1

Strategic Alliances versus Asymmetric Alliances

1.1. Strategic alliances

A cooperation agreement between organizations relies on a range of partnership relations between corporations that seek to realize a joint production of information, products or commercial services. These agreements include different forms of contractual cooperation such as licensing contracts, R&D agreements and functional collaborations that aim to reinforce the value chain of both parties which can range from common participations to total integration (see Figure 1.1). This can be a number of autonomous entities participating in a network, applying one of many possible configurations: corporate collaboration – cooperation between two or more partners from different countries where each corporation remains autonomous within the areas that are not included within the collaboration perimeters including the common realization of activities and specific tasks.

Garrette and Dussauge [GAR 95] present an analysis grid of different forms of collaborations for strategic alliances, thus distinguishing agreements between competing corporations from agreements between non-competing corporations. A distinction can thus be made between market relations, mergers and acquisitions, and collaborations (see Table 1.1). The following analysis grid presents the differences in definitions of collaboration and the collaboration models between corporations. We will note that one of the most ubiquitous collaboration models remains is that of strategic alliance.

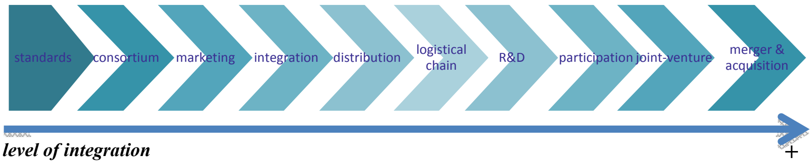

Figure 1.1. *Configurations of alliances (Alliance Science, 2004)*

Stakeholders Relation	Non-competing corporations			Competing corporations
Market relations	Exports and imports	Transactions		Competition
Mergers and acquisitions	Local acquisitions	Vertical integration	Diversification	Sector concentration
Collaboration	Multinationalization *joint venture*	Vertical partnerships	Intersectoral agreement	Strategic alliances between competitors

Table 1.1. *Analysis grid of the forms of relations and interorganization cooperation (source [GAR 95, p. 97])*

1.1.1. *Definition*

The notion of strategic alliance refers to a link between two or more individual corporations, deciding on the governance and structure of a common project while both maintaining their independence. They are therefore engaged in a partnership whereby they will share the benefits and the costs of the collaboration. Khanna *et al.* [KHA 98, p. 195] highlight other dimensions associated with the definition of alliance, citing the mutual transfer of information between strategic partners and the development of organizational knowledge. Resorting to strategic alliances is here justified by the act of: "mutually transferring information from one partner to another, allowing them to combine and grow their competences and key-knowledge to exploit them within common operations". However, Gulati [GUL 98] highlights goals other than the transfer of knowledge and learning, such as the desire to exchange, share or develop common products, technologies or services.

Jolly [JOL 01, p. 3], on the other hand, defines alliances as:

> "A link established by at least two sovereign companies that do not belong to the same group, agreeing to pursue a common goal within a defined space by pooling or exchanging resources in order to obtain mutually beneficial results, while remaining independent outside of the alliance".

This notion of independence implies, for the partners, that they maintain their strategic autonomy outside of the areas covered by the mutual agreements. For their part, Contractor and Lorange [CON 88] put forward the importance of sharing financial and technological resources as well as the management and control model of the joint activity. Pooling complementary capital and manpower as well as production capabilities and information must therefore allow the creation of value [BUC 88].

Using these definitions as a basis, we can establish a theoretical framework that encompasses the different dimensions that characterize a strategic alliance, i.e.:

– a strategic alliance encourages networking between non-competing companies, competing companies or potentially competing companies;

– the decision to enter a strategic alliance must involve a formal, well-defined and appropriately structured contract;

– when active, this contract will not remove the autonomy of either of the companies or their independence;

– a strategic alliance involves pooling resources and capabilities as well as sharing the results by the contracting parties.

1.1.2. *Organizational forms*

Partnerships, functional collaborations, joint ventures and cooperation agreements are generic terms that refer to various organizational forms that companies can take on in order to mobilize the resources necessary to their competitiveness. These organizational forms can fall into one of two categories depending on whether the nature of the commitment is equity based or simply contractual.

1.1.2.1. *Equity alliances*

Joint ventures and equity investments (joint/unilateral) are representative of this type of alliance. Joint ventures, in particular, refer to the investment of capital into a new entity and the pooling of resources among a number of partners. This will take the form of a new administrative structure that operates on the basis of a new hierarchy. The objectives for a joint venture are most often expressed in a long-term context in the areas of R&D, production and product commercialization. Kogut [KOG 88], Pisano [PIS 89, PIS 91] and even Oxley [OXL 97] mention that joint ventures allow control over the behaviors of the partners in order to align their objectives, particularly in the context of an uncertain environment favorable to opportunistic moves and behaviors.

Members of a joint venture agree beforehand to commit their resources in order to determine ownership over the common subsidiary. This avoids any of the partners going back on their commitment. Furthermore, the partners wield their operational power via a formal administrative unit (the executive board of the joint venture), which allows them to efficiently exercise control over the joint activity and reduce transaction costs among partners.

Das and Teng [DAS 98] underline the fact that joint ventures allow control over decisions, resources, assets and partners through specific organizational routines and an elevated hierarchical control. This type of alliance ensures that the partners' interests are aligned and reduces the inherent costs that occur from incomplete contracts and opportunistic behaviors.

The works of Contractor and Lorange [CON 88, p. 6] emphasize the high level of co-dependency between partners during a joint venture who mobilize part of their personnel in a collaborative framework and rely on common resources, technologies and processes: "The joint venture is a cooperative arrangement characterized by a high level of organizational interdependency". Therefore, the partners are in constant interaction at all hierarchical levels in order to optimize the exchange of knowledge and expertise and to simultaneously direct added-value operations [GUL 98]. This is manifested by an integration of abilities and resources by both contracting parties allowing them to synergize in terms of commercialization capabilities, production capacities or even research and development.

Park and Russo [PAR 96] differentiate "integrated" forms from "sequential" forms of alliance depending on the nature of the interdependency of the partners. Therefore, the "integrated" joint venture is characterized by a joint interdependency between partners since they dedicate part of their personnel and resources to an integrated and separate organization, granting them an operational role. On the other hand, "sequential" joint ventures are characterized by a "sequential" interdependency in the sense that operations are directly taken on by members of the alliance. Each partner performs the distinct actions that are tied to the resources they commit before transferring activity to a partner who continues the work using on their own resources. With common venture not having an operational role, it is confined to a role of judicial and administrative coordination. As for Hennart [HEN 88], he distinguishes between scale joint ventures and link joint ventures. This is based on the transaction cost theory [WIL 85]. While the former model of alliance aims to realize similar economies of scale by pooling similar resources, the latter is preferred by companies with complementary resources with the objective of developing activity synergies.

Recourse to equity alliances is favorable when partners are looking to exchange or acquire new skills. Khanna *et al.* [KHA 98] point out that successful knowledge transfer and learning requires a solid governance of the alliance allowing the partners to effectively perform R&D activities. In the same vein, Mowery *et al.* [MOW 96] emphasize that tacit knowledge requires a large amount of interactions, personal relations and proximity between partners. Competence transfer activities are assisted by the presence of executives dedicated to joint ventures as well as face-to-face meetings and improved personal relations between partners. Asymmetric strategic alliances that connect partners from cultures from different geographical contexts need to be governed by equity agreements that encourage learning and the acquisition of knowledge, unlike contractual agreements [LI 09].

Furthermore, it should be noted in this context that joint ventures are most often associated with high investment costs relating to equipment, personnel or the creation of a new managerial structure designed to direct the joint activities. The particularly irrecoverable nature of these investments as well as the elevated exit costs of these types of alliances reduces the ability for partners to adapt to unpredicted events or develop an innovation dynamic likely to encourage the development of new products and/or processes.

1.1.2.2. *Contractual alliances*

Contractual alliances refer to agreements established between partners to cooperate while maintaining their autonomy and without creating a new entity. Contractual alliances are preferred by companies operating within a context of high uncertainty and adapted to the knowledge transfer and expertise associated with activities in the technological sector [HAG 02]. Companies therefore favor contractual agreements such as licenses in intensive R1D sectors, where technological innovations are both radical and constantly changing. The simplicity of management and the flexibility offered by contractual alliances help the negotiations and collaboration between different parties [HAG 96].

Contractual alliances allow the protection of new knowledge while transferring anything essential to the alliance. Using a study of 271 cases of equitable "joint venture" alliances and non-equitable "unilateral and bi-lateral contract" alliances, entered into by American, European and Japanese companies, Colombo [COL 03] shows that the probability of resorting to a joint venture decreases with the existence of similar knowledge and technological capabilities among partners. The latter will prioritize equity-based forms whenever the alliance involves a unilateral transfer of resources and competences in favor of one of the parties.

Characterized by a high level of organizational independence among members [GUL 98], contractual collaborations imply few exchanges of information and knowledge, as well as a low-level operational interaction among the stakeholders. The studies performed by Das and Teng [DAS 08] as well as by Chen and Chen [CHE 03] demonstrate that contractual alliances are preferred by small-scale entities looking to perform economies of scale on partially outsourced activities that do not require the integration of resources or key competencies.

1.1.3. *Objectives set by the partners*

Recourse to a strategic alliance is most often driven by the desire to convert a potential market competitor into a partner; to receive material, financial or human assistance; or to develop technical, technological or financial synergies. A number of authors [HAR 85, TEE 86, HEN 88, KOG 88, WIL 91] have studied the motivations that explain the formation of a strategic alliance, which we will classify according to their expected results in the following sections.

1.1.3.1. *Reducing transaction costs*

Any economic transaction generates costs prior to its realization, tying in with the costs linked to information, to "market deficiencies", to preventing opportunism from other agents, etc. Hence, certain transactions taking place on the market can generate high transaction costs. This can lead to financial agents seeking alternative institutional arrangements which enable them to minimize these costs. The transaction costs approach, developed by economics pioneer Coase [COA 37], accentuates the importance of hierarchies as an alternative mode of support for transactions. At the other end of the market, Williamson [WIL 91] follows Coase in distinguishing "hierarchy", which generally corresponds to the company. Between the market and the company, there are a number of "hybrid" forms that can be identified (subcontracting, franchising, network, etc.). According to Ménard [MÉN 97], these "hybrid forms" or "networks" refer to:

> "A diverse number of arrangements such as franchises, long-term inter-business contracts, business networks, which are given coherence by identifying their common characteristics such as the partial transfer of power to allocate resources without transferring the property rights" [MÉN 97, p. 742].

In hybrid form, strategic alliances sit alongside the principles established by the founders of the transaction costs approach.

Companies opt for the solution of an alliance in order to reduce the level of uncertainty that comes with certain market transactions, maximize the usage of specific assets and face opportunistic behaviors of economic agents. A strategic alliance appears as the more appropriate option in order to realize economies of scale while simultaneously avoiding the use of market systems that would generate high costs tied to pricing research, negotiation and drafting (*ex ante* transaction costs) or even contract compliance (*ex post* transaction costs).

The strategic alliance option is justified, not only by how it reduces transaction costs, but also in the specificity of assets required. If assets are very specific then increases in transactions inevitably become very costly. It therefore makes sense to group them within a single organization in order to reduce transaction costs. However, opportunism and uncertainty rise as soon as the number of actors is low and when there are few transactions between partners. Hence, why corporations opt for strategic alliances to reduce transaction costs tied with market uncertainty.

1.1.3.2. *Resource acquisition and dependence*

The resource-based view has often been used to explain the decision of businesses to form a strategic alliance [BAR 91, PRA 90]. This approach states that the formation of an alliance depends on the potential for value generation of the resources placed in common by two allied corporations. The alliance is presented as the strategic option, enabling the acquisition of new competitive advantages and value creation [POR 86]. These alliances are established by companies in an aim to access new resources that they do not possess or could not obtain individually, such as access to new international markets, strategic resources that would be hard to duplicate or transfer and the development of new abilities and competencies. It is in this vein that alliances provide opportunities for value creation.

According to the resource-based view, the key to competitive advantage is to be found within the company. The latter is therefore encouraged to adopt a dynamic which will allow it to reinforce its catalog of resources and capabilities and acquire those it needs for future development. These resources are considered strategic whereupon they contribute to the development of abilities and key competencies of the company [TEE 97]. Resources can be categorized as either tangible resources (for instance, any financial, human or physical resources) or intangible (expertise, reputation, technologies, managerial experience, for example). Disparity remains the essential factor for distinguishing between companies. This element constitutes the basis of the resource-based view.

Beyond the aforementioned resource sharing, companies can form allegiances in order to share commercial resources based on reputation, notoriety and customer relations. The created value therefore results from an improved global performance, growth, conquering new market shares, increasing area of activity, increased margins in terms of volume and/or value, etc.

The theory of resource dependence analyzes the development of intercompany relations through two key variables: dependence and uncertainty [PFE 78]. The level of dependence of one company toward another depends on the importance, the specificity and the availability of the resources held (for example capital, expertise, personnel, etc.). The inability for one company to manage its resource flows will further increase its perceived environmental uncertainty.

Therefore, the members of an alliance seek to manage uncertainty issues by establishing formal or semiformal relations with other companies. These relations allow them to decrease their vulnerability vis-à-vis their environment and properly manage their dependence toward it. A company's perceived vulnerability to its environment is a function of its needs in terms of human, financial, technical and informational resources; in other words, resources controlled by its environment. The level of dependence of a company on its environment reinforces the power of the latter, which will then dictate its demands, in particular competitive rates, products and services fulfilling its needs, structures and specific organizational processes.

In this approach, strategic alliances are seen as a maneuver that will allow a company to gain power by minimizing its dependence on its environment. According to Pfeffer and Salancik [PFE 78], the level of dependence determines the amount of power of each party in a cross-organizational relationship. A company holds a large amount of power if the operation of the alliance depends entirely on its input in terms of tangible and intangible resources. The nature of the inputs of the partners therefore dictates their negotiating power within the alliance [HAR 85]. The control over key resources by one company therefore represents a source of deciding power within the partnership.

1.1.3.3. *Learning*

The organizational learning theory has been used by a number of researchers in the past two decades to analyze the formation of strategic alliances [KOG 88, DOZ 98, KHA 98, SIM 04]. Doz *et al.* [DOZ 89] see strategic alliances as a way to appropriate competences and expertise from partner companies through learning processes. It states that strategic alliances enable the fast acquisition of new knowledge at reduced costs, thus contributing to the strategic consolidation of a company.

EXAMPLE.– Indian companies have formed alliances with American corporations in order to acquire new abilities and expertise in the areas of IT and information and communications technology (ICT). Through these partnerships, India's industry became the first to promote a "global outsourcing of services model". Indian exports of IT services and ICT-related services have grown considerably because of the superiority in terms of quality and price offered by Indian companies in comparison to their competitors. Over time, Indian industries have become capable of taking on entire IT projects for overseas clients.

A company's absorptive capacity [COH 90] rests on its ability to determine, assess, assimilate and apply new knowledge according to its prior knowledge and investments on which it can rely. Past experience, as well as being at the center of information exchanges, will also tangibly improve a company's absorptive capacity. This dynamic ability [TEE 97] is essential to developing new knowledge and engaging a dynamic of organizational learning. Thus, a company's "retention capacity" determines the success of its learning process [SZU 96]. This refers to a receiver's ability to institutionalize new competencies. Absorbing new competencies is only considered effective if they are properly retained by the receiver. Therefore, the relation between emitter and recipient relies on the strength of communication channels as well as trust.

Table 1.2 summarizes the primary strategic objectives set by members of a strategic alliance.

Theoretical perspective	Strategic objectives
Economic based on transaction costs	Risk sharing Rationalize production and economy of scale Vertical synergy Technological transfer and patent exchange
Strategic-based resource acquisition and dependence	Create value and competitive advantage International expansion Consolidate strategic position within market Combining competencies Risk sharing
Organizational learning	Technological and/or patent transfer International expansion

Table 1.2. *Theoretical table of objectives leading to a strategic alliance*

1.2. Asymmetric alliances

1.2.1. *Definition*

Symmetry can be explained as a harmonious successive relation where elements are arranged in regularity and balance. In this sense, a strategic alliance is symmetrical when it involves "companies whose strategic positions are interchangeable, meaning companies with comparable levels of resources, competencies and that are at similar stages of development in the race for innovation and the creation of new technologies" [ASS 10, p. 113]. Alliances are considered symmetric when they involve companies of similar sizes and resource levels that operate in geographic areas of similar levels of development [MOU 05].

The negating prefix “a” denies this idea of balance in terms of scale, resources or even experience among partners. Therefore, “asymmetric alliances involve companies with differing strategic positions, in the sense of technological mastery” [ASS 10]. They involve companies with dissimilar sizes, resources and experience that are located in geographical areas of unequal levels of development.

In the following sections, we will detail the organizational, strategic, managerial, geographic and sociocultural factors of asymmetric alliances.

1.2.2. *Criteria for organizational and strategic asymmetry*

1.2.2.1. *Size*

Size constitutes a fundamental factor in the perception of asymmetry within an alliance. The notion of asymmetry can be determined through differences in size, revenue, etc., often indicating differences in structure, cultures, norms or values [MOU 05]. In this respect, size asymmetry between the members of a strategic alliance leads to, in most cases, the risk of unilateral dependence and even opportunism from the dominating party. Using the results from an empirical study involving 344 Small and Medium Enterprises (SME) in the biotechnology sector, Vidot-Delerue and Simon [VID 05] conclude that asymmetry has a heavy impact on the smaller partner’s perceived risk of being absorbed by the larger party, which tends to encourage opportunistic behavior. Size asymmetry tends, in most cases, to reinforce the dominant ally’s bureaucratic control over the alliance.

1.2.2.2. *Nature and specificity of dedicated resources*

An alliance is asymmetric when it joins partners who supply substantially different resources, whether they be tangible (human, financial, material, infrastructure, etc.) or intangible (informational resources, expertise, notoriety, etc.). Pooling resources creates a mutual dependence among partners. The rarity and specificity of a resource leads to a situation of dependency for its holder over the partner [WIL 85]. The level of dependence among partners will depend on the value of the dedicated resources (whether or not they can be considered strategic) and their availability [YAN 94]. Resources supplied by a host partner in terms of key knowledge pertaining to the local market hold strategic value to a foreign partner. The Multinational Corporation (MNC) then remains dependent upon the local ally until completely internalizing and appropriating all transferred knowledge. Command of a particular skill or craft or experience with the local environment can, most often, constitute a source of power for the host partner who still remains reliant on the transfer of technological expertise and skills from the MNC.

1.2.2.3. *Level of experience*

The level of experience manifests through the ability for partners to manage organizational interactions and conflict [HAR 85]. The company that has a lot of experience with collaborations, expertise, technological abilities, managerial and organizational skills is expected to use its assets to benefit its partner. Power dynamics then set in and we start to see asymmetric dependence within the partnership. The company with the least amount of experience benefits from the abilities and knowledge from its partner at a far lower cost than would be possible at market rate, but will see its power and autonomy toward its partner reduce.

1.2.2.4. *Learning and absorptive capacities*

The dominant partner's absorptive capacity (a global corporation, for example) is generally higher than the dominated one's (an SME for example) [O'DW 05]. This way, transfers of knowledge are greater between companies in a symmetrical *alliance* than in asymmetric alliances. In asymmetric alliances, the dominant party, having the most abilities, will, in most cases, determine the governance model in the relationship as well as the nature of the knowledge that is transferred to the host partner. The knowledge transfer will not only rely on the will of the partner to learn, but also its absorptive capacity [COH 90].

1.2.3. *Criteria for managerial asymmetry: the governance model*

There is a strong correlation between one partner's power and size. The dominant partner naturally possesses significant human, financial and technological assets, which contributes to reinforcing the power imbalance in the alliance [CHR 05, LU 06, MEI 10]. Size asymmetry among partners explains the asymmetry in governance of the alliance with disparities in the way each party is represented in the capital structure (majority holder versus minority holder) and management style (dominant versus submissive). And yet, power asymmetry cannot be exclusively the consequence of the ownership structure of the alliance, as there are other asymmetry criteria such as the nature and specificity of resources supplied by the parties. In the case of an alliance, information withholding can affect the progress of joint activities, although sharing information can often give alliance members the impression that they are losing power and control over the partnership.

Agency theory [JEN 76] introduces the notion of information asymmetry and emphasizes the issue of imperfect information and opportunistic behaviors inherent to conflicts of interest, which inevitably translate to "agency costs" among the members of a contractual relationship.

We distinguish between two contexts for information asymmetry between the partners in an asymmetric alliance:

1) a context of adverse selection, particularly if the host partner does not have the technical and organizational knowledge that the international partner does, while the latter is not familiar with the local environment;

2) a context of moral hazard, knowing that either partner can change their behavior according to their environment and strategy.

The notion of “ information power” refers to “the ability for an economic agent to modifier, through direct or indirect action, the behavior, conditions or economic results of other units in order to secure a financial advantage” [GUI 04, p. 10]. This power will depend on a certain number of variables tied to the level of information asymmetry as well as the specificity of actors relative to their rationality or their choices and personal interests.

1.2.4. *Geographic and sociocultural asymmetry criteria*

1.2.4.1. *Geographic origin*

The asymmetric aspect of a strategic alliance can be the result of differences in geographic origins of partner companies [CHR 05]. According to Mouline [MOU 05], there are two types of cataloged international strategic alliances depending on geographic criteria: classic alliances established between developed countries, North–North alliances, and North–South alliances, which involve both developed and developing countries, such as asymmetric alliances established between European or American companies and Asian companies (excluding Japan). These different agreements are set apart by different objectives for partners, organization models, length of agreement, governance model or even perceived importance of the alliance for each partner [HYD 99, TIN 05].

The result is differences in governance structures and conflict resolution models used by the partners within each type of alliance [HYD 99]. While disagreements of a strategic nature arising in North–North alliances are solved in a formal manner with contract clauses, it should be noted that North–South alliances are more often faced with divergences of a tactical and operational nature requiring they resort to conflict resolution mechanisms that are more or less informal.

1.2.4.2. *Culture*

Cultural proximity among partners is considered to be a factor of trust within alliances that favors mutual understanding [INK 04]. Locating activities in countries that are culturally close increases the chances of success of the alliance [DRO 06]. However, cultural distance refers to cultural and organizational differences among the members of an alliance [PAR 93]. This refers to existing differences between national cultures, organizational processes and managerial behaviors of partners. The cultural distance among partners is a source of ambiguity and managerial complexity which impedes the convergence of their objectives [DOZ 88].

A number of studies highlight the failures of alliances as a result of cultural distance between partners that translates to differences in histories, vision, behaviors, managerial styles or even decision-making methods within the alliance [BLA 06]. A large cultural distance between partners can lead to incompatibilities in their organizational and administrative operation impacting the way they approach and solve the difficulties they are faced with [KOG 88]. These divergences can create an atmosphere of uncertainty and defiance leading to elevated coordination and supervision costs. Transactions concluded among culturally different partners can translate to an inability to predict future results, increasing uncertainty and amplifying coordination costs. Any such situation, characterized by a lack of trust, requires more prevention against opportunism, thus explaining increased transaction costs.

Table 1.3 collates the criteria for asymmetry that have been cited previously.

<table>
<tr><th colspan="2">Factors</th><th>Reference</th></tr>
<tr><td rowspan="4">Organizational and strategic factors</td><td>Size</td><td>[HAR 85]
[BEA 05]
[MOU 05]
[TIN 05]
[VID 05]</td></tr>
<tr><td>Nature and specificity of supplied resources</td><td>[YAN 94]
[YAN 98]
[INK 97]
[LEE 03]
[CHR 05]</td></tr>
<tr><td>Level of experience</td><td>[HAR 85]
[MOU 05]</td></tr>
<tr><td>Learning and absorptive capacity</td><td>[INK 97]
[O'DW 05]</td></tr>
<tr><td rowspan="2">Managerial factors</td><td>Governance model</td><td>[LEC 84]
[YAN 94]
[LEE 03]
[CHR 05]
[O'DW 05]</td></tr>
<tr><td>Level of information sharing</td><td>[MOH 94]
[VID 05]</td></tr>
<tr><td rowspan="2">Sociocultural and geographic factors</td><td>Geographic origin</td><td>[CHR 05]
[MOU 05]
[MAK 98]</td></tr>
<tr><td>Culture</td><td>[PAR 91, PAR 93]
[KOG 88]
[SIM 99]
[SAR 01]</td></tr>
</table>

Table 1.3. *Asymmetry factors in strategic alliances*