The Benefits and Problems of Strategic Alliances: A Multi-Case Study of Small Trading Firms in Australia

A thesis submitted in fulfillment of the requirements for the degree of Doctor of Business Administration

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Abstract

Strategic alliances are becoming increasingly prominent in the global economy. Although many firms have realised benefits and expanded their businesses by using strategic alliances, others have encountered severe problems with such alliances; in some cases this has led to business failures. The contrasting results achieved by different firms in using strategic alliances have attracted the attention of business practitioners and researchers.

Through a literature review and case studies, the present study investigates the role of strategic alliances in small trading firms. The research questions of this study address the following issues:

- What are the potential benefits of strategic alliances to small trading firms?
- What are the key issues and problems facing small trading firms with regard to strategic alliances?
- What roles do strategic alliances play in the business success or failure of small trading firms?
- How can small trading firms realise the potential benefits of strategic alliances while simultaneously minimising the potential problems?

The present study addresses these issues by exploring effective ways for partner firms to make best use of strategic alliances in expanding their businesses. Six case studies are conducted on small trading firms in Australia; of these, three were successful in using strategic alliances to expand their businesses, whereas the other three failed. The case studies draw upon documentary research of the files of the six firms and semi-structured interviews with alliance partners and managers involved in the formation and management of the strategic alliances of the firms. By applying the theoretical perspectives of transaction cost, resource dependence, and strategic behaviour, a comparative cross-case analysis of the six case studies is conducted.

The major finding of the present study is that a balanced portfolio approach to the formation and management of strategic alliances holds the key to the business success of small trading firms. A ‘portfolio’ consists of strategic alliances in three categories—(i) product sourcing; (ii) product marketing; and (iii) business finance. The term ‘balance’ refers to: (i) the significance of the alliance to the participants; (ii) the benefits to the participants; (iii) dependence among participants; and (iv) balance
in the overall portfolio. The present research suggests that a balanced portfolio approach not only enables firms to achieve various benefits (such as consistent and competitive product supply, extended marketing channels, and sufficient funds to grow the businesses), but also reduces the occurrence of problems in strategic alliances (such as undue dependence on the resources of partner firms).

This thesis proposes practical recommendations for business practitioners to use in forming and managing strategic alliances to expand their businesses. The thesis also proposes directions for future studies in strategic-alliances research—such as research into the maintenance of an interdependent relationship within the alliance, dealing with crises in alliances, and the internal competencies required by a firm to manage a portfolio of alliances.
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## Abbreviation List

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<tr>
<td>Alfa</td>
<td>A seafood-trading firm based in Victoria, Australia</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
</tr>
<tr>
<td>CHC</td>
<td>Nuta’s alliance partner in business finance</td>
</tr>
<tr>
<td>Cita</td>
<td>An apparel-trading firm based in New South Wales, Australia</td>
</tr>
<tr>
<td>CTC</td>
<td>The finance alliance partner of Gota</td>
</tr>
<tr>
<td>DBA</td>
<td>Doctor of Business Administration</td>
</tr>
<tr>
<td>Delta</td>
<td>A computer-trading firm based in Victoria, Australia</td>
</tr>
<tr>
<td>DL</td>
<td>The major alliance partner of Delta in computer supply</td>
</tr>
<tr>
<td>Elta</td>
<td>A grocery-trading firm based in New South Wales, Australia</td>
</tr>
<tr>
<td>Gota</td>
<td>A seafood-trading firm based in Victoria, Australia</td>
</tr>
<tr>
<td>Nuta</td>
<td>An apparel-trading firm based in Victoria, Australia</td>
</tr>
<tr>
<td>Org</td>
<td>Organization</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>TCF</td>
<td>Textile, Clothing and Footwear</td>
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Introduction

Problem statement

Strategic alliances are becoming increasingly prominent in the global economy. Such alliances have been playing major roles in almost every industry in recent decades—including the airline industry, oil exploration, pharmaceuticals, semiconductors, and so on. A typical corporation relies on alliances for 15–20% of its total revenues (Ernst and Bamford, 2005). Approximately 20,000 corporate alliances were formed worldwide from 1997 to 1999 (Fabris, 1999), and more than 5,000 joint ventures (JVs) (and an even larger number of contractual alliances) have been launched around the world from 1999 to 2003 (Bamford et al., 2004). The 100 largest JVs represented more than $350 billion in combined annual revenues in 2003 (Bamford et al., 2004). Many companies have portfolios of 20 or more alliances, and some have more than 100. Many of the world’s largest companies have more than 20–50% of their assets tied up in alliances (Barlas et al., 2004), and 82% of executives believe that alliances will be a prime vehicle for future growth (Elmuti and Kathawala, 2001). A 2004 report that drew upon a mail survey of 201 senior finance executives was conducted by PricewaterhouseCoopers, and this found a clear trend towards using strategic alliances to access new growth areas directly—including new geographical markets, new technology and new products—while lowering costs and avoiding the need for new personnel (Financial Executives Interviews, 2004).

In accordance with the pace of these developments, scholars in the field of strategic management have, in recent decades, published numerous studies on the subject of strategic alliances. Various theoretical approaches—such as ‘transaction-cost economics’ and ‘resource-dependence theory’—have been applied to an exploration of the benefits of strategic alliances to participating firms (Auster, 1994). These research efforts have mainly focused on establishing a theoretical foundation for the phenomenon of alliances from the perspective of business practice. In addition, the relatively high rate of unsuccessful alliances has also attracted the attention of scholars. Studies have shown that 30–70% of alliances do not meet the goals of the parent companies, and can therefore be considered ‘failures’ (Barlas et al., 2004). The overall success rate of alliances thus hovers around 50%, and the average life span of a joint venture is only 5–7 years (Ernst and Bamford, 2005). Researchers have
therefore begun to look at another dimension of strategic alliances—the problems that alliances present for the participating firms. These problems fall into two broad categories—(i) the difficulties in operating an alliance during its formation, development, and performance; and (ii) the adverse effects of a failed alliance on the participating firms.

The present study addresses both the benefits and the problems of strategic alliances for the participating firms. Firms possess limited resources of their own, and this is especially true of the small trading firms that are the focus of the present research. To expand their businesses, these firms must find ways of accessing resources from external sources if they are unable to develop these resources internally. The formation of a strategic alliance is one of the options that a firm can choose to solve this problem. However, although the firm might realise the benefits it seeks from such an alliance, it can also encounter the problems that come with alliances. The benefits have the potential to assist a firm in fighting its way to success, whereas the problems have the potential to threaten the firm’s growth, and even its survival. The question of how to realise the benefits of alliances while minimising the problems that come with them is the dilemma that has to be addressed if a firm intends to use alliance strategy to expand its business.

**Aims and focus of the study**

The aim of the present study is to establish effective means by which firms can make use of strategic alliances to survive and to expand their businesses. The study is thus concerned with producing knowledge for action, and as such it has two primary objectives: (i) achieving understanding; and (ii) facilitating change. The first, ‘achieving understanding’, refers to the development of knowledge about the benefits and problems of strategic alliances for the participating firms, and to an analysis of the roles played by strategic alliances in business success or business failure. The second, ‘facilitating change’, refers to the development of practical recommendations for small trading firms in achieving their goals by using strategic alliances. In pursuit of these objectives, the study uses an ‘abductive’ research strategy—whereby theoretical concepts are generated from the everyday accounts of the actors involved (Blaikie, 2000).

The study first identifies the benefits that a firm can achieve from strategic alliances and the problems that it can confront within such alliances. This is achieved
through a literature review and an analysis of the case studies presented in the thesis. The literature review considers the extant research on strategic alliances, especially with respect to the benefits and problems of alliances. Existing theoretical views are employed in developing a theoretical framework to analyse the benefits and problems of alliances, while also identifying knowledge gaps in the literature and the implications of these gaps for the present study. The six case studies that are presented in the thesis illustrate the benefits and problems of strategic alliances as experienced by six small trading firms in Australia. The multiple cross-case analysis that follows the presentation of the case studies aims to identify the roles played by strategic alliances in the business success or business failure of the firms involved. On the basis of the conclusions drawn from a combination of the literature review and the case studies, the thesis proposes practical recommendations for business practitioners who wish to realise the benefits of alliances while minimising the problems that come with them. The thesis also identifies relevant issues in strategic alliances that are worthy of future study.

**Major findings, conclusions and recommendations**

The thesis presents three successful cases of strategic alliances and three failed cases of strategic alliances. In the successful cases, a balanced ‘portfolio approach’ to the formation and management of strategic alliances is found to have played a significant role in the firms’ business success. A balanced portfolio of strategic alliances not only creates benefits for the firms (such as access to competitive product supply, extensive marketing channels, and increased financial capacity), but also helps the firms to reduce the problems of over-dependence on partners’ resources. The analysis of the failed cases indicates that imbalances within strategic alliances—such as a partner’s opportunistic behaviour, or a heavy reliance on the resources of an alliance partner—constitute the major reason for the emergence of serious problems in an alliance. These problems caused the ultimate failure of the alliances, and the business failure of the individual firms involved.

The thesis draws overall conclusions from the literature review, the case studies, and the multiple cross-case analyses. The study concludes that the major potential benefits to be realised by small trading firms involved in strategic alliances are: (i) consistent and competitive product supply; (ii) extended marketing channels; and (iii) strong financial capacity. The major problems experienced by the firms are found to
be: (i) partners’ opportunistic behaviour in dealing with alliances; and (ii) over-
dependence on the resources of alliance partners.

A balanced ‘portfolio approach’ is recommended to firms as being an effective
way to realise the potential benefits of strategic alliances while simultaneously
minimising the potential problems. The thesis also identifies relevant issues in
strategic alliances that are worthy of future study, such as research into the
maintenance of an interdependent relationship within the alliance, dealing with crises
in alliances, and the internal competencies required by a firm to manage a portfolio of
alliances.

**Significance of the study**

This synopsis of the thesis indicates that the present research contributes to the
literature on strategic alliances from both a theoretical perspective and a practical
perspective.

From a theoretical perspective, the major contribution of the study is its
identification of a *balanced portfolio approach* to the formation and management of
strategic alliances as being the key to business success. An alliance portfolio consists
of strategic alliances formed in three categories—(i) product sourcing; (ii) product
marketing; and (iii) business finance. The critical features of the ‘portfolio approach’
advocated here are: (i) an interdependent relationship between the alliance partners;
and (ii) appropriate balances within the portfolio of alliances. The present research
reveals that a balanced ‘portfolio approach’ to the formation and management of
strategic alliances not only enables small trading companies to achieve various
benefits (such as consistent and competitive product supply, extension of marketing
channels, and sufficient funds to expand the business), but also serves to minimise the
potential problems of strategic alliances (such as dependence on the resources of
partner firms). A balanced portfolio of strategic alliances also enhances the strategic
position of small trading companies in their industries.

A second theoretical contribution of the research is that any imbalances that
exist in the portfolio of alliances represent a major threat to a relationship of mutual
dependence between the partners. Moreover, any such breakdown in mutual
interdependence is a significant contributing factor to the ultimate failure of alliances
and, perhaps, to the business failure of the entities involved.
Finally, from a theoretical perspective the research also proposes certain directions for future studies of strategic alliances—such as: (i) research into the maintenance of interdependent relationships within alliances; (ii) exploration of means of dealing with crises in alliances; and (iii) studies of the internal competence of firms in managing a portfolio of alliances.

From a practical perspective, the research proposes pragmatic recommendations for business practitioners who wish to utilise strategic alliances to expand their businesses. The recommendations cover both alliance formation and alliance management.

In terms of alliance formation, key issues for management include: (i) deciding the categories of alliances; (ii) finding the right partners and choosing the right forms of alliances; (iii) identifying the right opportunity to form an alliance; and (iv) gradually developing a portfolio of alliances.

In terms of alliance management, the recommendations pertain to the issues of: (i) maintaining an interdependent relationship in each of the alliances; (ii) maintaining an appropriate balance within the portfolio of alliances; and (iii) maintaining the growth of the individual businesses within the alliances.

In summary, the significance of this research resides in:

- its systematic identification of the benefits and problems of strategic alliances among small trading firms;
- its demonstration of the importance of the balanced ‘portfolio approach’ in forming and managing strategic alliances with a view to ensuring the business success of the firms involved;
- its identification of any imbalances that exist within a portfolio of alliances as constituting the major reason for the failure of some alliances (and the business failure of some small trading firms);
- its practical recommendations for business practitioners in applying a ‘portfolio approach’ to the formation and management of strategic alliances; and
- its proposals for future studies in the field of strategic alliances.

**Limitations of the study**
All research studies are subject to limitations. The limitations of the present study relate mainly to certain aspects of the methodology of data collection and analysis. First, because of limitations of time and personal resources, the collection of data was restricted to six small trading firms in the Australian states of Victoria and New South Wales over a period of two years. The data are therefore necessarily limited in terms of industry, company size, company location, and timeframe. As with all empirical studies, caution should therefore be exercised in generalising from the conclusions reached in this particular setting to an analysis of strategic alliances in other settings. Secondly, some of the data were collected from company documentary research. The accuracy of data collected from company records obviously depends on the veracity of those records; unfortunately, not all of the records in question had been audited professionally. There is therefore some doubt about the absolute accuracy of the portion of the research data that was collected from these sources. Finally, in noting limitations related to data methodology, it must be acknowledged that the grounded-theory approach (as used in the analysis of the case studies) has been criticised for segmenting and coding the data—which, in theory, could lead to the loss of useful information in the data (Miles and Huberman, 1994).

In terms of possible limitations of conceptual scope, it might be said that certain peripheral areas of interest have not received due consideration in the present study. In exploring the benefits and problems of strategic alliances and their impact on the firms involved, the study necessarily touches on a number of related subjects—including interdependent relationships, a balanced portfolio of alliances; opportunistic behaviours; crises in alliances; and internal competencies of firms. It would have been interesting and fruitful to explore all of these issues in greater detail. However, unavoidable restrictions in time and personal resources necessarily restricted a fuller exploration of these and other peripheral subject areas. Nevertheless, the study contains many findings and recommendations of value and interest, and its relative shortcomings in other areas could motivate further fruitful research in these areas of special interest.
Summary

Strategic alliances are becoming increasingly prominent in the global economy. Business firms are using strategic alliances to:

- reduce transaction costs with upstream suppliers and downstream customers to create competitive advantages;
- access key external resources that are deemed critical to business growth—such as consistent and competitive supply, extended marketing channels, new technologies and financial resources—; and
- enhance strategic positions against competitors in their industries.

Although many firms have realised benefits and expanded their businesses by using strategic alliances, others have encountered severe problems with such alliances; in some cases this has led to business failures. The contrasting results achieved by different firms in using strategic alliances have attracted the attention of business practitioners and researchers.

Through a literature review and case studies, the present study investigates the role of strategic alliances in small trading firms. The research questions of this study address the following issues:

- What are the potential benefits of strategic alliances to small trading firms?
- What are the key issues and problems facing small trading firms with regard to strategic alliances?
- What roles do strategic alliances play in the business success or failure of small trading firms?
- How can small trading firms realise the potential benefits of strategic alliances while simultaneously minimising the potential problems?

The literature review reveals that researchers have applied various theoretical perspectives to their analyses of strategic alliances. These perspectives include: (i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour. However, certain gaps exist in the extant literature. These include a lack of systematic research of: (i) the benefits and problems of strategic alliances to partner firms; (ii) the roles played by strategic alliances in the business success or failure of participant firms; and
(iii) effective ways for partner firms to optimise the benefits and minimise the problems of strategic alliances.

The present study addresses these deficiencies in the extant literature by exploring effective ways for partner firms to make best use of strategic alliances in expanding their businesses. Six case studies are conducted on small trading firms in Australia; of these, three were successful in using strategic alliances to expand their businesses, whereas the other three failed. The case studies draw upon documentary research of the files of the six firms and semi-structured interviews with alliance partners and managers involved in the formation and management of the strategic alliances of the firms. By applying the theoretical perspectives of transaction cost, resource dependence, and strategic behaviour, a comparative cross-case analysis of the six case studies is conducted.

The major finding of the present study is that a balanced portfolio approach to the formation and management of strategic alliances holds the key to the business success of small trading firms. A ‘portfolio’ consists of strategic alliances in three categories—(i) product sourcing; (ii) product marketing; and (iii) business finance. The term ‘balance’ refers to the existence of an interdependent relationship between the partners in an alliance, such that ‘balance’ is achieved with respect to: (i) the significance of the alliance to the participants; (ii) the benefits to the participants; (iii) dependence among participants; and (iv) balance in the overall portfolio. The present research suggests that a balanced portfolio approach not only enables firms to achieve various benefits (such as consistent and competitive product supply, extended marketing channels, and sufficient funds to grow the businesses), but also reduces the occurrence of problems in strategic alliances (such as undue dependence on the resources of partner firms).

This thesis proposes practical recommendations for business practitioners to use in forming and managing strategic alliances to expand their businesses. With respect to alliance formation, key recommendations include: (i) deciding on the categories of alliances; (ii) finding the right partners and choosing the right forms of alliances; and (iii) identifying the right opportunity to form the alliances and gradually building up the portfolio of alliances. With respect to alliance management, the recommendations cover the issues of: (i) maintaining an interdependent relationship in each of the alliances; (ii) maintaining various balances within a portfolio of alliances; and (iii)
keeping the businesses of alliances growing. The thesis also proposes directions for future studies in strategic-alliances research—such as research into the maintenance of an interdependent relationship within the alliance, dealing with crises in alliances, and the internal competencies required by a firm to manage a portfolio of alliances.
Chapter 1 Introduction

1.1 Problem statement

Strategic alliances are becoming increasingly prominent in the global economy. Such alliances have been playing major roles in almost every industry in recent decades—including the airline industry, oil exploration, pharmaceuticals, semiconductors, and so on. A typical corporation relies on alliances for 15–20% of its total revenues (Ernst and Bamford, 2005). Approximately 20,000 corporate alliances were formed worldwide from 1997 to 1999 (Fabris, 1999), and more than 5,000 joint ventures (JVs) (and an even larger number of contractual alliances) have been launched around the world from 1999 to 2003 (Bamford et al., 2004). The 100 largest JVs represented more than $350 billion in combined annual revenues in 2003 (Bamford et al., 2004). Many companies have portfolios of 20 or more alliances, and some have more than 100. Many of the world’s largest companies have more than 20–50% of their assets tied up in alliances (Barlas et al., 2004), and 82% of executives believe that alliances will be a prime vehicle for future growth (Elmuti and Kathawala, 2001). A 2004 report that drew upon a mail survey of 201 senior finance executives was conducted by PricewaterhouseCoopers, and this found a clear trend towards using strategic alliances to access new growth areas directly—including new geographical markets, new technology and new products—while lowering costs and avoiding the need for new personnel (Financial Executives Interviews, 2004).

In accordance with the pace of these developments, scholars in the field of strategic management have, in recent decades, published numerous studies on the subject of strategic alliances. Various theoretical approaches—such as ‘transaction-cost economics’ and ‘resource-dependence theory’—have been applied to an exploration of the benefits of strategic alliances to participating firms (Auster, 1994). These research efforts have mainly focused on establishing a theoretical foundation for the phenomenon of alliances from the perspective of business practice. In addition, the relatively high rate of unsuccessful alliances has also attracted the attention of scholars. Studies have shown that 30–70% of alliances do not meet the goals of the parent companies, and can therefore be considered ‘failures’ (Barlas et al., 2004). The overall success rate of alliances thus hovers around 50%, and the average life span of a joint venture is only 5–7 years (Ernst and Bamford, 2005). Researchers have
therefore begun to look at another dimension of strategic alliances—the problems that alliances present for the participating firms. These problems fall into two broad categories—(i) the difficulties in operating an alliance during its formation, development, and performance; and (ii) the adverse effects of a failed alliance on the participating firms.

The present study addresses both the benefits and the problems of strategic alliances for the participating firms. Firms possess limited resources of their own, and this is especially true of the small trading firms that are the focus of the present research. To expand their businesses, these firms must find ways of accessing resources from external sources if they are unable to develop these resources internally. The formation of a strategic alliance is one of the options that a firm can choose to solve this problem. However, although the firm might realise the benefits it seeks from such an alliance, it can also encounter the problems that come with alliances. The benefits have the potential to assist a firm in fighting its way to success, whereas the problems have the potential to threaten the firm’s growth, and even its survival. The question of how to realise the benefits of alliances while minimising the problems that come with them is the dilemma that has to be addressed if a firm intends to use alliance strategy to expand its business.

1.2 Aims and focus of the study

The aim of the present study is to establish effective means by which firms can make use of strategic alliances to survive and to expand their businesses. The study is thus concerned with producing knowledge for action, and as such it has two primary objectives: (i) achieving understanding; and (ii) facilitating change. The first, ‘achieving understanding’, refers to the development of knowledge about the benefits and problems of strategic alliances for the participating firms, and to an analysis of the roles played by strategic alliances in business success or business failure. The second, ‘facilitating change’, refers to the development of practical recommendations for small trading firms in achieving their goals by using strategic alliances. In pursuit of these objectives, the study uses an ‘abductive’ research strategy—whereby theoretical concepts are generated from the everyday accounts of the actors involved (Blaikie, 2000).

The study first identifies the benefits that a firm can achieve from strategic alliances and the problems that it can confront within such alliances. This is achieved
through a literature review and an analysis of the case studies presented in the thesis. The literature review considers the extant research on strategic alliances, especially with respect to the benefits and problems of alliances. Existing theoretical views are employed in developing a theoretical framework to analyse the benefits and problems of alliances, while also identifying knowledge gaps in the literature and the implications of these gaps for the present study. The six case studies that are presented in the thesis illustrate the benefits and problems of strategic alliances as experienced by six small trading firms in Australia. The multiple cross-case analysis that follows the presentation of the case studies aims to identify the roles played by strategic alliances in the business success or business failure of the firms involved. On the basis of the conclusions drawn from a combination of the literature review and the case studies, the thesis proposes practical recommendations for business practitioners who wish to realise the benefits of alliances while minimising the problems that come with them. The thesis also identifies relevant issues in strategic alliances that are worthy of future study.

1.3 Major findings, conclusions and recommendations

The thesis presents three successful cases of strategic alliances and three failed cases of strategic alliances. In the successful cases, a balanced ‘portfolio approach’ to the formation and management of strategic alliances is found to have played a significant role in the firms’ business success. A balanced portfolio of strategic alliances not only creates benefits for the firms (such as access to competitive product supply, extensive marketing channels, and increased financial capacity), but also helps the firms to reduce the problems of over-dependence on partners’ resources. The analysis of the failed cases indicates that imbalances within strategic alliances—such as a partner’s opportunistic behaviour, or a heavy reliance on the resources of an alliance partner—constitute the major reason for the emergence of serious problems in an alliance. These problems caused the ultimate failure of the alliances, and the business failure of the individual firms involved.

The thesis draws overall conclusions from the literature review, the case studies, and the multiple cross-case analyses. The study concludes that the major potential benefits to be realised by small trading firms involved in strategic alliances are: (i) consistent and competitive product supply; (ii) extended marketing channels; and (iii) strong financial capacity. The major problems experienced by the firms are found to
be: (i) partners’ opportunistic behaviour in dealing with alliances; and (ii) over-
dependence on the resources of alliance partners.

A balanced ‘portfolio approach’ is recommended to firms as being an effective
way to realise the potential benefits of strategic alliances while simultaneously
minimising the potential problems. The thesis also identifies relevant issues in
strategic alliances that are worthy of future study, such as research into the
maintenance of an interdependent relationship within the alliance, dealing with crises
in alliances, and the internal competencies required by a firm to manage a portfolio of
alliances.

1.4 Significance of the study

This synopsis of the thesis indicates that the present research contributes to the
literature on strategic alliances from both a theoretical perspective and a practical
perspective.

From a theoretical perspective, the major contribution of the study is its
identification of a balanced portfolio approach to the formation and management of
strategic alliances as being the key to business success. An alliance portfolio consists
of strategic alliances formed in three categories—(i) product sourcing; (ii) product
marketing; and (iii) business finance. The critical features of the ‘portfolio approach’
advocated here are: (i) an interdependent relationship between the alliance partners;
and (ii) appropriate balances within the portfolio of alliances. The present research
reveals that a balanced ‘portfolio approach’ to the formation and management of
strategic alliances not only enables small trading companies to achieve various
benefits (such as consistent and competitive product supply, extension of marketing
channels, and sufficient funds to expand the business), but also serves to minimise the
potential problems of strategic alliances (such as dependence on the resources of
partner firms). A balanced portfolio of strategic alliances also enhances the strategic
position of small trading companies in their industries.

A second theoretical contribution of the research is that any imbalances that
exist in the portfolio of alliances represent a major threat to a relationship of mutual
dependence between the partners. Moreover, any such breakdown in mutual
interdependence is a significant contributing factor to the ultimate failure of alliances
and, perhaps, to the business failure of the entities involved.
Finally, from a theoretical perspective the research also proposes certain directions for future studies of strategic alliances—such as: (i) research into the maintenance of interdependent relationships within alliances; (ii) exploration of means of dealing with crises in alliances; and (iii) studies of the internal competence of firms in managing a portfolio of alliances.

From a practical perspective, the research proposes pragmatic recommendations for business practitioners who wish to utilise strategic alliances to expand their businesses. The recommendations cover both *alliance formation* and *alliance management*.

In terms of *alliance formation*, key issues for management include: (i) deciding the categories of alliances; (ii) finding the right partners and choosing the right forms of alliances; (iii) identifying the right opportunity to form an alliance; and (iv) gradually developing a portfolio of alliances.

In terms of *alliance management*, the recommendations pertain to the issues of: (i) maintaining an interdependent relationship in each of the alliances; (ii) maintaining an appropriate balance within the portfolio of alliances; and (iii) maintaining the growth of the individual businesses within the alliances.

In summary, the significance of this research resides in:

- its systematic identification of the benefits and problems of strategic alliances among small trading firms;
- its demonstration of the importance of the balanced ‘portfolio approach’ in forming and managing strategic alliances with a view to ensuring the business success of the firms involved;
- its identification of any imbalances that exist within a portfolio of alliances as constituting the major reason for the failure of some alliances (and the business failure of some small trading firms);
- its practical recommendations for business practitioners in applying a ‘portfolio approach’ to the formation and management of strategic alliances; and
- its proposals for future studies in the field of strategic alliances.

**1.5 Limitations of the study**
All research studies are subject to limitations. The limitations of the present study relate mainly to certain aspects of the methodology of data collection and analysis. First, because of limitations of time and personal resources, the collection of data was restricted to six small trading firms in the Australian states of Victoria and New South Wales over a period of two years. The data are therefore necessarily limited in terms of industry, company size, company location, and timeframe. As with all empirical studies, caution should therefore be exercised in generalising from the conclusions reached in this particular setting to an analysis of strategic alliances in other settings. Secondly, some of the data were collected from company documentary research. The accuracy of data collected from company records obviously depends on the veracity of those records; unfortunately, not all of the records in question had been audited professionally. There is therefore some doubt about the absolute accuracy of the portion of the research data that was collected from these sources. Finally, in noting limitations related to data methodology, it must be acknowledged that the grounded-theory approach (as used in the analysis of the case studies) has been criticised for segmenting and coding the data—which, in theory, could lead to the loss of useful information in the data (Miles and Huberman, 1994).

In terms of possible limitations of conceptual scope, it might be said that certain peripheral areas of interest have not received due consideration in the present study. In exploring the benefits and problems of strategic alliances and their impact on the firms involved, the study necessarily touches on a number of related subjects—including interdependent relationships, a balanced portfolio of alliances; opportunistic behaviours; crises in alliances; and internal competencies of firms. It would have been interesting and fruitful to explore all of these issues in greater detail. However, unavoidable restrictions in time and personal resources necessarily restricted a fuller exploration of these and other peripheral subject areas. Nevertheless, the study contains many findings and recommendations of value and interest, and its relative shortcomings in other areas could motivate further fruitful research in these areas of special interest.

1.6 Outline of the thesis structure and contents

Following this introduction, the thesis falls into three parts. Part I (which consists of three chapters) presents a comprehensive review of the relevant extant literature on
strategic alliances. Part II (which consists of two chapters) describes the methodology of the present research. Part III (which consists of three chapters) presents six case studies and a cross-case analysis of those studies. The final chapter presents the overall conclusions and recommendations of the study.

A summary of individual parts and chapters is presented below.

**Part I Review of relevant literature**

**Chapter 2 Theoretical studies of strategic alliances**
This chapter reviews current trends in the study of strategic alliances. Several approaches have been utilised in attempts to explain the benefits and problems of strategic alliances—including the economics of transaction costs, the perspective of resource dependence, and theories of strategic behaviour. The literature review explores these various approaches to the theoretical foundations of the benefits and problems of strategic alliances, and the thesis then extrapolates from current theoretical trends to develop a framework for the codes that are later used in the grounded theory analysis of the case studies.

**Chapter 3 Empirical studies of strategic alliances**
The literature review of this chapter focuses on three major categories of empirical studies of strategic alliances. The first considers the benefits and problems of strategic alliances that emerge from relevant empirical studies. The second focuses on the study of strategic alliances in the trading industry. The third concentrates on strategic alliances formed by small businesses. The chapter reviews relevant empirical studies on strategic alliances in these three categories and identifies any knowledge gaps that have implications for the present study.

**Chapter 4 Conclusions and implications of the literature review**
This chapter identifies the key contributions of the extant literature in this area, notes any knowledge gaps and limitations in the literature, and presents the implications of the literature review for the present study.

**Part II Methodology**

**Chapter 5 Research design**
This chapter specifies the research topic in terms of (i) the issues under investigation; and (ii) the scope of the research. These can be summarised as follows.
• The issues under investigation are: *The benefits and problems of strategic alliances*.

• The scope of the research is: *A multi-case study of small trading firms in Australia*.

Four major research questions provide the focus for the study (as defined above). These research questions are:

• What are the potential benefits of strategic alliances to small trading firms?

• What are the key issues and problems facing small trading firms with regard to strategic alliances?

• What roles do strategic alliances play in the business success or failure of small trading firms?

• How can small trading firms realise the potential benefits of strategic alliances while simultaneously minimising the potential problems?

Taken together, these four research questions reflect the two primary research objectives of this study: (i) *understanding* the benefits and problems of strategic alliances and their role in business success and failure; and (ii) seeking *change* in alliance formation and management with a view to realising the benefits while minimising the problems.

The overall strategy of the present research is an ‘abductive’ strategy (Blaikie, 2000), which aims to generate concepts and theories from the everyday accounts of the actors involved—in this case, the business practitioners of small trading firms. Finally, the overall research design for the present study is presented.

**Chapter 6 Data collection and analysis**

This chapter presents the details of the methodology used for data collection and data analysis in this research. Data are collected by a combination of: (i) documentary research of company literature; and (ii) semi-structured interviews conducted with various individuals. The latter includes three categories of interviewees—the principals of the firms that are the focus of the study; senior managers of the same firms; and representatives of the firms’ major alliance partners.

The research applies a qualitative research method—including case studies and a multiple cross-case analysis of the studies. Three steps of grounded theory are adopted to analyse the cases—open coding; axial coding; and selective coding.
The issues of research validity, research reliability, and compliance with ethical standards are addressed at the end of the chapter.

**Part III Research findings and discussion**

**Chapter 7 Successful cases of strategic alliances**

This chapter reports on three cases of successful strategic alliances. In analysing the cases, the chapter first categorises the case data, thus enabling the strategic alliances formed by the three firms to be categorised. The chapter then applies various propositions (about the potential benefits of strategic alliances) in the form of theoretical codes, thus facilitating an analysis of the particular benefits realised by these three firms. The third step of analysis involves a synthesis of the findings from the above two steps to generate the key finding—that the firms in successful alliances took a balanced ‘portfolio approach’ to the formation and management of their alliances. Finally, the chapter identifies the key issues and critical success factors of small trading firms in the successful implementation of strategic alliances.

**Chapter 8 Failed cases of strategic alliances**

This chapter presents three failed cases of strategic alliances. First, the chapter identifies the categories of the alliances formed by the three firms. Secondly, various theoretical propositions about the problems of strategic alliances are applied to reveal the particular problems of these alliances. Thirdly, imbalances existing in the ‘portfolio of alliances’ are identified as constituting the key factor in the ultimate failure of these alliances. Finally, the key issues and critical factors that contribute to the failure of strategic alliances (and the potential failure of the businesses involved) are addressed at the end of the chapter.

**Chapter 9 Successes and failures of strategic alliances: A comparative cross-case analysis**

This chapter undertakes a comparative cross-case analysis of the successful cases and the failed cases. In the successful cases, a balanced ‘portfolio approach’ to the formation and management of strategic alliances is found to have played a significant role in the firms’ business success. A balanced portfolio of strategic alliances not only creates benefits for the firms (such as access to competitive product supply, extensive marketing channels, and increased financial capacity), but also helps the firms to reduce the problems of over-dependence on partners’ resources. The analysis of the
failed cases indicates that imbalances within strategic alliances—such as a partner’s opportunistic behaviour, or a heavy reliance on the resources of an alliance partner—constitute the major reason for the emergence of serious problems in an alliance. These problems caused the ultimate failure of the alliances, and the business failure of the individual firms involved.

**Chapter 10 Conclusions and recommendations**

The final chapter of the thesis draws overall conclusions from the literature review, the case studies, and the multiple cross-case analysis, and makes recommendations for business practice, and for future studies as well. The study concludes that the major potential benefits to be realised by small trading firms involved in strategic alliances are: (i) consistent and competitive product supply; (ii) extended marketing channels; and (iii) strong financial capacity. The major problems experienced by the firms are found to be: (i) partners’ opportunistic behaviour in dealing with alliances; and (ii) over-dependence on the resources of alliance partners.

A balanced ‘portfolio approach’ is recommended to firms as being an effective way to realise the potential benefits of strategic alliances while simultaneously minimising the potential problems.

The chapter also identifies relevant issues in strategic alliances that are worthy of future study.
Part I

Review of Relevant Literature

Introduction to Part I

Much of the research on the benefits of strategic alliances to participating firms has tended to address the following questions:

- What are the benefits of strategic alliances to the participating firms?
- What are the specific contributions of these benefits to the firms’ overall business survival and growth?

With respect to joint ventures, Kogut (1998) highlighted three main benefits: (i) a reduction in transaction costs due to smaller numbers of bargaining; (ii) strategic benefits as a result of firms attempting to enhance their competitive positioning and market power; and (iii) a quest for organisational knowledge or learning which is critical to the capability of the firms.

The domain of inquiry has expanded from joint ventures to include other types of alliances (Gulati, 1998). Many of these studies have examined the factors (at the industry level and at the firm level) that determine the frequency with which alliances occur. These factors include the extent of competition, the degree of market development, and uncertainties regarding demand (Martin et al., 1994; Harrigan, 1995; Eisenhardt and Schoonhoven, 1996; Walker, 1998; Robson and Dunk, 1999; Oliver, 2001).

The research on the problems of strategic alliances has tended to focus on the following questions:

- What are the problems of strategic alliances to the participating firms?
- What roles do these problems play in the business failures of the firms involved?

Most analysts have found a high level of instability and dissolution in strategic alliances, with failure rates of approximately 50% (Todeva and Knoke, 2005). The ability to perceive problems is an important aspect of implementing strategic alliances. This is because an alliance is an inherently risky strategy, which mainly relies on external resources over which participating firms are unable to exercise strong control. In this regard, Das and Teng (2001) identified particular problems in
alliances caused by relational risks and performance risks. Nevertheless, although problems for firms in alliances are quite apparent in business practice, such problems have attracted insufficient attention from scholars (see Appendix 2 on page 168 for potential problems explained by various theories).

This part of the thesis consists of three chapters. The first chapter in this part (Chapter 2 of the overall thesis) reviews current theoretical views on strategic alliances in the existing research. Several approaches have been taken to an examination of the benefits and problems of strategic alliances—including transaction-cost analysis, resource-dependence theory, and strategic-behaviour theory. The primary purpose of this part of the literature review is to achieve a better understanding of the theoretical foundations of research into the benefits and problems of strategic alliances. On the basis of this review, the thesis then develops certain propositions, which will be applied as theoretical codes in the grounded-theory analysis of the case studies that are presented later.

The second chapter of this part of the thesis (Chapter 3 in the overall thesis) reviews the current empirical research on strategic alliances. This part of the literature review focuses on three major areas—(i) the benefits and problems of strategic alliances to the participating firms as revealed by case studies in the field; (ii) the study of strategic alliances in the trading industry; and (iii) research into strategic alliances among small businesses.

The third chapter of this part of the thesis (Chapter 4 in the overall thesis) summarises the key contributions, knowledge gaps, and limitations of the existing literature, and identifies the implications for the present study.
Chapter 2 Theoretical Studies of Strategic Alliances

2.1 Introduction

In recent decades various approaches have been taken to the study of strategic alliances. Das and Teng (2000a) reviewed the literature published in this field from the mid-1970s until the end of the 1990s. They found that the following theoretical approaches have been adopted to explain strategic alliances and the potential benefits and problems of them.

A) **Relational Contracting**

Relational exchanges, as opposed to discrete exchanges, take place on the basis of a historical and social context, such as trust. Alliances are essentially relational contracts, which may run into trouble if there is a lack of inter-firm trust.

B) **Transaction Cost**

Assuming economic actors are boundedly rational and often opportunistic, there is a cost (e.g. of monitoring and safeguarding) involved in economic transactions. Opportunistic behaviour of partner firms, which is costly and difficult to control, greatly undermines the stability of strategic alliances.

C) **Game Theory**

This theory studies the choice situations in which the final outcome will depend on what each person involved chooses to do. Alliances can be viewed as games in which payoffs from cheating may be greater than those from cooperating. Thus, partners may not cooperate fully.

D) **Resource Dependence**

Because firms depend on resources of other firms, inter-firm relationships constitute a strategic response for controlling this dependence and uncertainty. After firms acquire the kind of resources they need from their partners, the alliance will be terminated, thus contributing to a high degree of instability.

E) **Bargaining Power**

Bargaining power is critical in negotiations. Thus, the bargaining process is a process in which each party’s bargaining power is wielded and manipulated. A partner firm’s relative bargaining power shifts in the life of an alliance (due to changes in interdependencies). Firms tend to renegotiate their agreement.
F) Agency Theory

Economic activities performed by a group of people have advantages of teamwork. However, because agents will pursue self-serving goals, there is a cost for structuring and monitoring contracts. Managerial decisions regarding alliances often serve the interests of managers. To reduce compensation/employment risk, managers often proceed to internalise alliances.

G) Strategic Behaviour (or Strategic Management)

This theory is concerned with gaining an advantageous position against rival firms. Strategies are intended to achieve various goals, such as capitalisation on opportunities and minimising threats. Strategic alliances may serve several goals, including risk reduction, access to technology and market, and so on. Unrealistic goal expectations and goal disparities may lead to accelerated alliance dissolution.

H) Transitional Perspective

Because of internal managerial difficulties, strategic alliances are unable to carry out long-term projects. They often become essentially transitional entities. Because alliances have a tendency to evolve into other organizational forms, alliance instability is only to be expected.

These approaches have been applied to various aspects of strategic alliances—including their formation, governance, evolutionary development, and performance (Kogut, 1988; Auster, 1994; Osborn and Hagedoorn, 1997; Gulati, 1998; Das and Teng, 2000a; Das and Teng, 2000b; Elmuti and Kathawala, 2001). In analysing the benefits and problems for firms involved in strategic alliances, transaction-cost analysis, resource-dependence theory, and strategic-behaviour theory have been the most prominent approaches. The present research therefore employs these three approaches (transaction cost, resource dependence, and strategic behaviour) to examine the benefits and problems of strategic alliances.

First, transaction-cost analysis helps to reveal how strategic alliances can create cost advantages for the firms involved. Secondly, resource-dependence theory provides an appropriate tool to examine how strategic alliances can help small trading firms to access external resources to grow their businesses. Finally, strategic-behaviour theory examines the roles played by strategic alliances in enhancing the

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strategic positions of participating firms with respect to their competitors within their industries.

This chapter begins with a summary and comparison of several definitions of the term ‘strategic alliance’ from the extant literature. The chapter then discusses each of the three theoretical perspectives identified above—transaction-cost analysis, resource-dependence theory, and strategic-behaviour theory. Each of these is analysed in the following terms:

- the theoretical views and assumptions of each approach;
- the roles played by strategic alliances according to each approach;
- the benefits and problems of strategic alliances that face the partner firms according to each perspective; and
- the overall usefulness of each theoretical view in describing and explaining strategic alliances.

Finally, the chapter draws conclusions from the above analysis and develops propositions that are used as theoretical codes (theoretical categories) in the grounded-theory analysis in the case studies presented later in the thesis.

2.2 Defining strategic alliance

Before presenting the results of the literature review, it is appropriate to present preliminary definitions and/or descriptions of certain key terms that play prominent roles in this review, and in the thesis as a whole. These terms reappear many times in subsequent chapters of the thesis, and their precise meaning in the context of the present study will become more apparent as the thesis proceeds. However, a preliminary set of definitions and descriptions will be of assistance to the reader at this stage.

(i) Strategic alliance

Various definitions of strategic alliances are offered in the literature. These definitions include a variety of notions of strategic alliances, including the following:

- strategic alliances as voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services (Gulati, 1998);
• strategic alliances as partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial (Elmuti and Kathawala, 2001); and
• strategic alliances as the pooling of specific resources and skills by the cooperating organisations to achieve common goals, as well as goals specific to the individual partners (Varadarajan and Cunningham, 1995).

Taken together, these notions of a ‘strategic alliance’ suggest that the essential attributes of such an alliance are as follows:

• two or more parties;
• a voluntary agreement or agreements;
• the sharing of resources or skills;
• the setting of strategic objectives (common and individual); and
• mutually beneficial arrangements.

Taking these attributes into account, the present study therefore defines a strategic alliance in the following terms.

A **strategic alliance is a long-term arrangement between business firms involving an exchange of products or services to achieve strategic goals that are mutually beneficial.**

(ii) Portfolio of alliances

A ‘portfolio’ of strategic alliances is defined in the following terms.

A **portfolio of strategic alliances is a group of strategic alliances systematically formed with various partners by a business firm to achieve multiple strategic goals.**

### 2.3 Transaction cost

Transaction-cost theory focuses on the microeconomics of transactions (defined as the transfers of goods or services between economic actors) within a strategic group or industry (Auster, 1994). Transaction-cost analysis makes two key behavioural assumptions about the behaviour of economic actors: (i) ‘bounded rationality’; and (ii) ‘opportunism’. The first of these, ‘bounded rationality’, implies that behaviour is purposely rational, but only to a limited extent; the second, ‘opportunism’, refers to the seeking of self-interest with guile (Williamson, 1991).
Two dimensions that determine the most efficient way of organising transactions are ‘asset specificity’ and ‘uncertainty’ (Auster, 1994). The first, ‘asset specificity’, refers to the fact that, in transactions, certain highly specialised assets are difficult to obtain from an alternative source. The second, ‘uncertainty’, is caused by the necessarily limited information that exists in any transaction, and the opportunism of the parties involved.

According to transaction-cost theory, organisations undertake transactions in such a way that they economise on bounded rationality while simultaneously safeguarding themselves against the hazards of opportunism (Williamson, 1991). The term ‘economising on bounded rationality’ refers to the parties working out how best to organise transactions—given their necessarily limited knowledge in planning, adapting, and monitoring transactions. The hazards of ‘opportunism’ are particularly likely if trust and good intentions are relied upon to govern transactions. To be viable, cooperating parties need to develop a mechanism whereby opportunistic invaders can be screened, socially reconditioned, or penalised (Auster, 1994).

Transaction-cost theory has had a profound effect on analyses of inter-firm collaboration (Osborn and Hagedoorn, 1997). The theory recommends an administrative or hierarchical solution when dependency is strong—as it is within strategic alliances (Borch, 1994). From the transaction-cost perspective, the primary objective of a firm is to economise on transaction costs by adopting appropriate governance structures for handling its transactions—that is, the much-researched issue of make-or-buy decisions (Tsang, 2000). In this context, strategic alliances can be viewed as contractual relationships that represent a ‘middle way’ between market and hierarchy. They are thus chosen when conditions are pushing a firm away from markets but there are constraints on using hierarchies as a solution. In these circumstances, the firm might opt for strategic-alliance arrangements rather than full ownership (Auster, 1994).

Thus, from the transaction-cost perspective, strategic alliances are special kinds of organisational configurations from which the participating firms might benefit by minimising their transaction costs. Participants can also benefit from alliances by safeguarding themselves against the hazards of opportunistic behaviour on the part of other firms involved in transactions with them. This is achieved by legitimising the
relationship between the transacting partners in the alliance and by establishing trust between them.

The transaction-cost approach also addresses the adverse effects of opportunistic behaviour in strategic alliances. Because a firm might choose to pursue its self-interest at the expense of its partners in an alliance, partner firms oftentimes find it difficult to rely on trust. Such a lack of trust can seriously undermine the basis for a successful alliance (Das and Teng, 2000a). Another kind of problem brought to participating firms by strategic alliances is addressed by the concept of asset specificity. An organisation can become locked into an alliance with another company as the first company devotes more assets to the relationship, but assets created or purchased for the purpose of a particular strategic course of action might not be easily transferable to another course of action. These assets can thus lead to a ‘locked-in’ situation even when the alliance is no longer satisfying the partner (Young-Ybarra and Wiersema, 1999). To this extent, strategic alliances can serve to increase dependence on other firms if the organisation, through heavy involvement, transfers its own skills and expertise to its partner without learning from the partner.

A major weakness of transaction-cost theory is that it over-emphasises cost minimisation while neglecting the value-creation aspects of a transaction. This view fails to recognise that the primary purpose of a business firm in carrying out transactions is not to reduce costs, but to create value for its owners or stakeholders. Although a reduction in costs does sometimes imply an increase in profits, an increase in costs does not necessarily imply a reduction in profits. According to the perspective of transaction-cost theory, if a strategic alliance brings benefits to the participating firms by reducing transaction costs, such an alliance is worthwhile for the firms to form. However, in many circumstances, the formation of a strategic alliance might actually increase the costs of the participating firms—because of the effects of ‘alliance cost’ (Tsang, 2000). This does not necessarily mean that the alliance is worthless to the firms. If the alliance creates value that exceeds the costs incurred by the firms, the alliance might still be worth forming. It is thus apparent that an analysis of the benefits of a strategic alliance based only on a transaction-cost perspective could limit (or mislead) management’s assessment of that alliance.

Another criticism of transaction-cost theory is that it perceives the organisation only as a replacement for the market in conducting transactions. As Moran and
Ghoshal (1996) have argued, the contribution that organisations make to the economy is not so much in doing what markets do; rather, it is doing it better and more efficiently. These authors thus view the organisation as creating an environment that fosters a sense of mutual dependency among its members—in the sense that they are attracted to its unique incentive context. To this extent, strategic alliances should not be seen merely as the ‘middle form’ between market and hierarchy in conducting transactions effectively; rather, they should be seen as an option with multiple purposes.

It is therefore necessary to view strategic alliances from other perspectives to gain a fuller understanding of the benefits and problems of strategic alliances to the participants.

2.4 Resource dependence

The resource-based view assumes that firms attempt to maximise long-term profits by developing and exploiting their resources (Tsang, 2000). The resource-based perspective thus differs from the transaction-based approach, which focuses on the immediate effects of the cost of transactions. Important contributors to the resource-based view have included Penrose (1959), Rubin (1973), and Wernerfelt (1984), and the theory has been widely applied in analysing the competencies and competitive position of firms.

According to the resource-based view, a firm’s resources can be understood as the tangible and intangible assets that are tied semi-permanently to the firm. Examples of resources thus include brand names, in-house technological knowledge, skilled personnel, trade contracts, equipment, efficient procedures, capital, and so on (Wernerfelt, 1984). The resource-based view regards a firm as a ‘bundle’ of such resources, and its ‘resource position’ is said to determine its competitive capability in the market. The capability of a firm can be understood as its capacity to perform an activity as a result of organising and coordinating the productive services of a bundle of resources (Tsang, 2000).

According to this perspective, an organisation’s needs for resources means that it is dependent on the environment that provides the required resources. This ‘environment’ includes the firm’s inter-organisational network of investors, suppliers, customers, employees, technology providers, and so on. The degree of dependency on certain resources is determined by the importance and availability of those resources.
The most important resources are the ‘critical’ resources without which the organisation cannot function. The term ‘scarcity’ is used to describe a lack of availability of a given resource within the firm’s environment. (Hatch, 1997)

From the perspective of resource-based theory, strategic alliances represent a means whereby a firm is able to acquire the key resources it requires for its survival and development. Organisations thus attempt to establish linkages with elements in their environment, and they use these linkages to access resources, stabilise outcomes, and avert environment control (Pfeffer and Salancik, 1978). The resource-dependence model, which was developed from the resource-based view, thus recognises that firms rely on certain resources that are owned by others, and that they must therefore manage inter-organisational relationships to control and minimise such dependence (Das and Teng, 2000b). In such inter-organizational relationships, firms that are operating in the same environment are necessarily inter-related, and might also be inter-dependent. An organization can attempt to manage its dependency in various ways that reduce its own dependency on other actors within the environment or actually make them dependent on the organisation itself (Hatch, 1997).

According to the resource-based view, strategic alliances thus enable firms to reduce their dependence on the environment by legitimising their inter-dependency with other firms in terms of resources. Figure 2.1 shows the inter-dependent relationships between an organisation and its business environment.
From this perspective, firms benefit from strategic alliances in two respects: (i) exploitation of its existing resources; and (ii) development of new resources.

The exploitation of a firm’s *existing resources* is related to the nature of the firm as a ‘rent-seeking’ institution. The ‘rent’ earned by a firm can be defined as a return in excess of the firm’s opportunity cost. Such exploitation of a firm’s existing resources in a strategic alliance creates rents because the firm’s opportunity costs are usually zero in such an alliance. The consequent benefits for the participating firms, made possible by the exploitation of existing resources within a strategic alliance, represents the growth potential of the firms involved. Firms tend to expand whenever profitable opportunities exist, and a firm might therefore wish to exploit its competitive advantage in a different country and/or a different industry. (Tsang, 2000)

The second area of potential benefit is the development of the *new resources* that are needed for establishing a firm’s long-term competitiveness, but which are too costly to develop internally or are not readily available through markets. As Tsang (2000) has observed, it makes more sense to learn about a capability from the owner of that capability. Many firms thus enter into alliances with specific ‘learning objectives’ in mind. These alliances improve the strategic position of firms in competitive markets by providing resources (including knowledge) from other firms
in a manner that enables the participating firms to share costs and risks. Alliances also improve the strategic position of firms by enhancing legitimacy (Eisenhardt and Schoonhoven, 1996).

In addition to the above benefits with respect to resources, Tsang (2000) has noted that the disposal of resources by firms can be an additional benefit of strategic alliances. If a firm is contemplating disposal of a non-core business to allow the firm to concentrate on its core commitment, it might choose to incorporate the non-core business into a strategic alliance between itself and a potential buyer. Such a strategic alliance, commonly organised as a joint venture, can facilitate the gradual sale of the non-core business to the joint-venture partner, and thus realise its market value.

The major problem of a strategic alliance from the perspective of resource-dependence theory is that the forging of an alliance usually increases a firm’s dependence on its partner firm. Power imbalance has been found to be inversely related to perceived effectiveness in co-marketing alliances (Bucklin and Sengupta, 1993), and some scholars maintain that the value of resources possessed by each firm determines relative bargaining power and outcomes (Yan and Gray, 1994). Firms with weaker resources and weaker bargaining power might thus find themselves in a disadvantaged position within the alliance. This initial position of disadvantage is likely to weaken a firm’s future influence on the alliance and create increasing dependence on its partners.

The major weakness of the resource-based view in analysing strategic alliances is that it adopts a relatively static view of the position of an organisation in its environment. The reality is that the availability of resources in the environment is always changing, and organisations do not stand still in their interactions with the environment. Thus, a strategic alliance that is formed under certain environmental settings to stabilise or acquire resources for an organisation might not be workable in a later (changed) environment. This represents the most significant limitation of the resource-based perspective in analysing strategic alliances.

Another limitation of the resource-based perspective is that it fails to take adequate account of the ‘free will’ of management in selecting the settings of an alliance. The resource-dependence approach assumes that managers are utterly dependent on the business environment in coping with their potential alliance partners and setting the configurations of an alliance. In fact, given similar environment
settings, it has been observed that different organisations form various configurations of strategic alliances. It is apparent that the ‘free choice’ of human beings in developing strategy is still an important issue to consider.

2.5 Strategic behaviour

In the past two decades there has been a significant growth in research into strategic management. Strategic management (often called ‘policy’ or, simply, ‘strategy’) is concerned with the overall direction of an organisation. The strategic direction of a business organisation is at the heart of wealth creation and survival in the modern marketplace.

According to Rumelt et al. (1991), a strategy consists of decisions with respect to the following strategic choices:

- the selection of goals (including the choice of products and services to offer);
- the design and configuration of policies that determine how the firm positions itself to compete in product-markets (that is, a competitive strategy);
- the choice of an appropriate scope and degree of diversity; and
- the design of the organisational structure, administrative systems, and policies to define and coordinate the work of the organisation.

In contrast to the transaction-cost approach, which sees transactions purely in terms of minimising costs, the perspective of ‘strategic behaviour’ posits that firms transact according to the mode that promises to maximise profits by improving a firm’s competitive position vis-à-vis its rivals (Kogut, 1988). From this perspective, strategic alliances are thus viewed as a strategic alternative to explore when a firm is considering how to enhance its position against its competitors. This perspective has been widely applied in explaining the motivations of firms in entering into alliances, the selection of partner firms, and the design of governance structures for alliances (Gulati, 1998).

The strategic-behaviour approach (or ‘strategic-choice’ approach) to strategic alliances has thus tended to emphasise the competitive benefits of alliances in improving a firm’s strategic posture within its industry. According to Auster (1994), firms choose to enter strategic alliances for one or more of the following reasons.
• to acquire core competencies that the firm lacks, but needs, to create a sustainable competitive advantage;
• to learn how to operate in new markets (whether domestic or foreign);
• to strengthen a competitive position by influencing industry structure or pre-empting competitors;
• to diversify into new business;
• to capitalise on economies of scale; and/or
• to circumvent restrictions on trade or foreign investment.

Other benefits of strategic alliances that are pertinent issues in the context of this perspective include: (i) risk-reduction and cost-sharing in research and development (R&D); and (ii) project and business synergy among partner firms. These issues will be further discussed in Chapter 3.

From the strategic-behaviour perspective, potential problems for the participating firms in strategic alliances include unrealistic goal expectations and a lack of overlap with the goals of partners (Das and Teng, 2000a). As Porter (1990) has noted, strategic alliances always involve significant difficulties (and potential costs) in terms of coordination, reconciling goals, creating a potential competitor, and giving up profits. This is because a strategic alliance inevitably involves more than one individual goal, or strategic interest, and contradictions are almost inevitable. Studies have shown that executives do not always recognise these problems. In some cases, executives have had to be warned about the difficulties of inadequate control, the dysfunctional nature of an alliance, and the dim prospects for the survival of an alliance (Osborn and Hagedoorn, 1997).

In contrast to the first two theoretical perspectives discussed above, the strategic-behaviour approach places great emphasis on the ‘free will’ of managers in making decisions with respect to entering alliances, selecting partners, and configuring alliances. This emphasis on ‘free will’ might produce a relative neglect of environmental influences when considering issues related to strategic alliances. Over-emphasising human choice and ignoring partners’ interests might therefore produce instability in alliances and increase the risks faced by firms in entering the alliances. Figure 2.2 visualises the theoretical perspectives pursued in the research.
2.6 Comparison of theoretical perspectives

Table 2.1 summarises the benefits and potential problems of strategic alliances as viewed from the three theoretical perspectives discussed in this chapter.
<table>
<thead>
<tr>
<th>Theories</th>
<th>Benefits</th>
<th>Problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Cost</td>
<td>• An appropriate arrangement between two firms could minimize transaction costs between them in contrast with the choices of markets or hierarchies.</td>
<td>• Firms may pursue opportunistic behaviour, based on their self-interests, at the expense of their partners in an alliance. • An organization may become locked in to an alliance with another company as it devotes more assets to the relationship.</td>
</tr>
<tr>
<td>Resource Dependence</td>
<td>• Acquiring new resources, which are important for a firm’s survival, but hard to self-develop or buy. • Exploiting a firm’s existing resources in strategic alliance creates rents because its opportunity costs are zero.</td>
<td>• Dependence arises when there is asymmetry in the exchange relationship.</td>
</tr>
<tr>
<td>Strategic Behaviour</td>
<td>• Acquiring core competencies that the firm lacks but needs to build a sustainable competitive advantage against its competitors. • Diversifying business. • Creating economies of scale. • Circumventing trade and foreign investment restrictions.</td>
<td>• Inevitable contradictions caused by unrealistic goal expectations and by lack of overlap with the goals of partners, which may further threaten the strategic positions of the participating individual firms.</td>
</tr>
</tbody>
</table>

Table 2.1 Benefits and potential problems of strategic alliances from three theoretical perspectives

2.7 Proposition development

On the basis of the literature review of theoretical perspectives presented above, certain theoretical propositions can be developed for the present study.

As previously noted, this is a qualitative study utilising multiple case studies and cross-case analysis. Such a research methodology is facilitated by first developing
theoretical propositions for guidance. As Yin (1994, pp. 103–4) observed with respect to case studies:

The original objectives and design of the case study presumably were based on such propositions, which in turn reflected a set of research questions, reviews of the literature, and new insights. The propositions would have shaped the data collection plan and therefore would have given priorities to the relevant analytical strategies ... Theoretical propositions about causal relations—answers to ‘how’ and ‘why’ questions—can be very useful in guiding case study analysis in this manner.

In the case studies that are presented later, this thesis uses grounded theory for analysing the data. Some researchers have insisted that ‘true’ grounded-theory analysis should not ‘force’ concepts on the data; rather it should trust to their ‘emergence’ (Punch, 1998). However, this research adopts Blaikie’s (2000) views on grounded theory, which are at variance from such a ‘pure’ view. According to Blaikie (2000, p. 241), theoretical preconceptions, properly used, have a role to play in the process of generating concepts from data using grounded theory:

Grounded theory ... is much more a process of the researcher ‘inventing’ and imposing concepts on the data; it adopts a high stance. The various forms of coding are a search for technical concepts that will organize and make sense of data ... these concepts can be either those that are already in use, or can be developed by the researcher for a particular purpose ...

Taking a cue from Blaikie (2000), theoretical propositions are used for two purposes in this research—(i) to categorise the data in the grounded-theory analysis; and (ii) to compare the data with theoretical patterns.

Against this background, six propositions are developed regarding the benefits and problems of strategic alliances to the participating firms. These propositions are presented in two groups of three—with each of the three theoretical perspectives discussed above (transaction cost, resource dependence, and strategic behaviour) being reflected in a proposition within each group.

**Propositions about benefits**

1. By entering strategic alliances, a firm might benefit from a reduction in transaction costs, an improvement in transaction efficiency, and a reduction in transaction uncertainty between itself and other firms.
2. By entering strategic alliances, a firm might benefit from accessing scarce resources from other firms within its environment.

3. By entering strategic alliances, a firm might benefit by acquiring key competencies, creating competitive advantages, and enhancing its strategic position within its industry.

Propositions about problems

1. By entering strategic alliances, a firm might experience: (i) cost increases; and (ii) opportunistic behaviour on the part of alliance partners.

2. By entering strategic alliances, a firm might become over-reliant on the resources of its partner firms.

3. By entering strategic alliances, a firm’s strategic positions might be threatened by contradictions arising from unrealistic goal expectations or lack of overlap with the goals of partner firms.

2.8 Summary

Based on a literature review of the current theoretical views on strategic alliances, this chapter has examined the benefits and problems of strategic alliances for the participating firms from three theoretical perspectives—(i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour. The application of a range of theoretical perspectives to the question of strategic alliances is likely to produce a more balanced view on the benefits and problems of strategic alliances to the participating firms than would be possible by the application of a single theoretical perspective.

As discussed in the chapter, transaction-cost analysis perceives strategic alliances as a better means of reducing transaction cost, improving transaction efficiency, and reducing transaction uncertainty than markets or hierarchical approaches. The chapter has also noted that the resource-dependence perspective views strategic alliances as a means of externally acquiring scarce resources (that is, resources that would otherwise be difficult to self-develop or to buy). Finally, the chapter has noted that strategic-behaviour theory views alliances as being primarily the choice of managers in their attempts to achieve comprehensive strategic goals—such as creating competitive advantages and enhancing strategic positions in the industry.
The benefits and problems of strategic alliances to the participating firms have been analysed on the basis of these three perspectives. In terms of benefits, strategic alliances can serve to: (i) minimise transaction costs; (ii) acquire scarce resources; and (iii) achieve competitive advantages to enhance the firm’s strategic position within its industry. In terms of problems, a firm can suffer from: (i) the adverse effects of its partners’ opportunistic behaviour; (ii) over-dependence on its partners’ resources; and (iii) contradictions in varying strategic aims among participants.

Finally, the chapter has developed two groups of formal propositions on the basis of these potential benefits and problems. Each group contains a proposition derived from each of the three theoretical perspectives discussed above. These propositions will serve as a theoretical guide to the research and will be used as patterns for the analysis of the case studies that follow.
Chapter 3 Empirical Studies of Strategic Alliances

3.1 Introduction

Empirical studies of strategic alliances have focused on two major aspects of such alliances: (i) alliance formation; and (ii) alliance management. The former have been concerned with the motivation for entering an alliance, the selection of alliance participants, and the design of the governance structure of the alliance. The latter have focused on control of the alliance, its evolution of over time, factors affecting its performance, and its consequent impact on participating firms (Gulati, 1998). Table 3.1 summarises the current research aspects of these two perspectives.

<table>
<thead>
<tr>
<th>Research Perspectives</th>
<th>Research Aspects</th>
<th>Research Questions</th>
<th>Research Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance Formation</td>
<td>1) Motivation</td>
<td>why</td>
<td>The motivation for firms to enter alliances</td>
</tr>
<tr>
<td></td>
<td>2) Partner</td>
<td>who</td>
<td>The selection of partners</td>
</tr>
<tr>
<td></td>
<td>Selection</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3) Governance</td>
<td>what</td>
<td>The types of contracts and the governance structure of alliances</td>
</tr>
<tr>
<td>Alliance management</td>
<td>1) Control</td>
<td>how</td>
<td>The influence or controlling power of firms on alliances as well as on partners</td>
</tr>
<tr>
<td></td>
<td>2) Evolution</td>
<td>how</td>
<td>The evolutionary change of alliances over time</td>
</tr>
<tr>
<td></td>
<td>3) Performance</td>
<td>what</td>
<td>The factors which influence the success of alliances</td>
</tr>
<tr>
<td></td>
<td>4) Impact</td>
<td>what</td>
<td>The impact of alliances’ performance on firms</td>
</tr>
</tbody>
</table>

Table 3.1 Research perspectives and aspects of empirical studies of strategic alliances

The present study focuses on the impact of strategic alliances on the participating firms—that is, the benefits and problems of alliances to the firms involved. Using Table 3.1 as a guide, the present study therefore considers the following empirical aspects of strategic alliances:

- motivation: the benefits that a firm expects to achieve from the alliances it enters;
- selection: the standards used in selecting alliance partners;
- governance and control: the methods used to realise potential benefits and to minimise potential problems;
• *evolutionary change*: variations in benefits and problems in accordance with the evolutionary changes of alliances; and

• *performance and impact*: the benefits and problems that come from the performance of alliances, and their consequent impact on the performance of individual firms.

In accordance with the objectives of the present research, this part of the literature review considers existing empirical studies of strategic alliances under the following headings: (i) the benefits and problems of strategic alliances to the participating firms; (ii) strategic alliances in trading business; and (iii) strategic alliances in small business.

### 3.2 Benefits and problems of strategic alliances

#### 3.2.1 Benefits of strategic alliances

Empirical studies on the benefits brought by strategic alliances to participating firms tend to address two questions. The first is why firms seek to form strategic alliances; the answer to this question involves the *motivations* for firms in entering alliances. The second question concerns the benefits that a firm expects to realise from entering strategic alliances; the answer to this question involves the impact of strategic alliances on the firms (including the *operational* and *performance* effects of the alliances).

#### 3.2.1.1 Business growth and diversification

Most firms that choose to enter into strategic alliances with partner firms in the same area of business aim to expand their sales volume or accelerate their market growth. This is essentially a marketing strategy; however, limited empirical attention has been devoted to this approach to marketing strategy. Matthew and Mark (1998) conducted a case study on the BP–Mobil joint venture and reported a strong market performance on the part of the alliance in terms of capturing an enlarged market share. The authors attributed this to various factors—including: (i) the complementary skills of the partners (BP’s skills in the fuels area and Mobil’s expertise in the lubricants business); (ii) enhanced human and financial resources; and (iii) superior marketing intelligence from an expanded distribution network.

Another example worthy of note is that of Sony and Ericsson, who set up a mobile telephone joint venture in 2002. This aimed to combine Ericsson’s design-and-
marketing capacity with Sony’s electronic-manufacturing technology in creating a new brand of mobile phone and, in time, enlarging the alliance’s market share in mobile phones (Guang Ming Daily, 14 August 2002). After 18 months of difficult struggle, the joint venture proved to be profitable by 2004 (Sina Technology, 20 January 2004).

The diversification of a firm’s business and/or entry into a new product market are other reasons for firms forming strategic alliances. In the fast-paced contemporary world economy, the issue of time is often the first item on management’s agenda. Companies simply do not have enough time to establish new markets one by one. Forming an alliance with an existing company that is already in the desired marketplace is thus an appealing alternative. In particular, an alliance with an international company can facilitate expansion into unfamiliar territory (Elmuti and Kathawala, 2001). For example, in recent decades multinational electrical companies that wish to enter the Chinese market have been trying to set up strategic alliances (including joint ventures) with local Chinese companies. An instance of this was Philips’ marketing alliance with TCL, a Chinese local television (TV) manufacturer, which was established with a view to selling Philips’ colour TV products through TCL’s marketing channels in China (Beijing Morning, 23 August 2002).

3.2.1.2 Outsourcing business functions

Another reason for forming strategic alliances is to outsource business functions to a company that can perform these functions more effectively or more cheaply. These outsourced functions can include marketing, production, accounting, sales, and so on. Outsourcing functions has become very popular in the contemporary business world. For example, BP Amoco PLC decided to outsource its accounting function to Price Waterhouse Coopers LLP (PWC). According to the arrangement, Amoco was to gain more efficient accounting work whereas PWC was to gain additional jobs for 1,200 employees (Elmuti and Kathawala 2001).

In another example, a major Australian bank outsourced its property-assessment function to a property-consulting firm. Under the arrangement, the latter evaluated the properties of the bank’s customers when they applied for finance from the bank. Another example is that of a major insurance company in Australia, which has outsourced its claim-assessment function in home insurance to a building-consulting company.
In the financial markets, large financial institutions have set up alliances with dealerships to wholesale their funds to the retail market. An example is the alliance between an Australian superannuation fund, and a home-loan dealer. The former now wholesales its funds to the latter for retailing in the home-loan finance market.

### 3.2.1.3 Obtaining new technology

There are many constraints that limit the capacity of a company to develop, on its own, the new technology that is needed to compete effectively. These constraints include such factors as funding, timing, resources, and so on. The formation of strategic alliances with partner companies who do have the resources to provide the technology is thus perceived as a viable option for overcoming these constraints and obtaining the required technology. Drago (1997) examined the use of strategic alliances in the information-technology industry in the USA, where innovation is a strong driving force and an important success factor in the industry. He concluded that, in general, organisations that compete in highly innovative industries (or industry segments) are more likely to benefit from such strategic alliances.

Vyas et al. (1995) investigated ‘technology transfer’ between defence use and the commercial market through alliances. An example is the global positioning system (GPS), which was initially developed for the military but which has become one of the fastest-growing electronic markets for civilian use. Vyas et al. (1995) found that the state of the technology—that is, whether it was available for application immediately or whether it was in a relatively embryonic stage—was another factor that influences the selection of partners for alliances. Firms that were seeking immediate competitive advantages were more likely to seek alliances that involved new (but readily available) technologies, whereas those who wished to be at the cutting-edge of technology and who planned for long-term growth were more likely to form alliances that involved embryonic technologies.

### 3.2.1.4 Sharing development costs and reducing financial risk

Developing new products and new technologies can be costly and time-consuming, and such new-product development is sometimes beyond the financial resources of a single firm. Strategic alliances have been playing an increasing role in this area. Vyas et al. (1995) investigated strategic alliances formed in the US automobile industry and found that all of the largest manufacturers—GM, Ford and Chrysler—had formed strategic alliances with their Japanese competitors, Toyota, Mazda, and Mitsubishi.
For example, Ford and Mazda jointly developed a medium-sized recreational four-wheel-drive wagon—with Ford selling it as the ‘Escape’, and Mazda selling it as the ‘Tribute’.

Other examples of this sort mentioned by Vyas et al. (1995) included the alliance formed by IBM, AT&T, and MIT, who worked together on research in superconductivity; and the alliance formed by Toshiba (Japan), IBM (USA), and Siemens (Germany) for the development of a super-chip. Vyas et al. (1995) concluded that if organizations could share development costs and new technologies, they could cut their risks and increase their income at the same time. Most of these alliances created synergy.

3.2.1.5 Achieving competitive advantages

Firms in mature industries also form alliances for market-related factors. The emphasis in such alliances is on achieving competitive advantages—such as more distribution channels, enhanced synergy, increased diversification, and easier sourcing of materials. For example, the German automotive manufacturer BMW invested in an automated inspection system for automotive parts that was developed for them by American Cimlex (USA). Through the alliance, BMW gained rapid and effective access to an innovative product that facilitated the fast-tracking of a product from the laboratory to a marketable commercial prototype. American Cimlex, a much smaller company than its partner in the alliance, gained access to financial resources that would otherwise have been unobtainable, as well as gaining access to BMW’s manufacturing expertise and global marketing capabilities (Barney, 1991).

Another example is the alliance between Caterpillar Inc. (USA) and Mitsubishi (Japan), which combined their production of forklift trucks. Rather than competing for market share, the two firms benefited from joining forces. With the initial aim of supplying 11% of the world forklift market, the two companies set up joint-production operations in the USA, Singapore, and the Netherlands. Caterpillar and Mitsubishi had been considered ‘medium-sized’ among forklift manufacturers, but by working together they became one of the top manufacturers in the world (Gross and Neuman, 1989).

3.2.2 Problems of strategic alliances

Empirical studies have also addressed the problems that can come from operating in alliances and the impact of the performance of such alliances on the participating
firms themselves. Most empirical studies of the problems in strategic alliances attempt to identify the objective reasons that cause the failure of alliances—such as a clash of cultures, a lack of trust, a failure to identify clear goals and objectives, inadequate coordination, differences in operating procedures, and so on (Elmuti and Kathawala, 2001). Few empirical studies of problems in strategic alliances have been conducted from the perspective of the participating firms. However, some glimpses of the problems from the perspective of the participating firms can still be obtained from some of the studies in this area.

3.2.2.1 Problems of dependence

According to resource-dependence theory, firms choose to form strategic alliances to access the scarce resources (technology, capital, market channels, supply of raw materials, and so on) that are crucial for firms’ survival and development. Strategic alliances thus have the potential to create a certain degree of dependence among participants in an alliance.

Das and Teng (2001), Robson and Dunk (1998), and Miles et al. (1999) have all noted that the degree of dependence of a participating firm on the alliance is determined by that firm’s level of influence within the alliance; this, in turn, is affected by the firm’s own resources position and the dependence of other partners on the firm in question. Miles et al. (1999, pp. 26, 28) conducted an empirical study of 112 small technology-based firms in the USA and observed that:

Those firms who felt that they most needed alliance relationships to be successful were in fact the least successful firms … Those firms who felt that they were dependent on strategic alliances would be left in an inferior bargaining position when it came to negotiating the details of the alliance. As such, these firms would be likely to gain less even if the alliance turned out to be successful … Regardless of how much the firm might bring to the alliance relationship in terms of skills or technology, its dependence on the alliance is going to leave it in a weak position when it comes to bargaining for the proceeds of the combined venture.

3.2.2.2 Problems of losses

Setting up and managing alliances always cause participating firms to incur costs. If the alliances cannot subsequently generate expected benefits for the firm, these initial costs can become definite losses. As Porter (1990) has noted, strategic alliances
always involve significant costs in terms of coordination, reconciling goals with an independent entity, creating a competitor, and giving up profits.

Robson and Dunk (1998) conducted a case study on the co-marketing alliance between BP and Mobil in the petroleum industry and found that the initial estimate for the shared business costs (including restructuring, rebranding, and associated items) was $340 million short of the final amount, which jeopardised the financial viability of this project.

### 3.2.2.3 Creating or fostering competitors

As noted by Vyas et al. (1995), an initial agreement in a strategic alliance is often based on the mutual benefit that the participants are likely to realise from a union of their efforts. However, as time passes, one party might find that it no longer needs the skills or the knowledge that the other company originally brought to the union—because such knowledge and skills might become capable of duplication, given the learning experience and growth in resources that have accrued from the alliance. In these circumstances, company A might no longer need Company B’s technological expertise, or Company B might have now developed its marketing skills to the point where it is no longer dependent on Company A. These situations can not only lead to the dissolution of an alliance but can also cause Company A and Company B to become direct competitors in the marketplace.

Elmuti and Kathawala (2001) studied these kinds of problems arising from alliances. They noted that one partner can use an alliance to test a market while preparing for the launch of a wholly owned subsidiary. These authors discussed the case of ‘Anamartic’, a UK semiconductor firm with a novel technology. Anamartic undertook a strategy of global alliance with a major Japanese customer and supplier-manufacturer to access resources and achieve flexibility. However, the new venture found itself locked into a trajectory that was being shaped by the needs of powerful corporate partners. In the ultimate, the Japanese partner acquired the technological competence to take effective control of the intellectual property of the venture. This example serves to illustrate that a coupling of research and development (R&D) and production from different companies can create serious difficulties for the protection of intellectual property and the realisation of its potential value.
3.3 Strategic alliances in trading business

Because the present study focuses on strategic alliances formed by small trading firms in Australia, it was appropriate to undertake a review of empirical studies of trading businesses in particular, and the specific nature of strategic alliances formed in this industry.

3.3.1 Trading business

A marketing channel is a network of interdependent organisations that make a product or service available for use or consumption by the consumer or industrial user (Kotler et al., 2001). Trading business can be understood as the part of the marketing channel that brings products from the manufacturers to the end-users. Figure 3.1 shows a typical marketing channel for consumer goods. The arrows represent the flow of goods and services, ownership, capital, information, and promotion.

![Figure 3.1 Consumer marketing channel (Kotler et al., 2001)](image)

The trading business discussed in this thesis mainly involves wholesale business, but is not limited to that sphere. Import functions are an increasingly important part of the global trading environment, and some trading businesses also become involved in product development, including product and packaging design. Nevertheless, the majority of trading businesses are essentially involved in the delivery of goods or services from one place to another—without involvement in the manufacture of the goods or in changing the state of the goods.

The term ‘wholesaling’ refers to all activities involved in selling goods and services to those who are buying for resale or business use. Wholesalers distinguish themselves from retailers in the following respects:

- wholesalers buy mostly from producers, rather than from other intermediaries;
- wholesalers sell mostly to business customers, rather than final consumers;
- wholesalers usually cover large trading areas and conduct large transactions; and
- wholesalers usually provide credit to their customers.
Producers sell goods through wholesalers, rather than selling directly to retailers or consumers, because the use of wholesalers is more economical for producers than establishing distribution networks of their own. Working through wholesaling arrangements is more economical for producers because wholesalers:

- purchase in bulk;
- provide an ‘assortment service’ to customers;
- effectively ‘finance’ the producers and the customers;
- share risks with producers;
- possess location advantage and local market knowledge;
- specialise in goods warehousing and transportation; and
- provide market information feedback to producers.

The objective of trading business can be described as ‘getting the right goods to the right places at the right time for the least costs’. To accomplish this objective the following processes are needed:

- order processing, including obtaining orders from downstream customers and placing orders to upstream suppliers;
- importing goods from overseas or purchasing locally;
- warehousing goods;
- organising transportation and delivering goods to customers;
- collecting payments from customers; and
- eliciting feedback from customers.

To perform these functions, a trading firm needs the following resources:

- goods supply channels;
- customer networks;
- skilled people;
- capital;
- storage capacity (owned or leased);
- means of transportation (owned or chartered); and
- an effective internal management system.

In summary, a trading firm or a trading business, as discussed in this study, can be identified by the following attributes:

- an independently operated firm, not sponsored by producers or retailers;
• performance of wholesale and import functions;
• purchases from producers and sales to business customers;
• provision of warehousing and transportation services; and
• provision of credit and sharing risks in marketing channels.

Trading business is very competitive. For a trading firm to survive and prosper, it must enhance the efficiency and effectiveness of the entire marketing channel, and this requires constant improvement in its services and ongoing reduction in its costs. Fierce competition exists in most countries, and this has led to consolidation of the industry through acquisitions and mergers. In Australia, an independent trading firm dealing in consumer goods must compete with large retailer supermarket groups (such as Woolworths and Coles) and with large wholesalers (such as Davids). In these circumstances, a trading firm’s survival relies on its finding efficient ways to deliver value to its customers while simultaneously reducing its operating costs. Geographical expansion and the use of information technology and automated systems can assist trading firms to improve in these areas. The formation of strategic alliances with relevant partners can also be useful in this regard.

3.3.2 Strategic alliances in the trading industry

Few empirical studies have been conducted on strategic alliances formed specifically in the trading industry. However, Harrigan’s generic work (1995) on strategic alliances is applicable to an understanding of such trading alliances. Harrigan (1995) divided strategic alliances into downstream strategic alliances and upstream strategic alliances. The former refers to strategic alliances formed by a firm with its customers, which include co-promotion arrangements and co-marketing arrangements. The latter refers to alliances formed by a firm with various suppliers of its business, including production alliances and R&D consortia. Applying these categories to a trading firm, ‘downstream alliances’ would include co-marketing alliances, whereas ‘upstream alliances’ would include production alliances. Each of these is discussed below.

3.3.2.1 Co-marketing alliances

Bucklin and Sengupta (1993) defined co-marketing alliances as a form of ‘working partnership’ that involves a contractual relationship undertaken by firms whose respective products are complementary in the marketplace. Such alliances involve coordination among the partners in one or more aspects of marketing, and can extend into research, product development, and even production (Jarratt, 1998).
Harrigan (1995) has pointed out that firms that develop an efficacious product might choose to elicit assistance in distributing the product to customers through co-marketing arrangements in which distribution of the product is undertaken by partners, as well as by the manufacturer’s own sales force. According to Harrigan (1995), the benefits of this kind of alliance arrangement relate mainly to economies of scale.

3.3.2.2 Production alliances

If a company’s individual needs for product quantity are less than those provided by the most optimal scale of plant production, competitors might choose to share manufacturing capacity (or other upstream resources)—thus allowing them to enjoy the benefits of economies of scale.

A variation of this arrangement can occur in mature industries—whereby downsizing firms might choose to retire their excess capacity and sub-contract for production from competitors who are facing markets characterised by slow growth, no growth, or negative growth (Harrigan, 1995).

3.3.2.3 Strategic alliances and competitive advantages

Taking a marketing perspective, Kotler et al. (2001) studied strategic alliances formed in Australia, and recommended four alliance strategies for creating competitive advantages. These recommendations are useful in understanding alliance motivations in the trading industry. According to Kotler et al. (2001), the four recommendations can be summarised as follows.

- **A market leader alliance strategy**: This should focus on maintaining the firm’s leading position within a particular market by forming alliances with related parties. Examples include the alliances formed in hospitality and tourism by Qantas with other airlines, hotel groups, travel agents, and Hertz car rental.

- **A market challengers alliance strategy**: This should aim at forming alliances with sufficient leverage in terms of resources to have a major impact on the market. An example is the alliance formed by Optus to challenge Telstra’s market position in telecommunications.

- **A market followers alliance strategy**: The success of this form of alliance relies on speed of implementation and lower costs. Examples include the alliances formed by the former Ansett airline company with Star Alliance
partners, Air New Zealand, Diners Club, and Avis with the aim of competing with Qantas.

- A niche specialists alliance strategy: This form of alliance emphasises the composition of the alliance in terms of specialised partners in various parts of the value chain being relevant to the target market. This might be in product or service supply, specialised distribution, specialised customer communication, or specialised support services. An example is the alliance formed by the Australian furniture-removal company, Overseas Shipping Services.

3.3.2.4 Competition between partners and alliances

In discussing the problems of alliance arrangements to sponsoring firms, Harrigan (1995) noted that both downstream and upstream alliances make partners of horizontally related competitors. These partners often have similar capabilities, and might actually operate wholly owned business units that are in competition with the strategic alliance, which has a vertical linkage—downstream and/or upstream—with the respective sponsoring firms.

In summary, few empirical studies have been conducted on strategic alliances formed specifically in the trading industry. However, more generic studies in related marketing and business disciplines provide useful guidance in exploring the benefits and problems of strategic alliances for trading firms.

3.4 Strategic alliances and small business

The Australian Bureau of Statistics (8127.0 Characteristics of Small Business) classifies a business according to the numbers of employees employed. However, this is only a single criterion, and Australian Corporation Law takes into account a wider range of criteria. Under Section 45A(2) of Australian Corporation Law: “... a proprietary company is regarded as a ‘small proprietary company’ for a financial year if it satisfies at least two of the following three criteria:

- The consolidated gross operating revenue for the financial year of the company and the entities it controls is less than $10 million;
- The value of the consolidated gross assets at the end of the financial year of the company and the entities it controls is less than $5 million;
The company and the entities it controls have fewer than 50 employees at the end of the financial year.”

The present study adopts this Corporation Law definition of a ‘small proprietary company’ for two reasons. First, this definition covers three major dimensions of a business (revenue, assets, and number of employees), and it is therefore more precise than a definition based on only a single dimension (employee numbers). Secondly, the cases selected for the present research are all ‘proprietary companies’, and the Corporation Law’s reference to small proprietary companies is therefore apposite.

Small businesses have certain competitive advantages over larger entities. These include:

- relatively flexible investment and performance capabilities;
- simple, informal, and effective internal channels of communication;
- lean, informal structures and low administrative costs;
- fewer legislative requirements than large companies (for example, in reporting and auditing);
- adaptability to environmental change; and
- using personal relationships in business coordination.

Small businesses also have certain disadvantages compared with larger entities. These include:

- inadequate economies of scale in production and trade;
- lack of competence and/or capability to compete in the marketplace;
- limited resource accessibility (for example, finance and professional personnel);
- cost inefficiencies; and
- lack of bargaining power in the marketplace.

In attempting to preserve the advantages of being small while simultaneously increasing efficiency and market power, small businesses might choose to establish strategic alliances. The objectives of such alliances include: (i) a reduction in transaction costs and an improvement in transaction efficiency; (ii) the acquisition of scarce resources (such as capital and technology) for growth; and (iii) achieving various strategic goals (such as rapid business growth, a strengthening of competitive position in the marketplace, and the development of new markets).
Jarratt (1998) conducted research on strategic alliances formed by small and medium-sized non-metropolitan firms in Australia using a survey of 68 alliances formed by 60 such firms. He concluded that small and medium-sized enterprises were unable to access resources internally to develop all the capabilities necessary to compete in their regional market sectors. The managers who were interviewed in the study perceived the potential benefits of strategic alliances as being: (i) the creation of business capability; (ii) defending market position; and (iii) creating new value (Jarratt, 1998).

Using a mail survey in the north-east United States, Barnir and Smith (2002) conducted quantitative research of strategic alliances formed by small and medium-sized companies in the electronics-components industry and the medical instruments and supplies industry. Respondents regarded strategic alliances as being critical for the survival of their small businesses. The benefits of being a partner in an alliance were considered especially relevant for small firms that had limited resources and limited market presence. In particular, the respondents felt that it was important for small businesses to have adequate opportunities to establish cooperative partnering arrangements (Barnir and Smith, 2002).

Drago (1997) conducted a study in the information-processing industry in the United States. This revealed that small firms could benefit from establishing strategic alliances by reducing environmental uncertainty and internal organisational uncertainty. Drago (1997) noted that small organisations were more likely to enjoy the benefits of strategic alliances than larger organisations because smaller organisations were more likely to:

- suffer from a lack of scarce resources;
- be threatened by competitive uncertainty;
- inhabit volatile environments that create marketing uncertainty; and
- have less access to knowledge of future necessary actions and/or the power to influence the ‘rules of the game’ for competing in the industry.

Drago (1997) concluded that strategic alliances can be used to reduce these many areas of environmental uncertainty.

Borch (1994) conducted multiple case studies on strategic alliances formed by small firms in the fishing industry in Europe. Working from a ‘relational contract’ perspective, he viewed a strategic alliance as a form of relational contract between
partner firms, whereby new management structures were added to the traditional forms of market-based governance or hierarchy-based governance. According to Borch (1994), such relational contracts facilitate the establishment of new mechanisms that encourage flexible conflict-resolution and enhanced coordination. These new mechanisms reduce uncertainty about future behaviour, and protect each participant from the opportunistic behaviour of others (Borch, 1994).

Miles et al. (1999) examined the use of strategic alliances by small technology-based firms who had innovative ideas and products, but who lacked the resources and experience to capitalise on them in a timely and effective fashion. The authors argued that firms that entered alliances as the only means of firm survival, rather than choosing them as one option among several alternatives, were more likely to find themselves in a dependent position from which it was impossible to ensure that they received a fair share of alliance proceeds. Although most of the small technology firms studied by Miles et al. (1999) did utilise alliances, dependence on alliances was associated with poorer performance.

In summary, the existing empirical studies on strategic alliances formed by small businesses reveal that strategic alliances can play an important role in the survival and growth of small business. Small business can benefit by accessing key scarce resources required for their development, by strengthening their competitive positions in the marketplace, and by reducing costs and uncertainty in their transactions. However, they can also be confronted by problems as a result of entering alliances—such as dependence on partners and failing to get their fair share of rewards from successful alliances.

3.4 Summary

This chapter has reviewed selected empirical studies on strategic alliances. In general, empirical studies of strategic alliances have focused on two major aspects of such alliances: (i) alliance formation; and (ii) alliance management. The former have been concerned with the motivation for entering an alliance, the selection of alliance participants, and the design of governance structures for the alliance. The latter have focused on the day-to-day management of the alliance (including control issues), its evolution over time, factors affecting its performance, and its consequent impact on participating firms.
In accordance with the objectives of the present research, the literature review focused on three major aspects of existing empirical studies of strategic alliances: (i) the benefits and problems of strategic alliances; (ii) strategic alliances in trading business; and (iii) strategic alliances in small business.

The literature review has found that the benefits of strategic alliances include business growth, outsourcing, acquiring new technology, sharing R&D costs, and achieving competitive advantages. The problems include dependence, losses, and the creation of competitors.

The literature review has found that little attention has been paid to strategic alliances formed in the trading industry. However, certain forms of alliances discussed in more generic studies have application in the trading industry. These include co-marketing alliances, production alliances, and downstream or upstream alliances.

The literature with regard to small businesses suggests that strategic alliances can be important to the survival and development of small business by enabling small businesses to access key scarce resources, by strengthening their competitive position, and by reducing transaction costs. However, alliances can also be associated with problems—such as dependence on partners and failing to get their fair share of rewards from successful alliances.
Chapter 4 Implications of the Literature Review

4.1 Introduction

As stated at the beginning of the literature review (Chapter 2), a variety of theories in economics and strategic management has been applied in recent decades to the analysis of various aspects of strategic alliances. These aspects have included: (i) the motivations for firms to enter into alliances; (ii) the process of selecting partners; (iii) the governance structures of alliances; (iv) the evolutionary development of alliances over time; and (v) the performances of alliances and their impacts on participating firms.

4.2 Contributions of the extant literature

Utilising various theoretical perspectives, research into strategic alliances has made a range of contributions to a growing body of knowledge in this area. Significant contributions have been made in the following areas (Kogut, 1988, Auster, 1994, Gulati, 1998, Das and Teng, 2000a, Das and Teng, 2000b):

- the motivating factors for firms entering into alliances—such as reducing transaction costs; securing certain key resources for survival and growth; creating competitive advantages and other strategic goals; and so on;
- the choice of alliance partners—such as upstream suppliers; downstream customers; market competitors; financial providers; joint research partners; and so on;
- the design of governance structures—such as contractual agreements; equity joint ventures; research and development (R&D) collaborations; franchises; and so on;
- the management and evolution of alliances over time—such as voluntary dissolution of alliances after achieving expected goals; dissolution of alliances after failing to achieve goals; transformation of alliances into mergers or acquisitions; and so on;
- the mechanisms for influencing partners and controlling alliances—such as building trust during formation of alliances; exercising power and control during implementation of alliances; conflict management; and so on;
• *evaluation of the performance of alliances*—such as financial outcomes; market growth; business diversification; acceleration of new-product development; efficiency improvements; and so on; and

• *the impact of the performance of alliances on participating firms*—such as using market reaction to the announcement of a joint venture as an indicator of the impact of alliances on firms.

In addition to these ‘mainstream contributions’ to research on strategic alliances, there have also been useful contributions in more specialised areas. These have included:

• the role of the concept of ‘embeddedness’ of strategic alliances in the social networks of firms—including the opportunities and constraints that arise from this concept, and the behavioural and performance implications for alliances (Gulati, 1998);

• understanding alliances from the perspective of organisational ‘learning life cycles’—including the recognition that firms refrain from steadily increasing the number of new alliances in which they are engaged (Oliver, 2001);

• viewing alliances from an institutional perspective as experiments in ‘institution building’—including the potential integration of economic and strategic perspectives, rather than emphasising a single aspect of alliances (Osborn and Hagedoorn, 1997); and

• attempts to synthesise different theoretical perspectives (for example, the transaction-cost approach with the resource-dependence approach) with a view to achieving a more comprehensive understanding of strategic alliances (Tsang, 2000).

In making these various research contributions, scholars have produced both theoretical studies and empirical studies, and they have utilised both quantitative methods and qualitative methods.

The *theoretical* studies have been largely based on economic and strategic-management theories, with various contributions from other disciplines (Kogut, 1988; Auster, 1994; Osborn and Hagedoorn, 1997; Gulati, 1998; Das and Teng, 2000a; Das and Teng, 2000b; Tsang, 2000; Bachmann, 2001; Das and Teng, 2001; Elmuti and Kathawala, 2001).
Most of the *empirical* studies have adopted quantitative methods in analysing statistical data collected from surveys (Miles et al., 1999; Barnir, and Smith 2002; Young-Ybarra and Wiersema, 1999; Eisenhardt and Schoonhoven, 1996; Das et al, 1998; Oliver, 2001; Osborn et al, 1998) A few examples of qualitative case-study methodology were also found in the literature review (Borch, 1994; Robson and Dunk, 1999; Kimber, 1996; Kimber and Raghunath, 2001). A research adopted experimental method was found in the study of marketing alliances (Shamdasani and Sheth, 1995). A single meta-analytic study was also found in this literature review (Sobrero and Schrader, 1998).

**4.3 Limitations of the extant literature**

In addition to identifying the valuable contributions that have been made to the research literature on strategic alliances, this review has also identified certain limitations in the literature. These can be summarised as follows.

**4.3.1 Lack of in-depth qualitative empirical studies**

Although some case studies were found in the literature review, most of the existing empirical studies of strategic alliances have relied on quantitative methods for the collection and analysis of data. Although such quantitative research methods are generally considered to be more objective (and ‘scientific’) than qualitative methods, Blaikie (2000, p. 242) has pointed out that the exclusive use of quantitative methods has certain limitations in conducting social research:

> When quantitative methods are used, the researcher is likely to have very limited or no contact with the people being studied … Some would argue that, without a period of immersion in a social world, no adequate understanding of it can be achieved.

In fact, the accuracy and depth of the overall analysis can actually be limited if too many variables are involved in a quantitative analysis of strategic alliances. It is the contention of this thesis that more research of a *qualitative* nature is required in this area to provide more detailed insights into certain aspects of strategic alliances.

**4.3.2 Limited research on alliances formed by small business**

Alliances formed by small business have not attracted enough research attention. Most research interest to date has been concentrated on alliances formed by large manufacturing and service companies. The relatively few studies of alliances formed by small business have focused mainly on small technologically based companies,
with an emphasis on their R&D collaborations. Those small businesses often have particular needs in seeking alliances—such as access to funds, cost-sharing, financial risk-reduction, and the sharing of technical information. Strategic alliances formed by small businesses in other industries—such as manufacturing, services, and trading—have attracted little attention from researchers.

As discussed later in this thesis, small companies in a range of industries might benefit from strategic alliances in developing their businesses. Strategic alliances have significant potential to build on the inherent strengths of small businesses—including their flexibility, efficiency, ‘hands-on’ management style, leaner cost structure, and entrepreneurial approach. Alliances also have potential to overcome the inherent disadvantages of small businesses compared with large companies—such as their weaker financial capacity, restricted accessibility to resources, weaker bargaining power, and disadvantaged market position.

4.3.3 Limited research on alliances in trading industry

Most trading firms do not manufacture the products they trade. Rather, they work as intermediaries in the supply chain to connect producers with end-customers. Their business survival relies on a consistent supply of products from the producers, together with the ongoing support of their customers. Trading firms can switch to other suppliers and customers. However, any changes are likely to involve additional costs, and this can create further risks for a trading firm.

The maintenance of their supplier and customer networks is thus extremely important to trading firms in preserving their competitive position in the marketplace. In this regard, the formation of strategic alliances with suppliers and customers might be a workable solution.

Despite the apparent attractiveness of strategic alliances for trading firms, a review of the literature found little evidence of attention having been paid to strategic alliances in the trading industry. Few empirical articles have studied strategic alliances from the manufacturers’ perspective—for example, the possible use of outsourcing alliances to solve manufacturers’ logistical problems. Similarly, few (if any) studies have been conducted from the perspective of the trading firms—for example, the possible use of strategic alliances to access a consistent supply of products or to access diversified marketing channels.

4.3.4 Lack of studies conducted by practitioners
The majority of studies on strategic alliances have been conducted by scholars in various economic and strategic-management disciplines. Few studies have been conducted by practitioners, or by scholars who have a strong background in business practice.

The usual scholarly practice in this field has been an extension and extrapolation of theoretical knowledge from other relevant research areas to the particular question of strategic alliances in business practice. Although many scholars are proficient at applying theoretical frameworks to the analysis of empirical problems in different fields, a lack of practical experience in particular areas is a potential hindrance to their detailed understanding of the empirical issues being studied. In contrast, most business practitioners have first-hand experience of their businesses and a good understanding of real-world problems. Their potential weaknesses are a lack of theoretical knowledge to guide their analysis and a lack of appropriate methods to discover the solutions.

In this context, it is appropriate to record that the present author combines theoretical and practical expertise in this area. The author holds a master’s degree in management, and has had more than 15 years of diverse business practice in the trading industry.

4.3.5 Limited research on the impact of alliances on participating firms

Most studies of strategic alliances concentrate on the discussion at multi-organizational level, i.e. the alliance itself, with relatively little emphasis being placed on the organisational level, i.e. the impact of a given alliance on the participating firms. This focus fails to take account of the essential nature of alliances.

A firm can exist without alliances, but an alliance cannot exist without firms. The participating firm is both the starting-point and the end-point of any alliance. The potential benefits of an alliance achieved by the firm is the primary reason for a firm choosing to enter that alliance; and the performance of the alliance (and its consequent impact on the firm) determines whether the firm remains within it.

The fortunes of the participating firms also determine the design and practice of the control mechanisms of the alliance—which are ultimately aimed at realising potential benefits for the participating firms and minimising potential problems for those firms.
Against this background, it is apparent that more research attention needs to be paid to the impact of alliances on the participating firms themselves.

**4.3.6 Lack of systematic studies of benefits and problems**

As discussed in the literature review, theoretical studies of strategic alliances have applied various perspectives in an attempt to analyse the benefits and problems of strategic alliances. In addition, the literature review reveals that a range of empirical studies have also provided evidence of these benefits and problems. However, the issue of benefits and problems has not been studied systematically.

There has been a tendency to view alliances as being temporary solutions for isolated problems. In general, alliances have not been treated as major strategies for business development. There has been a relative failure to perceive alliances as important pillars in a firm’s overall business structure.

As a result of the failure to examine the benefits and problems of strategic alliances in a systematic fashion, many questions in this area have been inadequately addressed. These include:

- What are the potential benefits and problems for a firm that is contemplating an alliance?
- What are the factors that determine these benefits and problems?
- How can firms manage an alliance to realise the potential benefits and minimise the potential problems?
- What roles do strategic alliances play in the success or failure of participating firms?

**4.4 Implications for the present study**

On the basis of the literature review and the above discussion, it is apparent that certain aspects of strategic alliances require further attention from researchers. These issues are therefore pertinent to the present research, and are discussed below.

**4.4.1 Multiple theoretical perspectives**

Research on strategic alliances needs to be conducted from several theoretical perspectives, rather than from a single perspective. In particular, research needs to be conducted from perspectives that have different ontological and epistemological assumptions.
The application of multiple perspectives to research into strategic alliances should ensure that a wider range of phenomena becomes apparent, and that a richer understanding of the subject is achieved.

4.4.2 Qualitative empirical research

More qualitative research into strategic alliances is required. Qualitative research usually requires extensive and intensive involvement on the part of the researcher. In generating new knowledge through a process of interaction with the object of the research, the social researcher draws on the same skills that social actors use to make their activities intelligible (Blaikie 2000).

Further in-depth qualitative research is therefore likely to provide more detailed insights into strategic alliances from the perspective of the business practitioner.

4.4.3 Contradictory factors within alliances

Contradictory factors can be found within an individual alliance and across multiple alliances. These contradictory factors, which have not been widely studied in the past, include: cooperation versus competition; consistency versus flexibility; benefits versus risks; and so on. Das and Teng (2000a) demonstrated that these contradictions within alliances can be major causes of instability and failure in alliances.

Further research in this area might assist practitioners to maintain a balance between conflicting factors in an alliance, and might thus contribute to a better understanding of the reasons for the success and failure of alliances (and the participating firms).

4.4.4 Performance issues

Although the performance of an alliance is clearly an important issue, research in this area remains under-developed. There are two major issues in this area: (i) the performance of the alliance itself; and (ii) the consequent impact on participating firms.

Research obstacles in this sphere include: (i) how to measure alliance performance; (ii) the logistical challenges of collecting the rich data required for an accurate assessment of performance; (iii) difficulties in making an empirical link between the alliance activity of firms and their performance; and (iv) asymmetric outcomes for different partner firms (Gulati, 1998).
Further research on the performance of alliances needs to be conducted to develop the measures to evaluate alliances and their benefits to firms.

4.4.5 Portfolio management

To meet its various strategic needs, one firm might form several alliances involving partners from a variety of areas. For example, a trading firm might form alliances with: (i) upstream suppliers and manufacturers; (ii) downstream business customers; and (iii) providers of finance. A firm might even form alliances with its competitors. Moreover, a large company, such as Boeing or GM, is likely to form a greater number of alliances because the manufacture of their products is a complex process requiring parts and services to be provided by several external parties.

In this context of multiple alliances, it is useful for a firm to perceive its various arrangements with other firms as representing a ‘portfolio’ of alliances. Such a portfolio is comprised of all the relationships that the firm maintains with other organisations, and should be understood as forming an important component of the firm’s total strategic resources (Wilkinson and Young, 2002).

The question of how to develop and to manage a ‘portfolio of alliances’, with a view to maximising the benefits and minimising the problems, requires further exploration.

4.5 Conclusions

This chapter has drawn conclusions from the extensive review of the extant theoretical and empirical studies of strategic alliances presented in Chapters 2 and 3, and has addressed the implications for the present study.

It is apparent that various theoretical perspectives have been applied to the study of strategic alliances (in particular, transaction-cost theory, resource-dependence theory, and strategic-behaviour theory), and that certain potential benefits and problems of strategic alliances have been identified from empirical examinations of the business practice of alliances.

It is also apparent that the limitations of the extant literature include: (i) a lack of in-depth qualitative empirical studies of alliances; (ii) a limited number of studies on both small businesses and the trading industry; and (iii) a lack of studies conducted from the perspective of the individual firms involved (in contrast to the relatively large number of studies that have considered alliances in isolation from their effects on participant firms).
The implications for the present research have been identified as: (i) a need for studies to be conducted from multiple theoretical perspectives; (ii) a need to address the problems presented by the contradictory factors that exist within alliances; (iii) a need to improve the assessment of performance of alliances; and (iv) a need to consider ‘portfolio management’ in firms with multiple alliances.

Drawing on the above conclusions and implications, the present research has the following features:

- the use of an in-depth qualitative research method (that is, case studies and cross cases analyses);
- a focus on the benefits and problems of strategic alliances to small trading firms;
- an analysis of the reasons for some firms succeeding (and others failing) in their attempts to utilise alliances to improve their business performance; and
- the provision of recommendations for small trading firms in the use of strategic alliances.

By incorporating the above features, the present research addresses the limitations and knowledge gaps in the existing literature in the following respects.

- The research addresses the relative lack of qualitative, in-depth empirical studies in this field. Moreover, the research addresses the lack of studies conducted from the perspective of the managers of small trading firms.
- The research addresses the relative lack of studies of strategic alliances formed by small trading firms.
- The research concentrates on the benefits and problems of strategic alliances to the participating firms. In this regard, it addresses gaps and limitations in the extant research by: (i) applying multiple theoretical perspectives to analyse the benefits and problems of alliances; (ii) treating benefits and problems as contradictory factors that need to be balanced; (iii) treating benefits and problems as a measure of alliance performance; and (iv) addressing the question of benefits and problems in terms of ‘portfolio management’ of alliances.
- The research addresses certain knowledge gaps by proposing recommendations for practitioners in small trading firms with respect to the formation and management of alliances.
Summary of Part I

Part I of this thesis (that is, Chapters 2–4) has reviewed the literature of existing strategic alliances research. Chapter 2 has discussed three major theoretical views (transaction-cost theory, resource-dependence theory, and strategic-behaviour theory) that have been applied to the analysis of the benefits and problems of strategic alliances. Chapter 3 has reviewed the existing empirical studies of strategic alliances from three perspectives: (i) the benefits and problems of alliances to the participating firms; (ii) strategic alliances in trading industry; and (iii) strategic alliances in small business. On the basis of the literature review presented in Chapters 2 and 3, Chapter 4 has identified the contributions, limitations, and knowledge gaps in existing research into strategic alliances; from this, the chapter has noted the implications for the present study.

In summary, Part I of this thesis has:

- clarified the definition of strategic alliances;
- discussed three major theoretical approaches (transaction cost, resource dependence, and strategic behaviour) to the benefits and problems of strategic alliances to the participating firms;
- reviewed existing empirical studies of strategic alliances in three relevant areas (benefits and problems for the participating firms; the character of alliances in the trading industry; and the nature of alliances formed by small businesses); and
- identified the limitations and knowledge gaps in the existing literature, and the implications for the present study.
PART II
METHODOLOGY

Introduction of Part II
This part of the thesis work aims to document the methodology used for this research. Part II has two chapters: Chapter 5 and Chapter 6. Chapter 5 deals with strategies of the research design, including the research topic, research questions, research objectives and research strategies of this study. The chapter firstly looks at the research problem and the rationale for the research to generate the research topic, which sets up the research direction and boundary. The second step is to develop research questions, which provide the focus for the research. The research goals are declared in the research objectives followed. Finally, the research strategy is decided and the overall research design is developed, which has an important influence on the decision about data collection and data analysis methods discussed in the next chapter.

Chapter 6 develops detailed data collection and data analysis strategies for this study. The research collects data from a company documentary research on six small trading firms and semi-structured interviews with three levels of interviewees at each firm, including the principals, the senior managers and the major alliance partners of the firms. The research applies case study and comparative cross case analysis as the data analysis strategies. In the case study, grounded theory method is employed to analyse the case data. Three steps of coding form the heart of grounded theory analysis, i.e. open coding, axial coding and selective coding (Punch, 1998). The comparative cross case analysis compares the outcomes of case studies of the successful cases and the failed cases to generate conclusions. Finally, issues of research validity and reliability, and compliance with ethical standards are addressed in this chapter.
Chapter 5 Research Design

5.1 Introduction

The present study adopts a qualitative research design. This chapter elaborates the qualitative approach in general, and the justification for adopting such a qualitative approach in the present study.

The chapter also considers the problems and rationale in defining the research topic, in proposing the research questions to be addressed by the research, in defining the research objectives to be pursued. Finally, the chapter explains how the research strategy was decided.

On the basis of a discussion of these matters, the chapter presents an overall research design to guide the case studies (and the conclusions derived from them) in subsequent chapters of this thesis.

5.2 Research topic and rationale

5.2.1 Research topic and scope

The present study investigates the benefits and problems of strategic alliances for participating firms drawn from among small trading firms in Australia. The research topic is thus defined as follows:

- *the issue under investigation*: the benefits and problems of strategic alliances;

- *the scope of the study*: a multi-case study of small trading firms in Australia.

5.2.2 Motivations for the research

The first reason for choosing this topic is that it reflects the present researcher's personal interests and commitments. The author has worked in the trading industry for more than 15 years and has been involved in setting up and managing many strategic alliances. The success and failure of different strategic alliances, and the reasons for their varying performance, attracted the researcher's professional and academic interest.

The second reason for conducting this research is to redress certain shortcomings in the body of knowledge about strategic alliances—particularly with
respect to research from the firms’ perspective and research into small trading firms, both of which have attracted little attention from researchers.

The third motive of the study is to assist small trading firms in their efforts to achieve their economic goals by demonstrating how strategic alliances can be used in an effective way.

Finally, because the researcher is currently working in the private business sector, it is acknowledged that this research on strategic alliances might also be of assistance to the researcher in enhancing his personal knowledge and skills in this important area of study.

5.2.3 Guidance for topic and scope
In drawing up the present research topic and its boundaries, the literature review presented in preceding chapters provides valuable overall guidance.

Chapter 2, which presented theoretical perspectives from the literature, has suggested that transaction-cost theory, resource-dependence theory, and strategic-behaviour theory have all been used to analyse the benefits and problems of strategic alliances. However, the literature review in that chapter also suggested that most research in this field has paid little attention to the effect of strategic alliances on the participating firms themselves. Moreover, the studies that have been conducted on the benefits and problems of strategic alliances on firms have not been conducted systematically.

Chapter 4, which presented empirical studies of strategic alliances in certain industries, found that a very limited number of studies had been conducted in the trading industry.

The present study aims to redress these limitations and knowledge gaps in the extant literature, and proposes practical recommendations for business practitioners and researchers. The study thus has both a theoretical perspective and a practical perspective.

5.3 Research questions and objectives
5.3.1 Research questions
On the basis of the research topic and research boundary defined above, four research questions are proposed as follows.

- What are the potential benefits of strategic alliances to small trading firms?
**5.3.2 Research objectives**

The research topic and questions described above identify the present study as *applied* research. Applied research is concerned with producing knowledge to solve practical problems and accomplish practical tasks (Blaikie, 2000). There are thus two aspects to applied research: *knowledge* and *action*. These aspects reflect the two main objectives of any applied research: *understanding* and *change*. The first objective—*understanding*—involves two steps: (i) description; and (ii) explanation. The second objective—*change*—involves recommendations for practical action.

Against this background, the primary objectives of the present study can be expressed as follows:

- to *understand* (that is describe and explain) the benefits and problems of strategic alliances to participating firms and the roles played by alliances in those firms’ business successes and failures; and
- to *recommend change* in alliance formation and alliance management with a view to realising the potential benefits of strategic alliances in expanding businesses, while simultaneously minimising the potential problems.
To achieve these two objectives, the present study: (i) begins with a descriptive stage (in addressing the first two research questions); (ii) proceeds to an explanatory stage (in addressing the third research question); and (iii) concludes with recommendations for change (in addressing the final research question).

5.4 Research strategy: abductive strategy

According to Blaikie (2000), the first research objective noted above (that of understanding) is the exclusive preserve of ‘abductive’ research. An ‘abductive’ research strategy takes an interpretive approach to understanding the world as it is. It attempts to understand the fundamental nature of the social world that is being studied by examining it in terms of subjective experience. It thus seeks explanation within the realm of individual consciousness and subjectivity, and perceives the social world as an emerging social process that is created by the individuals concerned (Burrell and Morgan, 1979).

Abduction as a strategy is thus concerned with achieving an understanding of social life from the everyday accounts provided by the social actors themselves. In its most fundamental form, this understanding is achieved by means of secondary-order descriptions of these first-order accounts. However, in its more liberal manifestations, an abductive strategy is concerned with explanations, and possibly even predictions, rather than mere description (Blaikie, 1993).

As previously noted, it is desirable that the present research should address a definite gap in the extant literature by addressing the benefits and problems of strategic alliances from the perspective of the participating firms. It is thus apparent that an abductive strategy is a most appropriate choice for addressing the research questions posed in this study. Such a strategy is likely to be capable of providing first-hand description and explanation in understanding the benefits and problems of strategic alliances to small trading firms, and also has the capacity to predict change for these firms in managing their alliances.

In addition to its ‘first-hand’ nature, an abductive strategy thus has the advantage of being capable of answering both ‘what’ questions and ‘why’ questions; moreover it purports to be able to answer ‘how’ questions (Blaikie, 2000). It is thus suitable for addressing all of the research questions of the present study.

In addition to these epistemological considerations, the present study also has to cope with such practical considerations as the availability of data sources and the time
and cost restraints that are inevitably placed upon research of this type. These considerations also suggest that an abductive strategy is the most appropriate choice of strategy for this thesis.

Despite the apparent advantages of an abductive strategy in this context, every research strategy has its limitation and problems. Abductive strategy generates theory from the data collected from the everyday concepts and meanings of social actors, and these data can thus be shaped by the language, culture, knowledge, and experiences of those from whom the data are collected. It is therefore possible that a gap can exist between the data and the social reality that the data are supposed to represent. This, in turn, might produce a distorted view of the social reality under consideration (Blaikie, 2000). To tackle this problem and minimise any potential distortion, the present study adopts ‘replication logic’ in collecting data from multiple sources and in employing multiple case studies.

5.5 Overall research design

On the basis of the above discussion, the overall research design for the present study has been developed. In summary, the study adopts a model incorporating an abductive strategy and multiple case studies.

The overall model of the research design is shown in Figure 5.1. This follows the design for multiple case studies as proposed by Yin (1994), but with certain modifications in accordance with the specific needs of the present study.

5.6 Summary

This chapter has presented and discussed how key decisions were taken with respect to the research design for this study—including the choice of topic, the research questions to be addressed, the objectives to be pursued, and the strategy to be employed. The chapter has concluded with a comprehensive model of the overall research design.
Figure 5.1 Overall research structure and process
Chapter 6 Data Collection and Analysis

6.1 Introduction

This chapter discusses the procedure for data collection and analysis adopted in the present study. Decisions on data collection and analysis were based on a consideration of both theoretical and pragmatic factors.

First, the research topic determined that data collection in the present study should focus on small trading firms that are engaged in strategic alliances. Secondly, because the research objectives refer to understanding the benefits and problems of strategic alliances for small trading firms and recommending change in their implementation of such alliances, data had to be collected from the perspective of small trading firms themselves; this implied data collection from everyday accounts of business practice in the management of alliances. Finally, the four research questions of this study (see Chapter 5) also influenced strategies of data collection in the present study. The first two questions refer to the benefits and problems of strategic alliances as perceived by the management of small trading firms. The third question requires analysis of the data to reveal the roles played by strategic alliances in the success or failure of the small trading firms. The last question implies a need to synthesise the conclusions from the data analysis.

Taken together, these factors determined the strategies for data collection and analysis that are detailed in the present chapter.

6.2 Data Collection

As previously noted, an ‘abductive’ research strategy was selected for the present study. Such a strategy requires the primary data for a study of this type to come from the personal accounts of the business practitioners concerned. Such data could contain personal biases. Moreover, the data-collection methods could also have certain biases associated with them.

In acknowledging these potential problems, this thesis applied multiple methods of data collection from several sources. According to Sekaran (1992), multiple methods of data collection from several sources lends rigour to research. Moreover, Yin (1994) has strongly recommended multiple sources of data collection when
conducting case studies—because this enables an investigator to address a broader range of historical, attitudinal, and behavioural issues.

The data-collection methods used in this study are discussed in greater detail below.

6.2.1 Documentary research

Documentary data for this study were collected from two sources: (i) a literature review; and (ii) company files.

The first of these, data collected from the literature review, are secondary data. In applying these secondary data within the study’s overall abductive strategy, it was noted in Chapter 5 that existing theories and perspectives might have to ‘borrowed’ or ‘adopted’ to provide a scientific interpretation of the social way of life that is under investigation. Blaikie (2000) described this process as producing a set of ‘categories’ (or ‘types’) that capture the various concepts being examined, and the meanings put on them by the social actors involved. As Blaikie (2000, p. 140) observed:

The labels for the types may be invented or borrowed from the literature, but their meaning will be generated from those used by the social actors.

The data collected from the literature review were therefore used to provide two important tools in this abductive research:

- *theoretical perspectives*: to provide appropriate vocabulary, perspectives, and conceptual frameworks with which to analyse the data collected; and

- *categories (or labels)*: to categorise the concepts (and their meanings) as derived from the empirical data within the social actors’ lay accounts.

Another important use of documentary data is to develop propositions based on the conclusions from the literature review. The propositions are later used as theoretical patterns to compare with the data in the case study.

The second source of documentary data, *company files*, provide both primary and secondary data—including original company records and earlier studies of the same company. The company files used in the present study included the following types of documents:

- company profile and historical record;
- earlier studies of the same company (such as strategic and operational reviews, due-diligence studies, and so on);
• formal company records (such as product lists, customer lists, annual reports, 
  profit-and-loss statements, balance sheets, and so on);
• proposals, minutes of meetings, and agreements regarding alliances;
• letters, faxes, and other communications between alliances partners; and
• other relevant documents about the company and its alliances.

Data from these sources enabled the researcher to establish a data file for each 
company under study. The file included: (i) the history of the company; (ii) its 
performance in recent years; (iii) its motivation for entering into alliances; (iv) the 
forms of alliances entered into; (v) the effect of the alliances on the company; and (vi) 
comments from other researchers who had previously conducted studies of the same 
company.

The documentary research thus provided basic knowledge of the company’s 
history, and its business profile. It also provided background information on the 
company’s decision to enter into alliances. All of this information assisted the 
researcher in understanding and raising issues in the subsequent interviews and case 
studies.

6.2.2 Interviews

Interviews were used as the second method of data collection in the present study. 
These interviews provided the primary qualitative data for the study.

In assessing the role of interviews in qualitative research, Blaikie (2000, p. 234) 
has observed:

Interviews are an essential source of case study evidence because most 
case studies are about human affairs. These human affairs should be 
reported and interpreted through the eyes of specific interviewees, and 
well-informed respondents can provide important insights into 
situation. The qualitative interview can get close to the social actor’s 
meanings and interpretations, to their accounts of the social interaction 
in which they have been involved.

Data collection in the present research took the form of semi-structured 
interviews. Such interviews allowed the researcher to focus on certain pre-designed 
questions while allowing for a degree of flexibility.

However, there are certain disadvantages to this data-collection technique. 
Verbal reports inherently suffer from problems of bias, poor recall, and inadequate
articulation. A reasonable approach in addressing these problems is to corroborate interview data with information from other sources (Yin, 1994). This study compensated the inherent disadvantages of interviews by documentary research and multiple case studies.

The semi-structured interviews collected data on the following aspects of strategic alliances among small trading firms:

- the perceptions of the operators of small trading firms with respect to strategic alliances;
- the current status of strategic alliances formed by the six firms chosen for the present study;
- the characteristics of the partners in strategic alliances formed by these firms;
- the benefits achieved through establishing alliances;
- the problems that confronted the firms in operating alliances; and
- the effect of strategic alliances on these businesses (as perceived by the operators).

The interview questions were developed in advance of the interviews and were used as guidelines in setting boundaries for each subject discussed in the interviews. However, the interviewees were at liberty to raise any questions of their own at any stage of the interview. The interviewer also changed the pre-arranged schedule if interesting issues emerged during the interview. The interview structure is shown in Table 6.1. (See the Appendices for details of the interview schedules.)

In all, 25 interviews were conducted. These were divided into three groups:

- the first group of respondents consisted of six principals or directors from the six case companies;
- the second group consisted of 12 senior-level managers involved in alliance formation or management; and
- the third group consisted of representatives from seven alliance partners.

Each of these groups is discussed in greater detail below.

The first group of interviewees represented the main drivers in establishing strategic alliances. In the interviews, they provided general views on the motivations to enter alliances and the subsequent performances of those alliances. Some respondents were interviewed more than once to clarify some issues. This group of interviews represented the major source of interview data in the case studies.
<table>
<thead>
<tr>
<th>Part</th>
<th>Topic</th>
<th>Sample Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Definition of Strategic Alliances</td>
<td>• What do you mean by “strategic alliances”?</td>
</tr>
<tr>
<td>2</td>
<td>Current Status of Alliances</td>
<td>• How many strategic alliances have been formed by your organization?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Are they still in operation?</td>
</tr>
<tr>
<td>3</td>
<td>About Partners of Alliances</td>
<td>• Could you briefly introduce the business of your alliance partners?</td>
</tr>
<tr>
<td>4</td>
<td>Benefits of Alliances</td>
<td>• What are the benefits achieved from these alliances?</td>
</tr>
<tr>
<td>5</td>
<td>Problems of Alliances</td>
<td>• Were there any problems with the alliances?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Did you solve the problems?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• How did you solve the problems?</td>
</tr>
<tr>
<td>6</td>
<td>Impact of Alliances on Business</td>
<td>• How did you evaluate the impact of alliances on the financial results of your business?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What are the major reasons which caused the closure of your business?</td>
</tr>
</tbody>
</table>

**Table 6.1 Interview structure and sample questions**

The second group of interviewees consisted of 12 senior managers from the six firms. Each manager was in charge of one or more of *product sourcing, product marketing*, and/or *business finance*. The data collected from the second group of interviewees complemented the general data collected from the first group, and provided more detailed insights into the particular business areas for which individual managers were responsible.

The third group of interviewees consisted of seven representatives of partner firms in strategic alliances with the focus firms. This group of interviews provided the views of alliance partners on the benefits and problems of the alliances to their firms.

The interview conversations were recorded and an interview data file was established for each case. The three groups of interviewees from the six case companies are shown in Table 6.2.
<table>
<thead>
<tr>
<th>Group</th>
<th>Case Company</th>
<th>Alfa</th>
<th>Elta</th>
<th>Nuta</th>
<th>Gota</th>
<th>Delta</th>
<th>Cita</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Principal/ Managing Director</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>Financial Controller</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Sales and Marketing Manager</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Alliance Partner</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Sub-Total</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 6.2 Interviewees from the six case companies

6.3 Data analysis

6.3.1 Structure of case studies

This thesis presents a total of six case studies. Each case study is structured in the following manner:

- background;
- current status of strategic alliances;
- partners in strategic alliances;
- benefits and problems of strategic alliances; and
- effect of strategic alliances on business.

Each of these is described in more detail below.

6.3.1.1 Background

Each case study begins with a brief introduction of the firm, an overview of the industry, an indication of the firm’s size, an outline of its business structure, and a discussion of how the data were collected.

6.3.1.2 Status of strategic alliances

The second part of the case study examines the current status of strategic alliances formed by the firm being studied, including: (i) the number of alliances; (ii) the purposes of the firm in establishing the alliances; (iii) the business areas in which the alliances were formed; (iv) the types of agreements established between alliance partners; (v) how long the alliances have been operating; and (vi) the overall views of the firm’s principal and managers on the performance of the alliances.
6.3.1.3 Partners in strategic alliances

The third section considers such matters as: (i) the number of major alliance partners; (ii) the form of introduction of each major partner’s business; (iii) the pre-alliance relationship between the partners; and (iv) the driving forces of the partners in entering into alliances with the firm.

6.3.1.4 Benefits and problems of strategic alliances

The fourth part of the study examines the major benefits achieved by the firm, and the benefits achieved by the partners of the firm. It also examines the problems that face the firm, the reasons for these problems, and how the firm addressed these problems.

6.3.1.5 Effect of strategic alliances on business

This part of the study analyses how the benefits of alliances contribute to the firm’s business survival and growth, and whether the problems have an adverse effect on the firm’s business. In the case of a business failure, the study ascertains the main reasons for the business failure, and their relationship with the identified problems of the alliance. These analyses lead to the conclusions of each case study—in terms of the benefits and problems of alliances and their roles in the firm’s business success or failure.

6.3.2 Replication of case studies

In the present research, the six cases are divided into two groups. The three cases in the first group concern three small trading firms that have successfully used strategic alliances as their main strategy to expand their businesses. The three cases in the second group concern three small trading firms that have been unsuccessful in their attempts to use strategic alliances to expand their businesses.

The six cases were selected in accordance with so-called ‘replication logic’. Replication logic is different from sampling logic. The latter is concerned with the representativeness of the cases—that is, the samples are chosen to represent the population from which they are drawn. In contrast, replication logic is concerned with the appropriateness of the cases selected.

According to Yin (1994), if three case studies with the same research design are conducted separately and obtain similar results, ‘replication’ is said to have occurred. If one case generates similar results to another, this is referred to as ‘literal
replication’. If a case produces contrasting results with another, but for predictable reasons, this is referred to as ‘theoretical replication’.

Applying this schema to the present study, it is apparent that there are two kinds of replication involved.

- **Literal replication**: Within each group of three, literal replication is demonstrated because each case generates similar results to other cases in the same group.
- **Theoretical replication**: If the results of the first group are compared with the results of the second group, theoretical replication is demonstrated because contrasting results are produced, but for predictable reasons.

Figure 6.1 shows the application of literal replication and theoretical replication in the multi-case study design of this research.

![Diagram of multi-case study design](image)

**Figure 6.1 Multi-case study design**

### 6.3.3 Analysis within groups

To undertake cross-case analysis *within* each group of three case studies, the present study uses ‘grounded theory’. Grounded theory uses the processes of abstraction and comparison to generate a theoretical explanation of what is central to the data. According to Strauss and Corbin (1990), the grounded-theory approach to data
analysis consists of three major steps: (i) open coding; (ii) axial (or theoretical) coding; and (iii) selective coding.

Applying this schema to the present study, the following steps are undertaken;

- *open coding*: categorising strategic alliances;
- *axial coding*: identifying benefits and problems of alliances; and
- *selective coding*: discovering a key concept.

Each of these is discussed below.

### 6.3.3.1 Categorising strategic alliances

Open coding seeks to identify conceptual categories within the data. In the present research, open coding is applied to the case data collected from the interviews and documentary research with a view to identifying the categories of strategic alliances formed by the small trading firms.

### 6.3.3.2 Identifying benefits and problems of alliances

Axial coding uses theoretical codes to establish relationships among the categories developed in open coding. In the present research, the theoretical codes are the six propositions previously developed (see Chapter 2). It will be recalled that these six propositions were based on the benefits and problems of strategic alliances as perceived from three theoretical perspectives—(i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour.

### 6.3.3.3 Discovering a key concept

Selective coding is used to discover a key concept from the data. It chooses a core category and concentrates the analysis around this category with a view to integrating the analysis and working towards a condensed interpretation of what is central in the data (Strauss and Corbin, 1990). In the present research the aim is to discover a key concept in each group of case studies around which: (i) the strategic alliances were established and (ii) the benefits or problems were realised.

### 6.3.4 Comparative cross-case analysis

Having completed cross-case analysis *within* groups, the present study then undertakes a comparative cross-case analysis *across* the two groups of cases. This part of the analysis concentrates on the key concepts generated in the third analytical step (within groups) described above—selective coding analysis. It thus compares the key issues and critical factors discovered within each group. The aim is to understand
the roles played by strategic alliances in the firms’ business successes or business failures.

6.4 Validity and reliability

6.4.1 Validity

The present study incorporates several methodological features to ensure that the research is valid in reflecting the reality it aims to represent and analyse.

The first methodological feature is the use of multiple sources of data collection—including semi-structured interviews, documentary data collection, and a literature review. Data collected from multiple sources provide multiple corroborating measures of the same phenomenon. Findings and conclusions derived from several different sources of information are likely to be more accurate than those based on a single source of information.

The second methodological feature to ensure validity is the use of multiple case studies and replication logic. A major concern about the validity of a single case study is that the findings and conclusions generalised from it might not be applicable to other cases. In contrast, if multiple cases are studied, and similar results are obtained, the findings and conclusions have greater validity. Moreover, if two or more cases support one theory but do not support a rival theory (which is equally plausible), the empirical results achieve even greater validity (Yin, 1994).

The third methodological feature of relevance to the validity of the present research is the researcher’s personal experience and expertise in the area being studied. According to Blaikie (2000), detailed knowledge of the context is an important element in drawing valid conclusions from a case study. In his 15-year management career, the present author has been actively involved in many strategic alliances involving small trading firms—including marketing alliances, financial alliances, supply-chain alliances, and production alliances.

6.4.2 Reliability

To ensure internal consistency within the study and external consistency over time, the present research procedure is designed in detailed steps to make it fully auditable and replicable. The chain of evidence moves from one portion of the case study to another, with clear cross-referencing to methodological procedures and to the resulting evidence.
In particular, the following specific observations can be made about the reliability of the methodology used in this study. First, the study clearly articulates its research questions and its stated objectives—and the research methodology has been specifically designed to address these questions and to achieve these objectives. Secondly, the data collection follows specific procedures that have been carefully articulated in the research design. Thirdly, the data that are collected are pertinent to the phenomena being studied and the circumstances under which they are being studied. Finally, the research findings and conclusions are generalised on the basis of extensive literature citation and a variety of relevant documents, interviews, and observations. By following these steps, the study maintains its chain of evidence and establishes internal consistency.

In summary, the validity and reliability of the present research are established and maintained by careful research design and appropriate data-collection and data-analysis strategies. In particular, the study utilises multiple sources of data collection and multiple case studies with replication logic. As Mitchell (1983) has noted, the validity of extrapolation from particular cases depends not on the typicality or representativeness of the case, but upon the cogency of the theoretical reasoning.

6.5 Compliance with ethical standards

Qualitative research often involves sensitive and personal matters in the lives of subjects, and ethical issues often arise in the collection of such information (Punch, 1998). Although no written code exists on the ethics of business research, the present researcher did seek the approval of the faculty ethics committee. As a result of this approach, the present study has been approved as a ‘no-risk’ research project by the Human Research Ethics Sub-committee of the Faculty of Business, RMIT.

Ethical issues have been carefully considered and addressed at every stage of this research—especially with respect to such matters as informed consent and confidentiality of records. All necessary procedures have been adopted to ensure that the highest ethical and professional standards are satisfied in this research project.

6.6 Summary

This chapter has discussed data collection, data analysis, validity, reliability, and ethical issues in this research.
As the chapter has shown, this research is a multiple case study with six cases selected on the basis of replication logic, rather than sampling logic. The cases are chosen with the aim of demonstrating both literal replication and theoretical replication in the research.

Data are collected from multiple sources—including: (i) a comprehensive literature review; (ii) documentary research on company files; and (iii) semi-structured interviews.

Three levels of data analysis are conducted. The first level of analysis is at the level of the individual case studies, in which the strategic alliances formed by each firm are considered. The second level of analysis involves a cross-case analysis of the successful group and the failed group. The third level of analysis compares the key issues and critical factors discovered within each group. All of these analyses use the pattern-matching method, whereby the propositions developed in the literature review are compared with the empirical findings. Cross case conclusions are drawn on the basis of these three levels of analysis.

The validity and reliability of the research were also addressed in this chapter. The validity of the research is ensured by the multiple sources of data collection, the multi-case study methodology (including replication logic), and the extensive business experience of the researcher in the area being studied. Reliability is ensured by careful design methodology to maintain both internal and external consistency.

Finally, the chapter has established that ethical issues were carefully considered and addressed in this research to satisfy the ethical and professional standards required for a DBA thesis research project.

**Summary of Part II**

In this part of the thesis work, the key decisions about the research design have been made, which determine the direction, the goals and the focus of the research and the strategies of conducting the research, which also work out the detailed data collection and data analysis strategies.
Part III
Research Findings and Discussion

Introduction to Part III

As discussed in Chapter 6, this research conducts six case studies, and comparative cross-case analyses of these case studies, to examine the benefits and problems of strategic alliances to small trading firms and the roles played by strategic alliances in the business success or failure of such firms. Six small trading firms in Australia are investigated—two seafood-trading firms (referred to here as Alfa and Gota); a grocery-trading firm (designated Elta); two apparel-trading firms (named as Nuta and Cita), and a computer-trading firm (given the pseudonym Delta).

Part III consists of three chapters. Chapter 7 deals with the three successful cases—Alfa, Elta, and Nuta. Each individual case study examines the benefits and problems of strategic alliances experienced by the firm and the effect of strategic alliances on that firm’s business. A multi-case study then applies grounded theory to analyse these three successful cases—including categorising the alliances, analysing the benefits and problems of the alliances, and discovering the key concept. The chapter then summarises the key issues and critical success factors of these strategic alliances.

Chapter 8 follows a similar structure in dealing with the three failed cases—Gota, Delta, and Cita—to identify the main problems of strategic alliances facing the three failed firms and to identify the critical failure factors of strategic alliances.

Chapter 9 conducts a comparative cross-case analysis of the two groups of cases, concentrating on the key issues and critical success and failure factors identified in the preceding two chapters.
Chapter 7 Three Successful Cases of Strategic Alliances

7.1 Introduction

This chapter presents three case studies—a seafood-trading firm (Alfa), a grocery-trading firm (Elta), and an apparel-trading firm (Nuta). All of these firms have been successful in realising the benefits of strategic alliances. Within a relatively short time, these firms have grown from being small entities to being relatively large organisations within the Australian small-business sector. They hold significant positions in their local industries and have achieved a sound financial performance over a number of consecutive years.

This chapter aims to identify the benefits realised by these firms in using strategic alliances, and the contributions made by these benefits to their business success.

7.2 Individual case studies

7.2.1 Case 1: Alfa, a seafood-trading firm

Alfa is a seafood-trading firm located in Melbourne, Australia. Although Australia is a large island with rich seafood resources, and although the fishing industry is a major primary business that exports large quantities of quality seafood to European, American, and Asian countries, Australia also imports a great deal of farmed seafood from South-East Asian countries, including Vietnam, Thailand, India, China, and Indonesia. The Australian seafood-trading business is thus an important import-and-export industry, rather than being merely a marketing channel for the local fishing industry.

Alfa is a major player in the seafood import-and-wholesale industry in Australia, especially in the state of Victoria. It began trading in the late 1980s with its major business activities now being as follows:

- importing frozen seafood from overseas or purchasing from local fishing companies;
- storing these products in its own or leased cold storages;
- wholesaling the products to distributors and retailers;
- organising transportation services to deliver the goods to its business customers;
• providing credit terms to customers; and
• exporting locally sourced seafood overseas.

At the time of the present study, Alfa had 15 full-time employees and three casual workers. Its annual business turnover was approximately AUD$40 million. According to Alfa’s managing director, it sources 80% of its seafood supply from overseas and 20% from local suppliers. It supplies seafood directly to distributors and retailers in Victoria, and indirectly, through intermediaries, to the retail supermarket chains (such as Coles and Woolworths) and to interstate markets.

In all, five semi-structured interviews were conducted in the case study of Alfa. The interviewees included the principal (who is also the managing director), the financial controller, the sales-and-marketing manager, and two alliance partners. The data were collected mainly from the interview with the principal, complemented by the data collected from the interviews with the managers, which provided additional information on certain points in their particular areas of expertise. The interview with the external alliance partners provided another perspective on Alfa’s strategic alliances.

The scheduled interview questions were adapted somewhat to suit the various interviewees. Moreover, the interviewees were encouraged to raise their own questions or to make their own comments as the interviews proceeded. All of the interviews were recorded, and the information was subsequently transcribed into a data file.

The first interview question was purposely designed to clarify the definition of the term ‘strategic alliance’. When this question was posed, it was apparent that the term ‘strategic alliance’ was not in common usage in business practice in the small-business sector. However, the interviewees were familiar with alternative terms—such as ‘business partner’ or ‘partnership’. Interviewees were advised that the term ‘strategic alliance’ was generally equivalent to their concept of a ‘business partnership’. However, to ensure that there was no confusion, the precise definition of ‘strategic alliance’ was clarified with each of the interviewees.

Alfa had more than 20 strategic alliances—including alliances with overseas suppliers, local distributors, local fishing companies, and financial institutions. According to the managing director, the initial reason for entering into an alliance was to raise funds to help the business survive in the mid 1990s when Alfa was a small
seafood distributor in Victoria. The firm found difficulty in accessing trade finance from financial institutions because it was unable to provide security to lenders. Alfa therefore decided to attract several smaller personal investors, such as close friends and relatives of the principal, who invested money in the company. Later on, the firm used the same approach in setting up similar relationships with overseas suppliers to stabilise its product supply. Subsequent marketing alliances with restaurants and seafood distributors followed.

In general, the purposes of entering into alliances were: (i) stabilising product supply; (ii) expanding market share; and (iii) accessing sufficient funds to conduct business. The alliances with suppliers and customers were usually based on verbal agreements that allowed flexibility for both parties. The verbal nature of most of these agreements was based on the trust that existed within the partners’ personal relationships and the interdependence of the participants. However, agreements on financial alliances were usually formal written documents with clear terms and conditions.

Most of the alliances in which the company had been involved were still in operation at the time of the present study, although a few had been terminated. New alliances were being formed to replace the disbanded alliances. The overall feelings of the principal and managers of Alfa with respect to strategic alliances could be described as ‘comfortable’; they were confident about most of the alliances and they believed that alliances had played a significant role in Alfas’ business growth. Although establishing alliances sometimes meant giving up potential profits, Alfas’ principal stood firmly on his belief that: “You can’t make money by yourself. You have to share profit with others, anyway”.

The firm’s business partners included overseas seafood-processing plants, local restaurants, local seafood distributors, major fishing companies in Australia and New Zealand, local financial institutions, and personal investors. The relationships between Alfa and these partners before forming alliances are shown in Table 7.1.

Before becoming alliance partners, the suppliers and customers had some form of business relationship with Alfa over several years. The motivation for partners to enter into alliances with Alfa was apparently similar to that of Alfa—that is, to make use of some of the other firm’s resources (such as Alfas’ product-marketing capacity or product-sourcing capacity) to achieve their own strategic goals.
<table>
<thead>
<tr>
<th>Alliance Partner</th>
<th>Pre-alliance Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas supply</td>
<td>Overseas product suppliers</td>
</tr>
<tr>
<td>Restaurant</td>
<td>Customers</td>
</tr>
<tr>
<td>Seafood distributor</td>
<td>Customers</td>
</tr>
<tr>
<td>Major fishing companies</td>
<td>Customers and suppliers</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>Banking service or no relationship</td>
</tr>
<tr>
<td>Personal investors</td>
<td>Friends or relatives of principal</td>
</tr>
</tbody>
</table>

Table 7.1 Alfa’s pre-alliance relationships with its alliance partners

The benefits realised for Alfa from alliances included: (i) reliable and competitive product supply; (ii) expanded market share; (iii) sufficient funds to buy cold storages and to support cash flow; (iv) rapid business growth; and (v) strengthening of Alfas’ position in the seafood industry. The alliances had had a significant effect on Alfas’ financial performance in terms of increasing overall turnover and profitability. Alfa had achieved cost advantages from the products supplied by its alliances with overseas suppliers, which had significantly contributed to its increased profitability. The alliance with one of the major fishing companies had provided marketing channels for Alfa to sell its overseas-sourced seafood into retail chains in Australia (such as Coles and Woolworths), which had significantly increased Alfas’ business turnover.

The interviewees thought that the benefits for the partners from the alliances were equivalent to those achieved by Alfa. The overseas seafood-processing factories had made use of Alfas’ marketing channels in Australia to sell their products to the Australian market. The distributors had achieved stable product supply through their alliances with Alfa. It was believed by the interviewees that the partners would not have remained in the alliances if they had not realised their expected benefits. The principal and managers of Alfa were confident that most of these alliances would continue to operate. Although some of them might be terminated for various reasons, the interviewees were confident that Alfa had the ability to establish new alliances to replace any that might cease to exist.

Alfa had begun trading as a seafood distributor in late 1980s. After 15 years of business growth Alfa has now become a medium-sized seafood importer and
wholesaler in the Australian seafood industry. Alfa is a trading company. As such, it does not process any of the seafood products that it sells; rather, it relies on its upstream suppliers—both overseas and local—to supply products. It also relies on its downstream business customers—such as seafood wholesalers, distributors, retailers, and restaurants—to sell the seafood it sources. Because its own funds are limited, it needs to seek external finance to support its cash flow requirements for purchasing and marketing activities.

To access and maintain these multiple sources of resources, Alfa has therefore established strategic alliances with partners in terms of: (i) product sourcing; (ii) product marketing; and (iii) business finance. According to Alfas’ principal:

- 80% of its products are sourced through alliances with upstream suppliers under long-term arrangements;
- 90% of its sales are achieved through alliances with downstream marketers under similar long-term arrangements; and
- 75% of its business finance comes from financial alliances.

Table 7.2 shows the rapid business growth of Alfa in the past five years, at an average annual growth rate of 15.8%.

<table>
<thead>
<tr>
<th>Business Growth</th>
<th>Unit</th>
<th>Year</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>99-00</td>
<td>00-01</td>
<td>01-02</td>
<td>02-03</td>
<td>03-04</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>$A m</td>
<td>16.3</td>
<td>29.9</td>
<td>29.6</td>
<td>36.0</td>
<td>37.5</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>%</td>
<td>83.4</td>
<td>-0.1</td>
<td>21.6</td>
<td>4.2</td>
<td></td>
</tr>
</tbody>
</table>

Table 7.2 Alfa’s rapid business growth in the past five years

In summary, the data collected from documentary research and interviews in this case demonstrate that Alfa has gained significant benefits from using strategic alliances. These benefits have played an important role in Alfas’ business success by providing reliable and competitive product supply, facilitating expansion of market share, and enabling access to sufficient trade finance.

7.2.2 Case 2: Elta, a grocery-trading firm

Elta is a grocery-trading firm based in Sydney, Australia. The firm is a major importer and distributor of Asian food and groceries in the Australian states of New South Wales and Victoria.
Elta began trading in the late 1980s. Its major business activities are similar to those of Alfa—including: (i) the importation, storage, wholesale, and distribution of goods; (ii) exporting activities; and (iii) the provision of credit to customers. However, unlike Alfa, Elta deals in goods (groceries and dry food) that can be stored in warehouses at room temperature.

At the time of the present study, Eltas’ workforce included 35 full-time employees and five part-time employees. Its annual business turnover was approximately AUD$55 million. Elta sources 85% of its supply from overseas and 15% from local suppliers. It distributes food and groceries directly to Asian grocery shops and restaurants in New South Wales and Victoria, and indirectly to other states through intermediaries.

Many migrants to Australia have established their own community and commercial facilities—such as grocery shops, restaurants, and traditional health services. To meet the demand for these specialised goods and services, Australia imports many products from overseas. For example, in 1997–2001, Australia imported about $3.5 billion worth of food and groceries annually from overseas, and Australia’s processed-food import trade is increasing in proportion to total world food-import trade (National Food Industry Strategy, 2003). Elta was established, and operates, against this background.

In all, four semi-structured interviews were conducted in the case of Elta—with the principal (or managing director), the finance director, the sales-and-marketing manager, and an alliance partner. The data were collected mainly from the interview with the principal, complemented by the data collected from the interviews with the managers, which provided additional information on certain points in their particular areas of expertise. The interview with the alliance partner provided another perspective on Eltas’ strategic alliances.

The scheduled interview questions were adapted somewhat to suit the various interviewees. As in the Alfa case, the interviewees were encouraged to raise their own questions or to make their own comments as the interviews proceeded. All of the interviews were recorded, and the information was subsequently transcribed into a data file.

As in the interviews in the Alfa case, the core concept of a ‘strategic alliance’ was clarified with the Elta interviewees before proceeding to the other questions.
The food-and-grocery market in Australia is, in general, a mature market with mainstream supermarket chains (such as Coles and Woolworths) occupying the majority of the market. However, competition is strong as a result of low growth in volume and small margins in the business. As an independent grocery wholesaler, Elta had to reduce costs and improve efficiency to compete with the grocery giants. In this competitive business environment the critical success factors for Elta include:

- accessing a reliable product supply;
- gaining buying power to compete with retail chains;
- establishing links with retail outlets;
- quality staff and excellent customer service; and
- efficient warehousing and distribution systems.

Elta chose to establish strategic alliances to survive and grow its business in this very competitive market. The firm has approximately 20 strategic alliances, including alliances with: (i) overseas suppliers; (ii) local suppliers; (iii) local distributors and retailers; and (iv) financial institutions.

Elta first established alliances in raising funds from personal investors (such as close friends and relatives) to purchase a warehouse in the mid 1990s. The next important step in alliance practice was an alliance with the dominant firm in rice growing, harvesting, processing and marketing in Australia. This firm (referred to here under the pseudonym ‘RCGR’) granted only limited licences to other firms to market rice, but Elta was successful in negotiating an alliance with ‘RCGR’ to obtain the licence to sell wholesale rice in Australia. With the exclusive selling rights granted by ‘RCGR’, Elta built up a solid and reliable rice-wholesaling business.

The nature of Elta’s alliances with overseas suppliers was that these alliances granted Elta the exclusive right to market these suppliers’ products in Australia. Elta purposely acquired the exclusive selling rights when entering alliances with these suppliers to avoid strong competition and to stabilise its profitability. These alliances included alliances with: (i) a chicken-powder supplier in Hong Kong; (ii) suppliers of dry and instant noodles in Taiwan; and (iii) condiments suppliers in Hong Kong. In return, Elta was required by its overseas partners to purchase a certain minimum amount from them per annum and not to purchase products from the direct competitors of these alliance partners.
The purposes of entering into alliances were: (i) stabilising product supply; (ii) expanding marketing channels; and (iii) accessing sufficient funds to conduct business. The forms of agreements of most alliances with suppliers and customers were informal—to allow flexibility for both parties. However, some alliances did have formal agreements; these included the alliances with financial institutions, the alliance with ‘RCGR’, and an alliance with an overseas beer supplier. The sustainability of the alliances that did not have formal agreements in place relied largely on the trust and relationships between the partners and the interdependence that existed between the partners.

At the time of the present study, most of the alliances were still in operation, although a few of them had ceased to function. However, the terminated alliances had either been replaced by new alliances or consolidated into other alliances. The overall feelings of the principal and the manager of Elta could be described as ‘comfortable’; they felt confident about most of the alliances, and they believed that alliances had played an important role in Eltas’ business survival and growth.

The firm’s alliance partners were involved in the manufacturing of food and drinks, food materials, and food condiments. The partners included: (i) overseas manufacturers of chicken powder, cooking oil, condiments, dry and instant noodles, soft drink, and beer; (ii) local suppliers, such as ‘RCGR’ and a cooking-oil processor; (iii) local grocery distributors and retailers; (iv) local financial institutions; and (v) personal investors. The relationships with the partners before forming the alliances are shown in Table 7.3.

Before becoming alliance partners, these firms and individuals had some form of business relationship with Elta over several years. The motivation for partners to enter into alliances with Elta were either marketing their products through Eltas’ import-and-distribution network in Australia, or obtaining a consistent and competitive supply of products from Elta. It was believed that most alliance partners achieved their strategic goals through the alliances with Elta.
<table>
<thead>
<tr>
<th>Alliance Partner</th>
<th>Pre-alliance Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas supply</td>
<td>Overseas product suppliers</td>
</tr>
<tr>
<td>Local supply</td>
<td>Local product suppliers</td>
</tr>
<tr>
<td>Distributor</td>
<td>Customers</td>
</tr>
<tr>
<td>Retailers</td>
<td>Customers</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>Banking service or no relationship</td>
</tr>
<tr>
<td>Personal investors</td>
<td>Friends or relatives of principal</td>
</tr>
</tbody>
</table>

**Table 7.3 Elta’s pre-alliance relationships with its alliance partners**

The benefits realised by Elta from the alliances included: (i) reliable and exclusive product supply; (ii) increased market share; (iii) sufficient funds to buy warehouses and to support cash flow; (iv) rapid business growth; and (v) strengthening of Eltas’ position in the Asian grocery industry in Australia. The alliances had had a significant effect on Eltas’ financial performance in terms of increasing overall turnover and profitability. Elta had achieved product differentiation through selling the products supplied by overseas suppliers, which had significantly contributed to its competitive advantage in the marketplace. The alliances with the Taiwanese suppliers of dry noodles and instant noodles had not only provided consistent supply of these products to Elta, but had also created opportunities for Elta to export Australian wheat flour to the partners.

The interviewees thought that the benefits for the alliance partners were equivalent to those achieved by Elta. The overseas manufacturers of dry noodles and instant noodles had made use of Eltas’ distribution networks in Australia to sell their products to the Australian market. They had also gained wheat-flour supply through their alliances with Elta. The distributors and retailers maintained stable product supplies through their alliances with Elta. The principal and managers of Elta were confident that these alliances would continue to operate. Although some of them might be terminated or consolidated into other alliances for various reasons, the interviewees were confident that Elta had the ability to manage its alliances to achieve its strategic goals.

After more than 15 years of business growth, Elta has become a major importer, wholesaler, and distributor of Asian food and groceries in the competitive Australian
market. Eltas’ combined business turnovers in the past six years are shown in Table 7.4.

<table>
<thead>
<tr>
<th>Business Growth</th>
<th>Unit</th>
<th>99-00</th>
<th>00-01</th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Turnover</td>
<td>$A m</td>
<td>40.3</td>
<td>44.2</td>
<td>46.8</td>
<td>50.5</td>
<td>55.0</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>%</td>
<td>9.7</td>
<td>5.9</td>
<td>7.9</td>
<td>8.9</td>
<td></td>
</tr>
</tbody>
</table>

Table 7.4 Elta’s business growth in the past five years

In summary, the data collected from interviews and documentary research in this case demonstrate that Elta gained significant benefits from using strategic alliances. The alliances provided reliable and competitive product supply, facilitated expansion of market share, and enabled access to sufficient trade finance.

7.2.3 Case 3: Nuta, an apparel-trading firm

Nuta is an apparel-trading firm located in Melbourne, Victoria. Australia imports a large volume of textile, clothing, and footwear (TCF) products, and in the early 1990s the Australian government announced a policy of gradually reducing import tariffs on TCF products over a period of ten years. In that time, many Australian TCF manufacturers have closed their factories in Australia and have moved their manufacturing facilities to developing countries with lower labour costs—such as Fiji, Thailand, Indonesia, and China. Many of these firms have maintained only their head offices in Australia, with the functions of design, marketing, and finance.

Against that background, Nuta began an apparel import-and-distribution business in 1993. Its major business activities include:

- designing clothes patterns and obtaining orders from business customers—such as clothes distributors and retail shops;
- placing orders with overseas manufacturers and checking the quality;
- importing clothes from overseas;
- re-treating and storing clothes in its own warehouses;
- distributing clothes to retailers or delivering the orders to the buyers; and
- providing credit terms to its business customers.

At the time of the present study, Nuta employed 12 full-time staff members and three part-time staff members. Its annual business turnover was approximately
AUD$15 million. Nuta sources 100% of its clothes from overseas suppliers, and supplies clothes directly to retailers and distributors in the state of Victoria, Australia.

In all, four semi-structured interviews were conducted in the case of Nuta. The interviewees were the principal of the company, the finance manager, the sales-and-marketing manager, and one alliance partner. The data were collected mainly from the interview with the principal, complemented by the data collected from the interviews with the managers, which provided additional information on certain points in their particular areas of expertise. The interview with the alliance partner provided another perspective on Nutas’ strategic alliances.

The scheduled interview questions were adapted somewhat to suit the various interviewees. The interviewees were encouraged to raise their own questions or to make their own comments as the interviews proceeded. All of the interviews were recorded, and the information was subsequently transcribed into a data file.

Having begun as a small menswear distributor ten years ago, Nuta has become a major importer and distributor of menswear in Victoria. Nuta does not manufacture any of the clothes that it sells; it relies on upstream manufacturers to produce the clothes. It also relies on its downstream business customers (retail shops) to sell the clothes to consumers. The firm has limited financial capacity and therefore relies on external financial support to obtain sufficient funds to conduct its trading activities.

To achieve its strategic goals, Nuta has established strategic alliances with partners in: (i) product sourcing; (ii) product marketing; and (iii) business finance. Through these alliances, Nuta has: (i) achieved consistent product supply at low cost; (ii) expanded its market share in the apparel industry; and (iii) accessed sufficient funds to support its trading activities. According to the data collected in the present study:

- 95% of Nutas’ products are sourced through alliances with upstream suppliers under long-term arrangements;
- 90% of its sales are achieved through alliances with downstream retailers; and
- 75% of its capital finance comes from its finance alliance.

The first alliance established by Nuta was with an overseas financier to raise funds to start its business in the mid 1990s. Nutas’ next step in alliance practice was the establishment of alliances with two Chinese clothes manufacturers, followed by
the establishment of alliances with clothes retailers in Victoria. Nutas’ purposes in entering into alliances were: (i) to access funds to conduct its business activities; (ii) to access manufacturing facilities to produce clothes; and (iii) to access marketing channels to expand its sales.

The agreements with the overseas financier and overseas manufacturers were formal. However, the alliances with local retailers were informal and flexible partnerships. The sustainability of the alliances with the local retailers was largely dependent upon the competitiveness of Nutas’ product supply and the relationships of Nutas’ principal with these partners. The alliances with the financier and the manufacturers were operating well, whereas a few of the alliances with the retailers had already ceased operation. The overall feelings of the principal and the managers of Nuta could be described as ‘comfortable’, and they were confident about most of the alliances. They believed that these alliances had played an important role in Nutas’ business survival and growth.

Nutas’ financial alliance was the most important to the firm. This Chinese company (referred to here as ‘CHC’) was originally involved in coal mining and processing. In the early 1990s, ‘CHC’ restructured its business and set aside a small proportion of its budget to diversify its business interests. Nutas’ principal became aware of these developments through his personal relationships with the executives of ‘CHC’. Nuta had just started an apparel business in Australia, but lacked the finance to develop this on its own. The principal of Nuta therefore proposed a cooperative relationship between Nuta and ‘CHC’ to develop this business. The proposal was approved by ‘CHC’ management, which then provided USD$1.5 million to finance the alliance.

Following this first successful alliance in business finance, Nuta established three alliances with clothes manufacturers in China. Although it had no production facilities of its own, Nuta was able to source 100% of its products through these close working alliances with Chinese manufacturers.

Before establishing any of its alliances, Nutas’ principal had enjoyed close personal or trading relationships with the managers of all potential partner firms. The motivation for ‘CHC’ to enter into an alliance with Nuta was ‘CHC’ s’ desire to diversify its business. The motivation for the Chinese manufacturers to enter alliances was their desire to set up export marketing channels into the Australian market for
their production. The motivation for retailers to enter into alliances with Nuta was to stabilise their product supply and to achieve competitive prices.

The benefits realised by Nuta from the alliances included: (i) accessing sufficient funds to conduct business; (ii) obtaining reliable production support; (iii) accessing extended marketing channels; and (iv) acquiring market information. The alliances had had a significant effect on Nutas’ financial performance in terms of the survival of the business and increasing overall turnover and profitability. The alliance with ‘CHC’ in business finance meant that ‘CHC’ provided the majority of funding to finance Nutas’ business, and the alliances with the clothes manufacturers in China formed the production base for Nutas’ business. Without these alliances, Nutas’ business might not even have existed—let alone prospered. The alliances with local clothes retailers had provided Nuta with reliable marketing channels for its products and had also provided valuable feedback on market trends. The latter was very important for Nuta in forecasting fashion trends and likely style requirements.

The interviewees believed that Nutas’ partners had also realised the benefits they expected from these alliances. ‘CHC’ had diversified its business from coal mining to apparel export, and had reallocated some of its otherwise redundant staff. The manufacturers had gained access to reliable export channels through their alliances with the Australian trading firm, and the retailers had set up reliable and competitive product supply channels through their alliances with Nuta.

In summary, the data collected for this case study demonstrate that Nuta has realised significant benefits through its use of strategic alliances as its main business-growth strategy. The alliances have played an important role in Nutas’ business success by providing reliable and competitive product supply, by enabling Nuta to expand its market share, and by facilitating access to sufficient trade finance.

7.3 Cross-case study

7.3.1 Categorising strategic alliances

Using open-coding analysis of the documentary and interview data collected for the three cases described above, three categories of strategic alliances were found to have been established in Alfa, Elta, and Nuta. These categories have been coded as:

- product sourcing;
- product marketing; and
• business finance.

Each of these categories is discussed below.

7.3.1.1 Category 1: Alliances in product sourcing

This category of alliances is subdivided into: (i) alliances with overseas suppliers; and (ii) alliances with local suppliers.

Alliances with overseas suppliers

All three firms established multiple strategic alliances with overseas suppliers of products. These alliances provided the case-study firms with their major channels for sourcing products. Indeed, all of the firms purchased 80–90% of their products from these sources.

Alfa established six alliances with suppliers from major seafood-farming countries in the Asia-Pacific region—including Thailand, Vietnam, Indonesia and China. The alliance partners specialised in various products. For example, a Thai prawn-processing factory and an Indonesian prawn-processing factory supplied various sizes and cuttings of frozen prawns to Alfa, whereas a Chinese company that specialises in scallop cultivating and processing provided a consistent supply of frozen scallops.

Alliances with such firms represent the foundation of Alfas’ product sourcing. Alfas’ principal claimed that his business philosophy was: “Product, product, and product”. He saw product sourcing as being fundamental to Alfas’ business: “Marketing strategy has to be associated with quality products. From a long-term view, without good quality products, marketing strategy will be useless.”

Elta established eight strategic alliances and a joint-venture company with major food manufacturers in the Asia-Pacific region—such as manufacturers of instant noodles, condiments, cooking oil, and snack foods in Thailand, Taiwan, Hong Kong, China, and Singapore. Elta entered into exclusive agreements with these companies to distribute their products in Australia. In addition, Elta conducted annual promotions of these products, with the cost of the promotions being shared between Elta and its partners.

These alliances represent the foundation of Eltas’ unique position in the Asian grocery market in Australia. Eltas’ principal attached great importance to product variety and coverage. In his interview, he proudly asserted that every Asian grocery shop in Australia carried some products supplied by Elta.
Elta also exported some food materials to its alliance partners. For example, Elta supplied Australian wheat flour to its partners who manufacture instant noodles in Taiwan, where wheat planting is very limited. Elta then bought the noodles produced from the flour that it had supplied. Most of the alliances were bounded by formal agreements, whereas one was a joint-venture company formed with a Chinese beer brewer. Table 7.5 shows Eltas’ eight alliances and one joint venture with overseas suppliers.

<table>
<thead>
<tr>
<th>Alliance Acronym</th>
<th>Country/Region</th>
<th>Form of Alliance</th>
<th>Product Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>JL</td>
<td>Hong Kong</td>
<td>Agreement</td>
<td>Chicken powder</td>
</tr>
<tr>
<td>SF</td>
<td>Singapore</td>
<td>Agreement</td>
<td>Cooking oil</td>
</tr>
<tr>
<td>TD</td>
<td>Hong Kong</td>
<td>Agreement</td>
<td>Condiments</td>
</tr>
<tr>
<td>PZH</td>
<td>Hong Kong</td>
<td>Agreement</td>
<td>Condiments</td>
</tr>
<tr>
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<td>Thailand</td>
<td>Agreement</td>
<td>Rice</td>
</tr>
<tr>
<td>WL</td>
<td>Taiwan</td>
<td>Agreement</td>
<td>Instant noodles</td>
</tr>
<tr>
<td>WM</td>
<td>Taiwan</td>
<td>Agreement</td>
<td>Dry noodles</td>
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<td>WT</td>
<td>Taiwan</td>
<td>Agreement</td>
<td>Soft Drink</td>
</tr>
<tr>
<td>QD</td>
<td>China</td>
<td>Joint Venture</td>
<td>Beer</td>
</tr>
</tbody>
</table>

Table 7.5 Elta’s major alliances with overseas suppliers

Nuta established alliances with three clothes manufacturers in China. The long-term nature of the relationships between Nuta and the manufacturers has meant that the workforces in the factories have a better understanding of Nutas’ requirements in design and production. This is important to a company that is engaged in apparel design and marketing. Working closely with manufacturers can minimise problems and costs in production. This helps to ensure that the costs of sourcing from these alliance partners are significantly cheaper than would be the case from non-alliance factories.

These alliances represent the foundation of Nutas’ position in the apparel industry. Nutas’ principal was satisfied with the close working relationships between Nuta and the manufacturers in China.

Alliances with local suppliers
The second subcategory of alliances within the category of ‘product sourcing’ is alliances with local suppliers. Two of the three firms formed strategic alliances with local suppliers of products in Australia.

Alfa formed alliances with four major fishing companies in Australia and New Zealand. These fishing companies possessed their own fishing capacity and supplied seafood to the Australian seafood market and to supermarket chains in Australia and New Zealand, as well as to overseas markets. Alfa sourced local seafood—such as fish fillets, whole fish, crayfish, mussels, and scallops—from these alliance partners.

Elta had alliances with local suppliers of rice and cooking oil in Australia. Most of the rice that is grown, harvested, processed, and marketed in Australia is controlled by a dominant company (referred to here as ‘RCGR’). In order to be granted a licence to market wholesale rice in the states of New South Wales and Victoria, Elta established several strategic alliances (see Figure 5). ‘RCGR’ had a policy of granting wholesale licences for rice to only two food-service companies in a given state. Elta found a rice-wholesale partner in New South Wales and one in Victoria. Together with its partner in each of the two states, Elta then applied to ‘RCGR’ for rice licences, and these were granted. Elta then established two joint-venture companies with the partners to specialise in promoting rice in the two states. Elta and its partners in the two states now run the rice-wholesale business through the two joint-venture companies. In this rice business, as shown in Figure 7.1, multiple alliances are involved, including the two joint ventures, which entered licensing agreements with RCGR in the two states. Elta has also established an alliance with a local supplier of cooking oil to stabilise its oil supply.

![Diagram of Elta’s alliances and joint ventures for wholesale rice]

*Figure 7.1 Elta’s alliances and joint ventures for wholesale rice*
7.3.1.2 Category 2: Alliances in product marketing

This category of alliances is also subdivided into two subcategories: (i) alliances with local distributors; and (ii) alliances with local retailers.

Alliances with local distributors

On the marketing side, Alfa set up equity joint-venture companies with three local seafood distributors in Victoria. Alfa wholesales its seafood products (from both local sources and overseas sources) to these joint ventures for distribution to local restaurants and fish shops. These joint ventures represent the major marketing channels for Alfas’ sales to retailers and restaurants. As noted above, the four major local fishing companies with whom Alfa formed alliances are major seafood-marketing companies in Australia and New Zealand. By forming partnerships with these major companies, Alfa was able to sell its overseas-sourced seafood products through the marketing channels of these major companies to the seafood market in all states in Australia, as well as to the supermarket chains (such as Coles and Woolworths). Approximately 50% of Alfas’ purchases and 50% of its sales are achieved through dealing with these alliance partners.

Elta has also established strategic alliances with local distributors of food and groceries, and these alliances form part of Eltas’ marketing channels.

Nuta has no alliance with local distributors. It works as a distributor itself and sells to intermediaries only occasionally.

Alliances with local retailers

The second subcategory of alliances in ‘product marketing’ involves alliances with local retailers.

Alfa also formed alliances with several local restaurant groups. Alfa distributes seafood products to these restaurants directly. These alliances represent Alfas’ direct market channels for reaching end-users.

Elta sells most of its overseas-sourced products to the retail sector, which includes all of the major Asian grocery shops in New South Wales and Victoria. Elta has formed a network of alliances with these grocery shops, and distributes products to them directly. This network of alliances with the grocery shops represents Eltas’ major marketing channels.
Nuta has established multiple alliances with retail clothing shops in Victoria, and these alliances represent its major marketing channels to reach consumers. It distributes clothes to these retail shops directly.

7.3.1.3 Category 3: Alliances in business finance

The capacity to secure enough funds was critical for Alfa to implement its alliance strategy and to achieve business growth. Alfa formed several alliances with financiers—including personal investors (such as close friends and relatives of the principal), banks, and other financial institutions. These alliances provided funds to enable Alfa to acquire cold-storage warehouses, equipment (such as delivery trucks and forklifts), and working capital.

Elta also established multiple strategic alliances with financiers to access sufficient funds to meet its capital needs for business growth. The major capital needs in the grocery-trading business are in warehousing, distribution, and working capital. Eltas’ financiers included personal investors (such as close friends and family relatives of the principal), banks, and other financial institutions.

Nuta also required access to sufficient funds for its apparel-importing business. Indeed, its need for funds was even more significant because the business cycle in the apparel industry is much longer than those of the seafood and grocery industries discussed above. The whole cycle of clothes production can be 4–6 months—allowing for design of patterns, delivery of raw materials, making sample clothes, gaining approval from the designer, completing production, sea freight and port handling, and re-treatment of clothes before delivery to the customers. In addition, in view of the credit terms traditionally granted to retailers in the apparel industry, Nuta had to wait a further three months to receive payment from retail shops. Nutas’ alliance with its overseas financier gave it access to sufficient funds to support its cash-flow requirements during this protracted money-recovery cycle. Nuta also had alliances with local financiers (such as personal investors and financial institutions), which provided supplementary funds in addition to those from its major financier from overseas. These alliances provided funds for Nutas’ warehouse purchasing and equipment leasing, as well as it cash-flow requirements.

In summary, three categories of strategic alliances can be identified—‘product sourcing’, ‘product marketing’, and ‘business finance’. In ‘product sourcing’, strategic alliances were formed with overseas and local suppliers; in ‘product
marketing’, the alliances were mainly formed with local distributors and retailers; and in ‘business finance’, the alliances were mainly formed with local financiers (including personal investors, banks, and other financial institutions); only Nuta formed a financial alliance with an overseas party.

These three categories of alliances (‘product sourcing’, ‘product marketing’, and ‘business finance’) represent the major business functions of the three small trading firms studied here. Each of the three firms formed multiple strategic alliances in these three categories—which means that the firms largely relied on these alliances to conduct their major business functions. It can therefore be said that strategic alliances formed the major strategy for business growth in each of the small trading firms studied here.

**7.3.2 Identifying benefits of strategic alliances**

According to the methodology outlined in Chapter 6, the next step in the grounded-theory analysis used in this thesis involves *axial coding* to examine the benefits of strategic alliances in terms of three perspectives—transaction cost, resources dependence, and strategic behaviour. In Chapter 2, three propositions regarding the benefits of strategic alliances were developed and presented in the literature review, as follows:

1. **Transaction-cost perspective**: By entering strategic alliances, a firm might benefit from a reduction in transaction costs, an improvement in transaction efficiency, and a reduction in transaction uncertainty between itself and other firms.

2. **Resource-dependence perspective**: By entering strategic alliances, a firm might benefit from accessing scarce resources from other firms within its environment.

3. **Strategic-behaviour perspective**: By entering strategic alliances, a firm might benefit by acquiring key competencies, creating competitive advantages, and enhancing its strategic position within its industry.

These propositions are now used as theoretical patterns to compare with the empirical findings drawn from the case studies presented above.

**7.3.2.1 Transaction-cost perspective**

The proposition to be considered from the transaction-cost perspective reads as follows:
By entering strategic alliances, a firm might benefit from a reduction in transaction costs, an improvement in transaction efficiency, and a reduction in transaction uncertainty between itself and other firms.

The proposition is tested against the empirical data by consideration of the following potential benefits in terms of transaction costs:

- achieving cost advantage in product sourcing;
- reducing transaction uncertainty;
- reducing unit cost;
- sharing competitive costs; and
- reducing financial costs.

Each of these is discussed below.

In terms of achieving cost advantage in product sourcing, all three firms studied in this chapter achieved cost advantages from their alliances with overseas suppliers in product sourcing. Alfa achieved competitive prices for seafood products; Nuta maintained low costs in clothing manufacture; and Elta achieved a reduction in product-negotiation cost with overseas alliance partners in product sourcing.

In terms of reducing transaction uncertainty, the alliances formed in the category of ‘product sourcing’ helped all three firms to reduce transaction uncertainty in product supply. All alliances involved reliable shipment and delivery plans with overseas alliance partners, and this enhanced the study firms’ transaction efficiency and reduced their storage costs.

In terms of reducing unit costs, the alliances formed in product marketing increased the study firms’ trading volume, which helped them to reduce the unit cost of product.

In terms of sharing competitive costs, the study firms were assisted by their strategic partners in confronting strong competition in the marketplace. They were able to ask their alliance partners in product sourcing or product marketing to react jointly with them in reducing prices to maintain market share. The costs of reducing prices were shared between the study firms and their alliance partners.

In terms of reducing financial costs, the alliances formed with financial institutions and personal investors stabilised the firms’ supplies of funds and reduced their financial uncertainty. Alfa also achieved cost reduction from the credit terms granted by the overseas alliances in product sourcing.
In summary, the findings from the three case studies support the proposition that entering a strategic alliance can provide firms with benefits from a transaction-cost perspective.

7.3.2.2. Resource-dependence perspective

The proposition to be considered from the resource-dependence perspective reads as follows:

By entering strategic alliances, a firm might benefit from accessing scarce resources from other firms within its environment.

The proposition is tested against the empirical data by consideration of the following potential benefits in terms of resource dependence:

- accessing consistent product supply;
- accessing extended marketing channels; and
- accessing financial resources.

Each of these is discussed below.

In terms of accessing consistent product supply, it must be remembered that the trading firms studied here had no product-manufacturing or product-processing capacities of their own. Because the required resources were difficult to develop and/or buy, the firms therefore relied on external resources to grow their businesses. The resources that they acquired or accessed through alliances were thus critical to their business growth. It is apparent from the case studies that, in terms of product sourcing, the firms obtained consistent product supply by establishing strategic alliances with their key suppliers.

In terms of accessing marketing channels, strategic alliances helped the firms to increase their sales volume and helped them to improve their positions in price negotiation in product sourcing. Through strategic alliances with downstream marketing partners, the firms also gained better control of their marketing channels than would have been the case if they had simply sold the products to these channels. For example, Alfa established joint-venture companies with local seafood distributors. Alfa was thus the major product supplier as well as a 50% shareholder of these joint ventures. It was therefore in a position to exert strong influence on the decision-making of these joint ventures—in terms of the appointment of senior managers, marketing strategy, and internal administrative procedures. Alfa also took a 50%
share of the profit made by the joint ventures. Moreover, strategic alliances formed with retailers by the three trading firms also gave them direct access to consumers and important market information. For example, Elta held annual on-site product promotions jointly with some retail alliance partners, thus acquiring feedback that guided their decisions on product sourcing and product marketing.

In terms of *accessing financial resources*, all three firms accessed sufficient funds from their alliances to support their business growth. The financial resources accessed through strategic alliances provided funds to the three firms in the following respects.

- *Property finance*: A wholesale or distribution business usually begins by leasing a warehouse. After several years of business growth, many operators choose to own their own warehouses, which provide greater flexibility and an opportunity to make money from the property sector. All three firms accessed property finance from their local financial partners to purchase their warehouses.

- *Equipment finance*: All three firms used leasing arrangements with their financial partners to finance the purchase of necessary equipment—such as racking and forklifts in the warehouses, and trucks and vans for delivery.

- *Working capital finance*: All three firms formed financial alliances to access sufficient funds to support the cash flow required for business growth.

In summary, the findings from the three case studies support the second proposition that entering a strategic alliance can provide firms with benefits from a resource-dependence perspective.

### 7.3.2.3 Strategic-behaviour perspective

The proposition to be considered from the strategic-behaviour perspective reads as follows:

> **By entering strategic alliances, a firm might benefit by acquiring key competencies, creating competitive advantages, and enhancing its strategic position within its industry.**

The proposition is tested against the empirical data by consideration of the following potential benefits in terms of strategic behaviour:

- achieving competitive advantages;
• strengthening market position; and
• increasing financial capacity.

Each of these is discussed below.

In terms of *achieving competitive advantages*, all three firms gained advantages from product sourcing by establishing strategic alliances with overseas and local suppliers. For example, Alfa gained cost advantages through alliances with overseas seafood-processing plants; Elta achieved product differentiation by entering exclusive supply agreements with its overseas and local alliance partners; and Nuta achieved both cost advantages and product differentiation through its alliances with overseas clothes manufacturers.

In terms of *strengthening market position*, the three firms all expanded their marketing channels by establishing strategic alliances with their downstream business customers—such as local distributors and retailers. This formed marketing networks through which the firms were able to sell both their overseas-sourced and locally sourced products. The marketing networks not only boosted the firms’ business turnover but also strengthened their market positions in the marketplaces. For example, the strategic alliances formed by Alfa with the major seafood companies in Australia and New Zealand provided opportunities for Alfa to sell its overseas-sourced seafood indirectly to the big supermarket chains. Alfa also purchased local fishing products from these companies to sell through its own distribution channels. The bi-directional transactions within these alliances has not only boosted Alfas’ business turnover, but also strengthened its market position in the Australian seafood industry.

In terms of *increasing financial capacity*, the strategic alliances with various financiers (such as banks, other financial institutions, and personal investors) have enabled the three firms to access sufficient funds to implement their business strategies.

In summary, the proposition about the benefits of strategic alliances from the strategic-behaviour perspective is supported by the findings from the three successful cases.

**7.3.2.4 Summary of benefits from the three perspectives**
It is apparent that the three firms realised considerable benefits from their strategic alliances in terms of all three theoretical perspectives—or all three ‘theoretical codes’ as they are termed in grounded-theory analysis.

From the transaction-cost perspective, the three firms achieved cost advantages and reduced transaction uncertainty through strategic alliances.

From the resource dependence perspective, the benefits achieved through alliances were: (i) consistent, competitive product supply in product sourcing; (ii) extended marketing channels and marketing networks in product marketing; and (iii) strong financial capacities in business finance.

From the strategic-behaviour perspective, the benefits of strategic alliances have been identified as competitive advantages and enhanced strategic positions within the respective industries.

In summary, the three propositions about the potential benefits of strategic alliances, as developed from the three theoretical perspectives identified in the literature review of Chapter 2, have all been well supported by the findings from the case-study analysis.

7.3.3 Discovering a portfolio approach

It is apparent from the above analysis that all of the successful small trading firms established strategic alliances in three distinct categories: (i) product sourcing; (ii) product marketing; and (iii) business finance. It is the contention of this thesis that this arrangement formed a portfolio of strategic alliances for each firm.

A ‘portfolio’ of alliances is understood here as a collection of strategic alliances formed by a firm in three distinct categories—product sourcing, product marketing, and business finance. Such a portfolio reflects a trading firm’s strategies with respect to each of these essential business activities. Moreover, within each category of strategic alliances, it is posited here that a portfolio performs certain specific functions for the firm in terms of: (i) reducing transaction costs; (ii) accessing key resources; and (iii) supporting the firm’s strategic position. It is further contended that the three categories of strategic alliances are integrated within the portfolio to create a productive synergy in optimising the potential benefits of strategic alliances in growing a business. Using the synergy of this ‘portfolio approach’, it is contended that even more benefits of strategic alliances can be realised—in addition to the benefits already identified in each category.
Figure 7.2 demonstrates a ‘portfolio model’ of strategic alliances. Table 7.6 shows the categories of strategic alliances formed by the three firms studied above.

![Image of a portfolio model of strategic alliances]

**Figure 7.2 A model of a portfolio of strategic alliances**

<table>
<thead>
<tr>
<th>Category One: Product Sourcing</th>
<th>Category Two: Product Marketing</th>
<th>Category Three: Business Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Alliances with Overseas Suppliers</td>
<td>Strategic Alliances with Local Distributors</td>
<td>Strategic Alliances with Financial Institutions</td>
</tr>
<tr>
<td>Strategic Alliances with Local Suppliers</td>
<td>Strategic Alliances with Local Retailers</td>
<td>Strategic Alliances with Personal Investors</td>
</tr>
</tbody>
</table>

**Table 7.6 Categories of strategic alliances**

In terms of the transaction-cost perspective, a balanced portfolio of alliances increases the firms’ bargaining power in dealing with alliance partners, as well as with non-alliance parties. For example, Alfa formed multiple strategic alliances in product sourcing with several international seafood-processing plants that had similar ranges of products. When Alfa identified a market demand for a certain product, such as prawns, it was able to obtain quotations from these various partners and thus negotiate better prices by using its strong bargaining power acquired from its network of supply partners. In product marketing, Alfas’ multiple alliances with its distributors increased the firm’s bargaining power with respect to each individual partner. If one partner asked for a reduction in the supply price from Alfa, the trading firm could use the acceptance of the supply price by other partners to encourage acceptance of the original price offered. The multiple alliances in product marketing were also used to increase Alfas’ bargaining power against the alliances in product sourcing. It was able
to use the market competition as a reason to apply pressure on the supply partners to reduce their supply prices. The portfolio of alliances also increased Alfas’ bargaining power in dealing with non-alliance parties in product sourcing and product marketing.

In terms of the resource-dependence view, the portfolio approach in establishing alliances can help firms to reduce their dependence on each single alliance. For example, Elta formed multiple strategic alliances with several manufacturers of Asian food condiments in Hong Kong and Taiwan, all of whom supplied a similar range of products to Elta. At one stage, Elta had a significant dispute with one alliance partner from Hong Kong regarding Eltas’ exclusive rights to sell food condiments in the Australian market. Having failed to reach an agreement with this partner, Elta then concentrated on the promotion of similar condiment products from another alliance partner. Eltas’ multiple alliances in this product range thus provided the firm with flexibility to switch its marketing focus from one supplier to another if problems arose.

In Nutas’ case, the firm formed multiple alliances with several international clothes manufacturers, all of whom possessed similar manufacturing capacities to produce the clothes that Nuta designed. If one alliance partner had problems in production, Nuta could move the raw materials to another partner’s factory to have the clothes manufactured. Although Nutas’ overall position of dependence on the resources of its alliance partners had not changed fundamentally, its dependence on any individual factory was reduced. In this way, Nuta used its strategic alliances to reduce its risk in accessing clothes-manufacturing capacities externally.

In terms of the strategic-behaviour perspective, a portfolio of multiple strategic alliances can create more market opportunities and reduced market risks for firms. A portfolio of multiple alliances can be used to access market information from different channels and different levels, which can be very important for trading firms in making business decisions. For example, when Elta received information on product demand from its alliance partners in product marketing, it was able to send an enquiry to all of its multiple alliance partners in product sourcing. Having multiple alliances in product sourcing increased Eltas’ opportunities of locating a suitable product for the market. If the alliance partners themselves could not supply the right product, Eltas’ productsourcing partners were even able to assist the firm in locating suitable products from their own contacts. Another example of the utility of a portfolio of alliances was in
evidence when Elta had some stock close to expiry. On this occasion, its partners in product marketing were able to help it to sell the goods to reduce the dumping risk. This use of a portfolio of alliances in dealing with old stock was also in evidence in the case of Alfa, which was also able to use its multiple alliances to find market opportunities to clear old stock.

A portfolio of strategic alliances can also enhance a firm’s strategic position in its industry by providing consistent and competitive product supply, extended marketing channels, and enhanced financial capacities. For example, before establishing its portfolio of multiple strategic alliances, Alfa began as only a small local seafood distributor. In 4–5 years it had set up a portfolio of alliances and had become a major Australian seafood importer and wholesaler. Elta and Nuta had similar experiences as their portfolios of multiple strategic alliances elevated their positions in their industries. Elta has become a major importer and wholesaler of Asian foods and groceries in New South Wales, and Nuta has become a major supplier of budget menswear in Victoria. Without their portfolios of multiple alliances it would have been very difficult for these small trading firms to grow so rapidly.

In summary, the analysis of selective-coding has revealed that a portfolio of multiple strategic alliances has been central to these three small trading firms realising the benefits of alliances in growing their businesses. These portfolios consisted of alliances in the three distinct categories of product sourcing, product marketing, and business finance. With this portfolio approach to strategic alliances, the three trading firms not only realised benefits in each of these categories, but also realised the integrated benefits of the synergy created by a portfolio of alliances. These integrated benefits included: (i) increasing their bargaining power; (ii) reducing their dependence on an individual alliance partner; (iii) creating more market opportunities; (iv) reducing market risks; and (v) enhancing their overall strategic positions in their industries. The portfolio approach thus minimised or avoided some of the potential disadvantages of alliances—such as dependence on, or lack of control of, a partner’s resources.

Table 7.7 summarises the benefits realised by the three small trading firms through their establishing a portfolio of strategic alliances.
<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Category One: Product Sourcing</th>
<th>Category Two: Product Marketing</th>
<th>Category Three: Business Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Cost</td>
<td>• Achieving cost advantage; • Reducing transaction uncertainty.</td>
<td>• Reducing unit cost.</td>
<td>Reducing financial cost.</td>
</tr>
<tr>
<td>Resource Dependence</td>
<td>• Accessing consistent and competitive product supply.</td>
<td>• Accessing extended marketing channels.</td>
<td>• Accessing financial resources.</td>
</tr>
<tr>
<td>Strategic Behaviour</td>
<td>• Achieving competitive advantages.</td>
<td>• Strengthening market positions.</td>
<td>• Increasing financial capacity.</td>
</tr>
<tr>
<td>Portfolio Approach</td>
<td>• Increasing bargaining power against partners and non-alliance parties; • Reducing dependence on a single partner; • Creating more market opportunities and reducing market risks; • Enhancing strategic positions in the industries.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 7.7 Benefits of a portfolio of strategic alliances

7.4 Summary

This chapter has presented three case studies of small trading firms that have successfully used strategic alliances. The chapter has also analysed the case studies at various levels.

*Open-coding analysis* of the data presented in the three case studies has identified three categories of alliances in the cases studied here—(i) product sourcing; (ii) product marketing; and (iii) business finance.

Using *axial-coding analysis*, the chapter has then examined the benefits of these alliances from three theoretical perspectives—(i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour. Three propositions about the benefits of
alliances, posited in terms of these three perspectives, have been tested and verified in the case studies.

The chapter has then used selecte-coding analysis to advance the proposition that multiple alliances in all three categories (product sourcing, product marketing, and business finance) constitute a ‘portfolio’ approach to the formation of strategic alliances. This portfolio approach to forming and managing alliances has been identified as the key to the success of these three trading firms in successfully pursuing an alliances strategy to grow their businesses.

Finally, the chapter has demonstrated that a portfolio approach to the formation and management of strategic alliances brings additional synergistic benefits to the firms. These synergistic benefits include: (i) increasing their bargaining power over alliance partners and non-alliance parties; (ii) reducing dependence on each individual alliance partner; (iii) creating more market opportunities; (iv) reducing market risks; and (v) enhancing their strategic positions in their industries.
Chapter 8 Three Failed Cases of Strategic Alliances

8.1 Introduction

This chapter presents three case studies—a seafood-trading firm (Gota); a computer-trading firm (Delta); and an apparel-trading firm (Cita). All of these firms experienced serious problems in using strategic alliances to expand their businesses. These problems resulted in serious financial losses for these firms and, eventually, to their closure.

This chapter aims to identify the problems experienced by these firms and the roles played by strategic alliances in their business failures. Using data collected by documentary research and semi-structured interviews, the study applies ‘grounded theory’ to analyse the cases and draw conclusions. The three analytical steps used in Chapter 7 (open coding, theoretical coding, and selective coding) are again applied. The results show that the case studies presented in this chapter represent a theoretical replication of those presented in Chapter 7.

8.2 Individual case studies

8.2.1 Case 4: Gota, a seafood-trading firm

This seafood-trading firm (referred to here under the pseudonym Gota) was located in Melbourne, Australia. As noted in the case of Alfa (see Chapter 7), the fishing industry is a major Australian primary industry, which exports quality seafood to Europe, America, and Asia. Gota was a major exporter of live crayfish and crabs from the state of Victoria, Australia. It began trading in the late 1980s, and its major business activities included:

- sourcing live crayfish and crabs from local fishing boats;
- storing these products in its recycle tank storages;
- packing and exporting the products to Asian destinations (such as Hong Kong and China);
- organising air-freight delivery of the goods to overseas customers; and
- providing credit terms to customers.

At one stage, Gota had six full-time employees and two casual workers. Its annual business turnover was approximately AUD$15 million. According to Gotas’
former director it sourced 100% of its seafood supply locally and exported 95% of its products. It supplied crayfish and crabs to the major seafood importers in Hong Kong, China, and other Asian countries.

In all, four semi-structured interviews were conducted for the case study of Gota. The interviewees included the managing director, the financial manager, the sales-and-marketing manager, and an alliance partner. The data were mainly collected from the interview with the managing director, but the data collected from the interviews with the managers provided additional information in their particular areas of expertise. The interview with the external alliance partner provided another perspective on Gota’s strategic alliances.

The scheduled interview questions were adapted somewhat to suit the various interviewees. Moreover, the interviewees were encouraged to raise their own questions or to make their own comments as the interviews proceeded. All of the interviews were recorded, and the information was subsequently transcribed into a data file.

Gota had several major strategic alliances—including alliances with local suppliers, overseas customers, and a financial institution. According to the director, Gota was originally a partnership of two businesspeople in the same crayfish-and-crab business. It supplied its product equally to local and overseas buyers. In the early 1990s, Gota decided to expand its export market. To achieve this, the firm required more capital to: (i) purchase stock; (ii) provide credit terms to overseas customers; and (iii) finance its expanded operation. Because Gota had a small business turnover, it was unable to obtain finance from local banks. It therefore invited a financial institution, ‘CTC’, to become its financial partner in providing the required working capital to support the expansion of its export business. ‘CTC’ invested sufficient funds into Gota’s operation. In return, it controlled Gota’s board and its daily financial activities.

Apart from the alliance with ‘CTC’, other alliance partners included local fishermen, overseas seafood importers, and a local financial institution. The relationships with the partners before forming alliance relationships are shown in Table 8.1.

Before becoming close alliance partners, suppliers and customers had been involved in business relationships with Gota for a couple of years. The financial alliance with ‘CTC’ was established on the basis of the director’s personal relationships with the executives of ‘CTC’.
<table>
<thead>
<tr>
<th>Alliance Partner</th>
<th>Pre-alliance Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local supply</td>
<td>Local product suppliers</td>
</tr>
<tr>
<td>Overseas market</td>
<td>Overseas customers</td>
</tr>
<tr>
<td>Financial institution</td>
<td>Personal relationship</td>
</tr>
</tbody>
</table>

Table 8.1 Gota’s pre-alliance relationships with its alliance partners

The alliance agreement with ‘CTC’ was a formal agreement drawn up after legal advice and accompanied by full contractual documentation. The other alliances were mostly verbal agreements that allowed flexibility for both sides.

The motivations for suppliers and customers to enter into alliances with Gota were: (i) to make use of Gota’s resources (product-supply capacity and product-marketing capacity); and (ii) to achieve their own strategic targets. ‘CTC’s’ motivation in establishing an alliance with Gota was to expand its business into the seafood industry.

Gota experienced several problems with its alliances—including: (i) cost increases; (ii) loss of control of the resources involved in the alliances; and (iii) conflicting expectations of partners in the alliances. For example, when ‘CTC’ became a financial partner it appointed a financial controller to Gota to monitor and control its finances and accounts. Other partners also wanted some degree of influence over Gota’s business. One partner nominated a purchase manager and another nominated a sales manager. Remuneration for these managers fell to Gota, which thus suffered increased operating costs. The alliances with fishermen also had problems. The Asian market demanded small-sized crayfish, but Gota’s alliance arrangements stipulated that it had to purchase the full range of crayfish from its fishermen partners, which again caused cost increases. This is an excellent example of how Gota lost control of the resources involved in the alliances.

Gota’s business ceased operating in late 1998. The major reason for the firm having to close down was the withdrawal of its major financial partner, ‘CTC’—because ‘CTC’ was dissatisfied with the returns it received from the alliance. Unfortunately, before Gota could find a new partner to provide funds to replace the funds withdrawn by ‘CTC’, its financial situation became unsustainable. CTC eventually used its controlling vote on the board to shut down Gota’s business.
The interviewees believed that the direct reason for the collapse of Gotas’ financial alliance with ‘CTC’ was a perceived imbalance in the sharing of financial benefits between the partners. However, it was also believed that if Gota had formed more than one alliance in business finance, it might have had sufficient time to locate new financial sources to replace those withdrawn by ‘CTC’.

In summary, the data collected in this case indicated that Gota experienced problems with alliances in terms of: (i) increasing its operating costs; (ii) reducing its profitability; and (iii) endangering its financial position. These problems finally caused the closure of Gotas’ business.

8.2.2 Case 5: Delta, a computer-trading firm

This computer-trading firm, referred to here as Delta, was based in Melbourne, Australia. Delta was a major importer and distributor of computers in the states of Victoria and New South Wales. The firm began trading in the mid 1980s. Its major business activities included:

- importing desktop and laptop computers from Hong Kong, Taiwan, and China to Australia;
- storing these products in its own or leased warehouses;
- wholesaling the products to distributors and retailers;
- organising transportation services to deliver the goods to its business customers; and
- providing credit terms to its customers.

Deltas’ employees included 10 full-time and three part-time employees. Its annual business turnover was approximately AUD$12 million. Delta sourced 85% of product supply from overseas and 15% from local suppliers. It distributed computers directly to computer retail shops and distributors in Victoria, and indirectly to New South Wales through its alliance in Sydney.

Australia is largely a computer-importing country. For the most part, neither computer parts nor whole computers are manufactured locally, and imported computers therefore supply the local market. Within this competitive imported market, two broad groups operate in Australia. The first is made up of multinational companies with well-known brand names, such as IBM, HP, and Dell, and some less well-known brands, such as Acer and Digit. These companies have strong research-and-development (R&D) facilities, and have the larger share of the market. Their
competitive advantages are technology, quality, and warranty. The second group is made up of independent local importers and wholesalers. They usually import components, assemble computers in their warehouses, and then sell in the local market. Although their products include no famous brand names, they do have the advantages of lower prices and greater flexibility. They are also able to provide customised computers to clients to suit different individual needs.

Delta was positioned between the two major market groupings. The firm used a Taiwanese brand name to sell computers in the Australian market. Its laptop computers were imported directly, whereas its desktop computers were assembled in Australia from imported components. It thus aimed to maximise the advantages of both market groups.

Competition is strong in the Australian computer market because the market is relatively small and there is a relatively large number of players. To compete effectively, Delta had to find a way to reduce its costs and improve its efficiency. The critical success factors for Delta included:

- access to reliable and competitive product supply;
- strong R&D and technical support;
- establishment of links with retail outlets;
- quality staff and excellent customer service; and
- efficient warehouse and distribution systems.

In the early years of Delta's business development it had strong support from its major supplier and partner, 'DL', a medium-sized computer manufacturer in Taiwan. Delta's business grew quickly and it soon became one of the major suppliers of fully imported laptop computers in Victoria and New South Wales. Its desktop-computer business continued to involve the importing of components for assembly in its warehouse. In this regard, its desktop business was more or less like that of a small player in the importation-and-assembly market,

In all, four semi-structured interviews were conducted with the respondents in relation to Delta. The interviewees were the principal (managing director), the financial manager, the sales-and-marketing manager, and an alliance partner. The data were collected mainly from the interview with the principal, but the data collected from the interviews with the managers provided additional information in their
particular areas of expertise. The interview with the external alliance partner provided another perspective on Deltas’ strategic alliances.

The scheduled interview questions were adapted somewhat to suit the various interviewees. Moreover, the interviewees were encouraged to raise their own questions or to make their own comments as the interviews proceeded. All of the interviews were recorded, and the information was subsequently transcribed into a data file.

Delta had strategic alliances with: (i) overseas suppliers; (ii) local distributors and retail shops; and (iii) a financial institution. Delta had first established an alliance with the Taiwanese computer manufacturer, ‘DL’, in the mid 1980s. ‘DL’ authorised Delta to use its brand name to sell both laptop and desktop computers exclusively in the Australian market. With regard to laptop computers, ‘DL’ supplied complete Taiwanese-manufactured computers to Delta. With regard to desktop computers, Delta sourced components from other partners, but put ‘DL’s’ brand on them to sell in Australia.

A firm engaged in the computer business requires strong financial support to conduct R&D, especially for laptop computers. Through the alliance with its Taiwanese supplier, Delta obtained reliable product supply, consistent technical support, and credit terms for payment. It also saved itself the costs of performing its own R&D. Delta also set up alliances with its downstream business customers to expand its marketing channels. In addition, it found external financial partners to provide financial support for its business.

The purposes for entering into alliances were: (i) stabilising product supply; (ii) expanding market share; and (iii) accessing sufficient funds to conduct business. The agreements with suppliers were formal, whereas those with customers were mostly informal agreements to keep some flexibility for both parties.

Apart from ‘DL’, the Taiwanese computer manufacturer (which was the third-largest manufacturer of laptop computers in Taiwan), other alliance partners included: (i) several other computer suppliers in Hong Kong and China; (ii) computer retail shops and computer dealers in the Australian states of Victoria and New South Wales; and (iii) a major financial partner. Before becoming alliance partners, most of the participants had had some kind of business relationship with Delta for a couple of years. The motivation for the partners in entering into alliances with Delta was
gaining access to Deltas’ product-marketing capacity or product-sourcing capacity to achieve their strategic targets.

Unfortunately, Delta experienced several problems with their alliances, including: (i) cost increases; (ii) losing control of resources; (iii) conflicting expectations of partners in the alliances; and (iv) having to compromise its own goals to satisfy those of partners. For example, in the late 1990s Deltas’ major partner in product sourcing, ‘DL’, suffered serious financial problems as a result of a sharp decline in the value of shares on the Taiwanese stock exchange. ‘DL’ was forced to reduce its R&D budget, which diminished its competitiveness. ‘DL’ s’ problems had a significant adverse effect on Deltas’ business. Product delivery was delayed, and technical support diminished. As a result, Deltas’ business was adversely affected on both the supply side and the demand side. In addition, Deltas’ financial partner decided to withdraw from the alliance with Delta, citing dissatisfaction with the profit achieved from the alliance. This decreased Deltas’ product-sourcing capacity and diminished its market share as a result of sales reductions. Deltas’ business was thus seriously affected by the withdrawal of its financial partner. Deltas’ principal lodged voluntary liquidation with the Australian Securities and Investments Commission (ASIC) in 2002. According to the data collected for the present study, the major reasons for Deltas’ closure were the problems in the two alliances described above—the alliance with its major computer supplier (‘DL’) and the alliance with its major financial partner. These problems occurred at about the same time, and Delta was unable to survive by itself without these alliances. Deltas’ over-dependence on its two major alliances appears to have been the major reason for its own business failure.

In summary, the data collected in this case indicated that Delta experienced serious problems with the alliances, and that these problems adversely affected its business growth and profitability. These problems finally caused the closure of Deltas’ business.

8.2.3 Case 6: Cita, an apparel-trading firm

This apparel-trading firm (referred to here as Cita) was located in Sydney, Australia. As noted in the case of Nuta (see Chapter 7), the Australian government is implementing a policy of tariff reductions for textile, clothing, and footwear (TCF) products. As a result, many local TCF manufacturers have closed their local manufacturing facilities and outsourced the TCF supply from overseas.
Cita was established in early 1992 for the purpose of importing and wholesaling apparel products in Australia. Citas’ owner wanted to become part of the Australian trend in outsourcing apparel from overseas. Its major business activities included:

- collecting orders from apparel wholesalers;
- organising raw materials from local or overseas suppliers;
- placing orders with overseas manufacturers and checking quality;
- importing clothes from overseas;
- re-treating the clothes in outside laundry workshops;
- delivering the clothes to the customers; and
- providing credit terms to customers.

Cita had its head office and marketing office in Sydney, and a production office in Beijing, China. Its employees included eight people in the Sydney office and 15 in the Beijing office. Its annual business turnover was approximately AUD$50 million in 1996. Cita sourced 100% of its clothes from overseas suppliers. It supplied clothes to wholesalers and, through them, to specialist retail chains and department stores. Cita had thus grown to become a medium-sized apparel importer in Australia by the end of 1996.

In all, four semi-structured interviews were conducted in relation to Cita—with the former managing director, the financial director, the sales-and-marketing manager, and an alliance partner. The data were mainly collected from the interview with the managing director, but the data collected from the interviews with the managers provided additional information in their particular areas of expertise. The interview with the alliance partner provided another perspective on Citas’ strategic alliances.

According to the data collected for this study, Citas’ whole business concept was constructed on the basis of strategic alliances. It began to form alliances as soon as the company structure was set up. As in the previous cases, Cita established alliances in the three areas of: (i) product sourcing; (ii) product marketing; and (iii) business finance. With these alliances Cita achieved consistent product supply at low cost, accessed marketing channels in the apparel industry, and accessed sufficient funds to support its trading activities. According to data collected for this study:

- 100% of its products were sourced through alliances with upstream clothes-manufacturing partners;
- nearly 100% of its sales were achieved through alliances with local wholesale partners; and
- approximately 95% of its capital finance came from its financial alliances.

Cita first established an alliance with a local wholesaler to enter into the apparel industry. It also established an alliance with a clothes manufacturer in China. Within two years, Cita had established alliances with three major local clothes wholesalers. It had also established eight alliances with clothes manufacturers in China. Cita had three financial partners to provide funding for this apparel business.

Citas’ purpose in entering into alliances was to gain expertise to enable it to enter a new industry of which it had no previous experience. Through its strategic alliances with apparel wholesalers, Cita accessed marketing channels—such as specialist fashion chain shops and department stores. Through the alliances with foreign clothes manufacturers, Cita accessed production capacity to produce clothes. Through alliances with financiers it accessed financial capacity to support the whole operation.

Its agreements with local wholesalers and financiers were relatively formal, whereas those with the foreign manufacturers were relatively casual (due to the legal environment overseas). The sustainability of the alliances with the wholesalers largely relied on the competitiveness of Citas’ product supply and the relationships of Citas’ directors with its partners. The interviewees believed that these alliances had played an important role in Citas’ initial business survival and growth.

Cita had three alliance partners in product marketing. Two of these were womenswear wholesalers, whereas the other was a menswear wholesaler. These local wholesalers had experienced cultural and language difficulties in dealing with Chinese clothing manufacturers. The motivation for these local apparel wholesalers to enter into alliances with Cita was to make use of Citas’ contacts to deal with the clothes manufacturers in China. As previously noted, Cita had eight Chinese alliance partners in product-sourcing. The motivation for these manufacturers to form alliances with Cita was to obtain reliable purchasing orders from overseas buyers, and thus make full use of their production capacities. In business finance, Cita had three partners, which were all financial institutions. These partners aimed at achieving satisfactory financial returns from the alliances with Cita. Before forming any of these
alliances, Cita undertook some trial arrangements with various suppliers and marketers.

Cita experienced problems with its alliances. The main problems included: (i) lack of trust and problems with control in product sourcing and marketing; (ii) conflicting expectations of partners in the alliances; (iii) cultural difficulties between partners; and (iv) having to compromise its own goals to satisfy partners. For example, according to the agreements between Cita and the wholesalers, the latter were not allowed to source clothes supplies from China through any channels other than Cita. However, these wholesalers did attempt to source clothes from other channels, including indirect channels through Hong Kong. In another dispute in the product-marketing area, wholesalers found fault with Citas’ quality. The dispute apparently arose because the designs of certain clothes did not please consumers. This caused difficulties for the wholesalers in selling the products, and they then claimed to have detected quality faults in the clothes as an excuse to return the goods to Cita or, alternatively, to request a price discount.

An example of problems in the alliances with manufacturers arose when manufacturers used their reserve manufacturing capacity to supply other buyers, despite the strategic agreements with Cita requiring the factories to reserve such production capacity for Cita.

Cita formally ceased operating in 2002. From the data collected for this study, it seems that the problems in the alliances were the main contributors to the failure of the business. Local wholesalers, who were Citas’ alliance partners in product marketing, gradually moved their purchase orders to other suppliers, who were able to quote cheaper prices for the same clothes. As a result, Citas’ business volume was reduced, which caused a reduction in Citas’ orders placed with the manufacturing partners in China. The situation affected the close working relationships between Cita and these manufacturing partners, which did not reserve their production capacities for Cita when the latter did not provide enough purchase orders. This chain reaction resulted in a contraction in Citas’ business, which further reduced the firm’s profitability and increased the unit cost of product. In addition to these problems with alliances, competition in the apparel industry became fierce in the early 2000s, which made the problems of the alliances more acute. These various problems finally forced Cita to close its business ten years after its establishment.
In summary, the data collected in this study indicate that Cita experienced problems in using strategic alliances as its main strategy in business growth. The problems of the alliances included: (i) conflicting expectations of the partners in the alliances; and (ii) lack of trust and problems with product sourcing and marketing. Some of the problems were solved by negotiation with partners, whereas others were not. The problems eventually caused the termination of Citas’ alliances and the closure of its business.

8.3 Cross-case study

8.3.1 Categorising strategic alliances
As previously noted in Chapter 7, open-coding analysis of the data collected in these cases reveals that the strategic alliances formed by the case companies can be categorised as (i) product sourcing; (ii) product marketing; and (iii) business finance. Each of these is discussed in greater detail below.

8.3.1.1 Category 1: Alliances in product sourcing
As in Chapter 7, this category of alliances can be subdivided into two subcategories.

Alliances with local suppliers
Gota established several alliances with local fishermen in Victoria and South Australia. The alliances supplied live crayfish and crabs to Gota. Because the Australian government had a policy of protecting Australian seafood resources, each fishing unit was limited to a certain annual quota of crayfish. The multiple alliances formed with fishermen not only guaranteed Gota a consistent supply of crayfish, but also provided Gota with bargaining power with respect to each individual fishing unit. These alliances formed Gotas’ major channel for product sourcing.

Alliances with overseas suppliers
Table 8.2 provides a list of Deltas’ major alliances with overseas suppliers.
<table>
<thead>
<tr>
<th>Alliance Acronym</th>
<th>Country/Region</th>
<th>Form of Alliance</th>
<th>Product Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>DL</td>
<td>Taiwan</td>
<td>Agreement</td>
<td>Laptop computer</td>
</tr>
<tr>
<td>MT</td>
<td>Taiwan</td>
<td>Agreement</td>
<td>Monitor</td>
</tr>
<tr>
<td>EG</td>
<td>Hong Kong</td>
<td>Agreement</td>
<td>Monitor</td>
</tr>
<tr>
<td>INT</td>
<td>Taiwan</td>
<td>Agreement</td>
<td>Components</td>
</tr>
</tbody>
</table>

**Table 8.2 Delta’s major alliances with overseas suppliers**

In the early stages of Deltas’ business development, the firm relied on its alliance with ‘DL’, the Taiwanese computer manufacturer, to supply laptop computers to sell in the Australian market. Later on, it gradually established alliances with suppliers of computer components from Hong Kong, Taiwan, and China for its desktop computer business. Delta entered into an exclusive product-supply agreement with ‘DL’. Under the agreement, ‘DL’ was bound to sell its laptop computers only to Delta in Australia. ‘DL’ also licensed Delta to use its brand name on the desktop computers, which Delta assembled locally. These alliances formed the foundation of Deltas’ position in the computer market in Australia.

The principal was excited about Deltas’ rapid business growth in its early years of business development. Its alliances with its overseas partners provided a reliable supply of computers and components to Delta. ‘DL’ was the third-largest manufacturer of laptop computers in Taiwan. It had strong R&D capacity and automated computer-assembling lines in Taiwan. Through its alliance with ‘DL’, Delta was able to obtain the latest laptop computers to sell in the market. Moreover, through its alliances with suppliers of computer components for assembly as desktop computers, Delta had a reliable supply of components for this part of its business in Australia.

‘DL’s’ laptop computers were cheaper than similar products manufactured in the USA or Europe, and the alliance agreement guaranteed Delta discounted prices. Delta thus achieved significant cost advantages with respect to laptop computers through its alliance with ‘DL’. Indeed, this represented its main competitive advantage in the marketplace. ‘DL’s’ laptop computer could be sold by Delta at a price that was approximately AUD$1,000 cheaper than that of competing brands from the USA or Europe. The capacity to supply laptop computers also distinguished Delta
from other small importers, who were usually unable to obtain a reliable supply of laptop computers.

The alliance also proved beneficial in obtaining a tender to supply laptops to Australian government agencies. ‘DL’ provided Delta with full support in preparing the crucial technical documentation that was required for government tenders, and this information was pivotal to Deltas’ success in obtaining the tender. Moreover, under its alliance agreement, Delta obtained credit terms from ‘DL’ for the laptop computers it supplied to government agencies. These credit terms assisted Deltas’ cashflow management and reduced its financial costs. ‘DL’ also provided Delta with strong technical support, including repair and maintenance services for the laptop computers it supplied to government.

Cita established alliances with eight clothes manufacturers in China to support its apparel-import business in Australia. These alliances supplied clothes consistently to Cita, which placed orders with these factories through its Beijing office. This office was also responsible for checking the quality of the finished clothes before organising the transportation of the goods. Although Cita did not usually make full use of any partner’s whole production capacity, the agreements did stipulate that each partner had to reserve certain capacity for Citas’ orders. The costs of sourcing from these alliance partners were much cheaper than sourcing from the open market or from Australia. These cost advantages meant that Cita was able to survive in the Australian apparel industry as a new entrant and achieve rapid growth in its first five years of business. Moreover, product quality was better controlled than it would have been if the firm had purchased from non-alliance factories. These alliances provided the foundation for Citas’ position in the apparel industry.

8.3.1.2 Category 2: Alliances in product marketing
As in Chapter 7, this category of alliances can be subdivided into two subcategories.

Alliances with overseas customers
On the marketing side, Gota established four major alliances with overseas seafood importers. Gota exported its locally sourced live seafood to these alliances for distribution to restaurants and fish shops overseas. These alliances formed the major marketing channels for Gota to sell crayfish and crabs. One of the alliances was a joint-venture company formed by Gota with a Chinese partner, which directly conducted live-seafood distribution to restaurants and fishshops in northern China.
Alliances with local wholesalers

Cita established several alliances with apparel wholesalers in Australia, and these represented its major marketing channels. Through these alliances, Cita was granted exclusive rights to supply clothes from China to its alliance partners, whereas the latter were not allowed to source clothes made in China from other channels. The wholesalers provided clothes-design patterns and detailed requirements to Cita six months before each season’s launch. Cita then organised the purchasing of raw materials, the production of the clothes, quality inspection, and transportation. On occasions, the wholesalers sent their own quality-control people to the Chinese factories to direct the production and to inspect the quality.

Cita was, in essence, an apparel importer without downstream marketing channels—such as wholesale, distribution, and retail. It could have established its own distribution network to sell the clothes, or it could have opened its own retail shops. However, this would have entailed a huge investment and a long period of development for Cita. Through its alliance arrangements with the large wholesalers, Cita accessed multiple apparel-marketing networks. In this way, Cita avoided having to invest in its own marketing network, while also achieving rapid growth.

Through its alliances with the three large apparel wholesalers, Cita quickly established a position as a medium-sized apparel importer in the apparel industry, specialising in clothes made in China. From its beginnings in early 1992, Cita achieved an annual business turnover of AUD$50 million in only five years of business development.

Alliances with local distributors and retailers

On the product-marketing side, Delta established strategic alliances with its business customers on two levels—computer distributors and retail shops. These alliances represented two levels of market access and contributed to Deltas’ marketing channels in addition to its established marketing channels with government organisations and large corporate customers. Through these alliances at two levels of market access, Delta also collected useful market information—such as customer feedback, intelligence on market trends, and information on the activities of other suppliers. The information was important for Deltas’ decision-making process.

8.3.1.4 Category 3: Alliances in business finance
The capacity to obtain sufficient funds was critical in enabling all three firms to implement their business strategies and to achieve their business growth.

Gota formed an alliance with a local financial institution to access sufficient funds to expand its business. The financial alliance partner provided funds to support Gota’s daily cash requirements for product purchasing, marketing costs, and operating costs. The partner also provided funds for Gota to establish an overseas joint venture for marketing in China.

Delta also needed strong financial support to provide its working capital. The importation of computers has a longer sourcing cycle than purchasing them locally, and the value of computers is greater than most consumer goods. To access sufficient funds to meet its capital needs for business growth in such a business environment, Delta established a strategic alliance with a local financial institution. The financier provided an import credit line for Delta to import computers and components.

Cita also required financial support to cope with the long turnover cycle of the apparel-importing business. Its alliances with local financial institutions allowed Cita to access sufficient funds to support its cash flow requirements.

In summary, as was the case in Chapter 7, three categories of strategic alliances can be identified—‘product sourcing’, ‘product marketing’, and ‘business finance’. Some of the firms formed multiple strategic alliances in certain categories. For example, Gota formed alliances with several fishermen; Delta formed multiple alliances with its downstream distributors and retailers; and Cita formed multiple alliances in all categories. On the other hand, some firms formed a single alliance in certain categories. For example, Gota and Delta each relied on a single alliance partner to provide business finance.

All three firms used strategic alliances as their major growth strategy. In product sourcing, strategic alliances were formed with overseas and local products suppliers; in product marketing, the alliances were formed with local wholesalers, local distributors and retailers, and overseas customers; and in business finance, the alliances were mainly formed with local financial institutions.

8.3.2 Identifying problems in the strategic alliances
The data collected from the documentary research and interviews indicate that the three small trading firms studied in this chapter—Gota, Delta, and Cita—all experienced problems in pursuing strategic alliances to grow their businesses. The
next step in the grounded-theory analysis being pursued here therefore involves axial coding (or theoretical coding) to identify these problems from the three theoretical perspectives of: (i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour.

Three propositions about the problems of strategic alliance were developed in the literature review of Chapter 2. These propositions are now used as theoretical patterns to assess the empirical data that have been collected. The three propositions that were developed in Chapter 2 were as follows:

1. Transaction-cost perspective: By entering strategic alliances, a firm might experience: (i) cost increases; and (ii) opportunistic behaviour on the part of alliance partners.

2. Resource-dependence perspective: By entering strategic alliances, a firm might become over-reliant on the resources of its partner firms.

3. Strategic-behaviour perspective: By entering strategic alliances, a firm’s strategic positions might be threatened by contradictions arising from unrealistic goal expectations or lack of overlap with the goals of partner firms.

8.3.2.1 Transaction-cost perspective

The proposition to be considered from the transaction-cost perspective reads as follows:

By entering strategic alliances, a firm might experience: (i) cost increases; and (ii) opportunistic behaviour on the part of alliance partners.

The proposition is tested against the empirical data by consideration of the following potential problems in terms of transaction costs:

- increasing costs;
- over purchasing;
- being locked into alliances; and
- partners’ opportunistic behaviour.

Each of these is discussed below.

In terms of increasing costs, Gota had to balance the interests of various partners, and each of these partners appointed its representative to Gota. ‘CTC’
appointed a financial controller to control the finance and accounting, and the other
two partners also appointed their own representatives to Gota. Remuneration for these
representatives fell to Gota, and this increased the firm’s operating costs. Another cost
was incurred in establishing the joint-venture company in China. Because live
crayfish and crabs required special storage facilities (such as tanks, cooling systems,
and water-recycling systems), Gota had to invest a significant amount of money in the
joint venture. Delta also experienced cost increases in some areas as a result of using
alliances. These included: (i) increased workload for managers in managing the
alliances; (ii) increased international travelling costs to maintain good relationships
with overseas partners; (iii) increased entertainment costs to maintain good
relationships with local partners; and (iv) providing ‘performance rewards’ to alliance
partners. For example, the principal mentioned in his interview that his monthly
entertainment costs were more than AUD$10,000. His travelling costs were also
significant, including interstate and international travelling. Cita had similar cost
increases to those of Delta.

With respect to over-purchasing, Gotas agreements with the fishermen
stipulated that the firm had to purchase the whole range of crayfish and crabs in their
catch—whether the sizes were large or small. However, customers in the Asian
markets wanted to buy only the small and medium-sized crayfish and crabs. Gota was
perpetually confronted with the problem of how to sell the large crayfish. It had to
discount the prices and sell them locally, which increased its costs. In Deltas’ case,
the firm had an agreement with its major Taiwanese supplier, ‘DL,’ which stipulated
that Delta had to buy a minimum number of laptop computers from ‘DL’ each
month—whether it could sell them or not. Although this condition motivated Deltas’
sales team to increase sales, it nevertheless caused overstocking problems for the firm.
This overstocking increased its storage costs and financial burden. To reduce its stock
levels, Delta was forced to conduct discount promotions, which increased its
marketing costs and decreased its margins.

With respect to being locked into alliances, Gotas’ agreements with its
fishermen partners meant that it sometimes had to renounce cheaper sources of live
seafood from the open market because its alliance agreements stipulated that the firm
had to purchase from its alliance partners. Delta had a similar situation. Its agreement
with ‘DL’ stipulated that, in return for granting Delta exclusive selling rights for its
laptop computers within Australia, Delta was not allowed to purchase laptop computers from other sources. Because of this agreement, Delta had to forego good opportunities to make money from trading other brands of laptop computers. Citas’ case represented a somewhat different ‘lock-in’ situation. When Cita committed to its alliances with certain overseas clothes manufacturers, it was difficult for the firm to switch to other suppliers, even if their prices were cheaper than those being offered by its existing suppliers. This was because Cita had to ‘train’ the workforces of its manufacturing partners to ensure that they were familiar with the production requirements of the Australian market. Cita could not simply place orders with a non-alliance factory. To do so would risk quality faults, which could easily ruin its market reputation. In addition to this de facto lock-in situation on the supply side, Cita also had a formal ‘lock-in’ situation with its marketing partners. According to the agreements with these alliance partners, Cita was not allowed to sell the clothes it sourced from overseas to non-alliance parties, even though there might be market opportunities. It had to sell all the clothes to its wholesale alliance partners, no matter what prices they could offer. This ‘lock-in’ provision limited Citas’ profitability and business growth.

With respect to partners’ opportunistic behaviour, Das and Teng (2000a) have observed that cooperation and competition are opposing forces within strategic alliances. Gotas’ alliance partners sometimes pursued their own interests at the expense of the alliances if there were opportunities for them to obtain more profit. For example, the firm’s fishermen partners were able to sell their crayfish to other parties (rather than to Gotas) if they were offered better prices. The overseas importers were also able to buy live seafood from other parties if they were able to secure lower prices from them than from Gotas. In Deltas’ case, most of the firm’s alliances agreements with retailers in product marketing were informal—because the retailers did not wish to be bound by exclusive-supply conditions. They wished to retain flexibility in their businesses, and they did buy from other suppliers if they could negotiate better deals.

Citas’ alliance agreements were formalised. For example, its alliance agreements with financial institutions included strict financial terms and conditions, and its agreements with the large clothes wholesalers were also formalised—because of the numerous transactions involved. Its alliance agreements with the overseas
manufacturers were also formalised, although these were not as formal as those noted above—because of the different legal environment in China. However, even with the formal agreements in place, some partners still tried to test the boundaries of the agreements to seek further benefits. The partners’ opportunistic behaviour included: (i) manufacturing partners attempting to use their production capacity reserved by Cita for other buyers; (ii) wholesale partners seeking clothing supply directly from other channels in China, so that they could obtain cheaper prices by not working through Cita; and (iii) wholesalers claiming minor production faults as excuses to return unsold clothes to Cita or to seek a discount on the agreed prices.

In summary, the above analysis of the strategic alliances formed by the three failed cases support the first proposition that strategic alliances can cause problems from the transaction-cost perspective.

**8.3.2.2 Resource-dependence perspective**

The proposition to be considered from the resource-dependence perspective reads as follows:

*By entering strategic alliances, a firm might become over-reliant on the resources of its partner firms.*

The proposition is tested against the empirical data by consideration of the following potential problems in terms of resource dependence:

- over-reliance on partners;
- reduced control over resources; and
- adverse interaction among alliances.

Each of these is discussed below.

In terms of *over-reliance on partners*, Gotas’ alliance arrangements meant that the firm had to rely on partners’ resources in product sourcing, product marketing, and business finance—all of which placed Gota in a dependent position. This dependence was especially marked in the financial area, because Gotas’ only financial alliance was with ‘CTC’. Delta was also significantly dependent on certain partners to provide scarce resources. For example, its product-sourcing alliance with the Taiwanese computer manufacturer and its alliance with the financial institution both created a dependent position for Delta in those crucial two areas. Cita was also very dependent on its partners’ resources, especially with regard to product marketing. Cita
had no direct market access to clothes retailers or to consumers. It had to rely on the wholesalers to act as intermediaries in reaching the end market. Citas’ dependent positions with regard to product sourcing and business finance were also apparent.

In terms of reduced control over resources, Das and Teng (2000b) have noted that a strategic alliance can be difficult to manage because it often implies a reliance on external resources and a diminished ability to exercise control of those resources. In Gotas’ case, the significance of this lack of control was in evidence when the firm was forced to close as a result of the breakdown in its financial alliance. In Deltas’ case, the firm had no control over the computers supplied by its overseas partner, ‘DL’. When the supplier had production problems, Delta suffered from a shortage of laptop computers, and the delivery delay threatened its market position. Cita also had problems in controlling the business resources within its alliances. For example, overseas manufacturers were sometimes unable to meet Citas’ requirements in production quality or delivery time, which caused Cita to experience problems on the marketing side.

Adverse interaction among alliances can occur; that is, if one alliance has a problem, this can affect other alliances. For example, the withdrawal of Deltas’ financial partner had a significant adverse effect on the firm’s product sourcing and product marketing. The shortage of funds caused a stock shortage which, in turn, affected its market position. In Citas’ case, problems of product quality and delivery delay in its product-sourcing alliances affected the performance of Citas’ alliances in product marketing. In addition, a reduction in the funds coming from its financial partners affected the performance of Citas’ alliances in both product sourcing and product marketing. Finally, a payment delay by wholesalers tightened Citas’ cash flow, which then caused problems for the firm in paying both its suppliers and financiers.

In summary, the second proposition about the problems of strategic alliances from the resource-dependence perspective is supported by the findings from the three failed cases.

8.3.2.3 Strategic-behaviour perspective
The proposition to be considered from the strategic-behaviour perspective reads as follows:
By entering strategic alliances, a firm’s strategic positions might be threatened by contradictions arising from unrealistic goal expectations or lack of overlap with the goals of partner firms.

The proposition is tested against the empirical data by consideration of the following potential problems in terms of strategic behaviour:

- differing expectations of alliances;
- compromising the firms’ goals;
- weakened strategic position; and
- creating benefits for competitors.

Each of these is discussed below.

Partners in different positions can have differing expectations of alliances. For example, in the case of Gotas’ supply alliances, the fishermen wanted to sell the whole range of crayfish from their catch, whereas Gota wanted to buy only what it could sell in its market. These differing expectations sometimes put Gota in a difficult situation with both its suppliers and its buyers. It had to try to satisfy the interests of alliance partners on both sides, and the end result was that Gota often had to sacrifice its own profit. In Deltas’ case, its overseas alliance partners in product sourcing tried to push Delta to sell more computers, whereas local dealers and retailers wanted only the quantity required to meet market demand. The firm’s financial partner wanted a reasonable return on its capital injection into Delta; the firm thus had to perform well and coordinate with its partners to satisfy every expectation. In Citas’ case, the overseas manufacturers were production oriented, rather than market-oriented, and they therefore expected Cita to purchase in quantities that matched their production capacity. These sorts of differing expectations among partners in the various alliances were the causes of conflict among the parties.

In terms of compromising the firms’ goals, Gota sometimes had to compromise its own goals to keep its alliances functioning—such as sacrificing its own profit in purchasing the full range of crayfish. In Deltas’ case, the firm was required to pay in US dollars to import computers. Deltas’ principal was concerned about fluctuations in the exchange rate between US dollars and Australian dollars. To allow him enough time to take advantage of a favourable exchange rate, he wanted to extend the repayment terms with the firm’s financial partner. However, the financial partner rejected Deltas’ request. In Citas’ case, as a clothes importer positioned between the
overseas clothes manufacturers and the local wholesalers, Cita sometimes had to sacrifice its own profit margin to meet its partners’ expectations. To have done otherwise would have endangered the business relationships in the alliances.

With regard to the problem of weakened strategic position, one partner’s problems can become another partner’s problems by affecting the performance of the alliance. For example, in early 2000 Deltas’ major overseas supplier, ‘DL’, was suffering from financial problems, which had serious adverse effects on its R&D capacity and production volume. The subsequent delays in delivery of product to Delta had adverse effects on that firm’s business, and its strategic position was thus weakened by the problems being experienced by its partner. Cita also suffered adverse effects on its strategic position when its wholesale partners sought cheaper clothing supplies from China. When the alternative channels were set up, the wholesalers transferred some of their purchase orders away from Cita to the new channels, which resulted in a weakening of Citas’ strategic position in the clothes-importing business.

With respect to creating benefits for competitors, any compromising of goals or weakening of strategic positions can benefit competitors in the marketplace. For example, Deltas’ operations in New South Wales were established in Sydney through an alliance with a local computer distributor. In late 1998 and early 1999, Deltas’ principal discovered that the Sydney operation was not delivering the expected financial performance. After a thorough investigation, he found that the partner conducted many transactions outside the alliance account. Because the situation did not look likely to improve, Deltas’ principal decided to close the operation. However, the former partner’s market network had been built up through the alliance with Delta in the preceding years, and it soon began its own computer-distribution business in Sydney. Delta was forced to withdraw from the New South Wales market. In the final analysis, Delta had created a competitor as a result of its erstwhile alliance. In Citas’ alliances in product marketing, some wholesalers used the alliances with Cita as a learning device in dealing with overseas manufacturers. As soon as they had acquired the skills to handle the situations by themselves, they attempted to free themselves from the alliances with Cita and to import clothes through their own channels. These wholesalers then became competitors to Cita in the clothes-importing business, which posed a significant threat to Citas’ own strategic position in the industry. A similar
situation arose with Citas’ alliances in product sourcing. Through their alliances with Cita, Chinese manufacturers learnt the quality requirements of the Australian market and were trained in how to meet these requirements in their production. When they could handle the whole export process by themselves, they started to deal directly with overseas customers and to develop their own channels of export.

In summary, the above findings from the three failed cases support the third proposition regarding the problems of strategic alliances from the strategic-behaviour perspective.

8.3.2.4 Summary of problems from the three perspectives
It is apparent from this axial-coding analysis from three theoretical perspectives—transaction cost, resource dependence, and strategic behaviour—that all three companies encountered significant problems from their strategic alliances. The major problems of strategic alliances identified from the discussions of the three cases include:

- cost increases;
- being forced to purchase excessive quantities of product;
- becoming ‘locked in’ to alliances and being forced to forego beneficial business opportunities;
- opportunistic behaviour on the part of partners;
- excessive dependence on partners’ resources;
- lack of control of external resources;
- negative interactions among the multiple alliances formed by a given firm;
- differing expectations of partners within the alliances;
- compromise of the firms’ goals to maintain the operations of the alliances;
- weakening of the firms’ strategic positions in their industries; and
- creation of benefits for the firms’ competitors.

8.3.3 Discovering imbalances within the strategic alliances
A strategic alliance is a difficult strategy to manage because it is more difficult to control than a hierarchical structure. Moreover, it is more difficult to manage a portfolio of alliances than it is to manage a single alliance. A key reason for the failure of many networks of organisations is that relationships among firms become unbalanced—usually because the participants lean towards too much control or
modification (Miles and Snow, 1991). Gota, Delta, and Cita all formed portfolios of strategic alliances in the categories of product sourcing, product marketing, and business finance—as was the case with Alfa, Elta, and Nuta (see Chapter 7). However, the three firms discussed in the present chapter all experienced severe problems. It is apparent that there were significant imbalances existed within the portfolio of alliances formed by these three firms. These imbalances can be summarised as:

- an imbalance in significance to participants
- an imbalance in benefits to participants;
- an imbalance in dependence among participants; and
- an imbalance in the overall portfolio.

Each of these is discussed below.

8.3.3.1 Imbalance in significance to participants

The business of an alliance should be significant to both partners in an alliance. If the significance of an alliance to each of the partners is different, the sustainability of the alliance can be placed in jeopardy. For example, in the case of Gota, its alliance with its financial partner, ‘CTC’, was very significant to Gota—because ‘CTC’ provided most of the funds required by Gota to conduct its business. Indeed, without the financial support of ‘CTC’, Gota could not continue its business. However, this alliance was of less significance to ‘CTC’. This firm had many other businesses, all of which were much larger than the alliance with Gota. When ‘CTC’ could not obtain the returns it expected from the Gota alliance, it withdrew from the arrangement, which created a very difficult situation for Gota.

In the case of Delta, the situation was similar. Its large financial partner’s withdrawal from the alliance with Delta caused significant difficulties for the latter’s operations. Indeed, in the ultimate, it caused the closure of Deltas’ business.

Such imbalances in the significance of alliances to the participants can endanger the relationship between the partners. In these circumstances, the weaker party of the alliance is likely to suffer more.

8.3.3.2 Imbalance in benefits to participants

Partners in an alliance have to be satisfied by the benefits each achieves from the arrangement. If not, a dissatisfied party will be reluctant to continue with the alliance.
For example, in the case of Gota, ‘CTC’ did not realise the financial benefits it expected from its alliance with Gota. This led to ‘CTC’s’ decision to withdraw from the alliance in the late 1990s.

In the case of Delta, its financial partner was dissatisfied with the benefits gained from the alliance. It decided to withdraw from the alliance in late 2000, which significantly affected the continuation of Deltas’ business.

In the case of Cita, some alliance partners in product marketing became dissatisfied in early 2000 with the cost savings they were achieving through their alliances with Cita. In addition, some partners in product sourcing were dissatisfied with the business volumes acquired from their alliances with Cita. Thus both upstream partners and downstream partners of Cita were seeking alternative ways to obtain satisfactory benefits. The partners’ opportunistic behaviour, caused by a perceived imbalance in the benefits being gained from the alliances, led to a collapse in all of Citas’ alliances in product marketing and in half of its alliances in product sourcing. In the ultimate, the failures in these alliances resulted in Citas’ closure.

8.3.3.3 Imbalance in dependence among participants

An imbalance can exist within a category of alliances such that a firm relies heavily on a single alliance partner in that category. For example, in business finance, Gota relied on a single alliance partner, ‘CTC’, to provide finance for its business. This imbalance in the category of business finance represented a significant risk to Gotas’ business.

In the case of Delta, the firm sourced more than 50% of its products from its major alliance partner, ‘DL’, in the category of product sourcing. In business finance, Delta relied on a single financial partner to provide nearly 75% of its working capital. This dependence created an imbalance between Delta and its partners in these two categories of alliances. Had either of the two partners withdrawn from the alliances, Deltas’ business would have been seriously affected. Unfortunately, in 2000, due to its own internal problems, ‘DL’ was unable to continue to support its alliance with Delta. In addition, the financial alliance partner decided to withdraw from its alliance with Delta as a result of perceived unsatisfactory benefits achieved from the alliance. The collapse of these two major alliances finally resulted in the closure of Delta.

8.3.3.4 Imbalance in the overall portfolio
In any firm’s operations, its product-sourcing capacity should match its product-marketing capacity. Moreover, its financial capacity should provide sufficient funds to conduct product-sourcing and marketing activities. In the case of alliances, the resources that a firm accesses through a given category of alliances should match the resources that it accesses through another. In other words, a firm should aim for balance in its portfolio of alliances. If such balance is not achieved, some alliances might not function properly, or become problematic. For example, in the case of Cita, when its alliance partners transferred some orders to other suppliers, Cita was unable to provide enough orders to its manufacturing partners. The latter were not willing to reserve the agreed production capacity for Cita. This situation then affected the performance of its alliances in product marketing—because they were unable to obtain sufficient production support. The overall result of these imbalances in its portfolio of alliances ultimately caused the closure of Citas’ business.

In the case of Gota, the withdrawal of its alliance partner in business finance meant that Gota was short of funds to continue its product-sourcing and marketing activities. Indeed, Gota was ultimately forced to close down as a result of the withdrawal of its financial partner. The same situation happened in the case of Delta. The imbalance between the financial resources accessed through alliances and the resources of product sourcing and marketing capacity resulted in the termination of the alliances of Gota and Delta, as well as their businesses.

8.4 Summary

This chapter has presented three case studies of small trading firms that encountered problems as a result of their use of strategic alliances. The chapter has also analysed the case studies at various levels.

Open-coding analysis of the three cases has identified three categories of alliances from the three cases—(i) product sourcing; (ii) product marketing; and (iii) business finance.

Using axial-coding analysis, the chapter has then examined the problems of these alliances from three theoretical perspectives—(i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour. Three propositions about the problems of alliances, posited in terms of these three perspectives, have been tested and verified in these case studies.
The chapter has then used *selective-coding analysis* to confirm the finding of the previous chapter—that multiple alliances in all three categories (product sourcing, product marketing, and business finance) constitute a ‘portfolio’ approach to the formation of strategic alliances. Moreover, the chapter has identified (by selective-coding analysis of these three failed cases) that an *imbalance* within such a portfolio of alliances is a significant feature of failed alliances. The chapter has identified various forms of imbalance in alliances—including: (i) an imbalance in significance to the participants; (ii) an imbalance in benefits to participants; (iii) an imbalance in dependence among participants; and (iv) an imbalance in the overall portfolio of alliances.

The chapter concludes that imbalances in a firm’s portfolio of alliances can lead to the termination of some alliances in the three categories of product sourcing, product marketing, and business finance. Moreover, the chapter concludes that such imbalances can also seriously affect the business functions of a firm. Indeed, the three firms studied in this chapter—Gota, Delta, and Cita—were ultimately forced to close as a result of such imbalances in their strategic alliances.
Chapter 9 Successes and Failures of Strategic Alliances: A Comparative Cross-Case Analysis

9.1 Introduction

This chapter conducts a cross-case analysis of the case studies of the successful strategic alliances (presented in Chapter 7) and the failed strategic alliances (presented in Chapter 8). The comparative cross-case analysis of the present chapter focuses on the roles played by strategic alliances in the small trading firms’ business successes and failures. The aim is to address the second research question of this thesis: ‘What roles do strategic alliances play in the business successes or failures of small trading firms?’

9.2 A portfolio approach

Open-coding analyses in the case studies demonstrated that all six firms formed strategic alliances in three categories—(i) product sourcing; (ii) product marketing; and (iii) business finance. Some firms formed a single alliance in any given category, whereas others formed several alliances in one or more categories.

These three categories of alliances can be said to form a ‘portfolio’ of alliances, and such a ‘portfolio approach’ to the formation of strategic alliances was identified by selective-coding analyses in Chapters 7 and 8 as being the ‘core category’—that is, the central phenomenon of the alliances formed by the small trading firms studied. Every firm formed a portfolio of alliances comprised of the three categories, irrespective of how many alliances existed in each category.

From the perspective of such a ‘portfolio approach’, particular benefits of strategic alliances were identified—especially in those cases in which several alliances existed in any given category. These benefits included the following.

- Increased bargaining power: Multiple alliances formed in a given category of the portfolio increased a firm’s bargaining power against any individual alliance partner in that category.

- Reduced dependence on a single partner: Multiple alliances formed in a given category of the portfolio reduced a firm’s dependence on each individual alliance in that category.
- **Creation of more market opportunities and reduction in market risks:** A firm secured more market opportunities and reduced market risks by forming multiple alliances in a given category of the portfolio.

- **Increased sources of information:** Multiple alliances in a given category brought in market information from different channels and different levels of partners, which enhanced a firm’s decision-making processes.

- **Creation of synergy among the categories of an alliance:** The three categories of alliances created synergy in various ways that enhanced a firm’s business survival and growth.

- **Enhancement of strategic position:** A portfolio of alliances in the three categories enhanced a firm’s strategic position in its industry, which enhanced its business growth.

In general, a portfolio of alliances compensated for any adverse effects from an individual alliance that was not functioning well. Thus, in the cases of Alfa, Elta, and Nuta, a portfolio approach to alliances assisted the firms to expand their businesses and achieve success. However, changes in any given alliance affected the function of the whole portfolio. If a given alliance did not function well, this produced negative interactions among the other alliances, which adversely affected the firm’s business performance. In the cases of Gota, Delta, and Cita, business failure occurred—despite the fact that each of these firms also formed a portfolio of alliances.

In attempting to understand these differing outcomes, two issues require further analysis:

- the inter-dependent relationship between the partners in a given alliance; and

- various balances within a portfolio of alliances.

### 9.3 The issue of dependence

Some degree of dependence is unavoidable for firms that choose to establish an alliance. The virtue of a ‘portfolio approach’ (especially a portfolio that has several alliances in each of the three categories) is that it reduces a firm’s dependence on any individual alliance. Although it is possible that all alliances in a given category might simultaneously have problems in a general economic downturn, this scenario is less likely than that of an individual alliance getting into trouble at any given time. Having several alliances in a given category thus decreases a firm’s dependence on the
fortunes of any one alliance. This contention was well illustrated in the cases of Alfa and Elta. In contrast, if a firm has only one alliance in a given category, that firm places itself in a dependent position in which it is reliant upon the resources of this solitary alliance partner. If resources from this partner become scarce or unavailable, alternative resources must be found quickly if the firm is to be able to continue its business. In the cases of Gota and Delta, this scenario occurred, and the failure of these firms to find alternative sources of vital resources led directly to their business failures.

The dependence that is inherent in any alliance arrangement can thus be mitigated by having alternative sources of vital resources in any given category. Another means of reducing a firm’s dependence on its partners’ resources is to reduce disparity in the degree of dependence in any given relationship. This can be achieved by consciously striving for greater interdependence between partners in alliances. Interdependence means that each partner firm of an alliance can achieve certain benefits from the alliance and, at the mean time, contribute to the benefits achieved by the other partner firm from the alliance. The two partner firms rely on each other to acquire resources through the alliance. Such interdependence reduces one partner’s dependence on the other partner’s resources. However, in most cases this is not easy to achieve. Although it is true that the two partners in every alliance are somewhat interdependent—because each relies on the other resources to some extent—the partners are invariably different from each other in many respects. They are likely to differ in size, business practice, areas of expertise, business culture, and so on. These differences invariably produce differential degrees of dependence within the alliance. In the case of Gota, ‘CTC’ provided the majority of Gota’s working capital; however, from the perspective of ‘CTC’, the funds that it provided to Gota accounted for only a small proportion of ‘CTC’s’ total business exposure. Gota thus had a markedly greater dependence on ‘CTC’ than did ‘CTC’ on Gota. In the case of Delta, the firm relied on its partner, ‘DL’, to supply 50% of its computers; however, from the perspective of ‘DL’, sales to Delta accounted for only a small proportion of ‘DL’s’ total sales. Delta thus had much greater dependence on ‘DL’ than did ‘DL’ on Delta. In situations of such unequal dependence, the party with greater dependence is clearly in a riskier position—as was demonstrated in the failed cases of Gota and Delta. Although disparities in dependence in an alliance cannot be entirely eliminated,
attempts should be made in a well-managed portfolio approach to reduce disparities and induce a degree of relative interdependence.

Such interdependence between two partners in an alliance is easier to achieve if each party possesses its own particular resources. However, most of the small trading firms discussed in this thesis possessed only limited resources of their own. Indeed, their motivation in entering into alliances was to access their partners’ resources to compensate for deficiencies in their own. In these circumstances they faced difficulties in creating interdependent relationships in their alliances. The best strategy in these circumstances is to treat the alliance itself as a resource of the firm. For example, in the case of Alfa, the firm used this strategy to create interdependent relationships with most of its alliance partners. The overseas seafood-processing partners thus saw Alfa as representing a significant market resource into which they could sell their products, and the distributors and restaurants saw Alfa as representing a reliable and competitive supplier of product. Alfa did not own the factories or the marketing channels, but it did control them through the alliances, and this network of alliances effectively constituted a resource in the interdependent relationships that enabled Alfa to access its partners’ resources. Similar situations occurred in the cases of Elta and Nuta. Even in the failed cases of Gota, Delta, and Cita, the firms created some degree of interdependence in some of their alliances. In summary, when a firm possesses a network of alliances, this can act as a resource in its own right, and this resource can be exchanged with the resources of partners in interdependent relationships.

In concluding this discussion of the issue of dependence in strategic alliances, the following points can be made:

- Some degree of dependence is unavoidable in forming an alliance. A firm that uses alliances as its major business growth strategy has to accept that it will become dependent on its partners’ resources.
- Although dependence cannot be eliminated, it is manageable.
- Dependence can cause a firm to fail if it cannot be reduced or effectively managed.
- A portfolio approach to strategic alliances can help a firm to reduce its dependence on the resources of any individual alliance partner.
• Striving for greater interdependence in the relationship between partners in an alliance is an important way of reducing dependence.

• A trading firm whose own resources are limited can create a valuable resource through a network of interdependent alliances.

9.4 The issue of balance

As indicated in the case studies, even if a firm has established a portfolio of alliances, it can still suffer from problems of imbalance in the alliances. Such an imbalance can cause a breakdown in some alliances and, ultimately, the business failure of a firm—as demonstrated in the cases of Gota, Delta, and Cita. The case studies have shown that a firm should take care to maintain balances within and among its alliances. These balances or potential imbalances can be summarised as:

• an balance/imbalance in significance to participants;
• an balance/imbalance in benefits to participants;
• an balance/imbalance in dependence among participants; and
• an balance/imbalance in the overall portfolio.

Each of these is discussed below.

Balance/Imbalance in significance to participants

The business of an alliance should be equally significant to both partners. Indeed, this is the basis of forming an interdependent relationship between the partners. In the successful cases of Alfa, Elta, and Nuta, most of the alliances formed in product sourcing, product marketing, and business finance were equally significant to both parties in the alliances. For example, Alfa relied on its overseas seafood-processing partners to supply a certain volume of products to sell in the Australian seafood market, and these processing partners relied on Alfa to purchase a certain proportion of their production to export to the Australian market.

However, in the failed cases of Gota, Delta, and Cita, an imbalance in the significance of the alliances played an important role in the failure of some alliances and the failure of firms. For example, the financial alliances formed by Gota and Delta were not as significant to the financial partners as they were to Gota and Delta. The financial partners thus found it easy to withdraw when they were not satisfied with the performance of the alliances. In the case of Cita, its alliances with clothes wholesalers in Australia were, initially, of equal significance to both parties.
However, when the business environment changed and the competition in the clothes industry became fierce, the wholesale partners began to look for an alternative to Cita. When they developed other import channels, Cita became less significant to them. It is thus apparent that the significance of an alliance to its partners can change in accordance with a changing business environment.

**Balance/Imbalance in benefits to participants**

Partners in an alliance have to be satisfied by the benefits each achieves from the arrangement. Unsatisfied expectations can provoke opportunistc behaviours in an alliance and, ultimately, the collapse of the alliance. In the case of Elta, the firm purchased food condiments from its alliance partners in Hong Kong and sold them exclusively in Australia. Elta achieved the benefits it expected, such as consistent and exclusive supply of products and competitive advantages, whereas the Hong Kong partners achieved the benefits of selling a satisfactory volume of their condiments to the Australian market at a satisfactory price. Similar mutual benefits were achieved in the cases of Alfa and Nuta.

In the failed cases of Gota, Delta, and Cita, a failure to satisfy the expectations of alliance partners caused serious problems. The financial partners of Delta and Gota were dissatisfied with the returns gained from the alliances, which led to the withdrawal of these financial partners from the alliances. In the case of Cita, the firm’s wholesale partners were, at one stage of the relationship, dissatisfied with the prices offered by Cita. This led to opportunistc behaviour on the part of these partners who began to seek other clothing-import channels. All of these unsatisfied expectations caused problems in the relationships between the alliance partners and, ultimately, caused problems for the firms’ businesses.

**Balance/Imbalance in dependence among participants**

As previously noted, the establishment of several alliances in a given category within a portfolio of alliances can help to reduce a firm’s dependence on any individual alliance. Examples include the multiple alliances formed in the categories of product sourcing and product marketing by Alfa, Elta, and Nuta. The formation of interdependent relationships with alliance partners can also reduce dependence on partners’ resources. In most of the alliances formed in the successful cases, Alfa, Elta, and Nuta set up interdependent relationships with their alliance partners. In the failed cases, an imbalance of dependence existed in every case. Gota, Delta, and Cita all
relied heavily on the resources of a partner in one way or another. Both Gota and Delta were dependent on a single financial partner to provide funds for their businesses, and Cita relied on its wholesale partners’ marketing channels as its only way to sell its products. When these alliance partners could not continue to fulfil their responsibilities to the alliances, the firms suffered serious problems in accessing certain crucial resources.

Balance/Imbalance in the overall portfolio

A portfolio of strategic alliances needs to be a balanced portfolio. A firm’s product-sourcing capacity should match its product-marketing capacity. Moreover, its financial capacity should provide sufficient funds to conduct product-sourcing and marketing activities. In the cases of Alfa, Elta, and Nuta, a major task of the principals and managers was trying to maintain balances among the categories within the portfolio of alliances. For instance, in the case of Alfa, its financial partner was dissatisfied with the returns it was gaining from the alliance with Alfa and wanted to withdraw from the alliance. This threatened Alfa with a shortage of funds, which would have affected the firm’s product sourcing, product marketing, and overall business growth. Alfa soon found another financial partner to replace the existing one, and this enabled the firm to correct the potential imbalance that would have been caused by the withdrawal of the original financial partner.

If the balance is not maintained, alliances can become dysfunctional and their future can become problematic. For example, when Citas’ alliance partners moved some orders to other suppliers, Cita could not provide enough orders to its manufacturing partners, and these latter partners were unwilling to reserve the agreed production capacity for Cita. This situation then affected the performance of Citas’ alliances in product marketing because they could not secure sufficient production support. The overall situation caused a contraction in Citas’ product sourcing and in its marketing. Ultimately, this imbalance of resources accessed through alliances in different categories closed down Citas’ business. In the case of Gota, the withdrawal of its alliance financial partner caused a shortage of funds for Gota to use in its product sourcing and marketing activities. Ultimately, Gota was forced to close as a result of the withdrawal of its financial partner. A similar situation occurred with Delta. An imbalance between the financial resources accessed through alliances and
the resources of product sourcing and marketing capacity led to the termination of the alliances of both Gota and Delta, and ultimately led to their business failures.

In summary, a firm needs to pay attention to the issue of balance in its portfolio of alliances. This balance has to be maintained with respect to:

- a balance in significance to participants;
- a balance in benefits to participants;
- a balance in dependence among participants; and
- a balance in the overall portfolio.

Such balances can easily be upset because the business environment is constantly changing and because the relationships between partners are similarly subject to change. It is therefore necessary to make adjustments to maintain the balance within a portfolio of alliances. If this is not done, imbalances can occur as a result of the changing environment, and these imbalances have the potential to cause disruption to the alliance and, ultimately, the business failure of the participating firms—as occurred in the cases of Gota and Delta.

9.5 Summary

The key success factor identified in each of the successful cases (Alfa, Elta, and Nuta) was the adoption of a balanced portfolio of strategic alliances. Each of these firms formed a portfolio of strategic alliances in the three categories of product sourcing, product marketing, and business finance. They also attempted to form interdependent relationships with their alliance partners, and to maintain the various balances that have been identified in this thesis as being vital to the success of a portfolio of alliances—a balance in significance to participants; a balance in benefits to participants; a balance in dependence among participants; and a balance in the overall portfolio. These balanced portfolios of strategic alliances realised significant benefits for the firms—such as consistent and competitive product supply, extended marketing channels, and access to sufficient funds. Having a balanced portfolio of alliances also reduced the firms' dependence on any individual alliance partner and enhanced the firms' strategic positions in their industries. In summary, a balanced portfolio of strategic alliances played an important role in each of these firms enjoying business success.

The key failure factor identified in the failed cases (Gota, Delta, and Cita) was the existence of various imbalances within the portfolios of strategic alliances.
established by the firms. These imbalances not only placed the firms in a dangerously dependent position in terms of their reliance on their partners’ resources, but also caused dysfunction of the alliances when problems arose. Ultimately, these problems led to the demise of the firms themselves. Although other factors also played a part in the demise of the firms—such as fierce competition in the apparel industry (in the cases of Delta and Cita) and a contraction in market demand (in the case of Gota), the major cause of business failure was the collapse of unbalanced alliances, upon which the firms were utterly dependent.
Summary of Part III

Though trading in different industries it was found that all six firms used strategic alliances as their major business growth strategy. The case findings indicated that three firms, Alfa, Elta and Nuta, achieved significant business growth and sound financial performance, while the other three firms, Gota, Delta and Cita, failed to continue their businesses. The major success factor of using alliances to grow a business indicated by the case study is to establish a portfolio of strategic alliances, which covers the categories of product sourcing, product marketing and business finance. Within each alliance, the firm needs to build up an inter-dependent relationship with its partner firm to keep the business transactions in the alliance reliable and consistent. The portfolio of alliances has to be a balanced portfolio with many aspects of balances being actively maintained by the firm in the dynamically changing environment, such as: the balance of partners’ business sizes, the balance of the partners’ expectations of alliances and the benefits they achieved and balances in other aspects of alliances concluded above. Failing to set up the inter-dependent relationships with alliances partners, or failing to maintain the various balances in the portfolio of alliances could contribute to the partners’ opportunistic behaviour, which could cause problems for the alliances, and damage the alliances. The failure of some alliances could further break down the firm’s business, should the firms heavily rely on the alliances to acquire necessary resources for their survival.
Chapter 10 Conclusions and Recommendations

10.1 Introduction
This chapter presents the overall conclusions of the study and makes recommendations for business practitioners regarding the use of strategic alliances to expand their businesses. The chapter also presents recommendations for future studies in this area.

10.2 Benefits and problems of strategic alliances
The first two research questions of the present study read as follows:

- What are the potential benefits of strategic alliances to small trading firms?
- What are the key issues and problems facing small trading firms with respect to strategic alliances?

Through the literature review, multi-case study, and comparative cross-case analysis, the thesis has come to certain conclusions regarding these research questions. These are presented and discussed below.

10.2.1 Findings from literature review
The literature review examined the benefits and problems of strategic alliances to the participating firms from three theoretical perspectives—(i) transaction cost; (ii) resource dependence; and (iii) strategic behaviour. The main benefits and problems of strategic alliances to the firms are summarised in six propositions as follows.

Propositions about benefits

1. Transaction-cost perspective: By entering strategic alliances, a firm might benefit from a reduction in transaction costs, an improvement in transaction efficiency, and a reduction in transaction uncertainty between itself and other firms.

2. Resource-dependence perspective: By entering strategic alliances, a firm might benefit from accessing scarce resources from other firms within its environment

3. Strategic-behaviour perspective: By entering strategic alliances, a firm might benefit by acquiring key competencies, creating competitive advantages, and enhancing its strategic position within its industry.
Propositions about problems

1. Transaction-cost perspective: By entering strategic alliances, a firm might experience: (i) cost increases; and (ii) opportunistic behaviour on the part of alliance partners.

2. Resource-dependence perspective: By entering strategic alliances, a firm might become over-reliant on the resources of its partner firms.

3. Strategic-behaviour perspective: By entering strategic alliances, a firm’s strategic positions might be threatened by contradictions arising from unrealistic goal expectations or lack of overlap with the goals of partner firms.

The thesis subsequently confirmed the validity of all of these propositions.

10.2.2 Findings from multi-case study and cross-case analysis

10.2.2.1 Benefits of strategic alliances
The benefits of strategic alliances as identified in the case studies and cross-case analysis include:

- reduction in transaction costs—such as transaction-negotiation costs, product-purchasing costs, product-storage costs, and financial costs;
- reduction in transaction uncertainty and improvement in transaction efficiency;
- access to key external resources—such as reliable and competitive product supply, extensive marketing channels, and sufficient funds for warehouses, equipment, and working capital;
- creation of competitive advantages by cost leadership and product differentiation;
- capitalisation of economies of scale and reduction of unit costs of products;
- increase in market opportunities and reduction of market risks;
- enhancement of the firm’s position within its industry by the formation of a network of alliances.

10.2.2.2 Problems of strategic alliances
The problems of strategic alliances as identified in the case studies and cross-case analysis include:
• extra costs to run and to maintain the alliances—such as extra operating costs, purchasing costs and marketing costs;

• sharing of profits with partners to maintain the relationships in alliances;

• becoming ‘locked in’ to alliances thereby renouncing other favourable opportunities;

• becoming too dependent on partners’ resources;

• compromising own goals to suit partners’ goals;

• positions being threatened by the partners’ opportunistic behaviour; and

• creation of benefits for competitors.

In summary, the propositions about the benefits and problems of strategic alliances developed from the three theoretical perspectives in the literature review have been well supported by the results of the case studies. The benefits achieved by the three firms in the successful cases (Alfa, Elta, and Nuta) indicated that a strategic alliance could be a useful strategy for small trading firms seeking business growth. They were able to use strategic alliances to: (i) reduce their transaction costs and create competitive advantages; (ii) access external key resources; and (iii) build up and enhance their strategic positions in their industries. The benefits achieved through alliances significantly enhanced the business success of the firms. However, the problems experienced by Gota, Delta, and Cita demonstrated that a strategic alliance can also be a risky strategy. An alliance can: (i) increase a firm’s costs; (ii) render them dependent on their partners’ resources; and (iii) weaken their strategic positions in their industries. As demonstrated in the case studies, these problems can result in the business failure of firms if they are not resolved effectively.

10.3 Roles of strategic alliances in firms’ business success and failure

The third research question was framed as follows:

• What roles do strategic alliances play in the business success or failure of small trading firms?

Through a multiple cross-case analysis, an interdependent relationship between the two partners was identified as the most important factor in maintaining an alliance. A balanced portfolio approach to strategic alliances was then identified as the key to the participating firms achieving business success.
A ‘portfolio’ of alliances was identified as consisting of strategic alliances in three distinct categories—(i) product sourcing; (ii) product marketing; and (iii) business finance.

The concept of ‘balance’ was identified as: (i) balance in the significance of the alliance to the participants; (ii) balance in terms of benefits to the participants; (iii) balance in dependence among participants; and (iv) balance in the overall portfolio. As a corollary, the study found that imbalances in these respects was a major threat to an interdependent relationship between the partners and a major cause of opportunistic behaviour within alliances; these factors, in turn, made significant contributions to the collapse of alliances and the ultimate failure of some of the participating firms.

10.3.1 Key issues and critical success factors in strategic alliances
The findings from the case studies indicate that certain key issues are important in the process of constructing a successful portfolio of strategic alliances:

- the right partners;
- the right forms of alliances;
- the appropriate categories;
- the balanced portfolio of alliances; and
- the business growth.

Each of these is discussed below,

10.3.1.1 The right partners
Finding the right partner at the right time is the first step to success in forming an alliance. It is also important that both parties have a desire to establish an alliance to create synergy between their businesses. The ideal partner is a ‘balanced’ partner—that is, the partner’s size should, if possible, match the size of the host firm. This promotes balance within the alliance, as discussed previously. If the sizes of the two firms are not in balance, the alliance will be of lesser significance to one party, which might not be willing to stay in the alliance if circumstances change.

In addition to these commercial considerations, trust between the partners is of importance. This needs to extend to an acceptance of different business styles and business cultures.
In summary, the ‘right’ partner in an alliance needs to have the following characteristics:

- ability to create business synergy;
- balanced in size;
- ability to create trust; and
- acceptance of cultural differences.

### 10.3.1.2 The right forms of alliances

The alliances in product marketing formed by the small trading firms studied in this research were flexible. For the most part they were constituted only by verbal agreements. The alliances in product sourcing tended to be more formal than those in the marketing category—especially if overseas suppliers and exclusive supply conditions were involved. The most formal alliances were those with the financiers, especially with established financial institutions. This was determined by the formal nature of the financial-services industry.

The following points need to be considered in choosing the right form for an alliance:

- the type of business;
- legal requirements for the alliance;
- the purpose of forming the alliance (such as a co-marketing alliance, a product-supply alliance, or a financial alliance);
- any cultural differences that might exist between the partners;
- the level of trust existing between the partners; and
- an evaluation of the risks of each form of alliance.

### 10.3.1.3 The appropriate categories

As previously noted, the small trading firms studied in this thesis formed alliances in three categories—product sourcing, product marketing, and business finance. However, firms in different industries may have their particular needs for certain resources. The categories in which they consider to form alliances may depend on these particular needs. For example, IT firms might need alliances that supply technical support. And service industries (for example a medical service) might need complementary service providers (such as specialists in particular areas). Thus, the categories in which a firm needs to establish alliances, and how many alliances need
to be formed in each category, are determined by the firm’s existing resource status and the resources it needs for further business growth. If a firm possesses sufficient resources in a given category, it might not need to use alliances to access external resources.

The firm’s particular ambitions form another dimension to this question of deciding on categories. If the firm is keen to grow its business quickly it might find that it lacks the resources to achieve this; if so, the firm might need to consider establishing alliances to overcome the shortage.

10.3.1.4 The balanced portfolio of alliances

The small trading firms in the case studies possessed limited resources to maintain and grow their businesses, and they therefore pursued strategic alliances to access the required external resources. However, if a firm’s resources position were not as limited as those of the firms studied here, it might not need as many alliances, and it might not need alliances in all categories.

The structure of a portfolio of alliances is thus dependent on the firm’s needs. If a firm uses the portfolio of alliances to overcome its shortage of resources in certain categories, but pursues its own resources in other categories, its business functions will be performed with a combination of internal and external resources. The make-up of a portfolio of alliances is thus dependent on the resources that a firm possesses and the resources that it needs to access from external sources.

10.3.1.5 The business growth

The purpose of establishing alliances is to grow the firm’s business. Ultimately, an alliance is successful only if it achieves this critical function. The case studies indicated that the small trading firms’ business growth was closely related to the benefits achieved through alliances. Without accessing the external resources from the alliances, they could not have achieved such growth while relying on their limited internal resources.

10.3.2 Key issues and critical failure factors of strategic alliances

The analysis of the cases of Gota, Delta, and Cita supported the three propositions advanced in the thesis regarding the potential problems of strategic alliances. These problems had a severe impact on the firms’ businesses and played significant roles in
their ultimate business failures. The critical failure factors that emerged from the study can be summarised as.

- different expectations for alliances;
- opportunistic behaviours;
- over-reliance on partner’s resources; and
- lack of adaptability to the dynamic business environment.

Each of these is discussed below.

10.3.2.1 Different expectations for alliances

If partners in a strategic alliance have different expectations with respect to that alliance, this can cause significant disruption to relationships within the alliance. In the cases studied in this thesis, at least two firms experienced this problem. Gota experienced this problem in its relationship with its financial partner (who had different expectations regarding expected financial returns) and Cita experienced the problem in its relationship with its product-marketing partners (who had different expectations regarding pricing as competition in the industry became more intense).

Differing expectations can result from various reasons.

- One or both partners might misjudge the business potential of the alliance and thus form unrealistic expectations.
- The alliance might not be effectively managed to achieve sufficient benefits to satisfy the partner.
- The environment might change, making it impossible for the partners to realised the expected benefits from the alliance.

Whatever the cause of unrealised expectations, the problem requires an improvement in the management of the alliance and/or negotiation to adjust previous expectations. It is of interest that, in the successful cases, such negotiation (to adjust partners’ expectations) was an ongoing process in the successful management of the alliances. In a dynamic business environment, adjustment of partners’ expectations is always needed if a satisfactory balance is to be maintained within an alliance.

10.3.2.2 Opportunistic behaviours

The second critical failure factor identified in this thesis was opportunistic behaviour on the part of a partner to an alliance. This problem becomes prominent if a partner’s survival is threatened by the development of fierce competition in the industry, or if a
partner expected more benefits from the alliance than it is achieving. If these needs and expectations cannot be satisfied, this partner might seek alternative ways of solving its problems. It might try to breach the conditions of the alliance and behave opportunistically by dealing with other external parties. This sort of behaviour was apparent in the case of Cita, whose wholesale partners demonstrated opportunistic behaviour in Cita’s alliances in product marketing—and ultimately caused Cita’s business failure.

Opportunistic behaviour of this sort ruins trust between partners and adversely affects their confidence in working together. Such opportunistic behaviour can be deterred by:

- formal (legal) stipulations in a written agreement;
- informal injunctions (regarding accepted practice in the industry and the wider community); or
- practical pressure (by ensuring that such behaviour will have adverse consequences for an opportunistic firm that is, ultimately, in a dependent position in an alliance).

However, such opportunistic behaviour is difficult to avoid in a competitive environment. Businesses are always interested in seeking more benefits than they are presently achieving, and this often extends to an exploration of alternative channels apart from an existing alliance—especially in stressful circumstances.

If the deterrence measures (noted above) fail to prevent opportunistic behaviour, it might be necessary to terminate the alliance and seek a replacement for the errant partner. But this is a risky way for a firm to deal with the issue. First, it could have short-term detrimental effects on the firm’s own business. Secondly, the firm might not be able to find a suitable partner to replace the existing one within a limited time frame.

10.3.2.3 Over-reliance on partner’s resources
A firm’s dependence on its partners’ resources is an important issue in alliances management—especially for small trading firms with limited resources of their own, such as those studied in this thesis. These firms used strategic alliances to access such external resources as consistent and competitive production supply, extended marketing channels, and available funds. In some cases they became over-reliant on these resources and the alliance partners who provided them. For example, Gota was
heavily dependent on ‘CTC’ for financial support to survive, and Delta relied on consistent computer supply from ‘DL’ and financial support from a local financial institution. In the case of Cita, it was over-reliant on its wholesale partners, whose opportunistic behaviour caused a severe contraction of business within its alliances. In the ultimate, all three firms were over-reliant on the resources of alliance partners, and this played a large part in the demise of the small trading firms.

Reducing dependence on partners is thus a critical issue for firms who utilise alliances to access key resources externally. As demonstrated by the cases of Gota and Delta, it is clearly important to avoid reliance on a single partner in a particular category—such as product sourcing or business finance. Citas’ case was somewhat different. It had multiple alliances in all the categories of product sourcing, product marketing, and business finance. However, when the competition in the industry became too fierce, all of the wholesale partners wanted to squeeze Citas’ profit to secure a discount on prices. The findings from the Cita case indicate that, despite having multiple alliances, a firm might not survive in a very competitive business environment if it relies on alliances for its external resources.

10.3.2.4 Lack of adaptability to the dynamic business environment

The contemporary business environment is constantly changing on both a macro-level and a micro-level. In this dynamic business environment, strategic alliances must also change if they are to survive. In the case of Cita, competition in the apparel industry became very fierce, and the firm had to react to this changed environment by reducing its product-sourcing costs to compete with rivals. In the case of Delta, the firm’s business was seriously affected by its financial partner’s internal problems. The failure of these two firms to adapt to changing circumstances demonstrates that adaptability is a crucial factor to be considered by the managers of firms who use alliances as their major business growing strategy. Figure 10.1 demonstrates the positive impact and negative impact on a firm by the benefits and problems of a portfolio of alliances formed by the firm, which are viewed from the three theoretical perspectives.
10.4 Recommendations for business practitioners

The fourth research question of this thesis referred to recommendations for practitioners—especially those running small trading firms. It was worded as follows:

- How can small trading firms realise the potential benefits of strategic alliances while simultaneously minimising the potential problems?

The implementation of an alliance strategy involves two stages—the formation of an alliance and the management of an alliance. The fourth research question is addressed from these two perspectives.

10.4.1 Alliance formation

Drawing on the critical success factors identified above, the recommendations for practitioners in forming an alliance are presented under the following headings:

- deciding on the categories of alliances;
- finding the right alliance partners;
- identifying the right opportunity;
- choosing the right forms of alliances; and
• building up a portfolio.

10.4.1.1 Deciding on the categories of alliances
A firm should decide in which business category (or categories) it needs to establish alliances—such as product sourcing, product marketing, and business finance, as in the case of small trading firms’ business sector. Firms in different industries may have their particular needs to form alliances in some other categories applicable to their particular situations. The present study recommends that managers should carefully assess the status of their firm’s existing resources in each category and the resources it needs for its business development.

10.4.1.2 Finding the right alliance partners
Finding the right partner is the first step for success in forming strategic alliances. The present study recommends that managers should take the following factors into account in choosing a potential alliance partner:

• the likelihood of an inter-dependent relationship between the partners;
• the likelihood of business synergy between the partners;
• balance in size;
• trust in each other; and
• acceptance of any cultural differences.

10.4.1.3 Identifying the right opportunity
With respect to identifying the right opportunity, it is recommended that both parties should have a simultaneous desire to establish an alliance between them to create synergy for their businesses.

10.4.1.4 Choosing the right forms of alliances
With respect to whether a alliance should be formally constituted or informally agreed, it is recommended that the following points be considered:

• the degree to which formality (as opposed to flexibility) is required by the participants in an alliance;
• the costs involved;
• the degree of control required;
• the exclusiveness of the alliance;
• any cultural difference between the partners; and
• the level of trust between the partners.

10.4.1.5 Building up a portfolio
In building up a portfolio of alliances, it is recommended that managers consider:

• the resources the firm needs to access from external sources (and the
categories of these resources);
• the number of alliances that need to be formed in each category; and
• the balance of the portfolio (in terms of the significance of alliances to the
participants, benefits to the participants, dependence among participants, and
balance in the overall portfolio).

10.4.2 Alliance management
Drawing on the critical success factors identified above, the recommendations for
practitioners in managing an alliance are presented under the following headings:

• maintaining interdependence between partners;
• maintaining the balances; and
• keeping the business growing.

10.4.2.1 Maintaining interdependence between partners
A relationship of interdependence between partners in an alliance is the basis for
adaptation in the alliance as the business environment changes. To maintain an
interdependent and balanced relationship, managers should be aware that changing
circumstances might require the partners to inject more resources into the alliance
from time to time, or withdraw others as occasion demands.

10.4.2.2 Maintaining the balances
Managers should be constantly aware of the importance of maintaining balances in
their strategic alliances in terms of: (i) the significance of alliances to the participants;
(ii) benefits to the participants; (iii) dependence among participants; and (iv) balance
in the overall portfolio. The dynamic nature of the modern business environment
means that managers must remain vigilant in adjusting the alliances to maintain these
vital balances in a changing business environment.

10.4.2.3 Keeping the business growing
The essential purpose of establishing alliances is to facilitate business growth.
Managers must not lose sight of this basic objective and must always be aware of the
importance of working in close consultation with alliance partners to ensure that the business of the alliance is growing in a satisfactory fashion and that the alliance is thus fulfilling its essential purpose.

10.4.3 Summary of recommendations
These recommendations to practitioners regarding alliance formation and alliance management can be summarised by saying that a balanced portfolio approach is the key to success in pursuing an alliance strategy. The overarching concept of a balanced portfolio approach includes: (i) choosing the right alliance partners; (ii) selecting the right forms of alliance; (iii) deciding the categories and identifying the opportunities to establish alliances; (iv) maintaining an interdependent relationship between the partners; (v) maintaining the appropriate balances in a dynamic business environment; and (vi) ensuring the ongoing growth of the business of the alliance.

10.5 Recommendations for future research
In making a significant contribution to research into strategic alliances, the present study has also revealed some interesting areas that require further investigation. These can be summarised as follows:

- **interdependent relationship**: further research into the nature of an interdependent relationship between alliance partners;
- **balances**: a deeper understanding of the various balances within the portfolio of alliances;
- **opportunistic behaviour**: the reasons for opportunistic behaviour;
- **crises in alliances**: why they occur and how they are handled;
- **internal competencies**: how the internal competencies of a firm relate to its formation and management of alliances.

Each of these is briefly explored below.

10.5.1 Inter-dependent relationship
The present study has established that dependence is a major issue in the formation and management of strategic alliances. The following questions require addressing in this area.

- Which factors determine the establishment of interdependence?
- How can a firm best go about establishing an interdependent relationship with a partner in an alliance?
• How can a firm maintain an interdependent relationship with its partner in a changing environment?
• What can a firm do if interdependence is lost and cannot be regained?

10.5.2 Balances
The present study has concluded that the key to success in using alliances is to set up and maintain a balanced portfolio of alliances. The following questions regarding the various balances in alliances need to be addressed:
• How can ‘balance’ be measured in alliances?
• How can a firm best go about achieving desirable balances when it establishes alliances with partners?
• How can a firm maintain the balances within a dynamic business environment?
• What should a firm do if some of the balances in alliances change and cannot be restored?

10.5.3 Opportunistic behaviour
Opportunistic behaviour has been identified as a significant cause of dysfunction within alliances. The following questions are worthy of further research:
• How can a firm avoid the damage caused to an alliance by its partner’s opportunistic behaviour?
• What compromises should a firm be prepared to make to satisfy its partner’s expectations and thus minimise the possibility of opportunistic behaviour?

10.5.4 Crises in alliances
Crisis is always possible in an alliance. The following areas require further investigation:
• the reasons for crises occurring in alliances;
• how firms can best deal with crises in an alliance; and
• the termination costs of an alliance and the problems of finding alternative resources.

10.5.5 Internal competencies of firms
The successful establishment and management of a portfolio of alliances require certain internal competencies within a firm. Further research is required to establish
exactly which internal competencies are required in relation to the establishment and management of a portfolio of alliances.

10.6 Summary

This final chapter of the thesis has presented the overall conclusions of the research work and has made recommendations to business practitioners in the field. The chapter has also made recommendations for future studies.

The major contribution of the research has been to identify the importance of a balanced portfolio approach to the successful formation and management of strategic alliances.

The nature of a ‘portfolio’ has been explored and the thesis concludes that a firm should strive to build up alliances in a range of categories according to its particular resource requirements. Moreover, the study concludes that the existence of several alliances in any given category affords a firm greater security.

The nature of ‘balance’ has also been explored, and four categories of balance have been identified: (i) balance in the significance of an alliance to the participants; (ii) balance in the benefits to the participants; (iii) balance in the degree of dependence among participants; and (iv) balance in the overall portfolio.

The thesis has established that any imbalance within a portfolio of alliances can disturb an interdependent relationship between the alliance partners, and that this can lead to the failure of the alliance and, ultimately, to the business failure of the participants in an alliance.

This thesis has thus made a significant theoretical and practical contribution to scholarship and practice in this area. A balanced portfolio of alliances has been established as the key concept to be understood and pursued by firms that wish to achieve success through a strategy of strategic alliances.
[References]


[Further Readings]


Appendix 1

Sample of Semi-Structured Interview Questions

Part 1: \textit{Definition}

- What do you mean by “strategic alliances”?

Part 2: \textit{Current Status of Alliances}

- How many strategic alliances have been formed in your organization?
- Please explain your purposes for entering these alliances.
- What kinds of agreements are reached to form these alliances?
- When were these alliances formed? Are they still in operation?
- What is your overall feeling about these alliances?

Part 3: \textit{About Partners of Alliances}

- Could you briefly introduce the business of your partners in these alliances?
- What were the relationships between these partners and your organization before you formed the alliances?
- Do you know the driving factors of your partners to enter these alliances?

Part 4: \textit{Benefits of Alliances}

- What are the benefits acquired from these alliances by your organization?
• How do you evaluate the benefits of alliances to your business?
• What are the benefits of these alliances to your partners?
• Are you confident of the continuous operation of these alliances?

Part 5: Problems of Alliances

• Did any problems arise in the alliances? What were the reasons?
• Did your organization confront unexpected difficulties in these alliances?
• Did you solve the problems? How were the problems solved?
• What was the damage to your organization from these problems or difficulties?

Part 6: Impact of Alliances on Business

• How do you evaluate these alliances in terms of the impact of them on the financial results of your organization?
• When did your organization cease operating?
• What were the major reasons which caused the closure of your business?
• To what extent do you think a lack of strategic alliance has contributed to your business failure? Please explain.