes more uniquely).

Caught in the middle of the contradiction –and conflicts– they created, the managers of the joint venture, not surprisingly, attempt to "rebalance" the relationship by attributing a larger share of the value they create to NAMCO, splitting profits 75%-25% in favor of NAMCO in sales to the retail channel. Hexagon's management, still apparently not quite fully grasping the situation, at first resists this rebalancing attempt, further damaging trust.

By that time, another discrepancy surfaces in the respective positions of Hexagon and NAMCO: Hexagon is now worrying about increasing value creation –providing merchandising equipment, by adjusting the product and processes to the U.S. market– whereas NAMCO rebalances value appropriation directly with the joint venture. This suggests that, by then, the quality of communication between the partners had deteriorated to the point where they no longer carried out mutual adjustments. Each tended to make separate decisions on its own, at its own pace, and as a function of its own considerations.

In summary, by 1992-93, on all three dimensions of assessment –efficiency, equity, adaptability– disappointment and suspicions now prevailed, and the dissolution of the alliance was a rather logical consequence.

Discussion

The Hexagon-NAMCO failure, analyzed above, illustrates various issues successful alliances need to address.

Scope. Perhaps the single most critical step toward the demise of the alliance was the variation of the scope of the venture to focus on Hexa-Care, and Hexagon's apparent ignorance that an asymmetry in value was thus created. The evidence suggests that such scope asymmetries between partners –when the joint venture is essentially a "stand-alone" incremental business for one, but is highly interdependent with the operations of the other– may raise difficult issues. Unless these asymmetries are first recognized and acknowledged by the partners, they may be devastating. NAMCO and Hexagon could have come back to a narrower joint venture scope (only Hexa-Kleen) or, alternatively, incorporated the consequences of the asymmetry of scope into their negotiations by involving distributors explicitly, or they could have balanced pay-offs differently (which they belatedly tried to do).

The impact of a-priori trust on scope decisions and their consequences. The venture's founding fathers had built a-priori trust between them as a consequence of earlier business interactions, but that initial trust led them to overlook key issues in their design for the joint venture. They seem to have lacked an understanding of underlying structural conditions that were critical to the success of their venture (such as the structure and ownership of distribution networks in North America and the scope change brought about by the transfer of Hexa-Care to the joint venture). A-priori trust (Gulati, 1995) may be a double-edged sword: it facilitates cooperation but it should not exonerate the partners from a careful analysis of the economic and strategic assumptions underlying their venture. The Hexagon-NAMCO case suggests a second way in which a-priori trust may also be double-edged when problems arise between partners: these may be framed in terms of trust and mistrust, and not immediately understood. What was an economic scope issue having to do with distribution was cast in terms of trustworthy behavior between partners. Perhaps, too, despite strong inter-personal relationships, these two partners had not been able to build resilient trust (Ring, 1996). With strong prior, but superficial, trust, unilateral partner actions can cast suspicions of "breach of trust" rather than trigger a search for understanding self (and mutual) interests. Trust may have obfuscated the scope issues, both at the very outset (when Hexagon failed to realize that the U.S. distributors were independent from NAMCO) and later on (when scope was changed). More "watchful" partners might have probed into each other's underlying assumptions and interests more thoroughly. So, trust is perhaps not always a good thing for alliances.

Disjointed decision-making. In the NAMCO-Hexagon alliance there are at least four protagonists: Hexagon, NAMCO, the joint venture, and the distributors. Further, there are other separate protagonists in each large organization, for example divisions within NAMCO, or functional departments within Hexagon. Somehow the reality of the existence of all these protagonists is not reflected in the interaction between NAMCO and Hexagon. Hexagon, in particular, seems to take the collaboration of NAMCO's distributors for granted (as it might have been before the change to Hexa-Care), and then to turn against NAMCO for not effectively delivering such collaboration. The alliance may have been negotiated and set up quickly by top managers who overlooked the importance of vested interests in their own organization and in the partner's. The decision to change the scope of the alliance is more puzzling: NAMCO, in particular, could not ignore that its distributors (some of which it partly owned) already had agreements with other suppliers in Hexa-Care's category. Could the joint venture management decide on its own, and no one take notice at NAMCO? Such disjointed decision-making and the promotion of sub-unit interests are obviously detrimental. This suggests that alliance partners are not unitary actors, and to assume that they are may be fatal to their relationship. If internal differences are acknowledged, their consequences for the alliance process might be anticipated, and their negative impact neutralized by appropriate decision-making mechanisms.

Lagged responses to scope asymmetry. As suspicion creeps into the relationship, each adaptation decision may become a bargain for adjustment, rather than a spontaneous commitment, making adaptation slower, more difficult and divisive. In turn, adaptation lags may lead to discrepant priorities and actions between partners (e.g., Hexagon finally agrees to take steps to increase value creation once NAMCO has moved the re-negotiation agenda to value appropriation and balance). Paradoxically, lagged adaptation may end up breeding more suspicion than no adaptation would, further undermining the venture.

In summary, there is an interplay between inconsiderate scope variation, strong but fragile a-priori trust, disjointed decision-making and lagged adaptation that contributed to the venture's difficulties. It is not one single factor or event that undermined the alliance, but the interdependent unfolding of a series of events originating in an inconsiderate scope variation and subsequently influenced by other factors.

The analysis of this specific example clearly highlights interdependence between initial (and in this case changing) structural conditions, such as scope, and process aspects, including trust, decision processes and adaptation. Alliances are adaptive and evolutionary processes over time that cannot be fully subsumed under their initial strategic and structural conditions. Understanding the evolution of the relational system and its implicit structure is key (Crozier & Friedberg, 1977). Taking a longitudinal process perspective in the research is another condition for understanding the unfolding of events, one which Ariño and de la Torre clearly exemplify.

THE EFFECTS OF INFORMAL PROCESS IN THE HEXAGON-NAMCO JOINT VENTURE

Prof. Peter Smith Ring

As readers are by now aware, the framework underlying Ariño and de la Torre's study of the collaborative processes in the Hexagon-NAMCO joint venture built on the work of Ring and Van de Ven (1994) and Doz (1996). The Doz framework is derived from extensive research on a number of joint ventures. The framework developed by Ring and Van de Ven grew out of earlier grounded theory building on informal collaborative processes (Ring and Rands, 1989). The latter contribution served as the foundation for a more extended investigation of the interactions between formal and informal processes in the evolution of a series of cooperative inter-organizational relationships (Ring, 1997).

In my discussion of the JVCO case, I will focus on the effects of the informal processes described as sense making, understanding and committing. Briefly, sense making involves probing. As put by Karl Weick, "How do I know what I think until I see what I say?" This is the essence of sense making: knowing what each firm thinks regarding matters related to the alliance, their efforts to know what the other partner thinks, what market forces are at play, etc. Sense making can be active or passive. Active sense making means getting out and visiting a potential partner's operations, for example. Passive sense making involves reading a report about market conditions. Understanding processes are designed to get the parties on the same page, in lawyers' terminology. Do they have a meeting of the minds on efficiency and equity issues (Ariño and de la Torre, 1998)? Do they agree on the meaning and implications of initial conditions, such as those described by Doz (1996)? Finally, the parties engage in committing processes. Simply put, they agree to "walk a mile –or two– with each other in each other's shoes." In so doing, they agree to be bound by a psychological contract developed with each other Ring and Rands, (1989).

Each of these informal processes occurs within three more formalized phases of every strategic alliance: negotiating, transacting and managing. Negotiating takes place within and between firms. Transacting involves reaching agreement on the precise nature of the deal (and frequently is controlled by lawyers). Managing involves running the alliance. Over time, and fairly quickly as we see in the JVCO case, managing leads to (re)negotiating, and so on and so forth.

In the brief space allocated to me here, I will argue that the initial conditions associated with the venture between Hexagon and NAMCO reflect a need for reliance on a pattern of process appropriate for a "Two Cultures" context (Ring, 1997). The evidence presented on the JVCO case reveals that the process employed by NAMCO and Hexagon more closely paralleled those described by Ring as the "U.S.-Legalistic Approach." If this assessment is accurate, then JVCO's failure to achieve the objectives of its parents and champions may be explained not only by a process that led to serious violations of the equity condition (as suggested by Ariño and de la Torre), but also by the possibility that the parties followed an inappropriate pattern of evolutionary processes from the outset.

I will assume that both parent firms and JVCO's champions felt competitive market pressures to act in a timely manner. Time, as lawyers are fond of saying, was of the essence in this deal. Time was also a scarce resource (as it frequently is in inter-firm collaborations). All concerned, undoubtedly, felt a need to do the deal and get it done quickly. There is evidence in the account of the evolution of the joint venture, however, indicating that time may have been less of a problem than the good use of the time available to the parties. Although "haste may make waste" (as one reviewer observed), my conclusion is that an appropriate use of process, as described by Doz (1996) and Ring and Van de Ven (1994), might have led to less "waste" in a speedy response to market forces.

The Role of Informal Process

The evidence reveals that JVCO's champions had met on "several occasions to compare notes on international market developments." These two individuals apparently had significant prior knowledge about and had discussed two other issues: their common interests and their complementary capabilities. This is active sense making, which I would argue is essential to any initial decision that an alliance is the appropriate means by which an underlying corporate or business level strategy can be implemented. On the basis of this sense making, it is reported that the champions sold the JVCO to their respective parents. This suggests that understanding and committing processes had also been on-going and that in a period of less than five months the parties moved from formal processes of negotiating, through transacting the deal, to managing it. In the discussion that follows I will attempt to demonstrate how a focus on formal processes perhaps inhibited their ability to gain many of the potential benefits that flow from the informal processes that accompany the emergence of an alliance.

The JVCO story and the data behind it provide substantial support for an argument that there existed at Hexagon and NAMCO two very different corporate cultures. The firms appear to represent somewhat different national cultures as well (Hagen & Choe, 1998; Hill, 1994; and Kogut & Singh, 1988). The two firms also operated within the context of different legal systems (common vs. civil law). Lane & Bachmann (1996) argue that these differences in legal systems can be important determinants in relational exchange, especially in the ways in which parties rely on trust (1).

Different sense making processes during initial conditions might have heightened the parties' awareness to a need to pay more attention to their differences, and how they might affect the proposed relationship. Perhaps the champions felt comfortable with their own differences. Nonetheless, they could not count on the same from their successors (Ring and Van de Ven, 1994), or for the organizations they represented.

The company management styles also appear to have been quite different. The firms undertook the alliance because they were able to contribute clearly recognized complementary capabilities. That the resources were complementary may mean that the firms

(1) Unfortunately, the account in this case provides little insight into its legal aspects. This is not uncommon, as lawyers generally are reluctant to allow outsiders –such as researchers– into negotiations. Nor are they fond of providing access to their "work product".

undertook their own value creating activities in different ways, saw the competitive environment differently, etc. This suggests that the global mind sets of the two firms, and their managers, very likely reflected the existence of two quite different cultures in the broad sense that C.P. Snow has used the term (1).

There is substantial evidence in the case pointing to a conclusion that a fuller appreciation of the problems that would flow from these differences came to the parties only as the joint venture began to dissolve. In half of the critical events described in Table 1, the data support a conclusion that sense making and understanding processes were inadequate given the constraints imposed by negotiational processes that cross two cultures. The sense making processes, and the understanding processes (e.g., active planning conversations) that flow from sense making, in this case appear to have been undertaken by top level managers. Those who would actually manage JVCO operations did not appear to be actively involved in these early, informal processes. In my view, the informal commitment processes needed to produce conditions conducive to high commitment relationships, which in turn will lead to honoring equity conditions, are not likely to occur unless processes of sense making and understanding are active, multi-level, and undertaken in parallel with the negotiating and transacting phases of the evolving relationship. There is a strong flavor of sequential, perhaps even lock-step, processes in this case. One looks in vain for evidence of extensive informal discussions between the parties, meetings between employees of the respective organizations at all levels, visits to each others' facilities, and other active sense making activities designed to help overcome a lack of understanding of each other's organization, its values, its cultures, etc. Certainly meetings took place, but we are not sure how the time was used. Given the prior relationships between the champions of JVCO, the time might have been better used in focusing on goals, expectations, partner routines, and other important behavioral issues that Doz (1996) persuasively argues appear to be critical to success.

Quite the contrary, the data indicate that the parties moved quickly. Negotiating and transacting phases focused on structure issues (Doz, 1996, calls them partner interface) and agreement on contributions and division of profits, and were designed to produce the contracts that underpinned the legal creation of JVCO. A letter of agreement was signed in November of 1989; a contract signed in March of 1990. In May, 1991, the parties reached a revised agreement on access to NAMCO's distribution system. In July 1992, they renegotiated the Retail Division Agreement. Similarly, the story is replete with references to a number of ancillary agreements with other parties that, very directly, affected the relationship between Hexagon and NAMCO in adverse ways. JVCO's management apparently assumed, perhaps due to incomplete sense making, that these contracts would provide "answers" to any and all problems that might arise in the course of managing the venture. In this case, however, it appears that contracts actually may have caused more problems than they solved.

Admittedly, the strong influence of the champions behind JVCO –both within the venture and with its respective parents– may well have attenuated potential problems in the early phases of its evolution. And there is evidence in support of this conclusion in the early events associated with the venture's evolution. The fragile trust (Ring, 1996) that had evolved from the negotiating experiences of the champions laid a foundation for these unilateral, and reciprocal, positive actions. In the minds of the partners, the actions may well have been further efforts to demonstrate a willingness to rely on trust, and convergent interests, rather than on

(1) As with the case of Snow's scientists, each of these firms had operated in each other's backyards: knew something about "the humanities". But neither really understood the underlying institutions of culture; i.e., the science – Newton's Second Law of Motion – as in the Snow example (1959).

contract. Or, as the authors of the JVCO case would likely describe it, partner interactions were enhancing the level of relational quality experienced by the parties. Moreover, these unilateral actions went well beyond "the initial state of trust and confidence that exists between the parties" at the time their relationship is first contemplated. The second paper in this series makes a powerful case that the champions may have been blinded by their willingness to rely on trust. These very early demonstrations of trustworthiness certainly contributed to any blindness experienced by JVCO's champions. They undoubtedly raised the level of relational quality experienced by the parties in significant, and unexpected, ways. And, perhaps to levels that were unrealistic given the technological risks of the deal and the potential for conflict implied in my "two cultures" arguments.

Ring and Van de Ven (1994) argue that a key ingredient in the successful evolution of interorganizational relationships lies in recognition that the champions of collaboration are not likely to remain closely associated with it over its lifetime. They argue that the informal commitments of these founders must be formalized over time; that their tacit agreements and understandings must be codified. The evidence here suggests that this was not done at JVCO; that when the champions retired in mid-1992, relational quality rapidly deteriorated.

I believe that the JVCO case reflects the very real paradox seeking to balance the need for formal and informal structure and process in alliances. This venture appears to have been structured in an overly formalistic manner. The parties appear to have assumed that their contracts provided solutions to any problems that might arise as their relationship evolved. For example, it appears that some managers at Hexagon assumed that NAMCO's distribution system was bound by NAMCO's "signature" on a contract. That these distributors were independent firms either escaped Hexagon's attention altogether, or some managers at Hexagon naively (but perhaps justifiably) thought that the interests of these distributors and those of NAMCO were (at the very least) convergent (if not identical) with those of Hexagon. It may be the case that JVCO's champions understood the "true" picture in this complicated set of indirect relationships, but mistakenly assumed that those who came later would also understand. In retrospect, and as seen through the lens of the framework employed here, shortcomings in the sense making and understanding processes that took place within NAMCO, Hexagon, and JVCO produced an unwarranted sense of security about the ability of relational quality to carry parties safely through the treacherous waters between Scylla and Charybdis. In the end, JVCO lacked both the rigidity of a keel (effective contracts) and the flexibility of a rudder (institutionalized informal agreements) and, as with ships in troubled waters, soon floundered.

Discussion

Ariño and de la Torre's work provides a valuable addition to a growing body of conceptual and empirical work on the evolutionary processes of inter-firm collaborations (Browning, Beyer & Shelter, 1995; Dyer, 1997; Johnson et al., 1996). Their data provide support for the efficacy of the Ring and Van de Ven and Doz frameworks, and clearly demonstrates that further integration of, and expansion on, these frameworks can be fruitful.

More pointedly, they provide a model that suggests approaches to further development of important aspects of the roles that trust (or relational quality) can play in strategic alliances. Although the facts of this case demonstrate the limits of relational quality, a point well made in the preceding paper, it is easy to project how the same initial conditions and early partner interactions might have produced entirely different results, given more active sense making and more integrated processes of understanding. The lessons of JVCO should be fairly plain to both scholars and managers alike. If scholars are to advance our understanding of joint ventures and other strategic alliances, we must continue to move beyond static, cross-sectional comparisons between initial conditions and performance outcomes. For managers, two important lessons can be drawn from the case. First, not only does an awareness of the paradoxical interaction between formal and informal process count, but it may be everything. Second, lurking behind every joint venture or strategic alliance there may be an entire set of parties who have not "signed-off;" and, thus, are not "signed-on!"

FROM A SINGLE VENTURE TO A NETWORK OF VENTURES

Prof. Gianni Lorenzoni

The preceding papers are important in light of a need for additional insights into the evolutionary processes of strategic alliances such as the NAMCO-Hexagon venture. The Ariño and de la Torre paper is rooted in an uncommonly rich set of documents and interviews, which provide an excellent basis for speculation. Although Doz raises issues about the design of the structure as it relates to variations in the scope of the alliance, he takes the organizational design of the parents as a given. Ring speculates on the shortcomings in the pattern of informal processes at play in JVCO's evolution, but does not consider whether these shortcomings might have been a function of the organizational designs of the respective parents. Although all papers point out that JVCO's evolution was bound-up in a set of larger inter-organizational relationships, none fully explore the implications of the internal network-like settings of parents in which alliances, increasingly, appear to be embedded.

I take a somewhat different perspective in my assessment of JVCO's evolutionary processes, by emphasizing the coordination problems faced by partners and managers of joint ventures such as JVCO. I assume that the configuration of international value creation activities has important impacts on coordination processes. I begin my discussion in this paper by asking how the partners' configuration of their own value creating activities, and the relationship between these configurations and the alliance's design and autonomy, may influence the implementation of collaboration.

Issues of Configuration and Coordination

As the Ariño and de la Torre paper clearly demonstrates, the scope of the Hexagon-NAMCO alliance was very broad, and varied over its short life. The partners initially contemplated that JVCO would involve a number of new and old product lines that were to be manufactured and distributed through exchanges between JVCO, the two parent companies, and many of their subsidiary units. These units were scattered across Europe, Asia, and North America. The integration of these various activities was to be coordinated by the managers of JVCO.

In typical cases involving joint ventures, the evidence suggests that they operate as if they were a child of the parents. This usually implies limited autonomy, limited endowments and the need to resort to the resources of the parents, rather than undertake internal investments themselves. Processes are designed to bring important decisions back to the parent firms. There are, of course, notable exceptions such as Unilever, Dow-Corning, or Fuji-Xerox, where the joint venture takes on a life of its own.

In the case under discussion, the corporate offices of the parents, their various strategic business units, subsidiaries, independent distributors, and JVCO, collectively represent a multilevel organizational setting. The ripple effects of individual actions need to be considered as they spread across networks of different actors involved in these relationships. This appears not to have happened with JVCO, certainly as related to the actions of NAMCO. For example, analysis of the data in Table 1 reveals that the actions of NAMCO's independent distributors triggered the start of a chain reaction of events that ultimately led to the demise of the joint venture. NAMCO relied on independent distributors for strategic reasons. This kind of deconstruction of value creating activities is increasingly common as global firms balance the need for efficiency (through integration) with equity (through local responsiveness) in their internal networks. As Ariño and de la Torre demonstrate, these kinds of firms also experience the need to balance similar equity and efficiency considerations in their alliance relationships.

The roles generally played by subsidiaries, and those played by the subsidiaries in this case, provide a visible and relevant starting point for considering the impact that different modes of organizing the firm's international business can have on the evolution of its alliances. On the basis of the information available in the case, we can speculate that something like a coordinated federation configuration (Bartlett & Ghoshal, 1989) had been employed, especially at NAMCO; and, perhaps to a lesser extent, at Hexagon (where the local subsidiaries appear to have a large say in new product introductions). The "new" configuration designs that have been described as transnational (Bartlett & Ghoshal, 1989) or metanational (Doz et al., 1997) reflect efforts to balance integration with local responsiveness. What is not clear is whether the parents of JVCO intended that the joint venture should serve this purpose with their new product lines. It is clear, however, that if this was their objective, JVCO clearly lacked the ability to control its own destiny.

In part, the problem of creating a single equity joint venture is that it has a tendency to "freeze" the configuration of the partner interface and its associated processes, thus inhibiting adaptive and flexible responses to changing events. In short, a single joint venture contract may not be flexible enough in these kinds of competitive situations. Setting up simpler boundaries and better defined responsibilities might have made it easier for those charged with JVCO's destiny to manage evolutionary processes.

Joint Ventures as Isolating Governance Mechanisms

JVCO had the potential to make a significant impact on its partners' operations because of its magnitude, its newness, and the opportunities it provided to reposition both companies along various product lines. The venture's champions undoubtedly were aware of the extent to which those who would be employed by and manage JVCO would be embarking on an entirely new experience. It appears that the champions, and the managers of JVCO, were unable to fully conceive at the beginning of their relationship that its original scale and scope were such that its shadow would be cast across many levels of both parent firms. Yet, the design of the partner-interface (Doz, 1996) inherent in a typical joint venture isolates it; this broad shadow is largely invisible to the management of the joint venture, especially at the start. It also may be invisible to those at the top of the parent firms. More importantly, perhaps, as Doz points out, neither the parents nor JVCO's management had developed processes by which the problems with this design could be quickly identified, reassessed, and re-adjusted. Thinking about how the organizational design of an alliance fits within the organizational designs of its parents, and what this will require in the way of processes to evaluate the design of partner interfaces, is not part of the conventional wisdom of the firm. In fact, it may well be an unwritten chapter in the book on the management of alliance processes.

Thus, problems that more experienced alliance managers might have perceived as the “normal” side-effects of not being able to accurately anticipate all future events led managers at Hexagon to perceive NAMCO’s dealing with its distributors as non-collaborative behavior. Hexagon, in turn, started making acquisitions. They were perceived as competitive moves, perhaps rightly so, by NAMCO’s managers. More experienced alliance managers may well have foreseen that a failure to resolve the distributor problem might cause Hexagon to move in that direction. Alliance-based routines, codified experience, and a cooperative cultural climate help alliance managers to anticipate instead of reacting to the course of events.

Alliance Embeddedness: A New Managerial Perspective

The rather lengthy list of incidents, mismatches, unilateral moves and stonewalling revealed in Table 1, in my view, points to a lack of appropriate routines and processes that would have permitted the partners to react to events. In contrast, much of the literature on alliances, and many of the actions of the parties in this case, were focused on shaping actions. This kind of focus seems counter-intuitive, given the increasingly large number of cooperative alliances being developed by many firms.

Taking a perspective that all alliances are embedded in an internal network emphasizes the relevance of cumulative experience in the selection of partners. This experience relates to evolution processes of alliances, knowledge transfer, and ultimately to the performance of the single venture (Gulati, 1998). The new managerial perspective has three interrelated fields of vision.

Networks within the Parent Company. As firms extend their global reach, a network perspective can be used to understand relationships among the various subsidiary activities that comprise the parent company’s vertical layers. Managing these relationships from a network perspective provides the firm with the opportunity to develop processes that produce the kinds of competencies that will be required in establishing high levels of relational quality with more autonomous partners. The quality, clarity, interactivity and ownership of processes in these internal networks will strongly influence the context within which the firm’s international ventures will be undertaken.

Networks of Alliances Between the Same Partners. I have suggested that, in the case of JVCO, relying on a single contract to cover such a broad scope of activities had the effect of freezing the organizational design of the alliance. An alternative approach is to create a network of alliances that would accomplish the same objectives. What makes this option unique, and significant for our discussion, is that it presents NAMCO and Hexagon with the option of using a series of single ventures that are better equipped to deal with changes in scope and to balance some of the asymmetries that, inevitably, will arise in the course of the life-cycle of an alliance relationship. For example, the partners may decide that different equity positions are required in different ventures in order to match differential contributions. A network of alliances under an umbrella of broadly defined collaborative efforts opens up the potential for more clarity in defining management responsibilities, reducing the likelihood that they might conflict with other, on-going operations of one or both of the partners (as happened repeatedly in the JVCO case). Similarly, this approach will enable the partners to provide greater clarity to the mission of the individual alliances that make up the network. This alternative may provide a better fit between partners' need for alliances that are international in scope, and the corresponding need to take account of local knowledge and experience.

Networks of Alliances with Different Partners. Some of JVCO's problems arose because it ended up competing with other alliance partners of NAMCO – their independent distributors. Viewing alliances from a network perspective might have alerted JVCO's champions to these problems at an earlier stage. In addition, multiple alliances generate experience that can be opportunities for learning, but only if they are seen by management as being interrelated. The barrier to defining processes that permit the stocks of organizational knowledge derived from one alliance to be transferred across alliances is largely a function of managerial perspective (Nonaka & Takeuchi, 1995). The same kinds of perverse immobility barriers work across different units and product lines within internal networks (Szulanski, 1996). These barriers may have been present within NAMCO and Hexagon, and prevented them from benefiting from the experience they undoubtedly had generated in other alliances.

Discussion

There is a growing sense of best practice emerging from companies that are having success with alliances. Companies with experiences in multiple agreements build up internal theory about critical success factors associated with the selection of partners, governance rules and norms, managerial actions, the degree of autonomy given to the venture, and conflict resolution and renegotiation. Focusing on a single venture as the unit of analysis leaves management open to the risk that it will fail to capture knowledge acquisition, knowledge internalization, and knowledge diffusion from all its alliances. Companies do not have to start all alliances from scratch, yet many do. At the same time, many of these companies appear to work hard at capturing learning from other approaches to strategy, such as acquisitions. There, successful companies quickly try to define an internal manual, or a ready to use "kit" for the organization's members (Zollo & Singh, 1997). Codifying methods to streamline process, and to select key issues around turning points in collaborative venture designs and processes, is likely to have a significant impact on alliance performance (Dyer, 1990; Fruin, 1992).

As firms increase the number and types of alliances that they manage, they need to consider the implications of these alliances for the design of their own organizations. The barriers to learning may be a function of managerial perspective. But I have also suggested that the processes of learning from alliances may be inhibited by design characteristics within the parent firms. As the JVCO case demonstrates, its managers were not able to quickly redesign the relationship to take into account changes related to shifting product foci, new manufacturing arrangements and problems in gaining access to distributors.

Further, I believe that JVCO's experience demonstrates the problems that arise from mismatches between the interface design of an alliance and the organizational design of the parent firms. Organizational structures in so-called transnational, metanational or global firms are becoming more complex, placing greater demands on processes designed to ensure coordination. These same processes may prove inadequate in coping with the needs of a single joint venture that has been given the broad charter of a JVCO. Finally, moving from managing through transactional capabilities to managing through relational capabilities is a demanding experience requiring specific investments. Learning efforts have to be collectively pursued and internalized. In addition, investments in capabilities that build relational quality have delayed returns that are hard to measure.

What many international companies did in the past, and still do in dealing with repeated alliances, reflects an inability to exploit and build on their previous experiences. From a strategic point of view they create alliances, but they do not fully leverage prior knowledge. They do not succeed in undertaking the shift from gaining experience to building know-how (Simonin, 1997) and using that know-how to enhance relational quality. That appears to have been the case with JVCO, to the detriment of both NAMCO and Hexagon. Perhaps the planned intervention of the researchers is an indication that their respective managements have learned a valuable lesson from this case.

Conclusions

All authors

We believe that this series constitutes a novel approach to academic discourse. By having a number of researchers reflect on and discuss a common set of data, we enlarge the insights we may obtain from them. Further, these insights are not the simple accumulation of individual contributions, but they reflect a concerted effort to collectively push a body of research in a synergistic manner. Considering that the five authors represent five nationalities and four home-base countries, this series also contributes to the efforts of JIBS and AIB to foster truly international research.

A number of issues emerge from the preceding discussions of the Hexagon-NAMCO case. The first relates to the crucial role that relational quality –understood here as the degree of partner satisfaction with their pattern of interactions– plays in the evolutionary path of the alliance. Ariño and de la Torre argue that the initial level of relational quality pertaining to the relationship will be largely determined outside the context of the firms' interaction, and will then be confirmed, enhanced or diminished in some significant measure by the behavior of the parties during the negotiation stage. It is at this stage, argues Ring, that intense sense making processes may help to alert the partners to differences which stem frequently from a "two cultures" context. Conditions that contribute to such a two cultures context include differences in the legal settings in which the partners normally operate, in the primary value chain activities they perform, and in their respective national and corporate cultures and associated business practices. Ring asserts that more active forms of sense making, such as reciprocal visits to operations that may be related to the business of the alliance, may be more useful to the parties than the more passive forms typically associated with alliance negotiations. Thus, we propose:

Proposition 1: Active sense making becomes more critical in building higher levels of relational quality as a two cultures context is more prevalent.

A second issue concerns the common assumption that personal trust can be transferred to the institutional level. The NAMCO-Hexagon case illustrates how much of the initial level of relational quality found in alliances may reside in the persona of key individuals associated with its creation. While this may push the relationship forward at early stages, the institutionalization of this relationship cannot be taken for granted, yet it is critical to the alliance's survival and prosperity. As pointed out by Ariño, de la Torre and Ring, the partners in this case did not exert enough effort in understanding processes at the organizational level for the institutionalization of the relationship (a process akin to "grafting") to take place. Thus, the joint venture remained to a large extent their private endeavor, attracting only occasional interest from other key executives (and presumably their lawyers). This suggests that:

Proposition 2: Good relational quality at the personal level between the venture's founders does not preclude the need to devote considerable efforts to formal and informal processes that will set the context for enhancing relational quality at the organizational level through institutional grafting.

As long as there are no changes affecting the efficiency and equity conditions that justified the alliance in the first place, and while the relational quality remains stable, the partners' behavior will depend on their initial interest for the alliance, that is, on their perspective on value creation and the distribution rules by which such value is appropriated. As changes that affect the alliance in important ways take place, the partners will reassess the impact of those changes on the relative efficiency and equity conditions characterizing the alliance. As pointed out by Doz, variations in the scope of the alliance –due in this case to independent decisions taken by JVCO's management team– asymmetrically affected the potential for value creation and appropriation. An imbalance was thus created. But a negotiated restoration of the efficiency and equity conditions requires a mutual understanding of the resulting asymmetries, the acknowledgment of which will be partly influenced by the level of relational quality, suggesting that:

Proposition 3A: When faced with an external change that affects the venture's balance of efficiency and equity, the partners will attempt to engage in renegotiation processes (or not) based on the quality of their relationship at that time.

Proposition 3B: The better the quality of the relationship between the partners the greater the latitude that either firm will have to withstand temporary deviations from the equity condition, and the larger the magnitude of an acceptable deviation.

The level of relational quality, in turn, seems to be affected by the partners' dealings with one another in the context of the alliance. Each new interaction changes the degree of satisfaction with the pattern of interaction as the partners become aware of each other's collaborative or opportunistic behavior. This appears to be particularly the case when external change forces a reassessment of equity and/or efficiency conditions in the venture. Thus:

Proposition 4A: Levels of relational quality increase when partners engage in positive loops of conflict resolution within the alliance or when they successfully renegotiate the alliance's terms of reference.

Proposition 4B: Conversely, levels of relational quality decrease when the partners engage in negative loops, such as failing to resolve a change in conditions through renegotiation, or when they unilaterally react to external changes without regard for the interests of the other party.

The foregoing discussion suggests that engagement in either positive or negative loops of conflict resolution both depends on and determines the level of relational quality. Thus, consistent with the findings of Osborn et al. (1997) that most alliances fail in their first two years but that those which surpass this threshold are likely to be long-lived, we suggest that:

Proposition 5: Early engagement in activities leading to positive loops of conflict resolution will cause relational quality to grow and become an important mechanism to enhance alliance stability.

Relational quality, however, may have its dark side. Both Doz and Ring discuss how excessive reliance on unwarranted trust may have distracted the attention of JVCO's parents from the venture's structural conditions. As Ring argues, an undue effort at early stages to show that one is trustworthy may heighten the expectations of future trustworthiness to a level that may be unrealistic and difficult to live up to in the face of a serious efficiency or equity imbalance. The danger is aggravated when the context is such that sense making and understanding processes have taken place between alliance champions at the individual level, but not at organizational levels. This suggests that:

Proposition 6: Over-reliance on trust before sense making and understanding processes have taken place at the organizational level may eventually lead to diminished levels of relational quality.

Similarly, Doz warns that excessive reliance on trust may be detrimental to the venture unless structural mechanisms are designed and put in place to induce the partners to engage in positive loops of interaction. From this we conclude that:

Proposition 7: The level of relational quality, and eventually the survival of an alliance, depends on the existence of administrative procedures for conflict resolution, effective inter-partner communication channels, a flexible and resilient board structure, the choice of key personnel, and other similar procedures designed to facilitate positive interactions.

Up to this point, we have discussed relational quality as being affected by conditions pertaining to the partners' interactions in the context of the alliance. However, as Lorenzoni points out, these are embedded in a broader network of relationships. The alliance literature has begun to focus increasingly on network issues (Burt, 1992; Holm, Eriksson and Johanson, 1996; Gomes-Casseres, 1996; Gulati, 1998; Koza and Lewin, 1998). What has not received much attention thus far is the internal network of relations among the different sub-units that compose each partner company. Doz discusses how alliance partners are not unitary actors, and how their internal differences may affect alliance processes. In the same vein, Lorenzoni argues that in an alliance with such a broad scope as JVCO's, inter-partner relations take place not only at the corporate level, but across all organizational units. If we conceive partners as non-unitary actors, the sets of goals encompassed by the alliance become more complex to map and their behavior may be subject to differing interpretations. The actions of the Southern Distributors subsidiary in this case illustrate this lack of unity in NAMCO, and the potential for misinterpretation by the partner. Thus:

Proposition 8: The actions and goals of a partner's sub-units –be they country subsidiaries, strategic business units or other relevant organizational units– affect levels of relational quality experienced by the partners even when no intentionality is present.

There is broad agreement among researchers about the increasing need for inter-firm collaboration for succeeding in the competitive arena (Geringer and Hebert, 1991; Hagedoorn, 1995). There is also broad evidence about the difficulties inherent in managing collaboration Lorenzoni points out that alliances involve a broad array of non-routine decisions, which provide enormous potential for learning, but also for error. Thus we may expect that:

Proposition 9: Companies actively engaging in learning about alliance processes will develop a greater collaborative know-how and will be able to develop increasingly higher levels of relational quality in their alliances, with positive effects on their survival and performance.

We hope that this detailed discussion of a common set of data will spark new ideas for research about alliance processes and management. A number of potential avenues for further research spring from these discussions. Relational quality –the thread that ties together this set of papers– emerges as a concept at the core of alliance evolution. As such, it appears as a mediating variable that may help explain the link between alliance performance and stability, and the many explanatory variables associated with these concepts (Mohr & Spekman, 1994; Dussage & Garrette, 1995; Barkema & Vermeulen, 1997; Lin & Germain, 1998; Yan, 1998).

The conditions leading to changes in a partner's perceptions of both efficiency and equity appears to be a fruitful area for further work. As Doz points out, scope variation, a sign of the dynamism inherent in any alliance, may lead to an improved or a worsened level of relational quality, depending on whether such variation is perceived as enhancing or diminishing the alliance efficiency and equity. How initial conditions and subsequent learning processes affect these perceptions deserves further attention (Doz, 1996).

Much has been argued about the benefits of trust in alliances (Madhok, 1995; Aulakh, Kotabe and Sahay, 1996). However, over-reliance on trust appers to be detrimental. The conditions under which this happens, and what actions are needed prior to any extensive reliance on trust, merit more reflection.

Finally, relational quality, and thus alliance performance, appears to be influenced by the organizational context of each partner's company, in particular by events taking place at the partners' subsidiaries and other organizational sub-units. The interaction between the dynamics of the alliance itself and the dynamics of the network of relationships at each of the partners level constitutes another path-breaking track for new research.

Appendix

Methodological Note on the NAMCO-Hexagon Case Analysis

The authors collected both archival and interview data in this analysis. The main archival source was the minutes of all the meetings of JVCO's executive board, about 180 pages of unusually rich and detailed information. As the minutes had been read and approved by the board members shortly after each meeting, they are not suspect of retrospection bias. Additional archival data include a large volume of management reports, organization charts, financial reports, internal newsletters, etc. Finally, all relevant press clippings and releases were analyzed.

As a triangulation technique (Eisenhardt, 1989), we interviewed all members of JVCO's management team at least once, privately and face-to-face. We also held a meeting with the full team, as well as several informal meetings with the joint venture's CEO. The interviews were semi-structured and ranged in length from 45 to125 minutes. The interviews were carried out between September 1992 and May 1993. Finally, the key joint venture executives read an early draft of the analysis and agreed that both the facts and their interpretations were accurately captured, or else made modifications where appropriate.

We followed Miles and Huberman's (1984) suggested procedure to analyze qualitative data, whereby data reduction, data display, and conclusion drawing/verification are interwoven before, during, and after data collection. For further detail on the analysis we refer the reader to Ariño and de la Torre. The interested reader may find more expansive introductions to this stream of research in the authors' original work referenced here.

References

Aulakh, P.S., M. Kotabe and A. Sahay (1996). “Trust and performance in cross-border marketing partnerships: A behavioral approach”, *Journal of International Business Studies*, 27, pp. 1005-32.

Ariño A. and J. de la Torre (1998). “Learning from failure: Towards an evolutionary model of collaborative ventures”, *Organization Science,* 9:3, pp. 306-325.

Ariño, A., J. de la Torre and P.S. Ring (1998). “The role of trust in inter-organizational alliances”, paper presented at the Annual Meeting of the Academy of International Business, Vienna, Austria (October).

Balakrishnan, S. and M.P. Koza (1993). “Information Asymmetry, Adverse Selection and Joint Ventures”, *Journal of Economic Behavior and Organization*, 20, pp. 99-117.

Barkema, H.G. and F. Vermeulen (1997). “What differences in the cultural backgrounds of partners are detrimental for international joint ventures?” *Journal of International Business Studies*, 28, pp. 845-64.

Bartlett, C.A. and S. Ghoshal (1989). *Managing Across Borders*. Boston, Mass.: Harvard Business School Press.

Browning, L.D., J.M. Beyer and J.C. Shelter (1995). “Building cooperation in a competitive industry: SEMATECH and the semiconductor industry”, *The Academy of Management Journal*, 38, pp. 113-151.

Buckley, P.J. and M. Casson (1996). “An Economic Model of International Joint Venture Strategy”, *Journal of International Business Studies*, 27, pp. 849-76.

Burt, R. (1992). *Structural Holes: The Social Structure of Competition.* Cambridge, MA: Harvard University Press.

Crozier, M. and E. Friedberg (1977). *L’Acteur et le Système*. Paris: Éditions du Seuil.

Doz, Y. (1996). “The evolution of cooperation in strategic alliances: Initial conditions or learning processes?” *Strategic Management Journal*, 17, pp. 55-84.

Doz, Y. and G. Hamel (1998). *Alliance Advantage*. Boston: Harvard Business School Press.

Doz, Y., K. Asakawa, J.F.P. Santos and P.J. Williamson (1997). “The metanational corporation”, INSEAD working paper No. 97/60SM.

Dussage, P. and B. Garrette (1995). “Determinants of success in international strategic alliances: Evidence from the global aerospace industry”, *Journal of International Business Studies*, 26:3, pp. 505-30.

Dyer, J.H. (1996). “Specialized supplier networks as a source of competitive advantage: Evidence from the auto industry”, *Strategic Management Journal*, 17, pp. 271-91.

Dyer, J.H. (1997). “Effective interfirm collaboration: How firms minimize transaction costs and maximize transaction value”, *Strategic Management Journal*, 18, pp. 535-57.

Eisenhardt, K.M. (1989). “Building theories from case study research”, *Academy of Management Review*, 14, pp. 532-50.

Fruin, M.W. (1992). *The Japanese Enterprise System*. New York: Oxford University Press.

Geringer, J.M. and L. Herbert (1991). “Measuring performance of international joint ventures”, *Journal of International Business Studies*, 22, pp. 249-64.

Gomes-Casseres, B. (1996). *The Alliance Revolution: The New Shape of Business Rivalry*. Cambridge, MA: Harvard University Press.

Gulati, R. (1995). “Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances”, *Academy of Management Journal*, 38:1, pp. 85-112.

Gulati, R. (1998). “Alliances and networks”, *Strategic Management Journal*, 19, pp. 293-318.

Hagedoorn, J. (1995). “A note on international market leaders and networks of strategic technology partnering”, *Strategic Management Journal*, 16, pp. 241-50.

Hagen, J.M. and S. Choe (1998). “Trust in Japanese interfirm relations: Institutional sanctions matter”, *Academy of Management Review*, 23, pp. 589-600.

Harbison, J.R. and P. Pekar (1998). *Smart Alliances: A Practical Guide to Repeatable Success*. San Francisco, CA: Jossey-Bass Publishers.

Hennart, J.-F. (1988). “A transaction cost theory of equity joint ventures”, *Strategic Management Journal*, 9, 361-74.

Hennart, J.-F. (1993). “Explaining the swollen middle: Why most transactions are a mix of ‘market’ and ‘hierarchy’”, *Organization Science*, 4, pp. 529-47.

Hill, C.W.L. (1994). “National institutional structures, transaction cost economizing and comparative advantage”, *Organization Science*, 6, pp. 119-31.

Holm, D.K., K. Eriksson and J. Johanson (1996). “Business networks and cooperation in international business relationships”, *Journal of International Business Studies*, 27, pp. 1033-53.

Johnson, J.L., J.B. Cullen, T. Sakano and H. Takenouchi (1996). “Setting the stage for trust and strategic integration in Japanese-U.S. cooperative alliances”, *Journal of International Business Studies*, 27:5, pp. 981-1004.

Kogut, B. and H. Singh (1988). “The effect of national culture on the choice of entry mode”, *Journal of International Business Studies*, 19:2, pp. 411-32.

Koza, M.P. and A.Y. Lewin (1999). “The co-evolution of network alliances: A longitudinal analysis of an international professional service network”, paper presented at the IESE conference on Competing through Alliance Networks, Barcelona, Spain (June).

Lane, C. and R. Bachmann (1996). “The social constitution of trust: Supplier relations in Britain and Germany”, *Organizational Studies*, 17, pp. 365-96.

Lin, X. and R. Germain (1998). "Sustaining satisfactory joint venture relationships: The role of conflict resolution strategy", *Journal of International Business Studies*, 29, pp. 179-96.

Madhok, A. (1995). "Revisiting multinational firms' tolerance for joint ventures: A trust-based approach", *Journal of International Business Studies*, 26:1, pp. 117-37.

Miles, M.B. and A.M. Huberman (1984). *Qualitative data analysis*. Newbury Park, CA: Sage.

Mohr, J. and R. Spekman (1994). "Characteristics of partnership success: Partnership attributes, communication behavior and conflict resolution techniques", *Strategic Management Journal*, 15, pp. 135-52.

Nonaka, I. and H. Takeuchi (1995). *The Knowledge Creating Company*. New York: Oxford University Press.

Osborn, R.N., J.G. Denekamp and C.C. Baughn (1997). "Assessing the durability of U.S.-Japanese alliances", paper presented at the Academy of Management meeting, Boston, MA (August).

Ring, P.S. (1996). "Fragile trust and resilient trust and their roles in cooperative inter-organizational relationships", *Business & Society*, 32:2, pp. 148-75.

Ring, P.S. (1997). "Patterns of process in cooperative interorganizational relationships", in P. Beamish and P. Killing (Eds.), *Cooperative strategies: A North American perspective*, pp. 286-307. San Francisco: Jossey-Bass Publishers.

Ring, P.S. and G. Rands (1989). "Sense making, understanding and committing: Emergent transaction processes in the evolution of 3M's microgravity research program", in A.H. Van de Ven, H. Angle and M.S. Poole (Eds.), *Research on the Management of Innovation: The Minnesota Studies*, pp. 337-66. New York: Ballinger/Harper Row.

Ring, P.S. and A.H. Van de Ven (1994). "Developmental processes in cooperative interorganizational relationships", *Academy of Management Review*, 19:1, pp. 90-118.

Simonin, B.L. (1997). "The importance of collaborative know-how: An empirical test of the learning organization", *Academy of Management Journal*, 40:5, pp. 1150-74.

Snow, C.P. (1959). *The Two Cultures and the Scientific Revolution*. New York: Cambridge University Press.

Szulanski, G. (1996). "Exploring internal stickiness: Impediments to the transfer of best practices within the firm", *Strategic Management Journal*, 17, pp. 27-43.

Yan, A. (1998). "Structural stability and reconfiguration of international joint ventures", *Journal of International Business Studies*, 29, pp. 773-96.

Zollo, M and H. Singh (1997). "Knowledge accumulation and the evolution of post-acquisition management practices", paper presented at the Academy of Management meeting, Boston, MA (August).