Organization Designs for Global Strategic Alliances

John W. Slocum, Jr.
Southern Methodist University

David Lei
Southern Methodist University

Follow this and additional works at: https://scholar.smu.edu/business_workingpapers

Part of the Business Commons

This document is brought to you for free and open access by the Cox School of Business at SMU Scholar. It has been accepted for inclusion in Historical Working Papers by an authorized administrator of SMU Scholar. For more information, please visit http://digitalrepository.smu.edu.
Support for this research was given by the Halliburton Foundation in cooperation with the Center for Research, Cox School of Business and the U. S. Army Research Institute for Behavioral and Social Sciences. The authors would like to acknowledge the constructive comments made by Joan Brett, Laura Cardinal, Gary Hamel, Dileep Hurry, Ellen Jackofsky, and Robin Pinkley.

ORGANIZATION DESIGNS FOR
GLOBAL STRATEGIC ALLIANCES

Working Paper 90-121*

by

John W. Slocum, Jr.
David Lei

Professor John W. Slocum, Jr.
Organizational Behavior and Administration
400 Fincher Building
Cox School of Business
Southern Methodist University
Dallas, TX 75275-0333

David Lei
Southern Methodist University

*This paper represents a draft of work in progress by the authors and is being sent to you for information and review. Responsibility for the contents rests solely with the authors and may not be reproduced or distributed without their written consent. Please address all correspondence to John W. Slocum, Jr.
Global strategic alliances present unique opportunities for organizations and their managers to gain competitive advantages. This paper proposes a new paradigm for systematically thinking about ways to design and implement changes in global alliances. We argue that economic factors set forth requisite conditions for managers to choose a design, but cultural values influence the effectiveness of how the design configuration is implemented.
During the past several years, much has been written about the need for strategic business alliances as a means for managing the complexities of world-wide organizations (e.g., Franko, 1978; Stopford and Wells, 1972; Harrigan, 1985; Root, 1987; Hamel, Doz, Prahalad, 1989; Ohmae, 1989; Osborn and Baughn, 1990; and Lei and Slocum, 1991). Popular business journals, such as Fortune, Harvard Business Review, and editorials in the Wall Street Journal have urged top managers to form strategic alliances as one way of entering the global market. Although firms in many industries from around the world are now engaging in some form of strategic business alliance, the growing complexity of such arrangements involves not only economic factors, but cultural values. These factors ultimately influence the configuration, design, and effectiveness of the alliance.

Global strategic alliances represent an important series of structural designs that enable firms to enhance and redesign their information processing capabilities and scope of organizational learning when competing in highly complex and diversified product-markets. Alliances have become a useful platform in aiding many global firms' efforts to manage accelerating rates of environmental change and to restructure their competitive activities. All alliances may be thought of as transition mechanisms that take the strategy of the partners forward in a turbulent environment, or more importantly, in an environment perceived as highly uncertain by top management. Alliances not only help firms manage high levels of environmental complexity and turbulence, but also serve as a basis for
organizational learning (Argyris and Schon, 1978). Learning involves organizational adjustment instigated by a change. Forces for change create difficulties for the organization because they generate stress that encourages the evaluation of traditional norms. This requires reframing of how problems are defined (Lyles, 1987). Effective learning facilitates a firm's ability to cope with change and renew their sources of competitive advantage. When learning occurs within a change program, it enables firms to better "enact" a strategy congruent with their uncertain environment (Weick, 1979). The enactment process consists of managers creating mental maps that affect their choice of strategic alliance, how it is molded, managed, and changed. Managers choose--consciously or not--which aspects of their environment to enact with their world views, interests, and values all shaping this choice. Consequently, top managers tend not so much to adapt or respond to an objective environment as to define that environment with their particular interests. Top managers' choice of their environment is really only a reflection of their own organization's design. Successful managers interact with their environment in such a way as to facilitate their own organization's survival and learning. One important form that this interaction can take is the creation of alliances that reflect cultural values and perspectives of top management.

The objective of this chapter is to suggest an organizing framework that may help researchers and professional practitioners in diagnosing the various issues that arise when creating strategic business alliances. Our underlying premise is
that economic forces and cultural values impact the choice of
global business alliance. Top management's task in designing an
alliance is to use both economic indicators and cultural values
as sources of competitive advantage to optimize efficiency, risk,
and learning simultaneously in a world-wide business. Economic
factors are usually the main consideration for a decision to form
a strategic business alliance (Reynolds, 1984), but an
understanding of cultural values is one of the keys to successful
implementation of an alliance (Lorange and Probst, 1987). Figure
1 displays how these two factors affect the choice of strategic
business alliances and implementation processes.

Insert Figure 1 about here

Viewing strategic global business alliances with our
framework can be helpful to both managers and academics in
several ways. First, studying economic factors can help both
researchers and managers in formulating, describing, and
analyzing the design requirements for global alliances. Second,
it can help managers in generating a checklist of issues that
they must consider in reviewing different potential strategic
global alliances. Such a checklist can serve as a basis for
mapping their organization's overall strategy and those of their
competitors so as to understand the comparative strengths and
weaknesses of both. A third utility of our framework is that it
can highlight apparent discrepancies between design and
implementation requirements that may impede necessary change.
We have organized this chapter into several parts. First, we look at various economic factors that prompt firms to consider engaging in global strategic alliances from several different theoretical perspectives. Such conditions as economies of scale, learning effects, risk reduction and opportunities to shape competitors' actions are considered. Second, we focus on the critical role of cultural values and how these are likely to influence the organization design mechanisms that enhance implementation and alliance stability. It is our contention that as alliance configuration becomes more complex, the degree to which cultural values are mutually understood and managed by both partners will determine the alliance's stability. Economic factors may prompt firms to consider certain alliance modes, but more complex alliances depend upon managing and bridging cultural values to enhance stability. Finally, we focus on three broad types of alliance configurations: licensing, joint ventures and chaebols.

Four Economic Factors Influencing Strategic Alliances

In the broadest sense, firms enter into strategic alliances because they potentially provide benefits that are not available either through arms-length market transactions, internal development or outright merger (Porter and Fuller, 1986). Porter (1986) notes that some of the most important factors contributing to the rapid growth of alliance activity include resource dependency, the need for economies of scale, risk reduction in entering new projects, and removing operational problems and inefficiencies found in learning new technologies and skills.
Economies of Scale and Critical Mass  The need to achieve economies of scale in critical value-adding activities prompts the formation of many strategic alliances. Pooling resources increases the scale of activities that could not be achieved by either partner acting alone. As many high-technology industries face scarcer resources and higher risks of development, firms are entering into an array of alliances across different activities to build a critical mass or presence in an industry. For example, in joint ventures where partners are endowed with mutually complementary value-adding skills, pooling their efforts furthers the prospect of scale benefits and specialization across activities (e.g., General Motors and Toyota’s Fremont, California plant). Likewise, where partners are endowed with strengths in the same value-adding activities, a joint venture could provide a new platform that not only improves current projects, but also enables future scale-intensive projects to be implemented faster (cf. Daimler-Benz and Mitsubishi). This factor becomes especially important as globalization across industries tends to increase the minimum efficient scale (MES) needed for state-of-the-art plants.

Learning New Skills and Technologies  Strategic alliances also represent a useful vehicle by which firms may learn new skills, technologies and capabilities from their partners. Compared with internal development efforts, strategic alliances may help firms gain a new perspective on problems by integrating different technologies and skills into new projects that they previously could not envision. The scope for faster
organizational learning is broadened significantly when firms are able to learn from a multiple number of sources (Prahalad and Hamel, 1990). Hamel, Doz and Prahalad (1989) and Ohmae (1985) note that many firms enter into joint ventures as a means of enhancing their own strategic renewal, learning new competencies and/or reducing the time needed for developing new projects. For example, Thomson’s joint venture with JVC is intended to help the French electronics giant fine-tune its skills in manufacturing highly precise microelectronic components that are increasingly vital to products in a broad range of industries. This alliance also enables JVC to learn how to compete in the European market. Alliances become network mechanisms (Jarillo, 1988) that transit the flow of information between partners and presumably enable both to accelerate learning and diffusion of competitive skills.

**Shaping of Industry Evolution** Porter and Fuller (1986) note that firms in many industries engage in alliances to enhance the prospects for collusion, or the evolution of the industry itself. In theory, strategic alliances designed to shape industry evolution could exert themselves in the following ways. First, licensing and joint venture activities diffuse certain technologies that require standardization early on in the life cycle. These predetermine the path of industry activity. The software and computer chip industries are laden with strategic alliances designed to promote and standardize certain operating systems and processing techniques. Second, firms in very dynamic industries engage in strategic alliances not only to help amortize development costs, but also position their firms to
capitalize on idiosyncratic value-adding activities. In the pharmaceutical and chemical industries, an extensive series of cross-licensing agreements exist not only to specialize R & D activities across firms, but also to maintain a high level of industry-wide innovativeness and dynamism. Third, alliances can shape the path of competitor entry and evolution within industries as well. Alliances of this type may work both horizontally (across firms with similar value-chain configurations) and vertically (across firms that are in a supplier-manufacturer relationships). For example, Japanese firms engaged in keiretsu alliances seek to shape not only the pace of industry growth and globalization, but also to control the type of skills and technologies that are likely to be developed among competitors.

Risk Reduction All alliances to some extent are motivated by the need to reduce economic risk. Particularly for global industries, strategic alliances help firms hedge risks that no organization alone could bear. In high-technology industries, such as aerospace, telecommunications, computers and machine tools, the costs and risks of successive product development have risen exponentially over the past decade. Moreover, the extreme complexities of integrating many different technological bases into a single product class have substantially raised the fixed costs of entry and development. The irony is that as many once-separate industries become more related by way of digital technologies and miniaturization (Ferguson, 1990), the proliferation in the number and type of skills needed for
capitalizing new technologies is often beyond the scope of any one firm.

While the economic reasons for forming strategic global alliances are relatively clear, evidence regarding their utility for understanding the implementation process of these strategies is less evident (Reynolds, 1984; Lyles, 1987). For example, it has often been claimed that one source of competitive advantage for Japanese firms is the low cost of capital in Japan. Recent studies (e.g., Ferguson, 1990; Ghoshal, 1987) indicate that often there are practically no differences in the cost of capital between these firms. When differences do exist, they arise from sourcing and specialization issues among organizations in keiretsus. Similarly, the low wage rate in Japan has also been posited as the primary reason for the success of Japanese organizations that market their goods in the U. S. Once again, recent evidence indicates that the Honda and Nissan plants in the U. S. have been able to retain practically the same cost advantages over U. S. manufacturers as they had for their production in Japan. Therefore, evidence suggests that while comparative economic advantages can provide organizations with competitive advantages, the realization of such benefits is not totally clear. Consequently, we believe that a broader view of comparative advantages should be taken. One way of taking this broader perspective is to recognize the relative advantages of the quality of a society's human and institutional resources. These "soft societal" factors can provide benefits as real to the global firm as the economic factors previously discussed.
Consistent with this perspective, we will focus on how the values of a society subtly affect the behaviors of managers in organizations.

**Cultural Values**

During the past several years, there has been increasing attention paid to how values of managers affect a variety of organizational design issues (e.g. Hambrick and Brandon, 1988). Robert Haas, chairman and CEO of Levi Strauss & Co., states that if companies are going to react quickly to changes in their marketplace, conceptual (value systems) control must increase while bureaucratic controls decrease. As managers delegate authority to those who must implement strategies, mechanistic structures will not be sufficient to cope with change in today’s globally dynamic environments. Values provide a common paradigm for aligning a variety of organizational change approaches and for learning to take place.

Our goal for this section is not to review and synthesize the common approaches to values, but rather to introduce Hofstede’s (1980) schema as one way of understanding value differences across cultures. His schema is widely recognized as one of the most encompassing value systems in our literature (Jackofsky and Slocum, 1988). It is expected to aid our understanding of the formation and effectiveness of various global strategic business alliances. In the next section of this chapter, we will indicate how cultural values and industry characteristics can be integrated to affect organization design and implementation decisions.
The values that people hold about what is desirable and undesirable are embedded in a culture. A value is a broad tendency to prefer a certain state of affairs over others (Hofstede, 1980: p. 19). Culture is not a characteristic of individuals, but a collection of individuals who share common values. The influence of national culture in shaping the values of executives has been extensively studied (England, 1975; Hofstede, 1980; Jackofsky, Slocum, McQuaid, 1988; Hambrick and Brandon, 1988). Hofstede posits that there are four cultural values that have consequences for managers. These are: power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity. We shall briefly describe each of these dimensions and indicate how each affects managerial behavior. The effect of these values on the implementation of a business alliance strategy will be discussed more fully later.

**Power Distance** This refers to the extent to which a culture accepts the inequality of the distribution of power between people. Inequality can occur in a variety of areas, such as social status, prestige, wealth, and the like. The process by which these inequalities are manifested differ widely between societies. In societies with small power distances, such as Sweden, Israel, Austria, and the United States, status differences between managers and subordinates are downplayed. Under these conditions, subordinates prefer a consultative decision style that minimizes the power differences between superior and subordinates. Managers in these societies focus on empowering subordinates. The empowering process is predicated
upon trust and the subordinate's ability for self-management. In cultures where there are large power differences, such as the Philippines, Mexico, Venezuela, and India, centralization of authority is more common, managers employ a more autocratic as opposed to democratic leadership style, and believe that they are "entitled" to privileges.

**Uncertainty avoidance** Uncertainty avoidance refers to the extent to which people in a culture feel threatened by uncertain or ambiguous situations and try to avoid them. Hofstede contends that organizations use the same techniques as cultures in trying to reduce uncertainty. In primitive cultures, rites and rituals were prescribed by priests to ensure winning wars or reaping bountiful crops. In organizations, rites, rituals, and ceremonies perform similar functions (Trice and Beyer, 1991; Jermier, Slocum, Fry and Gaines, 1991). Rituals promote positive social cohesion because they concur with the values of the people involved. On the other hand, uncertainty-avoiding organization rituals, such as writing memos and reports to document one's behaviors, and other pseudo-behaviors may have little positive effect on the organization.

In high uncertainty avoidance cultures, such as Japan, Peru, France, Italy, and Portugal, organizations rely on experts and outside consultants for specialized advice, adopt impersonal control and planning systems based on rules and regulations, are highly formalized, and are concerned with employment security and not taking risks. In lower uncertainty avoidance cultures, such as the United States, Sweden, Netherlands, and Ireland, managers
are more willing to take risks, and tolerate deviant behaviors of subordinates. In general, there are fewer rules, rituals, and formal standards of behavior.

**Individualism-collectivism** Individualism implies a loosely knit social structure in which people are supposed to take care of themselves and of their immediate family. Collectivism implies a tightly knit social structure in which people differentiate between in-groups and out-groups. People expect that in-groups, such as clans and organizations, will protect their members. Members feel that they should be extremely loyal to their in-group. Riesman, Glazer and Denney (1953), in their seminal work, *The Lonely Crowd*, characterize the North American culture as strongly individualistic, whereas the majority of Asian cultures as highly collective. This broad characterization has not changed dramatically since 1953. Countries that Hofstede and others have labelled as collective include Taiwan, Korea, Japan, Mexico, and Brazil. Those countries rated as high in individualism include Netherlands, West Germany, Sweden, Italy, and France.

The level of individualism-collectivism has been found to affect members of organizations in a variety of manners. Managers operating in cultures that place a high value on individualism frequently move from company to company (cosmopolitans), believe that the company is not responsible for the welfare of its employees, and that higher quality decisions are made by individuals rather than groups. In cultures that value collectivism, managers are attracted to larger, as opposed
to smaller organizations, attach more importance to one's position in the structure than one's discretion to perform their jobs, and are morally and socially involved within their organizations (locals).

**Masculinity-femininity** This is the fourth dimension along which cultures can vary. Masculinity refers to the extent to which dominant values in a culture reflect assertiveness, acquisition of tangible things, advancement, and earnings. In masculine cultures, such as Japan, Italy, Switzerland, Mexico, and West Germany, people believe that extrinsic organizational rewards (salaries, advancements) are symbols of the successful high achiever. Large-scale organizations are popular; economic growth is seen as a more important problem than conservation of the environment; people should try to excel at being the best; and people live to work. In more feminine cultures, such as Sweden, Netherlands, Taiwan, and Spain, people place more emphasis on cooperation (as opposed to conflict), working conditions, employment security, conservation of the environment, and working to afford to live.

The consequences for organizations are several fold. In masculine societies, managers believe that the company has the right to interfere in the personal lives of its employees if needed for the benefit of the organization. Earnings, individual recognition, advancement and job challenge are important symbols of success. Traditions going back several centuries are honored ways of conducting business. In more feminine societies, managers practice Theory Y (as opposed to Theory X), praise
people through social rewards, use group or team approaches to solve problems, and value soft-intuitive skills more than hard-analytical skills.

The Interaction of Economics and Values

Our thesis is that economic factors and cultural values interact to determine both the choice of alliance configuration and the effectiveness of the implementation process. The requirements of managing economic factors, such as economies of scale, resource scarcity, and technological change, may prompt the selection of a particular alliance structure. The role of cultural values, however, has profound significance in enhancing the smooth implementation and stability of more complex alliance arrangements. For example, licensing arrangements, which represent the simplest form of alliance activity, are often little more than a formalized arms-length, market relationship designed to manage transaction costs across the partners. The national values of the partners are of little importance to the execution of licensing agreements. On the other hand, the success of chaebols in South Korea is embedded in such tightly-woven and nurtured cultural values that they exemplify a different form of alliance. Cultural values are of far greater importance than economics for selecting and managing cross-firm relationships and activities in chaebols.

Proposition 1: Licensing arrangements are driven purely by economic and competitive factors. Cultural values of both partners are tangential to implementation.

Proposition 2: In both specialization and shared
value-added joint ventures, economic conditions of scale, learning and risk reduction may induce alliance formation, but managing different cultural values becomes the driving element of smooth implementation.

Proposition 3: In chaebols, cultural values dominate the choice of alliance partner and implementation processes; economic conditions are largely tangential.

When considering the growing number of implementation difficulties that arise in complex cross-border alliances, one finds that a significant factor in managing troubled alliances is that of reconciling and harmonizing the different cultural and national values that both partners bring with them (Hamel, Doz and Prahalad, 1989; Harrigan, 1985; Ohmae, 1985). As a case in point, many U.S. firms have entered into specialization and shared value-added joint ventures with a number of European and Japanese partners, only to find that the ventures prove very difficult or unworkable because of cultural misunderstandings or divergent work and management practices that were not previously considered (Harrigan, 1985; Ohmae, 1985). The numerous obstacles that General Electric encountered in its series of alliances with Fujitsu Fanuc in factory automation and Samsung in microwave ovens are at least partly due to the great chasm in national values and agendas that GE faced in its relationships with these partners.

To understand how economic factors and cultural values affect the organizational performance of each alliance, each alliance must be designed to take advantage of its distinctive competencies. An alliance must possess organizing properties to cope with its own form of learning. The reason why many
alliances fail seems to be that they have not been designed with sufficient properties for learning to occur when faced with environmental turbulences.

Table 1 presents the different elements of organization design that we will use to understand the five types of strategic alliances. We focus on the formal dimensions of structure, modes of integration, control mechanisms, reward systems and corporate cultures that reinforce the alliance's design. The considerable research and literature on environment-organization relationships reveal that top management's underlying assumptions of the environment are often as important as the actual environment itself in influencing organization design (Weick, 1979). How managers enact their environment is a function of their cognitive beliefs and processes, as well as the economic forces confronting them. The environment is classified along dimensions of simple to complex and stable to dynamic to capture the notions of complexity, change and heterogeneity (Ford and Slocum, 1977; Lawrence and Lorsch, 1969; Thompson, 1967).

Insert Table 1 about here

---------------------------------------------------------------

Dimensions of Organization

We have chosen four structural dimensions (formalization, specialization, standardization, and centralization) to describe the internal characteristics of each alliance. These dimensions are salient because they provide us with framework for describing and comparing alliance designs (Pugh, Hickson, Hinings, and
Turner, 1968; Ford and Slocum, 1977; Fry and Slocum, 1984). Formalization pertains to the amount of written documentation in the organization. Specialization is the degree to which organizational tasks are subdivided into separate jobs. Standardization is the extent to which work activities are performed in a uniform manner. Centralization refers to the hierarchical level of authority that has the authority to make a decision.

There are a number of mechanisms that managers can use to achieve integration. These mechanisms vary from the hierarchical chain of command to the addition of integrating departments. We have adopted Galbraith's (1973) nine-fold classification framework of integration mechanisms. These are listed, in order in Table 1, as representing an organization's mode of integration from inexpensive and simple to more complicated and expensive mechanisms of coordination. Galbraith proposes that as organizations choose strategies that are characterized by high interdepartmental activity, high environmental uncertainty, and high product diversity, they will select mechanisms further down the list than those organizations pursuing strategies characterized by low uncertainty and diversity. We propose that the "center of integration" for each alliance moves from comparatively simple licensing arrangements to complex arrangements in chaebol alliance structures.

Top managers can choose among a variety of strategies to maintain control. Ouchi (1980) identified three control strategies that managers could adopt: market control,
bureaucratic control, and clan control. Market control can be readily used when price competition is used to evaluate the output and productivity of an organization or one of its departments. The use of market control requires that outputs be sufficiently explicit that a price can be assigned, and that competition exists. Without competition, the price will not be an accurate reflection of internal efficiency. Bureaucratic control is the use of rules, policies, hierarchy of authority, written documentation and other bureaucratic mechanisms to standardize behavior and assess performance. Clan control is the use of values, commitment, traditions, and shared beliefs to control behavior. Organizations that use clan control require trust among employees. Clan control is important when ambiguity and environmental uncertainty are high. Under these conditions, the organization cannot accurately assess the price it puts on its outputs, and rules and policies might not be able to specify appropriate behavior in advance.

Kerr and Slocum (1987) have illustrated that an organization's reward system represents a particularly powerful means for reinforcing an organization's culture. The reward system defines the relationship between the organization and the individual member by specifying the terms of exchange. That is, it specifies the contributions expected from members and the values and norms to which those in the organization must conform. Kerr and Slocum have found two types of reward systems: hierarchy and performance-based. Hierarchy-based reward systems use subjective indicators of performance, promote people from within
the system, stress the development of the manager by the use of movements across functional and divisional boundaries, and use informal feedback systems to reward appropriate behaviors. Performance based reward systems use quantitative measures of an employee's behavior, tie compensation directly to performance, and provide few mechanisms of integration between managers and divisions. Hierarchy-based reward systems generate clan cultures, whereas performance-based reward systems are closely aligned with market cultures.

As alliances grow more complex, the following effects on organization design are likely to occur:

Proposition 4: The "center of integration" is likely to move from hierarchy to integrating teams as the environment becomes more dynamic and the alliance configuration becomes more complex.

Proposition 5: The control strategy will move from markets to clans as the environment becomes more dynamic and the alliance configuration becomes more complex.

Proposition 6: Market-based performance reward systems are likely to predominate in the more elementary alliance configurations; hierarchy-based reward systems will predominate in complex chaebols.

We have alluded that each alliance is created to achieve a myriad of goals. The organizational designs that are appropriate for each alliance are now discussed. Each alliance is designed to cope with the complexity of its environment, and to provide a mechanism for learning. The process of executing its design to realistically cope with the exigencies of its environment
requires an understanding of the balance between economic factors and cultural values.

**Licensing Arrangements Manufacturing Industries** Licensing arrangements have become more prominent in recent years. They represent the least sophisticated form of strategic alliance because the partners do not take an equity stake in one another. Many licensing arrangements involve co-production and supplier agreements in which another firm engages in developing the licensor’s technologies or other innovations. On a global basis, licensing agreements represent a purchase of technology in exchange either for market entry into a new region or for help in further refinement of the innovation. Some of the most important economic factors prompting companies to consider licensing their technologies to other firms include:

* inability to capitalize upon the technology by itself;
* desire to preempt the competition by setting industry-wide standards early in a product’s life cycle;
* need to maintain industry-wide discipline and high levels of innovation in fast-changing technologies; and
* prospect of lucrative sales and service contracts associated with proprietary technology and production processes.

Economic and competitive motives drive licensing arrangements between foreign and domestic alliance partners. Because licensing is an arms-length transaction formalized in a contract or other agreement, its implementation is executed
solely through legal and other negotiated channels. The relative importance of cultural values in implementing licensing agreements has an impact only upon the translation of the concepts and terms in the legal document. The alliance is based on matching partners' strengths and economic interests. Table 2 portrays the dimensions of organization design found in manufacturing-based licensing arrangements.

____________________________

Insert Table 2 about here

____________________________

Structural dimensions of formalization, specialization, standardization and centralization rate high within this simple form of alliance. The terms of the arrangement are very specific and licensors deal with each licensee using standardized performance criteria. This reflects high levels of pooled interdependence. Manufacturing-based licensing is usually organized along a geographic and/or technological dimensions. This allows for high levels of specialization across a number of different licensees to control the pace and diffusion of technological development. This factor, as well as the need for licensors to delineate the uses of the technology early on, moves the "center of integration" close to the well-defined hierarchy end of the continuum. Delegation is executed through the terms of the agreement. Since licensors, in most cases, are able to erect high switching cost barriers with the licensee, control mechanisms are well-defined. These are tightly enforced through performance-based reward criteria.
U.S. firms that have entered into licensing arrangements with foreign firms to develop technological innovations include Sun Microsystems and N.V. Philips. The Dutch giant has the production and distribution capabilities to market Sun's newest RISC chips in ways unavailable to the U.S. firm. Sun is hoping that its RISC chips, used primarily in workstations and computers, will eventually find their way into consumer products and other industrial products that Philips also manufactures.

Licensees can also disseminate the technology faster across the industry than could the pioneering firm alone. The desire to pre-empt competitors in setting industry standards is a powerful inducement to license new and even unproven technologies early on. Within the computer industry, for example, many firms are racing to license technologies to potential users in an attempt to set industry-wide standards early on. MIPS Computer Systems licensed its newest microprocessor designs to Siemens of West Germany to penetrate the market quickly. It has also signed licensing agreements with Digital Equipment Corp., Texas Instruments, Cypress Semiconductor and Bipolar Integrated Technology of the U.S., and with Fujitsu, NEC and Kubota of Japan to produce its chips and market new computers based on its designs.

Cross-licensing is common in industries where R & D and other fixed costs are exorbitant, and where aggressive competition is necessary for maintaining industry-wide discipline and innovation. The pharmaceutical and chemical industries are replete with cross-licensing arrangements between global firms to
amortize R & D costs and to promote specialization of different research-based competencies.

Licensing arrangements in manufacturing industries are designed to help firms specialize their activities around fast-changing technologies. The need to pre-empt competitors' innovation efforts, as well as to set industry-wide standards early in product life cycles, make licensing agreements viable platforms for managing and perhaps controlling the pace of industry-wide change. Cross-licensing is particularly useful in those industries whose technologies move rapidly and in a discontinuous manner. Because technologies are evolving so quickly, very few firms can monitor and manage all of these changes by themselves; thus, licensing represents the simplest way of redesigning firms' efforts to participate and control the spectrum of new product development through delegation and explicit control mechanisms.

Licensing Arrangements - Service Industries

Service and franchise-based firms have long engaged in licensing arrangements with foreign partners. These range from Anheuser Busch in beverages, McDonald’s in restaurants, Avis Rent-A-Car in rental systems, as well as numerous hotel chains globally. Licensing arrangements in service-based industries are especially attractive in mature domestic industries for two reasons:

* establishing an early market penetration with little direct investment, and

* employing a fairly standardized marketing approach to create and control global image.
As is the case with manufacturing industries, licensing in services reflects strong economic and competitive motives. Although formalized by a well-defined legal contract, the role of values in implementing service-based licensing agreements is greater than those in manufacturing settings. Since licensees are expected to perform largely on an independent basis with local self-initiative, it is important for the licensor to socialize managers and other key personnel in the company’s underlying basic values and philosophies. Thus, some degree of value reconciliation and mutual understanding of local practices and customs is important to smooth out the execution of the arrangement. Table 3 presents the basic organization design configurations found in the service-based licensing arrangement.

Compared with licensing in manufacturing organizations, those in services exhibit less centralization because local licensees and managers play the critical role in upholding the parent firm’s global image through its marketing policies. Although the legal basis of the agreement reflects a high level of formalization and standardization across an array of licensees in different global markets, specific strategies and actions taken in any one region or market reflect a high degree of local responsiveness. This is made easier when different cultural values are understood. Building a cadre of loyal licensees - the key to profitability in many cases - depends upon their
familiarization and adherence to company procedures specified in the agreement. This factor becomes especially important when services or consumer-driven products require extensive training and high-level managerial skills for successful implementation. A strong level of corporate-imposed direction and policies is found in the alliance. The "center of integration" is achieved through the hierarchy. Socialization of local managers becomes important in managing highly image-sensitive businesses (e.g., restaurants and hotels). The reward system will have many of the characteristics of a performance-based system. Because the licensor remains geographically distant from individual licensee operations, socialization mechanisms that provides guidance for independent action aside from the contract are salient.

Desiring to enter new markets quickly and without substantial capital investment, U.S. consumer foods giants have actively trained and worked with licensees to develop customized marketing programs in each region without compromising overall global image. By building up a strong cadre of loyal licensees, U.S. firms have been able to build a substantial and sustainable global presence. This has helped to outflank domestic rivals at home with less international presence. Avis, for example, has franchisees throughout the world that use the company's logo and specific corporate-developed procedures in exchange for royalty fees. In addition to a thorough training program, Avis maintains tight financial and marketing control over franchisees' activities to ensure high levels of performance, often measured
along quantitative assessments of profitability and customer satisfaction.

As is the case with manufacturing industries, licensing in services is designed to help the parent firm develop a global presence through careful partner selection, delegation, and performance-based reward systems. Services-based licensing is especially useful in helping the parent firm learn of early changes and new trends that occur in different regional markets, since licensees provide considerable data on customer preferences, tastes, and requirements. Since successful licensing in services and franchises depends upon a high level of loyalty and commitment, many firms have redesigned their training and development programs to ensure that licensees are thoroughly familiar with corporate philosophy, values, and procedures.

**Joint Ventures - Functional Specialization**

The vast number of global joint ventures consummated over the past few years heralds a recognition that more sophisticated alliances are needed to compete in many of today’s capital-intensive and fast-moving industries. Joint ventures that specialize activities across partners involve creating a new entity in which each partner brings and contributes a distinctive competence in particular value-adding activity (e.g., one produces, another markets). These ventures are closely associated with the “X-form” described by Porter and Fuller (1986). The complementary strengths of both partners helps reduce the amount of capital investment and risk that one partner would otherwise have to face alone. Although specific
configurations of specialization ventures will differ according to mission and industry, they share the same underlying economic and competitive motives:

* need for quasi-vertical integration with low levels of investment intensity;
* economies of scale and scope in value-adding activities; and
* learning a partner’s core competence or skill or to gain market access.

While these economic and competitive motives may induce firms to consider specialization joint ventures, the understanding and harmonization of different cultural values become critical to smooth implementation and alliance stability. Even though switching costs for both partners is likely to be high because of complementary strengths, these alliances can face many rough obstacles to smooth implementation when different cultural values are meshed without careful planning.

Table 4 presents the structural and integrative dimensions of organization design for specialization joint ventures. These

--- INSERT TABLE 4 ---

ventures reflect a high level of specialization according to their partners' complementary distinctive competencies. Where one partner manufactures while the other partner controls market access, a specialization venture is likely to ensue. This is particularly salient when both firms face increasing resource scarcity and high risk in translating innovations into new
products. Levels of standardization and formalization will vary across specific ventures, but range in the middle. The need for partners to understand one another's different operating procedures, quality standards, planning processes and reporting relationships must become understood over time. These ventures are also likely to exhibit a medium degree of centralization, since day-to-day contact along functional lines requires a sequential planning that is frequently adjusted. The "center of integration" in specialization joint ventures will move more towards linking roles and away from hierarchies found in licensing arrangements. Integration depends not only formal structure but also on efforts of key personnel (e.g., design engineers, manufacturing personnel, etc.) for effective delegation, since many of these ventures are organized along crucial value-adding functions. Integration is particularly important when the joint venture involves organizations from two different national cultures. On the one hand, the economic imperatives of specialization ventures mandate high levels of functional coordination; yet, managing flows of technology and skills across partners from different cultural backgrounds depends upon managers that can understand and trust one another only after long personal contact and socialization. Reward systems are also likely to reflect the dual needs of balanced economic contributions from both partners, as well as the intracacies of learning and skill transfers.

Examples of how specialization ventures must reconcile both economic motives for creating the alliance and harmonizing
different national values for smooth implementation include that of JVC-Thomson (Japan-France) and Ford-Mazda (U.S.-Japan). In both cases, each partner needed the others' value-adding capabilities which it did not have. They also faced the implementation issues of meshing two different cultures. The need for harmonizing the different cultures within the alliance influenced the way technology flowed between the partners and how learning new skills occurred.

In the Thomson-JVC case, a French electronics and defense firm teamed up with a Japanese consumer electronics giant in order to learn the latter’s skills in precision manufacturing of microelectronics. JVC desired to learn how to produce and market to an increasingly important European marketplace. As a national firm strongly influenced and once controlled by the French government, Thomson is likely to have embodied many of the macro-cultural characteristics described by Hofstede (1980): high power distance, high uncertainty avoidance, medium to high individualism and medium masculinity. JVC, a well-entrenched Japanese firm, exhibited the national culture of Japan: medium power distance, high uncertainty avoidance, medium individualism and high masculinity. The meshing of these disparate cultural dimensions reflected itself in the way both firms viewed their partnership. Thomson designed the alliance in a way so that sufficiently high levels of organizational learning could occur (reflecting high uncertainty avoidance), while JVC attempted to control the flow of technology in a measured approach (also reflecting high uncertainty avoidance). Both partners found
working with one another also reflected the high levels of corporate training and development practiced in each company (medium individualism). The strong direct interest in the venture's success reflected each society's high uncertainty avoidance.

The Ford-Mazda relationship exemplifies a specialization venture focusing on design and production value-adding activities. Ford believed it needed Mazda's highly sophisticated skills in designing and producing a new generation of small, compact cars. Mazda needed not only Ford's access to the U.S. market, but its U.S. production facilities to bypass possible quotas and to lower costs. Escort cars designed by Mazda and assembled by Ford in Michigan are the product of this specialization joint venture. The different national values that both partners bring to the venture are likely to manifest themselves in the alliance's implementation. The U.S., according to Hofstede, has a low to medium power distance, low to medium uncertainty avoidance, high individualism and high masculinity. Japan rates medium on power distance, high on uncertainty avoidance, medium on individualism and high on masculinity. The meshing of these different cultural bases implies that both partners may not view their participation in the venture with the same underlying assumptions. High uncertainty avoidance indicates that the Japanese find technology transfers to a foreign partner to be a risky proposition, since it may create a new competitor. On the other hand, low uncertainty avoidance for Ford managers means learning as much as possible from its foreign
partner. An alliance blending differences on this dimension means that application of technology and learning may not occur equally in both partners. A difference in individualism scores also could raise problems in implementation as well. Japanese management practices encourage conformity and adherence to plans. In contrast, U.S. managers typically prefer to make changes in plans along the way.

Even before the car was made, there were implementation problems. Mazda engineers wanted to get the car designed and produced as quickly as possible. Their entire design and production was driven by tight deadlines. No one ever missed them (high uncertainty avoidance). When Ford engineers were even just a few days late, the Mazda engineers were absolutely furious at them. Many Ford engineers had to work 80 hours a week to make sure that deadlines weren't passed. Ford engineers also found an absence of bureaucracy at Mazda. While Ford engineers spent time sending ideas up the hierarchy for review and getting approvals, their counterparts at Mazda did almost no paperwork. Once the design was approved by senior management, that was it (high power distance). There were no revisions made or offered by subordinates.

To the extent that partners show considerable differences along cultural dimensions, the more integrative efforts are needed to understand and reconcile them for alliance stability. The JVC-Thomson partnership reflects both organizations' high levels of uncertainty avoidance, particularly on matters of learning skills and technologies. The Ford-Mazda relationship
reflects the mutual need by both partners for critical skills, but also the potential for asymmetric learning and other conflicting patterns of decision-making that emanate from differences in individualism and other dimensions.

Specialization-based joint ventures help accelerate many firms' efforts to change and refocus their value-adding activities by renewing sources of competitive advantage. The Thomson-JVC and Mazda-Ford ventures expand both firms' organizational learning potential in ways that neither firm could more easily undertake alone. In each case, partners are able to learn new skills and technological refinements from the other, especially in global industries, such as automobiles and consumer electronics, where manufacturing technologies are becoming ever more sophisticated. In addition, specialization ventures provide firms with a window on new technologies and production methods utilized by their partners. This form of external alliance-based learning greatly complements internal formal R & D efforts to develop and nurture critical core competences for competitive advantage. Unlike licensing agreements, which are implemented essentially through contracts, successful learning of new skills in specialization ventures requires both firms to recognize the potent differences in the partners' underlying national values and to design the alliance carefully around them.

Joint Ventures - Product Shared Value-Added

Another form of joint venture that has surfaced in recent years is one in which both partners participate and share in similar value-adding activities (e.g., both design, produce and
market jointly). Unlike the specialization ventures in which partners pool complementary strengths, shared value-added ventures involve partners with relatively equal competencies. These ventures are closely related to the "Y-Form" described by Porter and Fuller (1986). Shared value-added ventures are particularly useful for firms that face growing levels of risk and faster organizational learning when developing new products and technologies that approach global MES, such as commercial aircraft and robotics. Some of the economic and competitive motives prompting shared value-added ventures include:

* fast upgrading and assimilation of different technologies and skills for a given product class by learning a partner's skills;
* desire to shape the evolution of competitive activity in that industry; and
* economies of scale that neither partner can generate alone.

Some of the most recently consummated shared value-added ventures include IBM and Siemens to design and produce the next generation of 64-megabit chips, Fuji-Xerox in photocopying and imaging, Corning Glass's numerous ventures with partners in glass and fiber optics, and Texas Instrument and Hitachi in computer chips. When compared with specialization ventures, shared value-added ventures depend even more upon understanding and the harmonization of different cultural values for effective implementation. Not only are the switching costs commensurately higher, but also are the risks for unintended technology loss and the "de-skilling" described by Hamel, Doz and Prahalad (1989). Since these ventures involve constant day-to-day contact between
managers along the same value-adding activities, mutual adjustment constantly manages the problems of high reciprocal interdependence. Table 5 presents the organization design characteristics of shared value-added ventures.

Insert Table 5 about here

Shared value-added ventures are organized along product lines, instead of functions. Because partnering involves bringing together similar or related strengths and competencies, structural dimensions of formalization, specialization, standardization and centralization are likely to be low. As risks in technology development grow, levels of differentiation will remain low to provide the possible benefits of faster learning and economies of scale that otherwise would be greatly diminished in a highly differentiated venture. The "center of integration" is more complex and costlier than those of specialization ventures. They often involve a combination of linking roles, task forces and committees to integrate across many different skill sets brought by both partners. Continuous everyday contact between managers requires integrative efforts that move steadily closer to a team-based approach and away from cumbersome hierarchical mechanisms. Control strategies and mechanisms for managing shared value-added ventures reflect both the need for bureaucracy and clan approaches. Providing the context for building scale economies requires some degree of bureaucratic control, while learning and nurturing new skills
demand a high level of managerial autonomy. In addition, reward systems are also likely to reflect a hierarchical pattern (Kerr and Slocum, 1987), because it is difficult to quantify specific measures of technological innovation, skill upgrading and organizational learning by individual members.

An example of how global firms have dealt with the problem of reconciling different cultural values into shared value-added ventures is provided Corning Glass Works and its numerous global partners. Corning’s series of ventures represents a novel approach to understanding and managing disparate cultural values, whose maladjustment could easily compromise the alliance’s stability and usefulness.

Corning Glass Works is currently involved in some 23 different global ventures. Its partners include Siemens for fiber optics, Ciba-Geigy in medical diagnostic equipment, Samsung in fiber optics and television tubes, Asahi glass in new optics fabrication technology, and several other ventures in China and elsewhere. Faced with a plethora of different cultures, Corning manages each of its ventures in the following way to ensure effective implementation. First, the company undertakes a long "pre-nuptial" courtship with each prospective alliance partner to assess its motives and its management quality. Only after top management is comfortable with the prospective partner do negotiations on alliance formation continue. Second, Corning does not insist upon complete dominance in each venture; instead, it does not hesitate to use the Corning name in a secondary role (e.g., Ciba-Corning, Siecor, Samsung-Corning, Dow-Corning). This
helps downplay the need for imposing U.S. values upon a disparate set of different alliance partners. In effect, Corning tries to integrate itself with the values brought by the other parent firm to the joint venture. Third, Corning believes in giving each joint venture considerable autonomy and insists that its partner do the same. By providing real autonomy from corporate parents, managers from both sides have the scope and discretion to engage in the kind of day-to-day compromising and personal negotiation that is necessary for stability and learning. This element is also consistent with U.S. managers' propensity for relatively low levels of power distance.

In another setting that highlights the critical role of values in implementing global alliances, AT & T has become adroit in formulating and implementing its series of strategic alliances across Europe. The U.S. telecommunications and computer giant has been anxious to expand its presence across the continent, but stumbled in one of its earliest joint ventures with Olivetti of Italy. Unlike Corning Glass Works, in which the U.S. partner fully understood the need for harmonizing and smoothing out different cultural value differences, AT & T approached its venture with Olivetti without recognizing the salient differences between U.S. and Italian cultural values and operating styles. Originally conceived as a vehicle for sharing production and marketing of computers, the venture ran into serious implementation difficulties. Many of these difficulties stemmed from each partner misinterpreting different cultural values and behavioral patterns. Olivetti, an old-line Italian firm, is
likely to have embraced many of these value characteristics: medium power distance, relatively high uncertainty avoidance, high masculinity and medium-to-high individualism. The U. S. firm is likely to rate significantly lower in uncertainty avoidance and much higher in individualism (the highest according to Hosftede’s scale). Some of the deep cultural differences that manifested themselves in day-to-day relationships included Olivetti’s allegations of AT & T’s insistence that the venture solve its own problems (resulting from differences in individualism), heavy-handedness in negotiations (an outcome of high individualism and power distance) and less emphasis on structuring venture activities (emanating from the U. S. firm’s lower uncertainty avoidance). In addition, what complicated the venture’s life was a gradual but discernible divergence in the partner’s original missions: telecommunications and computers did not converge as quickly as either firm believed. Both sides had different opinions concerning a myriad of short and long-term financial results.

The difficulties AT & T experienced with Olivetti may have actually helped the U. S. company not only learn more of the European marketplace, but understand different values and cultures across nations. In managing its series of alliances with other partners, such as Italtel of Italy, Telefonica of Spain, and N. V. Philips of the Netherlands, AT & T took an approach similar to that of Corning: maintaining a low public profile to avoid a perception of dominance, relying more on local nationals to give an accurate picture of domestic political and
economic conditions, and creating a European, rather than American, identity.

Finally, another venture in which the U. S. partner had to understand and manage deep cultural differences is that of General Electric's jet-engine venture with Snecma of France. Conceived originally as means for both firms to participate in supplying aircraft built by Airbus Industrie, the GE-Snecma deal is now among the most successful ventures in Europe, with over $11 billion in commitments secured in 1989. Snecma, once a government-controlled concern, is likely to have exemplified many of France's distinctive cultural characteristics: relatively high power distance, very high uncertainty avoidance, medium-to-low masculinity and medium individualism. On all four dimensions, the U. S. scores significantly different, especially with a lower uncertainty avoidance, higher masculinity and lower power distance. These differences manifested themselves in the way the French side would approach problems. According to executives in the venture, the French managers viewed problem-solving through data accumulation, while U. S. managers were more intuitive (reflecting the differences in uncertainty avoidance). The French also preferred to bring in executives from their air force and government, while GE prefers to use its own executives (power distance and masculinity differences). Nevertheless, the venture has worked well not only because of its 50-50 structure, but also because both sides have given their senior executives broad responsibility to manage the day-to-day operations. Although both firms share equally in the production and marketing
of the engines, some specific tasks have been divided among the partners to speed up production time: GE manages most of the system design and high-technology work, while Snecma builds the fans, boosters, and turbines.

Shared value-adding ventures enable firms to participate across a host of different technologies and skills contributed by both partners. The meshing of disparate cultural values from the parent firms into the venture entails significant changes in the reward systems to nurture close, day-to-day contact between managers. The examples of Corning Glass Works and A T & T show how firms must often change their venture policies every time a new partner from a different culture is brought in. Successful implementation of these ventures depends upon both partners' recognition of the critical role values play in organization design and learning. As Corning found out, every venture is different and requires mutual adjustment because of the value differences found across the world. Nevertheless, successful shared value-adding ventures entail both partners to ensure that the venture has sufficient enough autonomy to chart its own path, and if necessary, to allow the managers themselves to create and redesign the venture's unique reward systems and culture to encourage learning from one another.

Chaebols

While there are many similarities between Japanese keiretsus and South Korean chaebols, Steers, Shin and Ungson (1989) carefully delineate these differences. We have chosen to focus on chaebols in this section of the paper since all chaebols share
similar characteristics. A chaebol is a South Korean business group consisting of large companies that are owned and managed by family members or relatives in diversified businesses that produce an array of products for the global marketplace. Some of the largest chaebols are Samsung, Hyundai, Lucky-Goldstar, Daewoo, and Sunkyong.

According to Steers, et al., (1989) and Yoo and Lee (1987), chaebols share some common organizational features that reflect the cultural values of Korean society. First, these are controlled by families through stock ownership. This is important since the Korean cultural tradition places responsibility on the eldest son to inherit most family property and assume decision making responsibility. Family members hold both financial and top management positions. Second, chaebols are managed by one strong paternalistic figure. The CEO assumes personal responsibility for most decisions and, as such, makes many of the decisions. This is rooted in the Confucian tradition that requires the decision makers to balance the needs of the organization and the harmony of the group. Decision making is centralized and the structure is highly formalized. For example, Chung Ju-Yung, founder and former chairman of the Hyundai Group, made all decisions. No one dared to challenge him (high power distance). Every morning between 6:00 and 6:30, he would receive telephone calls from Hyundai’s foreign operations. This high degree of centralization of decision making is characteristic in most chaebols (high uncertainty avoidance). It is the subordinate’s job to make his superior’s decision work and not
question it. Third, there are centralized planning and coordination boards. The primary functions of these are to analyze data and present recommendations to the chairmen for decision making. Usually each member organization explains to the board what he has accomplished and plans to do. The planning board often plays a major role in personnel decisions. This group is responsible for screening all candidates and assigning college graduates hired by the chaebol to member organizations. These actions ensure continuity and coordination across organizations. This group is also responsible for overseeing the overall salary and bonus system used within each chaebol. Fourth, there are close personal ties between the government and the chaebols. The government uses its power through preferential loans and interest, licensing authorizations, and through the inclusion of companies in its five-year economic development plans. To assure continued success, the chaebols support the incumbent political party, and make donations to the "right" causes. Failure to accomplish these activities has lead to termination of financing and bankruptcy as in the case of Kukje Group. Finally, educational credentials are critical to a manager's success. Attending a prestigious Korean college almost guarantees the student with a job with one of the best companies. For example, at Lucky-Goldstar, of the fifteen top executives, 73% graduated from Seoul National University; at Samsung, 55% graduated from Seoul National University; and in Sunkyong, 75% graduated from Seoul National University. School ties are important in a status-oriented society (high masculinity) and
assure that the newcomer has a value system embraced by the
chaebol's elite management team.

These characteristics greatly affect the designs of chaebols
as shown in Table 6. South Korean managers place more emphasis

Insert Table 6 about here

on personal contacts and relationships than written contracts. In licensing joint ventures, for example, personal relationships are often utilized to secure a business deal, but little time is spent on nurturing these. Lawyers and written contracts most often dedicate the relationships of the parties. In chaebols, interpersonal networking across members' organizations in the chaebol is fostered by the movement of personnel across organizations and the active role of the planning group in influencing personnel practices. Most Korean managers spend considerable time in developing and nurturing personal relationships. These relationships govern decision making. When a manager submits his proposal for a new product to his peers, it is called "pummi." This serves to tell others of the new venture and diffuse responsibility for decision implementation quickly after a decision has been made. Maintaining personal relationships and enhancing mutual gains are critical in such situations.

According to Steers, et al. (1989), another aspect of maintaining personal relationships is the concept of "nunch'i." Nunch'i roughly translates as "the look in someone's eyes."
Korean managers pride themselves in their ability to read someone’s face. In developing personal relationships, nonverbal behavior is critical. There is a Korean proverb that translates "One who does not have nunch’i cannot succeed." The ability to silently read the other manager’s mind and to understand the problem from that manager’s perspective is salient. Relationships and not legal contracts govern decisions.

Implications for Organization Scientists

Global strategic alliances are increasingly being viewed as critical vehicles by which U. S. firms may hope to compete in the global marketplace and to keep up with the rapid pace of technology development. Although research interest in strategic alliances has grown steadily during the 1980s, advances in economics, business policy and organizational theory have only recently begun to develop new models and conceptual frameworks by which to examine and classify specific types of alliances and their supporting organization designs.

During the 1960s, most theoretical and empirical studies in these fields focused on examining economic behavior of single-business and vertically-integrated firms in domestic, oligopolistic settings. With the advent of resource scarcity and inflation during the 1970s, business policy and organizational theory researchers focused on such issues as diversification and resource dependency. The strategic business unit (SBU) was the unit of analysis. The 1980s brought the full impact of global competition and economic restructuring home to U. S. firms, and research studies are now beginning to reflect this trend. As we
enter into the 1990s, organizational science needs to balance its focus of examining domestic and unitary organizations with global networks and hybrid arrangements. Additional theory development is especially needed concerning alliances and other hybrid organizational arrangements that involve parties from two or more different cultural value systems. Consequently, a fertile ground for multidisciplinary approaches and research exists and will continue to grow.

From an economics, transactions-cost perspective, Borys and Jemison (1989) note that strategic alliances may be thought of as hybrid organizational arrangements that lay somewhere between "markets and hierarchies" (Thorelli, 1986; Williamson, 1985). Viewed in this way, alliances represent alternative organizational networks that transfer and distribute new benefits among the original partners—benefits that neither partner could have garnered on its own. Alliances, when considered as organizational networks, are presumed to function in a fairly stable manner as long as economic conditions for optimizing efficiency exist (Jarillo, 1988). While a pure transactions-cost approach to examining alliances can provide some useful platforms for building theory, the major pitfall of this perspective is that it tends not to consider potential contingency influences (e.g., product life-cycle, technological intensity) that could provide more insight into selecting the actual mode of alliance configuration. Moreover, a transactions-cost perspective assumes that the parties to the alliance share a common set of underlying economic assumptions, similar propensity for opportunism, and
tolerance for ambiguity--factors which may not weigh equally across different cultures.

From the business policy perspective, strategic alliances are viewed increasingly as mechanisms to enhance organizational learning of new skills and capabilities to build sources of competitive advantage (Bettis and Pinkley, 1991; Hamel, Doz and Prahalad, 1989; Harrigan, 1985; Ohmae, 1989). Unlike the pure transactions-cost approach, researchers in business policy have developed numerous theories concerning the rise and purposes of alliances. The recent focus on strategic alliances, organizational networks and other hybrid arrangements as new research areas is a timely development, given the field’s continued emphasis on building a multidisciplinary approach to theory development and inquiry. However, it deemphasizes the relative importance of cultural values in managing operational issues within the alliance itself.

Yet, to develop theories and studies that are able to simultaneously reconcile the need to understand economic and strategic behavior with a multicultural perspective is indeed a challenging task. Economics and environmental changes may give rise to numerous opportunities for developing theories concerning strategy formulation, but an understanding of how different cultures are likely to interact and to relate is a vital linchpin to strategy implementation, particularly in alliances, networks, and hybrid arrangements.

Implications for Managers
In his scintillating book, the *Icarus Paradox*, Danny Miller (1990) comments that organizations are always changing. Organization design processes are dynamic. The strategic alliances that we outlined in our chapter have initial themes that characterize their structure, information processing capabilities, control and reward systems. These features create a development path that facilitates organizational learning in each strategic alliance. At the same time, these alliances resist change for several reasons. First, alliances are shaped by a consistent array of structural dimensions and control systems. These determine the standards of success, what information is attended to, and what behaviors the reward system reinforces. It also establishes routines that create premises for learning. In fact, each alliance controls the amount and scope of learning. And this makes it very hard for managers to recognize fundamentally new problems that were never envisioned in designing the alliance originally. Second, alliances resist change because they are inextricably embedded in the political interests of managers who have benefitted from the arrangement. Successful managers have learned and internalized a repertory of strategic skills and resources and have honed these. Third, characteristics of each alliance’s structure are mutually reinforcing. Try to change one in a manner that is inconsistent with the culture, reward system, etc., and the others will force it back into place.

Given these assumptions, Miller argues that organizations keep recreating themselves in their own image. They determine
their future according to how their top managers perceive their environment and programs of the past. This perspective inexorably moves the organization toward a narrow focus of conformity, and one that is resistant to change.

Efforts to redesign firms away from a domestic to a global focus demand an understanding of the economics of global competition, as well as implementation processes that are intrinsic to alliance stability. As a firm’s scope of alliance activity becomes more sophisticated, senior management must reframe its past behaviors to the critical role of coalescing different culture values for successful implementation and organizational learning. All too often, however, this task is often presumed as a given, leading to alliance instability and the loss of valuable partners that can help shape future industry evolution and the scope of competitive activity results.

Each type of strategic alliance requires organizational learning. Single-loop relearning processes establish efficient routines that galvanize cultures, structures, reward systems, and modes of integration. These contribute greatly to the alliance’s stability. One unintended consequence of single-loop learning is that it limits focus. Monolithic corporate cultures consolidate controls around core competencies, just as well accepted routines greatly improve efficiency and coordination. However, both reduce organizational flexibility. For example, chaebols have achieved their economic brilliance at the expense of an individual’s organization’s autonomy. At Samsung, there is an emphasis on technological development, especially in
semiconductors and genetic engineering. The bulk of Samsung’s brightest employees and resources are in that business segment. Since resources are limited, those organizations in Samsung’s culture and social welfare business segment are sacrificed. To excel requires trade-offs, concentration, and dedication.

Bibliography


Figure 1: The Relationship Between Economic Factors and Cultural Values with Strategic Business Alliance Configuration.
Table 1

Global Strategic Alliances
and Organizational Design Characteristics

<table>
<thead>
<tr>
<th>Type of Strategic Alliance</th>
<th>Top Manager's Assumptions About Environment</th>
<th>Design Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Structural Dimensions*</td>
</tr>
<tr>
<td>License</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Industries</td>
<td>Simple/Stable</td>
<td>Formalization</td>
</tr>
<tr>
<td>Services</td>
<td>Simple/Stable</td>
<td>Specialization</td>
</tr>
<tr>
<td>Joint Ventures</td>
<td></td>
<td>Standardization</td>
</tr>
<tr>
<td>Functional Specialization</td>
<td>Dynamic/Stable</td>
<td></td>
</tr>
<tr>
<td>Product Shared-Value Added</td>
<td>Dynamic/Complex</td>
<td></td>
</tr>
<tr>
<td>Consortia</td>
<td>Dynamic/Complex</td>
<td></td>
</tr>
</tbody>
</table>

*Each alliance structure has a different configuration of structural dimensions and integrating mechanisms. These will be discussed within the context of each type of strategic alliance.
Table 2

Strategic Business Alliance: Licensing-Manufacturing Industries

<table>
<thead>
<tr>
<th>Design Features</th>
<th>Structural Dimensions</th>
<th>Center of Integration</th>
<th>Control Strategies</th>
<th>Reward System</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalization - (H)*</td>
<td></td>
<td>Hierarchy</td>
<td>Market</td>
<td>Performance-Based</td>
<td>Market</td>
</tr>
<tr>
<td>Specialization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standardization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* H = High  M = Medium  L = Low

Table 3

Strategic Business Alliance: Licensing-Service Industries

<table>
<thead>
<tr>
<th>Design Features</th>
<th>Structural Dimensions</th>
<th>Center of Integration</th>
<th>Control Strategies</th>
<th>Reward System</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalization - (H)</td>
<td></td>
<td>Hierarchy</td>
<td>Market</td>
<td>Performance-Based</td>
<td>Market</td>
</tr>
<tr>
<td>Specialization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standardization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 4

**Strategic Business Alliance: Joint Ventures—Functional Specialization**

<table>
<thead>
<tr>
<th>Structural Dimensions</th>
<th>Center of Integration</th>
<th>Control Strategies</th>
<th>Reward System</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalization - (M)</td>
<td>Plans and Liaison Roles</td>
<td>Bureaucracy</td>
<td>Mixed Hierarchy and Performance-Based</td>
<td>Mixed Clan and Market</td>
</tr>
<tr>
<td>Specialization - (H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standardization - (M)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization - (M)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 5

**Strategic Business Alliance: Joint Ventures—Product Shared Value-Added**

<table>
<thead>
<tr>
<th>Structural Dimensions</th>
<th>Center of Integration</th>
<th>Control Strategies</th>
<th>Reward System</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalization - (M-L)</td>
<td>Liaison Roles Task Forces</td>
<td>Clan</td>
<td>Hierarchy-Based</td>
<td>Clan</td>
</tr>
<tr>
<td>Specialization - (L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standardization - (L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization - (L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6

Strategic Business Alliance: Consortia

<table>
<thead>
<tr>
<th>Structural Dimensions</th>
<th>Center of Integration</th>
<th>Control Strategies</th>
<th>Reward System</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalization - (L)</td>
<td>Task Forces</td>
<td>Clan</td>
<td>Hierarchy-Based</td>
<td>Clan</td>
</tr>
<tr>
<td>Specialization - (H)</td>
<td>Integrating Role</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standardization - (L)</td>
<td>Integrating Department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization - (M-H)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The following is a partial list of papers that are currently available in the Edwin L. Cox School of Business Working Paper Series. When requesting a paper, please include the Working Paper number as well as the title and author(s), and enclose payment of $2.50 per copy made payable to SMU. A complete list is available upon request from:

Business Information Center
Edwin L. Cox School of Business
Southern Methodist University
Dallas, Texas 75275


89-031 "Model Management Using Intelligent Agents," by Gary Klein, John I. C. Liu, and David Y. Y. Yun

89-033 "Sourcing for Competitive Advantage," by Richard A. Bettis and Stephen P. Bradley

89-111 "Normal Effects of Corporate Sponsorship and Departmental Power on Career Tournaments: A Study of Intraorganizational Mobility," by John E. Sheridan, John W. Slocum, Jr., Richard Buda, and Richard Thompson


90-021 "Global Strategy and Reward Systems: The Key Roles of Management Development and Corporate Culture," by David Lei, John W. Slocum, Jr., and Robert W. Slater

90-071 "Multiple Niche Competition - The Strategic Use of CIM Technology," by David Lei and Joel D. Goldhar

90-101 "Global Strategic Alliances," by David Lei and John W. Slocum, Jr.


90-103 "Household's Coupon Usage Behavior: Influence of In-Store Search," by Arun K. Jain and Ambuj Jain