Building Global Strategic Alliances and Coalitions for Foreign Investment Opportunities

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Abstract

Global strategic alliance and coalition is a diffuse way of effective combination of strengths of companies aiming at entering new markets, exploring new technologies, bypassing government entry restrictions and to learn quickly from the leading firm in the partnership, all in an effort to exploit foreign investment opportunities. Strategic alliances are however, not easy to develop and support. They often fail because of technical errors made by management of member firms. To make it a success, a strong and efficient alliance agreement has to be in place to enable companies to gain in markets that would otherwise be uneconomical. Building alliances requires considerable time and energy from all parties involved with a detailed plan, expectations, limitations and scopes, and the likely benefits drivable from the project. Alliances take a number of forms and go by various labels. Alliances may be contracts, limited partnerships, general partnerships, or corporate joint ventures, or may take less formal forms, such as a referral network. The paper is aimed at exploring and educating prospective and allied businesses or firms the need and significance of across border coalition, and how to go about it. It is a literature based paper and therefore, reviews related literatures from journal articles, texts, seminar papers and some online sources for better understanding of the concept. The paper looked into issues in building global strategic alliances and coalitions, developing a global strategy, why the formation of alliances, issues in selecting alliances partners, stages involved, and benefits drivable from such partnership. It further highlights the conceivable types of strategic alliance and sighted examples of real life alliances. It was found that global alliances had helped big firms explore new international markets and new technological competencies. Thus the paper recommends that a firm, who really wants to have a global touch, would have to start through alliances or coalition.

Key words: Strategic alliance, Globalization, Strategy, Coalition, Foreign Direct Investment

Introduction

Change is an ever present facet of business development. Businesses transfer ownership, for example, and end up reformulating their entire business structures. Companies hire outside consultants to advise restructuring during financial crises. Sometimes the fact that businesses go global is the product of the inevitable ebb and flow of commerce. An overseas buyer may transfer operations to the home country. The majority of an industry's business may shift overseas, making global expansion all the more desirable. Competition may develop in regions or countries such that it is unwise for a company not to follow.

Companies go international for a variety of reasons but the typical goal is company growth or expansion. When a company hires international employees or searches for new markets abroad, an international strategy can help diversify and expand the business. Economic globalization is the process during which businesses rapidly expand their markets to include global clients. Such expansion is possible in part because technological breakthroughs throughout the 20th century rendered global communication easier. Air travel and email networks mean it is possible to manage a business from a remote location. Now businesses often have the option of going global, they assess a range of considerations before beginning such expansion.

During the last half of the twentieth century, many barriers to international trade fell and a wave of firms began pursuing global strategies to gain a competitive advantage. However, some industries benefited more from globalization than do others, and some nations have a comparative advantage over other nations in certain industries when it comes to foreign investments. According to Hornberger (2011) there are promising trends in global Foreign Direct Investment (FDI) flows for developing and transition economies". Each year more and more FDI is flowing not only from developed into developing economies but also from one developing or transition economy to another. UNCTAD (2009: 17) notably, since the mid-1980s, most developing countries have become much more open to FDI, with a view to benefiting from the development contributions which FDI (particularly high-quality FDI) can generate for host countries. In the same vein, Todeva & Knoke (2005) highlighted the possibility of both firms and host countries reducing the business risk of international operation, is by cooperation among firms in the form of alliances and coalition. In other words, corporations that have aligned their business with others are seen to be more efficient and effective on the international business scene (Todeva & Knoke, 2005).

With growth and development in sight, developing countries seek to make regulatory work for FDI more transparent, stable, predictable, secure and thereby more attractive for foreign investors (LJNCTAD 2003). Again this style of partnership trading should be replaced with strategic alliances and mergers if developing countries have a chance of developing through the assistance of the developed nations in the 21st century (Kinyeki and Mwangi, 2013). This is a critical issue of economic development for the developing nations.

As this paper integrates three different issues that are pertinent in International Business, each of them will be closely examined to have a better linkage on their interdependence. Objectively, this paper seeks to explore every available opportunity in building a global strategic alliance or coalition in exploring international business opportunities, how multinationals align, why they align, stages involved and importantly strategize while doing business globally.

The Concept of Globalization and Foreign investment

Globalization is an ongoing process by which regional economies, societies and cultures have become integrated. The term is used to describe the fact that the world becomes a global village and that trade, production and finance are being conducted on a globe of scale. Economic globalization is the process during which businesses rapidly expand their markets to include global clients. Such expansion is possible in part because technological breakthroughs throughout the 20th century rendered global communication easier. Air travel and email networks mean it is possible to manage a business from a remote location. Now businesses often have the option of going global, they assess a range of considerations before beginning such expansion.

Foreign direct investment (FDI) is but an investment made by a company (parent company) into a foreign company. Making an argument for why foreign direct investment plays an extra ordinary and growing role in global business. Graham and Spaulding (2005) says “foreign direct investment in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country”. They further maintained that “the sea change in trade and investment policies and regulatory environment globally in the past decade, including the policy and tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries, has probably been the most significant catalyst for FDI’S expanded role in recent time”.

Building a Global Strategy

Today, we live in a global economy in which time taken for people to move between continents has been significantly reduced. The business response of large business organisations has to recognise that they now operate in a global market place and to develop appropriate strategies.

Problems associated with global business management have been identified as factors that negatively impact the performance and productivity of multinational corporations and in turn, adversely affect regional and national economic growth. And the new global reality that organizations and their leaders face is a rapidly changing international context. The intercultural dynamics of increasing globalization demand strategic cultural thinking and a global mindset that sees beyond national borders and is open to exchanging new ideas. Leaders of all organizations find themselves increasingly working in a fluid environment requiring flexible thinking to adapt quickly to new and different intercultural environments (Dean, 2006).

Organizations are facing increased global competition, economic uncertainties, and changing markets. Technology is changing the way we conduct business and manage information. Outsourcing of significant functions within businesses and organizations complicates the landscape of supplier relations. Suppliers and vendor partners may be located in the same city, region or country. But they are just as likely to be located halfway around the world, adding new challenges to business management.

Global strategy is considered to be an act of building a unique and sustainable ways by which organization create value, a broad formula for how business is going to compete against another business in the global market. Global strategy leads to a wide variety of business strategies, and a high level of adaptation to the local business environment. The challenge here is to develop one single strategy that can be applied throughout the world at the same time maintaining the flexibility to adapt that strategy to the local business environment when necessary (Yip, 2002). A global strategy involves a carefully crafted single strategy for the entire network of subsidiaries and partners, encompassing many countries simultaneously and leveraging synergies across many countries. The global strategy assumes that the centre should standardize its operations and products in all the different countries, unless there is a compelling reason for not doing so (Zou and Cavusgil, 2002). It is therefore important for the centre to offer a significant coordination its subsidiaries activities ranging from product standardization, responsiveness to local business environment and competition in the market.

Global Strategic Alliance and Coalition

Strategic alliances developed and propagated as formalized inter-organizational relationships, particularly among companies in international business systems. These cooperative arrangements seek to achieve organizational objectives better through collaboration than through competition, but alliances also generate problems at several levels of analysis (Margarita, 2009). A strategic alliance is a term used to describe a variety of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation (Campbell & Reuer 2001). Strategic alliance can be described as a process wherein participants willingly modify their basic business practices with a purpose to reduce duplication and waste while facilitating improved performance (Frankle, Whipple and Frayer, 1996). In simple words, a strategic alliance is sometimes just referred to as “partnership” that offers businesses a chance to join forces for a mutually beneficial opportunity and sustained competitive advantage (Yi Wei, 2007).

According to Dean (2006) in an increasingly globalized environment, organizations in different nations can expand their reach and effectiveness by building global partnerships, transnational partnerships and international strategic alliances with other organizations. The term global alliance encompasses all of these. Dean (2006) explained that such arrangements are especially useful where organizations are operating in highly fluid environments of increasing informational complexity and cultural diversity". Relationships built on mutual respect and trust hold significant potential benefits, including increased confidence and security, reduced transactional costs and better information exchange and creative synergies generated by cultural diversity. In the same vein, the modern form of strategic alliance is becoming increasingly popular and has three distinguishing characteristics as described by Jagersma (2005); they are usually between firms in high - industrialized nations; the focus is often on creating new products and technologies rather than distributing existing ones; they are often only created for short term durations. Technology exchange is a major objective for many strategic alliances. The reason for this is that technological innovations are based on interdisciplinary advances and it is difficult for a single firm to possess the necessary resources or capabilities to conduct its own effective R&D efforts. This is also supported by shorter product life cycles and the need for many companies to stay competitive through innovation (Jagersma, 2005). Similarly Kotelnikov (2010) defined it as strategic alliance where two or more businesses join together for a set period of time. The businesses, usually, are not in direct competition, but have similar products or services that are directed toward the same target audience. He also mentioned that, strategic alliances enable business to gain competitive advantage through access to a partner's resources, including markets, technologies, capital and people.

Literally, coalition or alliance can simply mean conjunction or fusion between two or more different phenomenon to form a unit, in most case for strategic reasons. Hence, partners may provide the strategic alliance with resources such as product, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise or intellectual property. In other words alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefit from alliance will be greater than those from individual efforts.

While many analysts regard strategic alliances as recent phenomena, inter-organizational linkages have existed since the origins of the firm as a production unit. Some examples include firm and entrepreneur ties to credit institutions such as banks; to trade associations such as the early Dutch Guilds; and to suppliers of raw materials, such as family farms, individual producers, and craftsmen (Todeva & Knoke, 2005). Meanwhile, the concept of coalitions has undergone differing applications and meanings within organizational theory. The earliest uses focus on conflicts within organizations and the presence of multiple goals within the same organization (Simon and March, 1958). They further emphasize that coalitions is between firms but not within organizations.

Another significant period of coalition research centered on James Thompson (1996), where he coined the term "Dominant coalition". Thompson (1996) concluded there were certain constraints on coalition building, mainly the organization's technology and environment. Thompson theorized that the more uncertainty in organizations due to technology and environment, the more power bases that exist. The coalition grows as the uncertainty increases. Thompson (1996) also used the term, "inner circle" to describe the selected few within an organization whose connections provide them with influence. Their role in coalition building is often one of leadership, but they seldom act alone in achieving goals. Thompson went further to say that. “Their power is enhanced as the coalition strives to achieve a group goal: thus, the individual and coalition feed off each other”. Carrying Thompson’s point one step further, interdependency in an organization creates a greater likelihood for the formation of a coalition or coalitions.

Generally, building alliance or coalition would go a long way in assisting firms (particularly those in strong alliance) gain more business advantage in their respective dealings over other (especially, individual organization without ally). Potential coalition members must be persuaded that forming a coalition would be to their benefit. To do this one needs to demonstrate that your goals are similar and compatible, that working together will enhance both group’s abilities to reach their goals, and that the benefits of coalescing will be greater than the costs (Spranger, 2003). The third point can be demonstrated in either of two ways: incentives can be offered to make the benefits of joining the coalition high or sanctions can be threatened, making the costs of not joining even higher. For example, the United States offered a variety of financial aid and political benefits to countries that joined its coalition against Iraq in 2003; it also threatened negative repercussions for those who failed to join, and much worse for those who sided with Saddam Hussein. Another method that can make joining the coalition appealing is to eliminate alternatives to the coalition. Once most of one’s allies or associates have joined a coalition, it is awkward, perhaps dangerous not to join oneself. Although people and organizations often prefer non-action to making a risky decision. if they find themselves choosing between getting on board a growing coalition or being left behind, getting on board is often more attractive.

Why form Global Alliance or Coalition

Many fast-growth technology companies use strategic alliances to benefit from more-established channels of distribution, marketing, or brand reputation of bigger, better-known players. However, more traditional businesses tend to enter alliances for reasons such as geographic expansion, cost reduction, manufacturing, and other supply-chain synergies (Kinyeki and Mwangi, 2013). To further support earlier view, Jacob and Weiss (2008) also maintained that companies forms across border alliances in order to get instant endorsement that would add to the firm’s credibility thereby gaining more customers at a lower marketing costs. To combine partner resources to develop new businesses or reduce investment is a vital reason why businesses form alliances. Typical examples include new business start-ups with parents contributing specific complementary capabilities that constitute the basis for a new business. For instance, Airbus was a joint venture between French, German, British and Spanish manufacturers that eventually became a single company. Each national partner has specialized in one bit of aircraft manufacturing. The French became experts in aircraft electronics and cockpit design, the British became world leaders in wing manufacturing, the Germans concentrated on making fuselages and the Spanish focused on aircraft tails (Burdon, Chelliah & Bhalla, 2009). Strategic alliance designed to respond to competition and to reduce uncertainty can also create competitive advantages. However, these advantages tend to be more temporary those developed through complementary (both vertical and horizontal) strategic alliances (Belal & Akhter, 2011).

A high degree of integration of specific parent resources is required to achieve goals and it is desirable to create loyalty to a new business distinct from the parents because their interests might otherwise prevent the success of collaboration (Kale and Singh, 2009). Toshiba and Motorola, for example, created a semiconductor manufacturing alliance, even though the two parents competed in downstream product areas. Direct parent-to-parent collaboration (often including licensing or long-term contractual agreements) is appropriate when assets or resources are best kept in separate parent organizations. Parent interests are competitive close parent control is required, and success cannot be measured in terms of performance measures that apply to stand-alone businesses (for instance, the main purpose is to learn). Learning may entail improving skills through working with a partner or gaining access to countries. Turner Broadcasting, which is part of Time Warner, had a deal with Philips, a Dutch electronics company, where Philips got the right to name a new sports arena that TBS built in Atlanta. But TBS's main motive was to find out more about European consumers and about the digital communications hardware that is Philips's stock-in-trade (Burdon, Chelliah & Bhalla, 2009). In the same vein Margarita (2009) emphasizes that expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources.

To eliminate business risks is another reason why alliances are formed. During the past few years, Renault, General Motors and DaimlerChrysler have bought stakes in Nissan, Fuji Heavy Industries (which makes Subaru brand cars), and Mitsubishi Motors, respectively (OECD, 2002). The idea is that a stake in a Japanese carmaker, with a network of factories and dealerships in Asia, is a less risky way to expand into the world's fastest-growing automotive market than a full merger.

Also changing the name of the competitive game is of course one reason why firms form global alliance. To manage industry rivalry, Star Alliance, which includes Lufthansa and United Airlines, had a series of loose arrangements to share codes and direct passengers to partners' flights; then it began to look more like a quasi-merger, with shared executive lounges and pooled maintenance facilities (Slywotzky and Hoban, 2007).

Types of Strategic Alliances

The strategic alliances can be mostly summarized into three dimensions: joint venture, equity strategic alliance, and non-equity strategic alliance. This section reviews the literature on how the three dimensions of strategic alliance may contribute to partner competitiveness and success in the global business arena.

Joint Venture

A joint venture is an agreement by two or more parties to form a single entity to undertake a certain project. When two or more firms form a legally independent firm to share their collaborative capabilities and resources to achieve competitive advantages in the market is termed as joint venture in the form of strategic alliance. Joint ventures are effecting in establishing long-term relationship and in transferring tacit knowledge. Because it cannot be codified, tacit knowledge is learned through experiences (Berman et al, 2002) such as those taking place when people from partner firms work together in joint venture. Expertise and experience in particular field foster the sustainable competitive advantage. Tacit knowledge is an important source of competitive advantage for many firms (Tiessen and Linton, 2000).In a joint venture project generally participating firms share resources and participate in the operations management equally. “Sprint and Virgin group’s joint venture, called Virgin Mobile USA, targets 15-to-30 years-old as customers for pay-as-you-go wireless phone service. In another example, Sony Pictures Entertainment, Warner Bros., Universal Pictures, Paramount Pictures, and Metro-Goldwyn-Mayer Inc. each have a 20 percent share in joint venture to use the internet to deliver feature films on demand to customers. According to Belal & Akhter, (2011) Joint ventures are optimal form of alliances and different from any firm that independently does in the competitive market with own resources by creating competitive advantages through sharing and combining resources and capabilities of firms, and overall evidences support this statement. The coordination of manufacturing and marketing allows ready access to new markets, intelligent data, and reciprocal flows of technical information (Hoskinson and Busenitz, 2002).

Equity Strategic Alliance

Ownership percentage in equity strategic alliance is often not equal. Two or more firms own the shares of newly formed company differently according to their contribution in resources and capability sharing with ultimate goal of developing competitive advantages (Belal & Akhter, 2011). Internationalization of strategic alliances focuses on the linkages between two or more different firms’ management capabilities and operations activities. The different corporate cultures are matched into one goal in the strategic alliances when it crosses the boundaries of the country. Many foreign direct investments such as those made by Japanese and U.S. companies in China are completed through equity strategic alliances (Harzing, 2002).

Non-equity Strategic Alliance

A non-equity strategic alliance is less formal than a joint venture. To ensure competitive advantages of two or more companies forming an alliance on a contract basis rather a separate company and therefore don’t take equity shares (Belal & Akhter, 2011). They share their unique capabilities and resources to create competitive advantages. Because of this, there is an informal relationship built among the partners. Consequently, requires less formal relationship and partner commitments than other forms of strategic alliances. So, the implementation process of non-equity alliance is simple than other forms of alliances (Das et al, 1998). Since it is less formal relationship in non-equity alliances, it does not need much of experience like others. In a complex venture where success necessitates transfer of implied knowledge and expertise, non-equity strategic alliances are unsuitable because of their relative informality and lower commitment (Bierly and Kessler, 2002).

However, firms today increasingly use this type of alliance in many different forms such as licensing agreement, distribution agreements and supply contracts (Folta and Miller, 2002). The external factors like uncertainty regarding technology and complex economic environment motivate commitment in relationships. Competition from the rivals encourages the greater commitments with partners. Strategic alliances in the form of cooperative strategies are increasing practicing by the firms because of complexity in operations and high completive pressure. To be successful in business and survive in the long run some sort of partnership is required in this age of globalization. To manage the uncertainty and external complexity formation of strategic alliance is an effective strategy (Inkpen, 2001). Partnership commitments assist to take the decision for outsourcing. Outsourcing means acquiring value-creating primary or support activity from other firms. And outsourcing decision helps to form non-equity alliances. To achieve competitive advantages and less formality this form of alliances are becoming popular (Delio, 1999). Magna International Inc., a leading global supplier of technologically advanced automotive systems, components, and modules, has formed many non-equity strategic alliances with automotive manufacturers who have outsourced by the awards honoring the quality of its work that Magna has received from many of its customers, including General Motors, Ford Motor Company, Honda, DaimlerChrysler, and Toyota (Magna, 2002).

Stages of Strategic Alliance Formation

Alliances evolve during their lifetime. The process and evolution of alliances underscore the importance of the developmental stages. Although researchers agree that alliances evolve in stages, there is no consensus on the specific stages that alliances go through. But before any other thing, the intended firm has to develop its global strategy and this development would involve studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy Margarita, (2009). Following Das and Teng (1999), this paper considers four stages to include: partner selection, structuring/negotiation, implementation and performance evaluation. Specifically, each alliance is a repetitive sequence of the four stages, and some stages may repeatedly occur as the alliance evolves (Ring and Van de Ven, 1994; Doz, 1998; Arino and de la Torre, 1998). For example, after an alliance is formed, the criteria for partner selection will be reconsidered when a new partner enters into the current alliance. The initial alliance conditions (e.g., joint scope or division of labour) may have to be renegotiated in the event of unforeseen changes in the environment and in the relationship status. In some alliances, performance evaluation will recur regularly over time.

Partner selection

Forming an alliance includes a series of choices and decisions. Selecting a good partner is a critical first step. Partnering in international strategic alliance involves a thorough analysis of one's own organization in terms of current and potential future resources and capabilities required for its success. This internal analysis – combined with a clearly defined set of strategic motives – can help determine what additional resources and capabilities (both task-related and partner-related) are necessary to ensure a high probability of a successful alliance or coalition (Nielsen, 2008). Other scholars advocate factors concerning cultural (both corporate and national), strategic, organizational, and financial traits of the partners (Yan and Luo, 2001).

Partner Selection emphasizes the desirability of a match between the partners' resource profiles, goals, incentives and strategies (Das and Teng, 2003). Some studies propose that firms should consider potential partners' reputation, experience, trustworthiness, capabilities and potential contributions to the alliance as critical selection criteria (Jiang, Li, & Gao 2008; Brouthers, Brouthers, Wilkinson, 1995; Gulati, 1995; Dyer, 1996). According to Nielsen, (2008) international alliance experience is accumulated from prior engagements in international strategic alliances and therefore when selecting a partner for an international strategic alliance, prior experience with international collaboration on the part of the focal firm may influence the relative importance of the selection criteria. Other studies highlight the importance of resource complementarities and learning in the partner selection process (e.g., Lane and Lubatkin, 1998; Mowery, Oxley, Silverman, 1998).

Generally, firms have either similar or diverse resource endowments. Researchers suggest that firms should choose a partner with similar but complementary resources and capabilities (Murray and Kotabe, 2005). On one hand, if firms are to effectively take advantage of the resources involved in an alliance to achieve desired objectives (say, learning a new technology), the resources must be complementary. If all partners have the same types of resources, there will be little knowledge to share and also few benefits to receive. On the other hand, if firms are to effectively understand, assimilate and absorb knowledge and skills involved in an alliance, they must have already shared some basic knowledge relevant to the resources and capabilities. If such overlap is lacking, firms may have incomplete information in identifying which ones can make real contributions to the alliance and how to value and acquire knowledge from the partners.

The degree of resource complementarily will be a critical factor in determining an alliance's future course and outcome. Kim and Inkpen (2005) argue that a tension exists between the need for diverse resources and a need for similar resources. More specifically, excessive resource similarity indicates that the partners have little to learn from each other, a situation that restricts the development pace of the alliance. But excessive resource diversity makes it difficult for partners to learn from each other. It requires utilizing coordination mechanisms across activities, and as a result the alliance will become difficult to manage (Jiang, Li, & Gao 2008). Therefore, a careful balance between resource similarity and diversity is at least in theory optimal for a positive alliance outcome.

Partner reputation matters allot, firms should also make clear whether this partner has a reputation for dealing fairly and performing well (Das and Teng, 2001). In the same vein, Jiang, Li, & Gao (2008) posit that a reputation for trustworthiness and competence is an important strategic asset and tends to be cumulative overtime. A good reputation signals the quality of a firm and encourages other firms to ally with it. Another important consideration in partner selection is prior experience, despite conflicting views, Jiang, Li, & Gao (2008) posit that prior ties are positive predictors of future strategic alliance relationship success by providing a wide range of advantages and benefits for the partners (see Kim and Inkpen, 2005; Richards and Yang, 2007).

Structuring/Negotiation

In this stage, partner firms should decide on appropriate governance forms, moderated scope of collaborative activities, effective division of labour, and so forth. Firms can choose from two primary alliance governance forms: equity and non-equity alliances. Osborn and Baughn (1990) point out that the governance mode within an alliance may indicate the motives of the partners and have a large impact on alliance evolution. For the same reason, Hennart (2006) argues that choosing an ex ante contractor an equity JV is an important decision for alliance managers, and the chosen type can impact subsequent behaviours of the partners and predict the future alliance development and performance.

Equity joint ventures are found to be prevalently more suitable for complex relations that are exposed to greater risk of opportunism and behavioural uncertainty. For example, the "non-recoverable investments" and the mutual commitments in Joint ventures create a mutual hostage situation that helps align the strategic goals of partners. This situation reduces relational risks, deters opportunistic behaviours and builds up high exit costs (Pisano, 1989; Parkhe, 1993). Joint ventures are also found to be associated with more trust and confidence, higher levels of structural embeddedness and higher possibility of dispute resolution (Das and Teng, 2001). In this sense, joint ventures are an internally stable governance form. By contrast, non-equity alliances that involve looser inter-connection and fewer commitments are more likely to go through instability and be more prone to failure.

Firms must also decide on the area of the task or functional interface between them (Gulati, 1995). Generally, an alliance agreement may involve three separate functional areas or joint activities: R&D, manufacturing and marketing (Kogut, 1989; Oxley and Sampson, 2004). Alliance scope refers to the number of joint activities involved in an alliance. The scope of the joint activities can vary considerably in different alliances. For instance, some cooperative arrangements are limited to only a single activity (e.g., either R&D or manufacturing or marketing) while others involve more functional areas. The scope of the multiple-activity or mixed-activity alliance is broader than that of the single-activity alliance.

The chosen scope has critical significance for the subsequent dynamics of the alliance. For instance, Kogut (1989) finds JVs to be more unstable in highly concentrated industries, particularly when the functional scope extends to marketing and after-sales service. Reuer, Zollo, & Singh, (2002) argue that it will be more difficult for firms to manage an alliance with broader scope, because it is accompanied by more uncertainty and more complexity about the implementation of the activities at hand. The increasing scope of an alliance is expected to require greater extent of coordination, incur proportionally higher costs, and increase the potential hazards of the cooperation (Gulati and Singh, 1998). The need for higher levels of cooperation, coordination and integration is also likely to increase the problems relating to incompatible goals, systems, procedures and strategies. Predictably, an increase in the scope of an alliance will reduce the likelihood of the alliance's future success.

Reuer, Zollo, & Singh, (2002) emphasize the importance of division of labour as a major task undertaken by partner firms. They argue that a clear division of labour and allocation of responsibilities among partners can help decrease the governance changes of alliances. On one hand, an express provision of division of labour is expected to lower the need of complex coordination activities, decrease inter-partner disputes, and reduce the likelihood of relational risks. On the other hand, a clear division of labour also encourages the partners to contribute more resources to fulfil their responsibilities because the benefits the partners deserve may reasonably be in accord with their contributions. It is reasonable to predict that alliances with a clear division of labour may be more stable and successful than those with a blurry specification of responsibility allocation.

Implementation

After the collaborative agreement is negotiated, partner firms will carry out the agreement and put the cooperation into operation. Doz and Hamel (1998) argue that "managing the alliance relationship over time is usually more important than crafting the initial formal design". Among the four stages, Jiang, Li, & Gao (2008) believe the implementation stage is possibly the most pivotal one for alliance evolution and success. Accordingly, partners must take a variety of actions to manage destabilizing factors and cope with disadvantageous conditions in due time.

As collaboration unfolds, various kinds of internal risks may emerge and become key factors destabilizing the alliance. Das and Teng (1999 and 2001) categorize these risks into two primary types: relational and performance. Relational risk is the probability and consequence of not having satisfactory cooperation between partner firms. Performance risk refers to the factors that may jeopardize the success of an alliance, even when the partners cooperate fully. Relational risks and performance risks are ever-present in an alliance relationship. Relationships are also acknowledged to be important and valuable, but they have also been considered complex and difficult to manage (Dyer, 1996; Wong, Tjosvold, & Zhang, 2005). In an alliance context, inter-partner relationships are a multi-faceted phenomenon which comprises the establishment, development, maintenance and optimization of harmonious and reciprocal relationships shared by all partners. Jiang, Li, & Gao (2008) posit that effective management of inter-partner relationships constitutes the micro-foundation for strategic alliance success, and that it cannot be replaced by such things as external factors.

Performance evaluation

After the alliance operates for some time, its performance can and should be evaluated with some certain measures. Performance evaluation is the act of examining the extent to which the partners' set objectives are met. When evaluated performance is better than one partner had expected, that partner may try to maintain the collaborative relationship and invest more resources and capabilities in order to benefit still more from the relationship in the future. But when the evaluated performance is worse than expected, the partner may reduce its commitment and withdraw some investments to limit future risks. Therefore, superior on-going performance of an alliance may serve as a stabilizing force, while undesirable performance outcomes are likely to lead to instability and partner exit (Gill and Butler, 2003).

In a complete sense, a firm's performance evaluation should consider two aspects, that is, the costs it undertakes and the benefits it deserves. In practice, disagreement may arise about appropriate performance measures among partners (Yan, 1998). Firms usually tend to overestimate their own expenditures but underestimate their partners' contributions; they may also underestimate their own benefits but overestimate those of the partners. Perceived inequity could therefore occur either when a firm perceives itself to have contributed more into the alliance than it has received or if the firm perceives its benefit–cost ratio is largely lower than that of its partners (e.g., Ariño and de la Torre, 1998; Kumar and Nti, 1998). A firm's perception of inequity is related to the degree of its satisfaction with the relationship. When a firm perceives the existence of inequity, it may feel "unfair", and it is "less willing to undertake an alliance or continue a particular alliance in the same form" (White, 2005). If the perceived inequity cannot be eliminated over a long period of time, the alliance will be either restructured or terminated (Das and Teng, 2002). Accordingly, researchers suggest that a firm can minimize the perceived inequity either by increasing its benefits/reducing the partner's benefits, or by reducing its costs/increasing the partner's costs.

Conclusion

From all the forgoing explanations and as the pace of global business accelerates, and customers continually become more demanding and sophisticated, companies are finding the competitive landscape dramatically changing. Markets are moving so quickly that is very difficult for one company to stay current on all technologies, resources, competencies, and information needed to attack, and be successful in those markets. Strategic alliances offer a means for companies to access new markets, expand geographic reach, obtain cutting-edge technology, and complement skills and core competencies relatively fast. Strategic alliances have become a key source of competitive advantage for firms and have allowed them to cope with increasing organizational and technological Complexities that have emerged in the global market. Nowadays, global strategic alliances are a business concept that is changing the structure and dynamics of competition throughout the world. Using a broad interpretation, strategic alliance is understood to be a relationship between firms to create more value than they can on their own. The firms unite to reach objectives of a common interest, while remaining independent.

It can therefore be concluded that companies really involve in foreign investment would have to build or have an ally within the business scene; and they would have to as well build a strategy applicable to every market they serve: reason being that, the atmosphere of international operation is very broad and demanding and to survive the 'heat' optimum consideration must be given to business coalition and strategy.

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