THE PARTNER SELECTION PROCESS OF ALLIANCES IN THE MANUFACTURER-DISTRIBUTOR MARKETING CHANNEL: A CASE APPROACH

BY

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This dissertation is presented in fulfilment of the requirements for the Degree of Master of Business Studies at Dublin City University Business School.

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Date: October, 1996

Declaration

I hereby certify that this material, which I now submit for assessment of the programme of study leading to the award of Master of Business Studies is entirely my own work and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

Signed: Joanne Potter ID No.: 94970831

Date: 3/10/96

To My Family

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List of Abbreviations

SME	Small and Medium Sized Enterprises
TCA	Transaction Cost Analysis
RDP	Resource Dependency Perspective
MNC	Multinational Company
JV	Joint Venture
PSP	Partner Selection Process
EU	European Union
DGXXIII	Directorate General of the European Commission responsible for Enterprise Policy, Distributive Trades, Tourism and Cooperation
IMP Group	International Marketing and Purchasing Group

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ABSTRACT

The past decade has seen an upsurge in the number of strategic alliances entered into by companies in the international business arena. Such alliances may offer opportunities to Irish companies who strive to increase their sales and expand into overseas markets.

However, many of these alliances have ended in failure, often due to poor partner selection and management of the alliance. Despite the increase in research examining ways in which companies can improve their ability to 'get it right', there remains a considerable deficiency in the information available. In respect of literature relating Irish industry to the process for developing alliances there is a large gap to be filled. This research is an attempt to redress this deficiency.

The author posits that in order to select a partner and form a strategic alliance, strategy development, partner assessment and negotiations will be undertaken. A partner selection process framework was developed to examine the partner selection and formation of a distribution alliance.

Part of this process involves the selection of partner-related criteria to establish partner fit. Certain characteristics are posited as defining the 'structure' of alliance relationships (Achrol et al, 1990) and subsequently as being features of partnership success (Spekman and Sawhney, 1990). Specifically, this research seeks to ascertain the role played by factors such as; compatibility (Narus and Anderson, 1987; Lewis, 1990), commitment (Anderson and Weitz, 1992; Mohr and Spekman, 1994), communication (Salmond and Spekman, 1986), trust (Morgan and Hunt, 1994; Gulati, 1995), and conflict (Magrath and Hardy, 1989; Mohr and Spekman, 1994), in the successful selection and negotiation of an alliance partnership. The research was interested in examining how these variables can be nurtured in the pre-alliance state in order to form a relationship with the intended partner.

A qualitative research approach was taken. This involved in-depth semi-structured interviews with an Irish company and a questionnaire which was administered to the overseas partner. Three distribution agreements were investigated, an Irish/German agreement, an Irish/Belgian agreement and a Spanish/Irish agreement. The descriptive case studies ensued from these.

The evidence suggests that the partner selection process framework developed by the author is appropriate for use in the formation of a distribution alliance. Furthermore, the case study data revealed that the partner-related criteria should be defined and cultivated in the pre-alliance state. The partner-related criteria can be used to assess partner fit and establish a relationship which realises the joint objectives of the alliance parties.

CHAPTER ONE

STRATEGIC ALLIANCES - AN OVERVIEW

1.1 Introduction

The purpose of this study is to investigate manufacturer and distributor relationships in international markets as a form of strategic alliance. Evidence suggests that conventional distribution channels, where the relationship is arms length, may not always provide effective co-ordination of marketing activities (Anderson and Weitz, 1992). Marketing, market access and access to products are some of the most sought after resources in strategic alliances (Harrigan, 1985; Achrol et al, 1990). Consequently, alliances based on integrating distribution channels are becoming widespread (Powell, 1987; Spekman and Sawhney, 1990).

This trend towards alliances can provide benefits for Irish companies. Situated on the periphery of Europe, firms here need to be realistic about what they can achieve in the European and global market place. One of the ways of accessing this growing market place is through the use of strategic alliances, and distribution alliances may be a suitable alternative. Companies of all sizes can avail of opportunities by developing their existing distributor bases through alliances or by forming new partnerships to gain access to markets where they are not already present.

The thesis addresses the question: How are these strategic alliances between manufacturers and distributors in international markets formed? A literature review is undertaken in order to develop a suitable framework to describe the formation process of the distribution alliance. From the development of the framework, another issue became apparent: What criteria are used to select a partner? Specifically, criteria relating to the development of a relationship are considered.

The study progresses in the following manner. Chapter one introduces strategic alliances. There is no one generally accepted conceptual approach that explains strategic alliances (Spekman and Sawhney, 1990), so several theories are reviewed. Attention is given to reviewing different forms of strategic alliances, environmental and organisational influences, management, termination and failure of alliances. At the end of the first chapter, a recent study on Irish co-operation is presented. This highlights some of the problems and issues relating to Irish co-operation ventures.

The second chapter focuses on distribution alliances. A partner selection process framework is developed to describe partner selection and alliance formation in distribution alliances. Identifying partner-related criteria is part of this process. They are used to determine partner fit and aid in relationship development.

Chapter three describes the qualitative approach taken in conducting the empirical research. In-depth interviews and a questionnaire for the overseas partner were employed. This resulted in three case studies describing the formation of three distribution alliances between Irish companies and their overseas partners. The case studies are reported in chapter four. The author analyses the findings in the final chapter.

1.2 The Emergence of Strategic Alliances

> Alliances between companies, whether they are from different parts of the world or different ends of the supply chain, are a fact of life in business today (Kanter, 1994, p.96).

Strategic alliances are proliferating throughout the world leaving few industries or businesses untouched. The business environment has changed, causing companies to rethink their strategies and options. Traditional alliances have changed in character. Previously they were frequently 'tactical' manoeuvres (Porter and Fuller, 1986), now they influence competitiveness and future courses of action and as such have become 'strategic' (Nohria and Garcia-Pont, 1991).

In the past many alliances were casual in nature and rarely affected a company's competitive position. The current trend of alliances, however, differ in usage and focus. As Devlin and Bleackley (1988, p.18) note 'these strategic alliances are specifically concerned with securing, maintaining, or enhancing a company's competitive position. Unlike their predecessors they are a central aspect of a company's future direction and are a key strategic option.'

1.3 Defining Strategic Alliances

One of the most comprehensive definitions currently cited in the literature is that by Murray and Mahon (1993). They define strategic alliances as:

> A coalition of two or more organisations to achieve strategically significant goals and objectives that are mutually beneficial. These goals and objectives can be pursued in either the economic or political arena, and can be flexible in time orientation. Mutually beneficial does not imply equality of benefits, but does mean that all parties to the alliance receive benefit from it in proportion to contributions made. Moreover, the stability of the alliance will be a direct consequence of these benefits outweighing those of alternate arrangements (Murray and Mahon 1993, p.103).

Simply put, alliances can be utilised in a variety of arenas, among any number of firms, where the minimum criteria for the agreement are met. The minimum criteria are common objective(s), mutual need and risk-sharing.

The issue of common objectives is almost self explanatory. Banks and Baranson (1993, p.29) refer to the need for a 'symbiosis in strategic objectives, and complementarity in the combined capabilities and resources of the involved parties.'

Mutual need relates to the benefits to be achieved. The benefits should outweigh those derived from other means or actions (Murray and Mahon, 1993). Limited company resources are forcing companies to reassess their options and find ways of exploiting economies for a mutual advantage. Bluestein (1994, p.25) confirmed this stating that, 'alliances are occurring because companies are realising that they don't have the competencies or resources to compete alone in the global markets. It is not that they are short of capabilities but that they understand their limitations.' Mutual need builds the commitment necessary to make an alliance work (Lewis, 1990).

Risk-sharing also creates a powerful incentive to co-operate for mutual gain. Co-operation can occur out of mutual need but companies tend to take risks separately or may coerce another company to undertake them through economic power. This damages a relationship if it sacrifices mutual opportunities, or if the parties to the relationship need each other's strengths in the future. In a successful alliance, shared risks, like mutual need, foster stronger commitments (Lewis, 1990).

Underlying the formation of alliances are theories as to why companies essentially make the decision to ally with a partner or partners. The next section deals with three prominent theories, transaction cost analysis (Williamson, 1979; Walker and Weber, 1984; Krapfel, Salmond and Spekman 1991), resource dependency theory (Van de Ven, 1976; Pfeffer and Salancik, 1978) and relational contracting theory (Macneil, 1980; Heide, 1994).

1.4 Review of Theoretical Perspectives on Strategic Alliance Formation

Smith, Carroll and Ashford (1995) organised various theories in the co-operative literature into five broad categories.

Exchange theories, where co-operation is viewed as a means of maximising economic or psychological benefits, such as transaction cost theory. The second category, attraction theories focus on what attracts individuals and groups to each other and what seems to create natural affinity or its opposite (cf. Hollinghead, 1950). The non-economic aspects of the formation of relationships are emphasised. Power and conflict provide the third broad category. Smith et al (1995) summarise the main tenets of this category. 'Within this framework, diversity in individuals' and groups' goals, values and resources, which can create perceptions of injustice or inequalities, can explain conflict, and co-operation can presumably be explained by the opposite' (Smith et al, 1995, p.18). The fourth classification are modelling theories. Here the focus is on the importance and process of social learning such as imitation and modelling as an explanation of the emergence of co-operation between individuals and in organisations. The fifth category is that of social structure theories, which stress structures consisting of a range of social positions from individuals to networks that are interrelated and differentiated. Just as in modelling theories, social structure theory looks at scope outside a relationship in order to predict co-operation and co-ordination (Smith et al, 1995).

The categorisation of theories by Smith et al has wide applicability, but as they note 'it is unlikely that any single theory can fully explain the complexities of co-operation' (Smith et al, 1995, p.19). Spekman and Sawhney (1990, p.4) also concurred with this view stating that, 'there is no one generally accepted conceptual approach that adequately explains this growing phenomenon.' However, the aforementioned transaction cost analysis, resource dependency perspective and relational contracting theory, are most often used to provide an explanation for the underlying rationale in strategic alliance formation. Each of these is now individually reviewed.

1.4.1 Transaction Cost Analysis (TCA)

> A guiding principle of TCA is that decision makers possess limited information (bounded rationality) and may pursue self-interest with guile through incomplete or misleading information disclosure (opportunism). Transactions may require making investments in durable assets, human capital, or technology (transaction costs) (Krapfel, Salmond and Spekman, 1991, p.31).

Transaction cost analysis addresses a central question: under what conditions are transactions performed more efficiently within an organisation as opposed to between independents operating in the marketplace? The analysis hinges on gaining the proper fit between the dimensions of the specific transaction and the most efficient manner in which to conduct the transactions. In this manner, a TCA can be used to explain make or buy decisions (Walker and Weber, 1984).

Williamson (1981) focused on transaction cost minimisation in the selection of one governance mode over another. The extremes in governance modes range from arm's length spot-market transactions to vertical integration. Williamson (1979) described bilateral governance as an intermediate mode, suitable for long-term buyer-seller relationships.

1.4.2 Resource Dependency Perspectives (RDP)

> This view holds that given functional specialization and a scarcity of resources, organizations seek to reduce environmental uncertainty by exchanging resources for mutual benefit (Bucklin and Sengupta, 1993, p.32).

The resource dependency perspective (RDP) views the supply environment as consisting of scarce resources (Pfeffer and Salancik, 1978). They argue that balance must be achieved between access to resources and the ability to control or regulate the allocation of these same resources.

Two alternative relationships emerge from an RDP, a symmetrical exchange, where the parties are motivated by mutual benefits and an asymmetrical exchange, where one party is motivated and the other is not, but one of the parties is powerful enough to coerce the other party (Cummings, 1984; Spekman and Sawhney, 1990). Despite the tyranny of an asymmetrical relationship, it is eventually expected to become more balanced over time due to strategic vulnerability arising from dependency, which results in interdependence (Spekman and Sawhney, 1990).

Conceptually, the establishment of an inter-firm link is viewed in this literature as dealing with the problems of uncertainty and dependence by deliberately increasing the extent of co-ordination with the relevant set of exchange partners or creating "negotiated environments" (Heide, 1994, p.73). Therefore, in spite of the potential problems, buyers and sellers are compelled to collaborate to gain scarce resources, share strategic information and benefit jointly from proprietary information.

1.4.3 Relational Exchange Theory

Several authors suggest relational exchange theory as another form of inter-organisational governance worthy of consideration (Macneil, 1980; Dwyer, Schurr and Oh, 1987; Heide, 1994). The theory evolved through the argument that while a discrete exchange can be defined as 'one in which no relation exists between the parties apart from the simple exchange of goods' (Macneil, 1980, p.10), no such exchange exists. Macneil asserts instead that every contract involves relations apart from the exchange of goods itself. Simply, relational exchange exists because it takes into account 'the historical and social context in which transactions take place and views enforcement of obligations as following from the mutuality of interest that exists between a set of parties' (Heide, 1994, p.74).

Dwyer, Schurr and Oh (1987) developed a five phase model to show how relationships are formed using Macneil's (1980) work. At each phase in the process, there is a major shift in how the parties look upon each other. Within the five phases; awareness, exploration, expansion, commitment and dissolution are relational properties that may be of consequence in buyer-seller exchange. For example, in the exploration phase a company could expect to find; attraction, communication and bargaining, development and exercise of power, norm development and finally, expectation development (Dwyer et al, 1987).

Day and Wensley (1983) use relational exchange as a central paradigm in explaining the need for suppliers to create and sustain competitive advantage. In particular, these advantages arise from differentiation through 'market segmentation, selection of appeals, product improvement, process improvement and product innovation' (Day and Wensley, 1983, p.82).

The theoretical background of strategic alliances is usually based on one of the above perspectives. The literature in recent years has sought to assess the limitations of each and develop more comprehensive frameworks (Hakansson, 1982; Spekman and Sawhney 1990, Heide, 1994). The review of theory does not explain the actual form of alliance that a company will eventually use. Strategic factors are considered to influence these choices, controlling the intensity (Reve, 1988), and the ultimate form of the alliance (Spekman and Sawhney, 1990).

The search for competitive advantage is the most salient strategic factor influencing strategic alliance formation (Porter, 1985; Barney, 1991; Bucklin and Sengupta, 1993).

1.5 Competitive Advantage

'Strategic factors will have a great impact on the final form of alliance chosen by the exchange partners' (Spekman and Sawhney, 1990, p.16). They relate to the decisions that a firm will make in order to achieve its goals. In their review of strategies, Spekman and Sawhney (1990) examine the firm life cycle (Kotler, 1987), strategic orientation based on the concept of strategic choice by Child (1972), and then suggest that Mintzberg's (1978) notion of "metastrategy" could provide an umbrella under which other strategies fall. They highlight the problem posed by having multiple strategies all of which can be used to influence the form of alliance a company may choose concluding that 'it is difficult to find a specific set of agreed upon strategies that lead toward the formation of these alliances' (Spekman and Sawhney, 1990, p.20).

However, Day and Wensley (1983, p.80) suggest that the 'essence of strategic management is an integrated organizational emphasis on securing and sustaining a competitive advantage.' Porter's (1980) generic strategies of cost leadership, focus and/or differentiation are frequently used to describe the means by which a company can achieve and sustain competitive advantage over competitors.

'The basic tool for diagnosing competitive advantage and finding ways to enhance it, is the value chain, which divides a firm into the discrete activities it performs in designing, producing, marketing and distributing its product' (Porter, 1985, p.26). Day and Klein

(1987) propose that a value chain analysis might provide an approach to understanding the motivation for a firm's strategic choices. Consequently, competitive advantage in alliances is achieved through forming linkages between the value chains of different companies.

1.5.1 The Value Chain and Vertical Linkages

The value chain is described as 'a collection of activities that are performed to design, produce, market, deliver and support its product' (Porter, 1985, p.36). Each company has a unique value chain, and although within an industry firms may have similar value chains, the value chains of competitors often differ. It is the differences in competitor value chains that provide a key source of competitive advantage.

The relationship between the way one value activity is performed and the cost or performance of another are called linkages. Competitive advantage can also be derived from linkages in the same way as it does from the individual activities themselves. Porter (1985) proposes that linkages exist not only within a firm's value chain but between a firm's value chain and the value chains of suppliers and channels.

The linkages between suppliers' value chains and a firm's value chain provide opportunities for the firm to enhance its competitive advantage. 'Supplier linkages mean that the relationship with suppliers is not a zero sum game in which one gains only at the expense of the other, but a relationship in which both can gain' (Porter, 1985, p.51).

Channel linkages are similar to supplier linkages. Channels have value chains through which a firm's product passes. Co-ordinating and optimising channels can lower cost or enhance differentiation. Porter (1985) suggests that vertical linkages can be easier to achieve with coalition partners.

For example: Circle Paints, the Dublin-based paint manufacturer, entered into a long-term partnership agreement with Johnstone's Paint, one of the UK's largest paint companies. Under the agreement, Circle Paints will market and distribute the Johnstone's, Manders and Trent brands in Ireland. The agreement is expected to bring greater competition and a wider choice of brands (Irish Hardware, 1995). This illustration of a distribution alliance enables the manufacturer to not only licence their painting technology, but also to distribute in a new market without the expense of locating in Ireland.

Strategic alliances can involve collaboration on any set of value-added activities, where the companies build on their core competencies to produce specific competitive advantages. Porter (1980) classifies the actors in an industry as rivals, suppliers, buyers, substitute producers and potential entrants. Strategic alliances can also be formed in any combination among the actors (Murray and Mahon, 1993).

In summary, coalitions arise when performing an activity with a partner is superior to performing the activity internally, and coalitions arise when forming an alliance is superior to reliance on arm's length transactions, mergers or acquisitions. The benefits and costs of any single form of alliance versus other forms will depend on the value activity involved (Porter and Fuller, 1986).

1.5.2 Classes of Benefits

According to Porter and Fuller (1986) alliances may allow a firm to reap four classes of benefits from an activity.

(i) Economies of scale or learning

Gaining economies of scale or learning by concentrating the activity within one entity to serve both firms. Pooling volume raises the scale of the activity or the rate of learning about how to perform the activity compared to that of each firm operating separately.

(ii) Access advantages

The second class of benefit of alliances lies in acquiring, pooling or selling access to the knowledge or ability to perform an activity where there are asymmetries between firms; one firm has already incurred the cost of developing the ability, enjoys a preferred position in the activity or has superior resources. Inter-firm agreements for this class of benefit seek access to 'distribution channels, local legitimacy, technology or innovative ability, specialised know-how and capital' (Porter and Fuller, 1986, pp.322-325).

Allying for access generally arises from; first-mover effects (e.g. one firm is way ahead on the learning curve or has pre-empted scarce resources), comparative advantage effects (a country is a preferred location for performing an activity), desire for local ownership, or a combination of the three. Partnerships to exploit access advantages either lower the cost of or, reduce the time required to achieve competence in the activity.

(iii) Reduced risk.

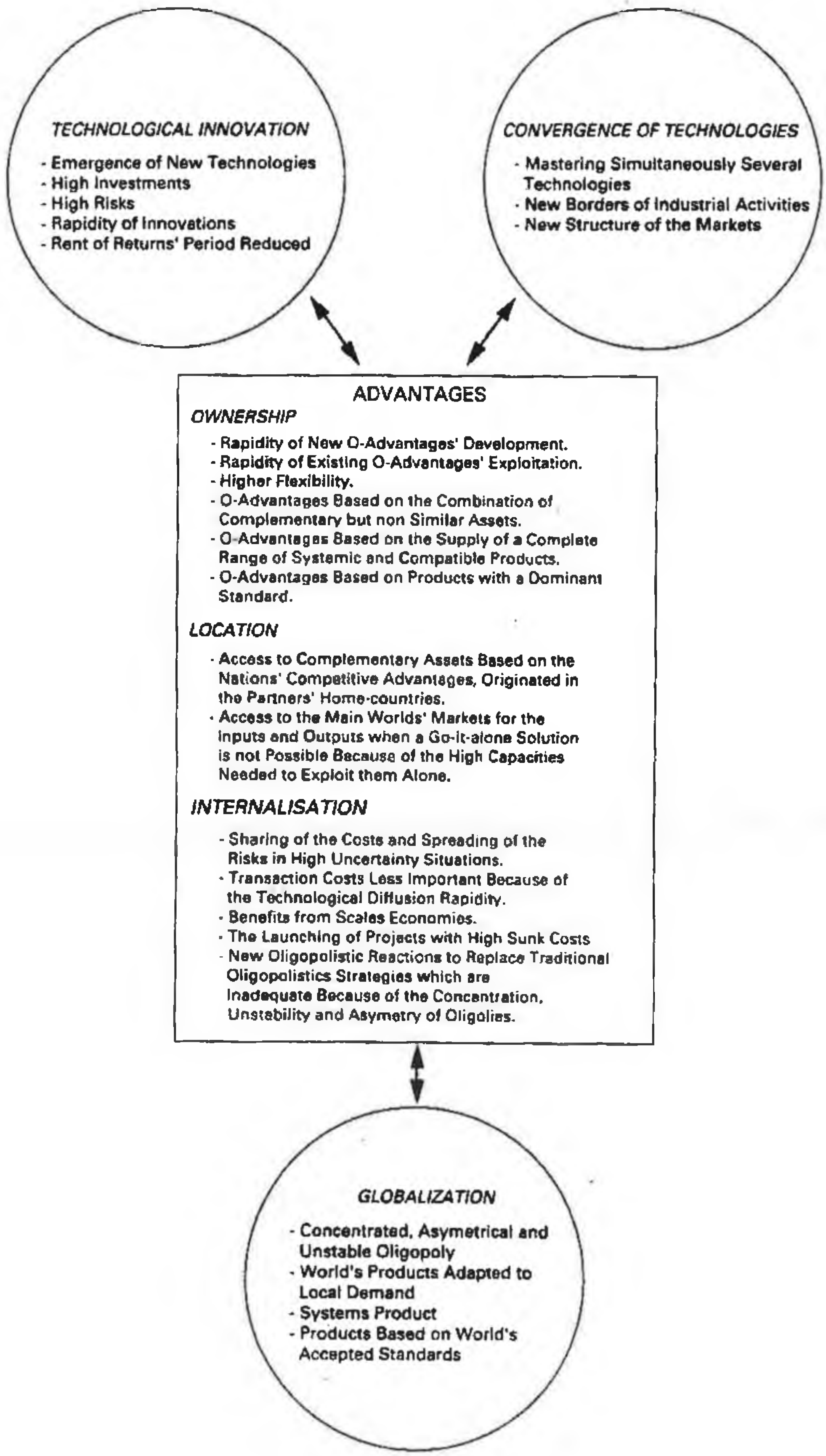
Alliances are an attractive mechanism for hedging risk because neither partner bears the full risk and cost of the shared activity.

(iv) Shaping competition

Alliances can influence who a firm competes with and the basis of competition. This fourth motivation for inter-firm agreements has been narrowly framed in the literature, primarily in terms of facilitating collusion (Porter and Fuller, 1986; Jorde and Teece, 1989). In Europe there are strict guidelines covering anti-competitive practices, however exceptions have been made which deliberately encourage co-operation among small and medium sized enterprises (SMEs) (Urban and Vendemini, 1992).

Gugler (1992) contends that the convergence of technologies, the increased pace of technological innovation and the growth of globalisation can be used to create competitive advantage (see Figure 1.1). He refines the resulting advantages under the

Figure 1.1 **The value of strategic alliances**



Source: Gugler, Philippe (1992) "Building Transnational Alliances to Create Competitive Advantage," Long Range Planning, Vol.25, No.1, p.92.

headings; ownership, location and internalisation. Often the reasons for forming alliances and the resulting advantages are the same. Basically, the companies entering an alliance will have their own objective(s) and the fulfilment of these objectives parallel the advantages that accrue to the specific relationship. Then, in order to optimise strategic management these advantages once secured, must also be sustained.

1.5.3 Sustaining Competitive Advantage

Barney (1991, p.102) suggests that a firm has 'a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors' but that the advantage is not invalidated by competing firms imitating the benefits of that advantage. This can also be applied to companies that seek competitive advantage from forming a strategic alliance.

Ghemawat (1986) maintained that these advantages are sustainable through three sources: size in the targeted market, superior access to resources or customers and restrictions on competitors' options. Size provides an advantage when there are benefits to being large. It can accommodate economies from three possible bases: scale, experience and scope.

Access advantages exist when a company can secure resources or customers. Access advantages will be sustainable if certain conditions are met; 'it must be secured under better terms than competitors will be able to get later, and the advantage has to be enforceable over the long run' (Ghemawat, 1986, p.55).

Competitors choices may be essentially different, thus restricting their ability to imitate another company's strategy. This occurs when competitors are hampered due to public policy, defending their current investments or have a slow response to change. Companies may form alliances to overcome any of these restrictions in an environment for the purpose of attaining competitive advantage (Ghemawat, 1986; Murray and Mahon, 1993).

Hence, the search for competitive advantage will influence the form of alliance chosen. The intensity of the relationship likewise influences the form of alliance. Intensity will depend on the strategic direction that the company takes.

1.5.4 Intensity

According to Spekman and Sawhney (1990, p.16) 'intensity relates to the degree of closeness between the partners as well as the amount of effort expended by the firms to maintain the relationship' (see Figure 1.2). This effects the final form of alliance. For example, a joint venture which is the establishment of a third entity by two other companies, is a more intense form of relationship than a licensing agreement which arises 'when a firm provides for a fee or royalty, technology needed by another firm to operate its business in a foreign market' (Bradley, 1991, p.319).

The joint venture would necessarily need more communication, co-ordination and co-operation than the simpler agreement where the parties are negotiating for a fee. In this way, the form of alliance can be seen to be affected by the stake and the benefits (Spekman and Sawhney, 1990), which in turn influence the levels of communication, co-ordination and co-operation and thus the intensity of the partnership.

Figure 1.2 Strategic alliance options in terms of degree of vertical integration with the parent firm.

HIERARCHY				MARKET
Mergers and acquisitions	Joint ownership	Joint venture	Formal co-operative venture (Licensing, Franchising, Buyer-seller arrangements)	Informal co-operative venture

Large ← Degree of vertical integration → None

Source: Adapted from Lorange, Peter and Roos, Johan (1993) Strategic Alliances: formation, implementation and evolution, Blackwell Publishers, Oxford, UK., p.3.

The past two sections have explicitly examined the theoretical concepts attributed to strategic alliances and their formation. In the following sections of this chapter, the emphasis is on bringing forth the theory into a practical analysis of the environment in which strategic alliances are formed and used. Different forms of strategic alliances are now outlined in order to illustrate the diverse array of strategic choices available to the firm.

1.6 Different Forms of Strategic Alliance

There are many different types of inter-organisational alliance arrangement. The option to use an alliance is only one of a number of potential methods of competing internationally.

The legal form of alliance chosen is not only related to the competitive conditions facing a firm, but also reflects country-specific legal and tax considerations. There is no simple relationship between the legal form of alliances and the purposes they are designed to achieve. For example, a cross-licensing agreement may have much the same purpose as an R&D joint venture. Similarly, the legal form of the agreement says little about the contribution of each partner (Porter and Fuller, 1986).

The review of the strategic alliance literature brings forth proponents for almost every variation of alliance partnership. The provision of a complete list is virtually impossible as new forms appear frequently. Therefore, only some structures will be mentioned here. Researchers have centred their debates on alternatives ranging from full equity ownership such as mergers and acquisitions (Nevaer and Deck, 1990), partial ownership, for example, joint ventures (Harrigan, 1988a; Geringer, 1991), or strategic alliances which involve no control over ownership such as informal co-operative arrangements. More recent forms of alliance structures receiving attention are; information partnerships (Konsynski and McFarlan, 1990), logistics alliances

(Bowersox, 1990), co-marketing alliances (Bucklin and Sengupta, 1993) and network alliances (Jarillo, 1988).

Furthermore, some researchers have not only concentrated on a form(s) of alliance but have also related the form of alliance to the underlying theories of alliance formation. For example, Oliver (1990) offers six contingencies, (necessity, asymmetry, reciprocity, efficiency, stability and legitimacy) which may cause a firm to be prompted or motivated into entering an alliance relationship. Each contingency is based on specified theories, for example, efficiency is consistent with the transaction cost perspective (Williamson, 1975), while asymmetry arises from the resource dependency perspective (Macneil, 1980). Stafford (1992) specifically used relational exchange theory to relate the development of three forms of alliance, (contractual arrangements, procreational ventures and acquisitional ventures) with three co-operation strategies. The co-operation strategies applied were sequential, reciprocal or pool strategies, as advanced by Borys and Jemison (1989).

The form of alliance which is central to this thesis is the distribution alliance. This concentrates on partnerships between manufacturers-distributors (Dickson, 1983; Anderson and Narus, 1984, 1988, 1990; Sethuraman, Anderson and Narus, 1988; Buzzell and Ortmeyer, 1995). It is also consistent with literature examining buyer-seller and buyer-supplier relationships (Salmond and Spekman, 1986; Dwyer, Schurr and Oh, 1987; Heide and John, 1990; Ganesan, 1994). These relationships embody the strategies based on value chain analysis. The underlying foundations are best represented by the International Marketing and Purchasing Group (IMP) approach, as discussed in the following chapter.

The review illustrates that the term 'strategic alliance' is very broad. Structures range from complete integration of one firm with another (hierarchy) to informal associations (market) (Lorange and Roos, 1993). The growth in strategic alliance usage is a result of world-wide environmental influences. These are now considered.

1.7 Factors Affecting the Growth of Strategic Alliances

Urban and Vendemini (1992, p.15) in their book 'European Strategic Alliances' proffer 'symptoms' and 'causes' for the growth of alliances. The symptoms are:

- a fall in international market shares;
- an over-concentration of industrial production on products which provide low levels of added value;
- inadequate investment in production and creativity;
- low productivity;
- disquieting underemployment.

The causes have been identified as:

- fragmented markets which hinder the various European national economies from specialising according to their respective comparative advantages;
- a system of controlled or regulated prices in many sectors;
- lack of market and company flexibility;
- protectionism, disguised to a greater or lesser degree, and various subventions which hamper the efficient allocation of resources.

They contend that the solution to many of these problems will be the growth of competitiveness through co-operation and partnerships (Urban and Vendemini, 1992). Since the opening of the internal European market at the end of 1992, European companies are governed by EU legislation which directly effects the potential to co-operate.

Within the North American literature a similar rationale is presented to explain the drive toward co-operation. Jorde and Teece (1989) consider that two fundamental factors have encouraged their growth. Firstly, the increased level of international competition, and secondly, a shift in perspective, i.e. where firms once considered co-operation to be indicative of cartels and covert collaboration, it is now increasingly being recognised as a viable strategic option for present day management. Alliance strategies therefore reflect the changing nature of international competition influenced by current economic, political and competitive considerations (James, 1985). Porter and Fuller (1986) assert that the agreements seem particularly related to the process of industry and firm globalisation.

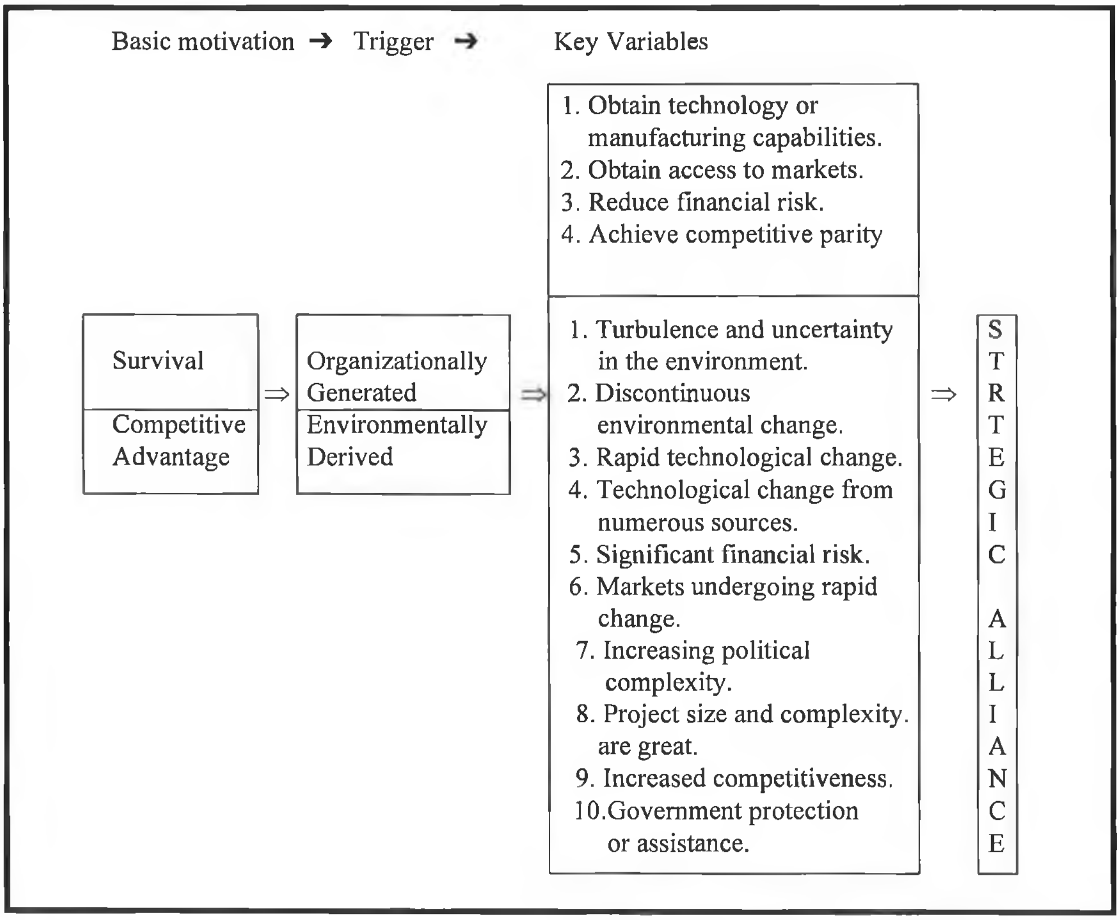
Vertical co-operation (which includes buyer-seller relationships) has especially been affected by the turbulent environmental changes. Piore and Sabel (1984) contend that the break-up and dissolution of mass markets for standardised products has led to a decline in productivity and to slower growth. This has opened the door to alternative organisational forms, thereby facilitating vertical co-operation.

Vertical co-operation arose out the difficulties companies experienced when they attempted to standardise production processes and accomplish all value chain processes within the firm (Powell, 1987). It was particularly influenced by the pace of technological change, shortened product life cycles and the specialisation of markets (Powell, 1987).

Vertical co-operation is the integration of one firm value chain with another firm's value chain. Vertical co-operation necessitates the use of value chain analysis as developed by Porter (1980, 1985) because individual firms rarely become expert in all stages of the value chain. A company will decide the areas in which the costs associated with product and market development will influence whether the firm buys the function from another company specialising in that area. For example, a firm may link up with a university in order to conduct R&D. As a result the company does not incur the cost of hiring specialists or providing expensive facilities already available within the university. The time and resources saved may allow a company to pre-empt competitors and avail of windows of opportunity (Botkin and Matthews, 1992).

Many of these factors are summed up by Murray and Mahon (1993) who describe them as either organisationally or environmentally generated (see Figure 1.3). The result of their analysis was based on Porter's (1980) notion of competitive advantage and Ghemawat's (1986) concept of sustainable advantage. The organisationally generated variables relate to obtaining advantages such as access to markets. The environmentally generated variables describe company responses to changes occurring in the environment, for example, rapid technological change.

Figure 1.3 The reasons for forming strategic alliances.



Source: Edwin A. Murray, Jr and John F. Mahon., (1993), Strategic Alliances: Gateway to the New Europe, Long Range Planning. August, Vol.26, No.4, p.104.

1.8 Managing an Alliance

Much of the extant literature focuses attention on the management of strategic alliances. The calibre of resources, autonomy of alliance managers, conflict resolution and alliance governance are all examples of the issues which are important to management. The day-to-day operation of the alliance depends on how well these are laid out and agreed upon and determines the performance of the alliance under competitive pressures in the marketplace.

Some of the issues that have formed the focus for discussions on management include, Perlmutter and Heenan (1986) who suggest that progress reports on the partnership, which analyse growing or declining mutual trust and respect, should supplement operational progress and performance reports. Bleeke and Ernst (1991) posit that flexibility is the hallmark of successful alliances and it is important because of the inevitable change in the objectives, resources and relative power of the parents throughout the lifetime of an alliance.

Gulati, Khanna and Nohria (1994) point out that successful alliances have contractual clauses whereby the relationship is assessed and re-negotiated every few years. Such opportunities are not mere legal formalities but are used at distinct junctures to reformulate the relationship and further the understanding between the parent firms. Devlin and Biggs (1989, p.146) add that 'departures from the plan need to be analysed to see if there are temporary problems, which can be remedied, or are due to mistaken assumptions within the original plan. If the assumptions prove to be at fault then the effect on the alliance needs to be evaluated to ensure that the venture is still viable and any correcting action is identified.'

Czinkota and Ronkainen (1990) describe three factors that can inhibit high performance and suggest remedies to overcome these problems (see Figure 1.4). Separate ownership, geographic and cultural separation, and different rules of law represent three broad areas which can result in problems for the manufacturer-distributor relationship. They suggest that these can be overcome by offering various incentives, establishing communications and complying with the law.

Throughout the lifetime of an alliance there is a constant need for monitoring and communication between the partners. It is also important that an alliance, once it has achieved success, is re-evaluated as it may have come to a natural conclusion. The termination of an alliance agreement is an important part of the strategic alliance process as few alliances last indefinitely. Alliance success and failure are now considered.

Figure 1.4 Performance problems and remedies when using overseas distributors

High Export Performance Inhibitors →	Bring →	Remedy Lies in
Separate Ownership	• Divided Loyalties • Seller-Buyer Atmosphere • Unclear Future Intentions	Offering good incentives, helpful support schemes, discussing plans frankly, and interacting in a mutually beneficial way
Geographic and Cultural Separation	• Communication Blocks • Negative Attitudes towards Foreigners • Physical Distribution Strains	Making judicious use of two-way visits establishing a well-managed communication program
Different Rules of Law	• Vertical Trading Restrictions • Dismissal Difficulties	Full compliance with the law, drafting a strong distributor agreement.

Source: Rosson, Phillip J., (1984) "Source Factors in Manufacturer-Overseas Distributor Relationships in International Marketing" in Kaynak, Erdener (Ed.) International Marketing Management.

1.9 Successful Alliances

A successful alliance can be measured in terms of satisfaction and continuity (Shamdasani and Sheth, 1994). Satisfaction with the agreement takes account of the outcome variables (e.g. the financial performance of the alliance) and the relational variables (e.g. the degree of commitment or competence displayed by a partner to the alliance). Continuity is defined as 'the degree of a partner firm's expectation of continued co-operation in the future' (Shamdasani and Sheth, 1994, p.8).

Satisfaction and continuity have been measured through relational predictors such as competence, commitment, or compatibility (Mohr and Spekman, 1994; Shamdasani and Sheth, 1994). These are said to 'characterise' successful partnerships (Kanter, 1994;

Mohr and Spekman, 1994). If an alliance has high levels of communication (Mohr and Nevin, 1990), commitment (Anderson and Weitz, 1992), compatibility (Kanter, 1994), and trust (Gulati, 1995; Jarillo and Stevenson, 1991) then typically it will achieve its target performance and frequently exceed it (Mohr and Spekman, 1994). In essence, 'successful partnerships manage the relationship, not just the deal' (Kanter, 1994, p.96).

1.10 Failure of Strategic Alliances

The failure rate of strategic alliances is considered to be quite high. In a study by Bain & Company in the United States they concluded that

> ...out of every 100 alliance negotiations, 90 will fail even to produce an agreement. Of the remaining 10 that do result in an agreement, five will fail to meet the partners' expectations for the venture. Of the five that produce acceptable results, only two will survive for more than four years. Overall, then, only two out of 100, or 2% of all alliance negotiations, produce lasting performance improvements for the participants (as cited in Rigby and Buchanan, 1994, p.15).

Many of the reasons cited for failure have been derived from studies undertaken by consultants internationally. For example, Bain & Company; Robert J. Allio & Associates, Inc and Decision Process International have all conducted studies into alliance failure and have been reported by Rigby and Buchanan, 1994; Pekar and Allio, 1994 and Robert, 1992 respectively.

Failure in alliances can arise from many sources. The alliance itself may be inherently weak or one of the partners may have or develop opportunistic intentions (Gugler, 1992). Operating problems such as difficulty in tracking experience, weak accountability and the length of time joint decision-making takes, (particularly when there is no established mechanism for doing so), are other unanticipated issues which alliance partners may encounter (James, 1985). Lorange et al (1992) identify ten challenges or obstacles which may play a role in ensuring the success or failure of an alliance (see Figure 1.5). This has been adapted to include the reason why each of the separate points might lead to failure in an alliance.

Figure 1.5 Ten Challenges to strategic alliances

Autonomy ***(Dissatisfaction)***	Giving up autonomy over strategic resources and/or core competencies can be one of the hardest things a partner can contemplate.
Forward Momentum ***(Operating Problem)***	Often it is difficult to actually get the alliance underway. It is crucial that the formation team is able to transfer their energy and enthusiasm into becoming an implementation team.
Focus on the External Environment ***(Opportunism)***	Management must always be aware of the movements of customers and competitors and not become caught-up in the alliance operations.
Politicking ***(Lack Support)***	Insure that the external and internal stakeholders see and sponsor the idea of the alliance.
Change and Innovation ***(Operating Problem & Weakness)***	Being open to new challenges, embracing changes and modifying operations are necessary for an alliance to grow and evolve. The inability of management to behave in this manner can hinder a venture's ability to maintain strong performance over time
Learning ***(Weakness)***	When partners are unwilling to learn from each other they can risk the success of the alliance.
People ***(Weakness)***	Firms need to be cautious in seeing that they do not become dependent on a single individual or groups of individuals who might be the driving force behind the success of a product, idea or strategic alliance.
'Black Box' ***(Opportunism)***	When entering into a strategic alliance, partner firms must give up something. This can be technologies, market, etc. Because the possibility of failure exists, most management analysts will recommend that firms create what is referred to as a 'black box.' This black box contains tangibles and intangibles that keep a firm in a stronger bargaining position or insure that a firm will not be totally stranded and out of business should the alliance not work.
Culture ***(Dissatisfaction)***	Cross-cultural differences play a vital role in the formation and management of strategic alliances, and they should not be allowed to get in the way of the purpose of the strategic alliance. While one should always be sensitive to the differences in cultures, they should be seen as supporting the intent of the alliance and not hindering it.
Cooperation ***(Dissatisfaction)***	Strategic alliances *must* be seen as co-operative efforts. If not then the likelihood of failure is high.

Source: Adapted from Lorange et al, (1992) "Building Successful Strategic Alliances". Long Range Planning, Vol.25, No.6, p.15-16.

There are two prominent 'weak' situations when an alliance will encounter difficulties that will almost always lead to failure. Entering into an alliance to correct a weakness, and conversely, entering into an alliance with a partner that is trying to correct a weakness of its own (Robert, 1992; Bleeke and Ernst, 1995). The party that brings a weakness to the alliance will be at the mercy of, and subservient to the other party. The reasoning behind this is that, the weaker partner can never be an equal partner. This relates to the fundamental notion of combined strength as an essential ingredient in an alliance.

Bleeke and Ernst (1995) also cite alliances among competitors as being potentially weak ones. They state that because of competitive tensions, they tend to be short-lived and fail to achieve their strategic and financial goals. However, it is also possible for two strong and compatible partners to encounter competitive tensions which may result in a buy out by one of the partners (Bleeke and Ernst, 1995). Dissatisfaction with an alliance is usually the result of breakdowns in communication or lack of commitment in a partnership (Mohr and Nevin, 1990; Botkin and Matthews, 1992; Mohr and Spekman, 1994).

Dissatisfaction may arise out of relational problems. Just as high levels of communication, commitment, or trust can influence the success of an alliance, these same factors if absent, can cause failure (Harrigan, 1985; Kanter, 1989; Forrest, 1992). Martin (1995) identified that the primary difficulties encountered by Irish companies forming co-operation arrangements are lack of commitment and lack of resources.

> Strategic Alliances may involve risks such as the misappropriation of technological know-how, the loss of control over operations, the risk that a partner may become a stronger competitor, the loss of competitive advantage and firms left without any core expertise because they have been radically decentralized (Gugler, 1992, pp.91-93).

The risks arising from opportunism in strategic alliances can be of significant consequence to a firm's survival. Williamson (1975, p.6) defines opportunism as 'self-interest seeking with guile.' Macneil (1982) adds that the essence of opportunism is the element of deceit involved.

One of the major problems is proprietary knowledge appropriation which can lead to diffusion of a company's strategic assets. If one of the parties intends to acquire the other partner's unique strength, there will be no trust in the relationship from the beginning (Bleeke and Ernst, 1995). John (1984) in an empirical investigation of the antecedents of opportunism, found evidence to suggest that the potential for opportunism is especially high in long-run relationships because termination cannot be easily or cheaply achieved.

1.10.1 Termination of the Alliance

Murray and Mahon (1993) in their study of alliances, propose three possible endings:

(i) The specific relationship may end but there is extension into other areas of mutual interest.

(ii) An amicable completion of the alliance with no other immediate relationship among the partners.

(iii) A hostile ending.

Termination conditions are one of the most important considerations in the distribution agreement, because the causes for termination vary and the penalties for the international marketer may be substantial. Justifiable reasons to terminate an agreement include fraud or deceit, damage to the other party's interest, or failure to comply with contractual obligations concerning minimum inventory requirements or minimum sales levels (Czinkota and Ronkainen, 1990).

Termination clauses should be agreed and included in the agreement prior to signing. It is especially prudent to find out what local legislation exists relevant to terminating agreements with partners from a particular country and to check what type of experience other firms have had in the particular country (Czinkota and Ronkainen, 1990).

This completes the overview of strategic alliances. The final section of this chapter probes some of these issues in an Irish and European context.

1.11 Co-operation in Ireland

The completion of the Single market at the end of 1992 opened up a market of 320 million people. This is probably the most significant change facing Irish industry but it is not the only one. Changes in the global economic and trade environment will be realised through: the establishment of the European Economic Area Agreement, the enlargement of the European Community, the North American Free Trade Agreement (NAFTA), economic and social changes in European and Central Europe and the completion of the Uruguay Round of GATT negotiations. 'These changes will demand that both manufacturing and internationally traded service firms are capable, competitive and innovative' (National Development Plan 1994-1999, 1993, p.37).

The focus of this section is on co-operation in Ireland. Firstly, The Industrial Development Policy and Programme 1994-1999 is reviewed. Attention is given to two sub-programmes which concentrate on the development of linkages within Ireland and between Ireland and other Member states. This is followed by the presentation of an EU study which had a significant Irish input. This study is important because it is the first attempt on a European scale to investigate the challenges that SMEs face in co-operative agreements. The third part of this section is devoted to a brief overview of two EU instruments which can be used to locate potential partners for the purpose of forming alliances.

1.11.1 The Industrial Development Policy and Programme 1994-1999

The Industrial Development Policy and Programme 1994-1999 has an overall policy objective to 'promote a strong internationally competitive enterprise sector in Ireland comprising both Irish-owned and foreign-owned companies which will make the maximum contribution to sustainable employment growth' (National Development Plan 1994-1999, 1993, p.40). As Ireland has a high rate of unemployment and a comparatively weak indigenous sector many sub-programmes are in place to encourage the development of our economy. Two sub-programmes are particularly relevant as they outline the Government stance on co-operation. The Sub-programme for the Development of Inward Investment and the Sub-programme for Market Development.

One of the means through which inward investment is encouraged is through increasing the number of linkages between indigenous and foreign-owned firms. (National Development Plan 1994-1999, 1993). Forfás, through its divisions, Forbairt and IDA Ireland, are responsible for co-ordinating the efforts to obtain inward investment. Forbairt is particularly responsible for the development of indigenous industry. This semi-state body attends to four separate areas; technology services, science and innovation, business development, and strategy and administration (Forbairt, 1994). Forbairt has a mandate to increase trade linkages between Irish companies both within Ireland and overseas. The Forbairt Technology Transfer & Partnership programme was established in 1991. The programme is aimed at assisting Irish companies in areas such as establishing strategic alliances; acquiring new technology by licensing, joint ventures; undertaking R&D projects; and commercialising inventions (Enterprise and Innovation, 1996).

The primary function of the Sub-programme for Market Development is to promote and develop trade from the indigenous industry through a market-led approach. An Bord Tráchtála (ABT) is primarily responsible for the measures outlined in the Sub-programme for Market Development (ABT, 1994a). An Bord Tráchtála concentrates on providing marketing services both within Ireland and abroad under a number of programmes; market development, trade information and promotion, marketing advice and expertise, and marketing investment. They are particularly concerned with assisting companies to increase their sales in overseas' markets. Exports account for three-quarters of national output (IR£22.4 billion) a level unique in Europe (IDA Ireland, 1994) and almost 60% of indigenous firms are now engaged in export activity.

ABT plays an active role in identifying opportunities for the individual firm, scanning the market, testing market reaction to new products and services and providing introduction to potential agents, distributors or market partners (ABT, 1994a). As part of their European regional development objective they endeavour to generate future exports through business links with growth regions in other EU markets (ABT, 1994b).

Forbairt and An Bord Tráchtála have complementary roles. They work closely together at local, national and international level (National Development Plan 1994-1999, 1993). Inward linkages can be developed through Forbairt and outward linkages through An Bord Tráchtála. Either way, the Government encourages such activity in order to gain employment and improve our indigenous trade base.

1.11.2 Study on Co-operation in Ireland

This study of Irish co-operative ventures within an EU context recounts some of the experiences and the problems encountered in utilising alliance arrangements.

In 1993 the Directorate General of the European Commission responsible for Enterprise Policy, Distributive Trades, Tourism and Cooperatives (DGXXIII) commissioned a study examining the problems and obstacles faced by craft industries and small enterprises when founding co-operation arrangements with enterprises from other Member states. This research focused on four countries; Belgium, Denmark, Ireland and the United Kingdom and 84 companies were interviewed. The study in Ireland was conducted by Tom Martin and Associates.

It is not known whether there have been similar studies carried out in the past. However, for the purposes of highlighting some of the issues and concerns of Irish companies, Martin (1995) provides a succinct account. Some of the main findings are presented forthwith.

A total of twenty five companies were interviewed for the Irish contribution to the overall study. The firms were involved in arrangements ranging from agency agreements to joint ventures, where the most frequently used forms were agency, export sales and distribution/marketing arrangements. The tendency for Irish companies to form agreements with UK partners was high (eighteen firms), due to proximity and common language.

The primary reason for co-operating was to expand sales. Given a list of instruments used to locate overseas partners (see Table 1.1), they found that Irish SMEs make extensive use of informal networks to locate partners. The main reason that companies did not use the EU instruments was because they were not aware of their existence.

Table 1.1 Instruments used to locate overseas partners

•	Trade Fair	8	•	Europartenariat (EU)	-
•	Government Agency	1	•	Trade Mission	-
•	Sprint network (EU Service)	-	•	BC-Net System (EU)	-
•	Bank Network	-	•	Search Consultant	-
•	Accountant/Lawyer	-	•	BRE Network (EU)	1
•	Embassy	-	•	Interprise (EU)	-
•	Overseas Trade office	-	•	Euro Info	
•	Professional/ Trade Association	-		Centre network (EU)	-
•	Other (please specify)	17	•	Chamber of Commerce	-

Source: Martin, Tom (1995) Study on the Conditions of Cooperation: The Case of Small Enterprises in Ireland., in O'Doherty, Dermot (Ed), Globalisation. Networking and Small Firm Innovation, Graham & Trotman Ltd., London, p.133.

Several other issues arose from the study. Irish firms did not spend a lot of time investigating their prospective partner or using formal sources to find out about them. Over half the companies established their agreements in under three months. While, 'eighteen of all the cooperation arrangements surveyed were not formalised, with only seven companies indicating that they had a formal agreement with their transnational partner' (Martin, 1995, p.135). The reasons given for this were that it was not the industry norm, the co-operation was 'too recent to warrant the cost of involving legal advisors' (Martin, 1995, p.135) or the size of the agreement did not merit more than a letter confirming the quantities and prices.

There were four principal difficulties experienced by the companies; lack of commitment, lack of resources, VAT and finding a partner. It was also noted in the study that:

> ...firms who spent little time or resources on finding partners were disappointed with their partner's lack of commitment to the cooperation. Some of these firms admitted that if they were to start all over again they would take more time researching prospective partners. They also would be less inclined to select the first company meeting their criteria (Martin, 1995, p.136).

In presenting an overview of the complete study commissioned by the DGXXIII, Stringer (1995) proposed ten recommendations on how small companies could be encouraged to enter into co-operative arrangements. Briefly these are:

(a) The creation of case studies on small companies which have successfully entered into cooperation arrangements with firms from other Member States. Small companies may take more notice of the experiences of other small companies than of the advice of professionals.
(b) The appointment of Cooperation Officers. The role of this person would be to encourage small companies in his or her particular region to enter into cooperation arrangements and to assist in the development of existing networks.
(c) The development of a network of Cooperation Clubs for SMEs in each Member State. The focus of these clubs would be to encourage cooperation but they would also have an important role to play in providing a centre of expertise and assistance.
(d) The improvement of information sources.
(e) The development of information and training packages.
(f) The promotion of trade fairs.
(g) The extension of funding.
(h) The involvement of universities and research centres.
(i) The dissemination of results to companies who took part in the study.
(j) The monitoring of agreements. (Stringer, 1995, pp.123-127).

The study highlights a number of interesting issues which are pertinent to this research. Two of the principle difficulties experienced by companies, namely, finding a partner and lack of commitment are addressed in this study. Likewise, the recommendation to use case studies is taken on board and incorporated into this research.

1.11.3 Two EU Initiatives

There is considerable help available within the EU to locate potential partner(s), both within the European Community and internationally. However, many SMEs at present are locating their partners through their own means, such as informal contracts or the use of Trade Fairs (Martin, 1995). The EU services have been developed under the DG XXIII. The BRE (Business Co-operation Office) and BC-Net (Business Co-operation Network) are two different ways in which the European Commission provides assistance.

BRE (Business Co-operation Office)

The function of the BRE is to help SMEs located in the member States and many third countries who seek partners with a view to increasing competitiveness. The BRE procedures rely on a network of Correspondents located in the European Union and third countries. The BRE Correspondents carry out the following tasks:

1. Promotion of the instrument and assistance to firms looking for a partner at transregional or transnational level via the BRE, including the creation and follow-up of the co-operation profiles.
2. Diffusion of the opportunities transmitted by the BRE
3. Assistance and advising company managers, as appropriate, in the negotiation of co-operation agreements after initial contacts have been made
4. Participation to activities related to the network animation (DGXXIII, 1995).

BC-Net (Business Cooperation Network)

The BC-Net functions through a network of consultants and intermediaries to help SMEs find partner at regional, national, Community and international level. The purpose of the network is to quickly identify potential partners in response to a specific offer of co-operation in all sectors of activity. Through the BC-Net, research can be confidentially conducted to the particular needs of a company. The service provides assistance specifically by:

1. Analysing individual company needs with a view to targeting the type of partnership sought.
2. Searching for a potential partner via the network and other available means.
3. Assisting and advising the company during negotiations leading to the co-operation agreement.

The scale of the BC-Net makes it the first European and international network for partner search (DGXXIII, 1995).

In this section co-operation in Ireland has been broadly considered as it provides the context for the study; Irish companies forging alliances with partners overseas. The findings of this study will be related back to the issues which are addressed in this section. The illustration of the EU instruments demonstrates that there is not only an Irish mandate for the progression of strategic alliances but that there are also concerted efforts being made to encourage increased co-operation on an European scale.

1.12 Conclusion

The review of the strategic alliance literature demonstrates the diversity of influences, both theoretical, organisational and environmental which have influenced their development. The term 'strategic alliance' is broad, encompassing a wide variety of co-operative agreements being used to progress company profitability. By their very nature they are risky, entailing integration of varying degrees of one company with another. However, they reflect the changes taking place world-wide. Furthermore, for the companies that are successfully implementing alliance strategies, the benefits are unobtainable through any individual strategy.

The review creates the setting for the remainder of the thesis. In the following chapter, the manufacturer-distributor relationship is analysed. As a relatively intermediate form of alliance between informal arrangements and more complex integrated agreements, it is an ideal way in which to illustrate the potential advantages of alliances for Irish companies. It is particularly pertinent because as the Irish market is small, overseas entry is a necessity in order to expand sales. For many SMEs, locating overseas is expensive and not a viable option. However, through the use of co-operation, many of the benefits of locating overseas can be achieved from the home base.

CHAPTER TWO

A PARTNER SELECTION PROCESS FRAMEWORK (PSP)

FOR DISTRIBUTION ALLIANCES

AND

ESTABLISHING A RELATIONSHIP THROUGH

PARTNER-RELATED CRITERIA DURING THE PSP

2.1 Introduction

There are two objectives of this chapter. The first objective is to develop a means through which firms interested in the opportunities offered by distribution alliances can select a potential partner and form an alliance agreement. This framework is called the partner selection process framework (PSP) for distribution alliances. The second objective is examine the development of a relationship between the partners during the PSP.

The following approach is taken. Firstly, distribution alliances are defined. This is the form of strategic alliance for which the framework is developed. Next, the rationale for examining the PSP is set out. The PSP is evolved from the strategic alliance and marketing channels literature. One of the stages of the PSP is to establish criteria which should aid in the selection of a partner and help form the relationship between the partners. These are called partner-related criteria. They are given specific consideration because much of the literature to date has ignored them.

The framework and the criteria therein form the basis for the empirical research.

2.2 Distribution Alliances

A manufacturer-distributor alliance can be distinguished from a typical manufacturer-distributor relationship in five ways:

1. It is based on the process of interaction between the parties.
2. The formalisation and centralisation of decision making.
3. There is a formal contractual agreement covering the duration, duties, responsibilities, legalities and functions of the parties.
4. The parties to the agreement perceive it as being a long-term arrangement.
5. The parties to the agreement perceive distinct partnership advantages arising from their agreement.

Each of these points is now examined in relation to a manufacturer and distributor allying in an international marketing channel.

2.2.1 The Interaction Approach to Buyer-Seller Relationships

> Additional flaws in past research have limited our ability to gain a more fundamental understanding of strategic alliances. Some research has focused only on one party to the relationship and has, therefore, failed to consider the *interaction* between exchange parties (Spekman and Sawhney, 1990, p.3, emphasis added).

The interaction approach originates from the theoretical developments of the International Marketing and Purchasing Group (IMP group). It is based on inter-organisational theory and transaction cost analysis (Hakansson, 1982). The interaction approach concentrates on what happens when two companies engage in an exchange transaction. It is widely used in international marketing (Bradley, 1991). There are three major assumptions on which the approach is based:

(a) That both buyer and seller are active participants in the market. Each may engage in a search to find a suitable buyer or seller, to prepare specifications of requirements or offering and to manipulate or attempt to control the transaction process.

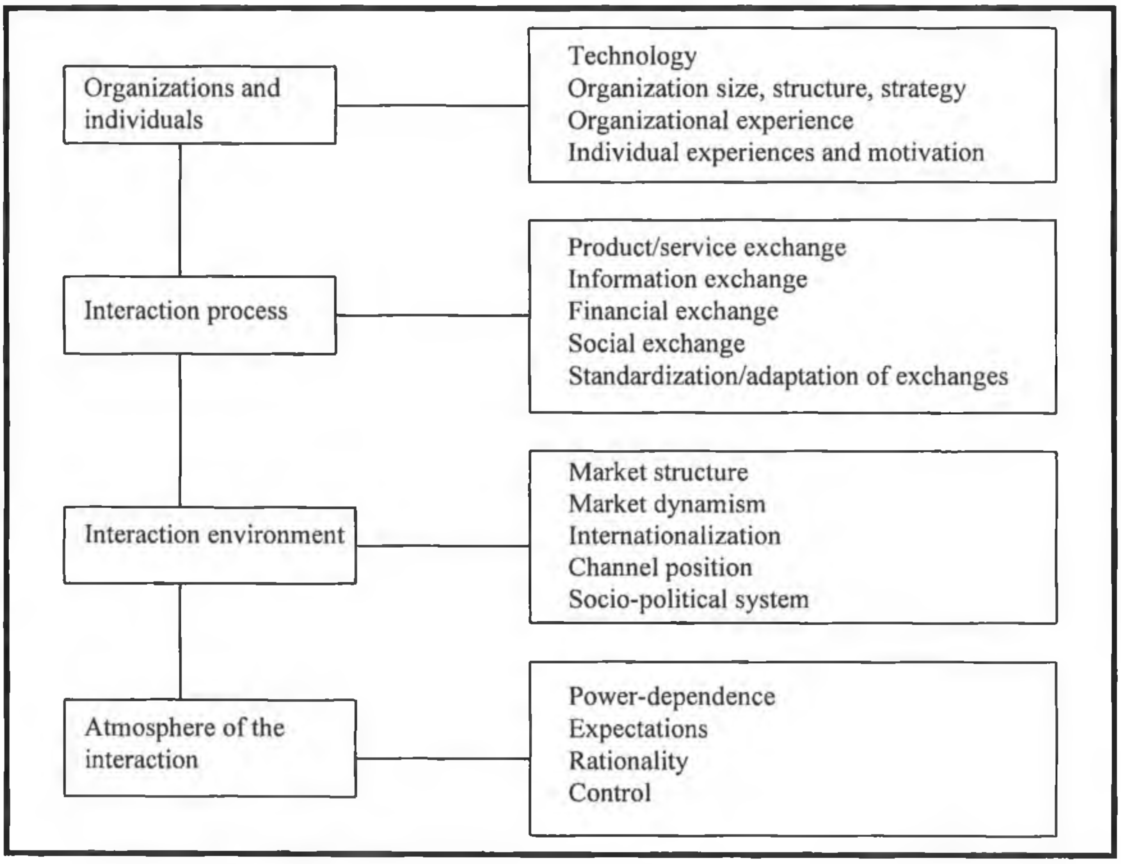
(b) The relationship between buyer and seller is frequently long term, close and involving a complex pattern of interaction between and within each company.

(c) The links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform (Hakansson, 1982, p.14).

There are four groups of variables that describe and influence the interaction between the buying and selling companies. Bradley (1991) describes these as constructs underlying the interaction paradigm (see Figure 2.1).

Organisations and individuals are considered to have a role in the interaction, their strengths, weaknesses and motivations affect the relationships between buyer and seller.

Figure 2.1 Constructs of the interaction paradigm



Source: Bradley, Frank (1991) International Marketing Strategy, Prentice Hall International (UK) Ltd., p.44.

Likewise the interaction or exchange process itself is a key dimension. From Figure 2.1 it is evident that not only are exchanges between products and services examined but other factors such as information and financial exchange are considered as well.

The interaction environment explicitly examines the market structure, the changes in these markets and the extent of internationalisation of the firm in its international markets. Bradley (1991, p.43) states that 'the interface between the firm and other firms in the manufacturing and distribution channel is treated in the context of a hierarchical marketing structure within a socio-political environment.' Finally, the context of the exchange is contingent on the atmosphere surrounding the interaction (Hakansson, 1982; Bradley, 1991).

The interaction approach is therefore concerned with the relationship between buying and selling firms in international industrial markets (Hakansson, 1982). It arises from a specific need. 'The reality of international markets, especially for industrial products, is that the supplier cannot usually determine its product offering unilaterally. For this reason an interaction approach based on a longer-term relationship between buyer and seller seems more appropriate' (Bradley, 1991, p.508). Attempting to negotiate the international marketing environment can create problems for production, distribution and consumption of a unilateral product offering. Thus, companies form relationships with other companies in the international market place. They do this to overcome the problems in the international marketing environment.

Interaction can only occur where relationships have been established between firms. Thus, the challenge is to establish these relationships (Cunningham and Homse, 1982). Either the buyer or seller may take the initiative in seeking a partner. Both firms are likely to be involved in adaptations to their process or product technologies to accommodate each other (Ford, 1980). Consequently, 'neither party is likely to be able to make unilateral changes in its activities as buyer or seller without consultation, or at least consideration, of the possible reactions of their individual opposite numbers' (Ford (1980, p.340).

A logical rationale exists for developing a close relationship. The value in terms of cost reduction or increased sales act as an incentive to reduce the possibility of buying or selling companies seeking alternative (substitute or additional) partners (Ford, 1980; Bradley, 1991). The advantages are realised by tailoring resources to an individual relationship, that is by making long lasting transaction specific investments (Williamson, 1979). Ford (1980) emphasises that these adaptations should not be marketable or at least should not provide the same value in other relationships outside of the intended one. Commitments can be made by either party to the relationship. Bradley (1991) suggests two skill bases on which the level of commitment depends. 'Technical skill refers to the buyer's view of the seller's technical abilities in the area of product performance, production quality, or development. Commercial skill refers to the seller's commercial ability in the provision of sales service, in delivery and delivery information' (Bradley, 1991, p.510).

The interaction approach was developed by the IMP Group because they did not believe that companies focused only on an individual search for differential advantage over competitors (da Rocha and Christensen, 1992). It was a direct challenge to the 'Marketing Concept Approach,' a largely American phenomena (da Rocha and Christensen, 1992). The objective of the marketing concept approach was to serve customer needs at a particular point in time. The differences can be seen in Table 2.1.

Table 2.1 Different characteristics of the two approaches

The Marketing Concept Approach	The Interaction Approach
* focus on discrete purchasing decisions	* focus on relationships between buyers and sellers
* view of suppliers as making their offers to a passive market	* idea of interaction between two active parties
* perception of low risk in changing suppliers	* emphasis on high cost of changing suppliers
* assumption of independence of buyers and suppliers	* assumption of interdependence of buyers and suppliers
* separation of organisational buying behaviour and marketing	* interplay between purchasing strategies and marketing strategies
Adapted from Cunningham (1985)	

Source: da Rocha, Angela and Carl H. Christensen, (1992), "Buyer-Seller Encounters: A Comparative Assessment", Enhancing Knowledge Development in Marketing, AMA Educators' Proceedings, Vol.3, pp.92-98.

2.2.2 The Structure of Decision Making

Three dimensions are used to define the structure of decision making in buyer-seller partnerships:

(a) the extent of channel interactions or participation

(b) the formalisation of channel dyad activities and

(c) the centralisation of channel decision making (John and Reve, 1982; Dwyer, 1993).

These measurements describe the extent to which a market linkage[1] has been replaced by an administrative or contractual linkage in terms of the decision making structure (John and Reve, 1982; Frazier, 1990; Dwyer, 1993). The market linkage is a traditional arms length relationship which uses a price mechanism to facilitate and co-ordinate transactions (Frazier, 1990). The administrative linkage co-ordinates 'export activities by informal leadership rather than by contractual commitments' (Bello and Williamson, 1985, p.69). The contractual linkage uses a formal contractual agreement to create greater efficiency and effectiveness of channel activities and decisions (Frazier, 1990).

Participation is the operationalising of the interaction approach discussed previously in the chapter. This takes account of the firms, their managers, the interaction process, the interaction environment and the atmosphere of the interaction. It describes the extent to which inputs from both parties are used in the decision process (Dwyer, 1993). Formalisation is defined as 'the degree to which rules and fixed procedures govern channel dyad activities' (John and Reve, 1982, p.518). Centralisation is defined as 'the degree to which power to make and implement decisions within the dyadic relationship is concentrated at one vertical level' (Frazier, 1990, p.266).

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[1] In international marketing, entry modes are classified into export entry modes, contractual entry modes and investment entry modes (Root, 1987). When structuring a marketing channel these modes are described as conventional, contractual and administered systems (Bello and Williamson, 1985). In relation to strategic alliances, Frazier (1990) calls the use of a conventional system, a market linkage. The contractual system when used in an alliance is called a contractual linkage and the administered system is called a leadership linkage or an administrative linkage.

These combine to affect the situations where the use of various channel linkages are appropriate. Frazier (1990) posits that less formalised and centralised linkages are more effective under conditions of high uncertainty. Whereas, the reverse holds when levels of uncertainty are low and manageable. This implies that the use of a contractual linkage can negatively affect a firms' ability to react to external threats when highly centralised and formalised systems are in use (Stern and Reve, 1980).

The uncertainty in the international marketing environment leads a company to seek a partner. In formalising an agreement, there will be rules and procedures to follow. Decision making is shared between the parties.

2.2.3 The Contractual Arrangement

'Access to markets and distribution channels are assets which are possessed by firms and sought by others, thereby giving rise to the possibility of a competitive alliance' (Bradley, 1991, p.316). When an alliance is used to gain market entry, it is typically through a contractual arrangement.

The agreement serves to co-ordinate the activities and typically it is expected to last for a substantial period of time (Bello and Williamson, 1985; Stern et al, 1989). Stern et al (1989) emphasise the pivotal difference between the contractual linkage and the market or administrative systems. 'While virtually every business transaction is covered by some form of contract (either explicit or implicit), contracts in vertical marketing systems are used to specify, in writing, the functions to be performed by each channel member' (Stern et al, 1989, p.277-278).

Thus, the distribution alliance has a distinct decision making structure based on interaction, formalisation and centralisation. It will be used in a stable competitive environment to lock into market access advantages. The agreement will specify in writing the duration, duties, responsibilities, legalities and functions of each party to the agreement.

2.2.4 The Agreement as a Long-term Arrangement

Use of the contractual system is only considered appropriate where the firms are willing to be committed over a long period of time (Bello and Williamson, 1985). This is because the contractual system facilitates the co-ordination of activities and shared risk-taking (Anderson and Weitz, 1992). This long-term orientation is specific to relational exchanges where profits are expected to be maximised over a series of transactions (Ganesan, 1994).

This is one of the assumptions of the interaction approach. Buyers and sellers such as the manufacturer and distributor take a long-term view and forge working partnerships far removed form traditional arm's length transactions. The working partnership can be defined as 'the extent to which there is mutual recognition and understanding that the success of each firm depends in part on the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer marketplace' (Anderson and Narus, 1990, p.42).

This working partnership is based on realising partnership advantage. Partnership advantage is the synergy realised by working with another company to achieve individual and joint goals. It is determined through providing a partner with access to resources or advantages that an individual company possesses.

2.2.5 The Determinants of Partnership Advantage in Distribution Alliances

In the preceding chapter, competitive advantage was used to provide a strategic rationale for entering alliances. Competitive advantages may derive from two parties working together in a distribution alliance. Sethuraman et al (1988) have investigated this issue in alliances between manufacturers and distributors. They concluded that there are factors which can help determine potential advantages to either party in the alliance (see Table 2.2). They maintained that partnership advantage is based on interdependence in the distribution relationship where both parties are aware of the advantages of the relationship relative to alternative arrangements.

Advantages may accrue to both the manufacturer and the distributor. In Table 2.2 "The determinants of partnership advantage from the manufacturer's perspective" represent areas on which the distributor should concentrate their efforts to build partnership advantage. The ability of the distributor to penetration the market derives from strong managerial capabilities, knowledge of local markets and technical capabilities. Local reputation is enhanced by selling products and services valued by the local market. Financial stability and prompt payment of bills contribute to partnership advantage. The strengthening of these areas make the strongest contribution to the provision of partnership advantage. The combination of these determinants provide the manufacturer with the knowledge that the distributor values the working partnership.

Similarly, the manufacturer can contribute to partnership advantage by providing the distributor with a solid product offering, field support and promotional support. Granting exclusivity will signal to the distributor that the manufacturer has confidence in the distributors ability to sell the products. The combination of these determinants will likewise provide the distributor with the assurance that the manufacturer values the relationship. Sethuraman et al (1988, p.343) also found evidence to suggest that these determinants can also provide a sustainable advantage 'because they cannot be readily duplicated.'

Partnership advantages are realised only to the extent that they are understood by the other firm. Thus, the advantages that each firm is providing needs to be communicated to the other party. In this way perceptual congruity can be enhanced (Spekman and Sawhney, 1990).

Table 2.2 Determinants of partnership advantage

Determinants of Partnership Advantage - Manufacturer Perspective	
1. Market penetration ability	- managerial capabilities - knowledge of local market - technical capabilities - amount of inventory carried
2. Local reputation	- selling products and services valued by local market - maintaining high professional and ethical standards - aggressively promoting the firm locally - responsible corporate citizen in local market
3. Financial Capabilities	- financial stability - prompt payment of bills
Determinants of Partnership Advantage - Distributor Perspective	
1. Product offering	- manufacturer must produce and market quality products and services meeting customer requirements - desirability of product offering enhanced through complete product line - manufacturer commitment to new product development
2. Field support	- enhance distributors performance in the marketplace
3. Promotional support	- enhance distributors performance in the marketplace
Perceptual Congruity	
1. Understanding of partnership advantage that the firm is providing 2. Communicate the partnership advantage that the firm is providing	- Meaningful and timely communication (supported by research when needed)
Channel Positioning	
1. Develop a channel position in which their channel offering (i.e. outcomes provided to the channel partner) is related to partner requirements and contrasted with competitive offerings.	- Periodic channel market research

Source: Adapted from Sethuraman, Anderson and Narus (1988) "Partnership Advantage and Its Determinants in Distributor and Manufacturer Working Relationships", Journal of Business Research, Vol.17, pp.327-347.

Finally, a channel position ought to be developed jointly by the partners. This is accomplished by realising their joint channel offering (i.e., outcomes provided to the channel partner). The channel offering can be compared with competitive offerings. Market research should be undertaken with a view to developing a channel position. In this way the development of a strong channel position can provide a partnership advantage.

By being able to identify the areas where a manufacturer or distributor can provide an advantage to a partner, companies are able to make a list of desirable attributes. This list can then be used to help select a partner.

The remainder of this chapter is concerned with partner selection. The first issue to be addressed is the reason why partner selection specifically deserves attention.

2.3 Partner Selection - The Issue

Studies in the United States have highlighted the lack of attention to partner selection in the formation of alliances. In 1987, a survey was conducted which detailed field interviews with fifty top executives of Fortune 500 companies. In this research, documented by Pekar and Allio (1994) the companies were asked to assess their own alliance process skills. There were two significant findings. Companies emphasised the rationale of the alliance rather than partner selection and assessment, and that as a result, partner relationship building on all levels was weak. This was compared to a replica study conducted in 1992 (Pekar and Allio, 1994). In spite of the time lag the problems with partner selection still remained. As noted in the first chapter Rigby and Buchanan (1994) reported similar evidence of failure of alliances due to problems in strategy development and partner selection.

As far back as 1984, Lasserre reported that companies do not put enough time, effort and research into the initial negotiations. More recent findings by Martin (1995) suggest that the problem still exists and that the lack of rigorous partnership planning is at the origin of many partnership problems.

Furthermore, much of the current literature provides prescriptive advice on the issue. For example, Walters et al (1994) assert that a proper partner should bring unique complementary strengths to the alliance. These can be sustained and used to develop synergy. Furthermore, the partners need to be compatible and able to trust each other. Yet this does not answer questions such as how can a company realise complementary strength, how does a company know if the potential partner is compatible or how can trust be built into a relationship?

Therefore, there is a serious deficiency within the literature. There is very little research on the area of alliance formation. 'There is very little published information on one specific facet of this topic: the *process* by which organizations select, or are selected by, their partners' (Geringer and Frayne, 1991, p.253). Managers are in need of a processual framework which assists them in partner selection and addresses the issues above.

2.4 Past Approaches to Partner Selection and Alliance Formation

A number of approaches emerge from the literature which suggest ways to select a partner and form an alliance. Several researchers (Devlin and Bleakley, 1988; Walters, Peters and Dess, 1994; Rigby and Buchanan, 1994; Bluestein, 1994; Pekar and Allio, 1994) propose a strategic alliance process consisting of four stages. The process begins with the firm developing an alliance strategy, it then selects a partner, negotiates the agreement and implements the arrangement (see Figure 2.2). This approach is summed up by Bluestein (1994, p.26).

> Successful alliances are created when companies use a well defined and executed process to decide, identify and set up the alliance to ensure that the alliance has the right partners, the appropriate structure and incentives along with long-term governance. Irrespective of who initiates a relationship or the reason why, participants in alliances can pursue certain paths that should improve the likelihood of success.

Figure 2.2 The strategic alliance process

Strategy Development	⇒ ⇒	Partner Assessment	⇒	Contract Negotiations	⇒ ⇒	Alliance Operations

Source: Peter Pekar Jr. and Robert Allio (1994) "Making Alliances Work-Guidelines for Success". Long Range Planning, Vol.27, No.4, p.55.

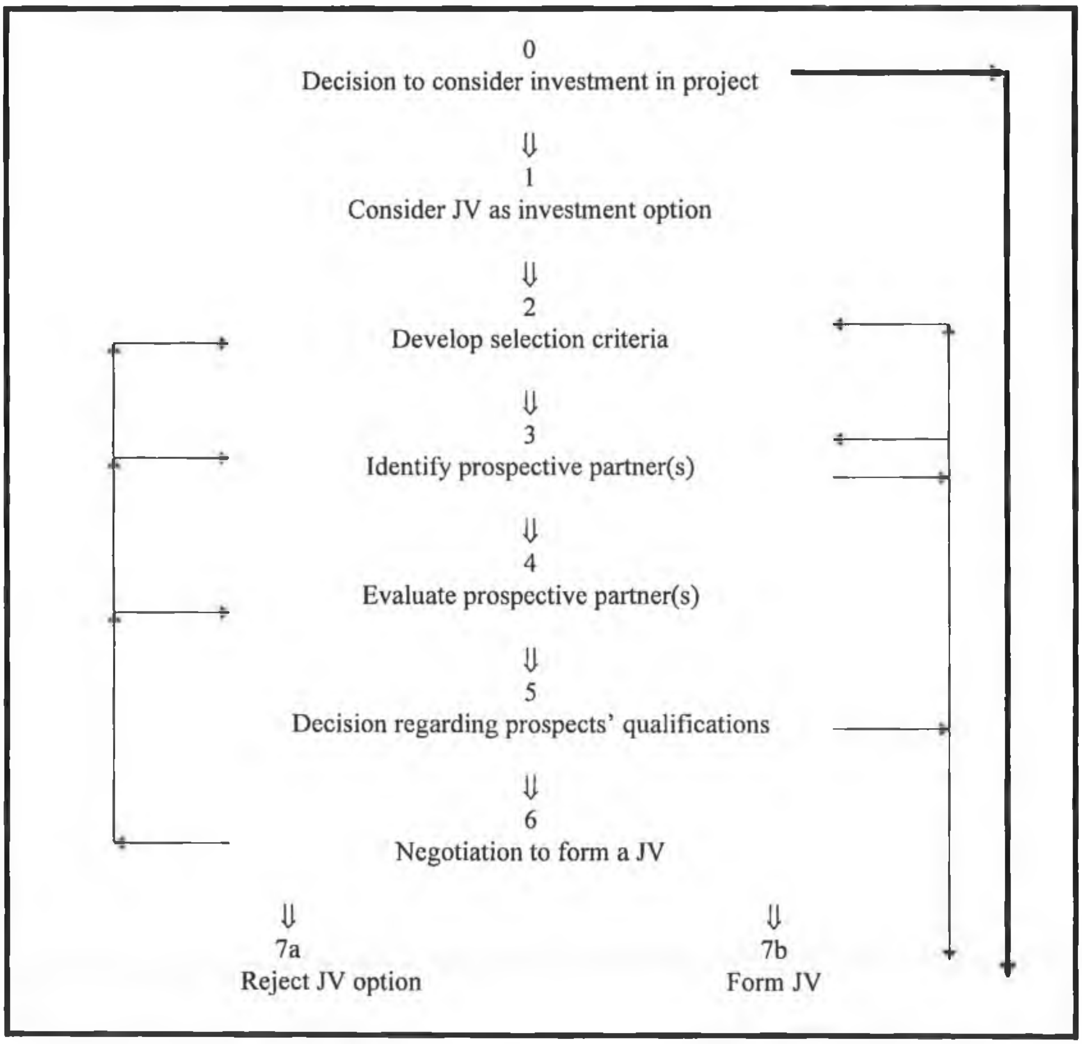
Other researchers propose that alliance formation is a three stage process. Stafford (1994) for example proposes three key factors which underpin a successful alliance, namely, the co-operative strategy, the relationship, and the partner. Forrest (1992, p.27) in her description of the alliance process describes three stages: 'the pre-alliance stage (matching and negotiation), the alliance agreement development stage, and the implementation stage.'

In another piece of research a seven stage process is advocated. In this research, Geringer and Frayne (1991) developed a JV partner selection process (PSP). They maintain that the PSP can be conceptualised as consisting of seven different sub-processes which can be seen in Figure 2.3.

2.5 Development of a Partner Selection Process for Distribution Agreements

It is evident from Section 2.4 that there are several ways in which a framework for partner selection and alliance formation can be developed. On the basis of this literature review the author developed a partner selection framework for distribution alliances. The author suggests that the Geringer and Frayne model for JV formation was the most comprehensive. The layout of the model illustrates in a simplified form each stage and the sub-processes as they arise.

Figure 2.3 The Joint Venture Partner Selection Process



Source: Geringer and Frayne (1991) The Joint Venture Partner Selection Process, Conference on Strategic Processes: Learning, Adaption and Innovation., 19-22 June: Oslo, Norway, p.268.

The formation process centres around the development of a strategy, the selection of an appropriate partner to realise this strategy and the negotiations to make the agreement. Further, as Stafford (1994) suggests, there is a need to build a relationship with the partner during this process. Therefore, the PSP framework for distribution alliance will involve three stages:

1. Strategy development
2. Partner selection and assessment
3. Negotiations to form the agreement.

There is overlap between the stages because a company can only be certain that they have selected the best possible partner by working through each stage. This implies that partner selection is an on-going task throughout the process. The author proposes that in accordance with the joint venture PSP suggested by Geringer and Frayne (1991), there are sub-processes within the stages. To ensure that the best possible partner is selected, a relationship has to be developed with the partner during this process. This gives rise to partner-related criteria which are used to develop the relationship. There is a specific rationale for the development of partner-related criteria which build the relationship. These will be dealt with separately.

The author provides a comprehensive review of the literature related to each stage of the process in Section 2.5.1 to 2.5.3. The Framework itself is presented in Section 2.6.

2.5.1 Strategy Development

The purpose of strategy development is to develop a clear rationale for choosing an alliance as opposed to other forms of agreement (Devlin and Bleackley, 1988). This should serve as a feasibility study, setting out the objectives, issues and challenges, and the development of resource strategies for production, technology and people (Nevaer and Deck, 1990). An essential element of this assessment is to ensure that the alliance plan is realistic (Bluestein, 1994). Nevaer and Deck (1990) suggest the use of goal-related benchmarks which can be used to establish the strategy (see Table 2.3).

Developing a strategy for a distribution alliance is based on the five points distinguishing the alliance from a typical trading relationship as discussed earlier (see page 36). Accordingly, a strategy will be developed that meets the conditions that the agreement will be contractual, for the long-term, that the relationship will be developed by both parties and that specific advantages will result. This implies that a single partner will be sought. For the manufacturer there are advantages in using a single distributor (see Table 2.4). Many of these advantages likewise apply to the distributor.

Strategy development should determine that the use of a distribution alliance is the best way to access markets or access resources. It is the first stage of the PSP.

Table 2.3 Examples of goal-related benchmarks

1. Identification of future goals	By assessing these goals, an evaluation process can be developed and objectives established.
2. Establish objectives	Establish priorities and define the roles different technologies play in the firm's future. These objectives, taken from the firm's mission statement, are used as the criteria for selecting the appropriate candidate that will help the firm to achieve its corporate goals.
3. Defining limits	The acceptable scale, size and scope of the alliance are determined and explicitly conveyed to the management responsible for the strategy. The short and long-term growth goals of the firm are identified. Simultaneously, the minimum short and long-term profitability requirements are to be outlined. Once the growth and profitability benchmarks are determined, management can identify those candidates that will meet these requirement. Internal co-operation is then necessary within the order marketing, finance, manufacturing and personnel departments in to establish the resource, financial and managerial commitment to the alliance.
4. Determine risk levels	The acceptable levels of risk-taking need to be conveyed expressly to management. In times of higher turbulence, higher risk-taking is appropriate.
5. Involve key executives	For the strategy to succeed, key executives must be included in the decision making process. This will also assist in providing executive level endorsement.
6. Define activity/ technology/skill base	An internal assessment of the firm's strengths and weaknesses will aid in locating potential for synergy. This assessment reveals the various resources, technologies and skills that the firm intends to bring into negotiations. Once they have been determined, they can be used to focus on selecting those firms that can capitalise on these strengths and benefit from the synergy.
7. De-emphasise profitability measures	The objective of the process is to find a candidate that will improve the combined future profitability of the firms. Current profitability has little bearing on an alliances success or failure, nor does it indicate future profitability.

Source: Adapted from Nevaer and Deck, 1990, Strategic Corporate Alliances, Quorum Books: Westport, Connecticut, pp.161-164.

Table 2.4 Advantages of a single distributor

1. One corporate presence eliminates confusion among buyers and local officials.
2. The volume of business that results when exports are consolidated will attract a larger distributor. The larger distributor will have greater influence in its local business community.
3. Communication is less plagued by noise. This will have a positive effect in may areas, from daily information flows to supervising and training.
4. More effective coordination of the sales and promotional effort can be achieved.
5. Logistics flows are more economical.
6. A stronger presence can be maintained in smaller markets or markets in which resources may dictate a holding mode until more effective penetration can be undertaken.
7. Distributor morale and overall principal-intermediary relationship are better.

Source: Business International Corporation, (1980), 201 Checklists: Decision making in International Operations, in Czinkota and Ronkainen, 1990, p.355.

2.5.2 Partner Selection and Assessment

Partner selection and assessment are probably the most poorly understood areas in alliance formation (Lasserre, 1984; Pekar and Allio; Martin, 1995). However, the literature suggests that there are four sub-processes in this stage.

1. Prepare appropriate partner selection criteria
2. Identify potential partners
3. Evaluate potential partners
4. Select one or more for entering into negotiations (Root, 1994; Pekar and Allio; Geringer and Frayne, 1991).

2.5.2.1 Prepare Appropriate Partner Selection Criteria

Bluestein (1994) suggests that defining criteria will include both quantitative and qualitative elements. Geringer (1991) defined these as task-related criteria and partner-related criteria. Criteria relating to the operational skills and resources required for competitive success (i.e., task-related criteria) and criteria associated with the efficiency and effectiveness of partners' co-operation (i.e. partner-related criteria).

> Task-related criteria refer to those variables which are intimately related to the viability of a proposed venture's operations regardless of whether the chosen investment mode involves multiple partners. The variables could be tangible or intangible, human or nonhuman, in nature. Example include patents or technical knowhow, financial resources, experienced managerial personnel and access to marketing and distribution systems (Geringer, 1991, p.45).

Task-related criteria are needed in order to assess resource fit and strategic fit (Lasserre, 1984). Harrigan (1988b) and Achrol et al (1990) maintain that this assessment establishes whether there will be organisational compatibility on functional and strategic factors. Functional compatibility is necessary where companies are attempting to integrate their activities. In a distribution alliance, for example, product packaging, storage and transportation will need to be compatible with that of the partner in order to facilitate movement of the products. An incompatible distribution system could potentially lead to conflict between the parties.

Strategic compatibility is 'the extent to which an alliance partner has complementary goals and shares similar orientations that facilitate coordination of alliance activities and the execution of alliance strategies' (Shamdasani and Sheth, 1994, p.11). For example, in a distribution alliance, the parties may have a similar goal to penetrate a market by 50% by the year 2000. The manufacturer will seek a partner displaying an ability to fully penetrate the target market, with a sound local reputation and having adequate financial capability. The distributor will seek a partner with a distinguished product offering, providing field support and promotional support (Sethuraman et al, 1988).

Geringer and Frayne (1991) maintain that companies seek complementarity (asymmetry) on task-related factors, i.e. the desired partner will evidence strengths where the firm is weak and vice versa.

The company therefore needs to list its own functional capacities and strategic objectives and develop a matching list of functional capacities and objectives for the potential partner based on the strategy proposed. These are the task-related criteria that can then be used to help select a partner.

> Partner-related criteria refer to those variables which become relevant only if the chosen investment mode involves the presence of multiple partners. Examples include a partner's national or corporate culture, the degree of favourable past association between the partners. Compatibility of and trust between partners' top management teams and a partner's organizational size or structure (Geringer, 1991, pp.45-46).

Companies will seek symmetry on partner-related dimensions such as company culture, commitment and trust (Geringer 1991; Killing 1983). Consequently, these should be used as criteria in selecting a partner and companies need to establish partner-related criteria at the partner selection stage. However, they create a problem.

Qualitative variables such as commitment and trust are difficult to define. Yet, they are used to judge the efficiency and effectiveness of the relationship (Frazier, 1990). Dissatisfaction in an alliance can arise from relational problems. Thus their purpose in the partner selection stage must be to establish a relationship between the parties. Stafford (1994) maintains that the relationship is a key factor in a successful alliance. This represents a separate challenge to the PSP. In light of the difficulties presented by this challenge, the author proposes to examine the issue separately. The PSP framework is completed first.

2.5.2.2 Identify Potential Partners

The means by which potential partners are identified are individual to the company. Known contacts, trade fairs, one of the EU instruments or any of the variety of methods suggested by Martin (1995) could be used. The result of this search should be several good prospects who show potential of meeting at least the task-related criteria. The company may also chose to form an alliance with a company that they are already working with.

2.5.2.3 Evaluate Potential Partners

Once suitable candidates have been located a comparison has to be made. Firstly, the company must select the best possible candidates by comparing the alternatives to the selection criteria. Secondly, the company should compare the remaining potential partners against each other.

2.5.2.4 Select One or More for Entering into Negotiations

This step consists of efforts to assess the results of the evaluation stage. A prospective partner has to be chosen in order to commence negotiations to form the alliance.

2.5.3 Negotiations

Negotiations consists of efforts to reach a mutually acceptable agreement between the parties. The functioning of this stage can vary, depending on the purpose for which the alliance is being formed, the previous relationships between the parties or the number of alternative options (Geringer and Frayne, 1991). There are several salient issues during the negotiation phase. The appropriate negotiation participants should be determined (Pekar and Allio, 1994). A common definition of the nature of the agreement is decided. The benefits must be visible in order to maintain support for the venture. Joint examination of relevant data is preferable to avoid misunderstandings. Then, unless some problem arises, the final step is concluding negotiations and signing the agreement (Geringer and Frayne, 1991).

Negotiations provide a further screening for ultimate partner selection. The negotiation stage consists of two sub-processes:

1. Further evaluation, and
2. The decision to form an alliance.

2.5.3.1 Further Evaluation

Lasserre (1984) suggests that the process of assessing partnership during negotiations consists of a complete analysis of strategic fit and resources fit. What is important is that the companies not only analyse their own strategy but also analyse that of the potential partner (Lasserre, 1984). In assessing the strategic fit, the parties decide whether their strategies are compatible with regard to the project. This will depend upon the overall corporate strategy of the company and the particular attractiveness of the project with respect to marketing, political, financial and technological characteristics.

During resource fit analysis, each partner seeks to determine whether given its own resources and the resources of the potential partner, are the combined resources adequate to carry the project. Lasserre (1984) examined strategic fit and resource fit from the perspective of a foreign investor evaluating a local partner and arrived at the questions or considerations that can be seen in Table 2.5. Partner-related criteria are used during these evaluations to establish a relationship and assess the companies ability to 'get-on' with each other.

2.5.3.2 The Decision to Form an Alliance

This final sub-process involves the formal decision concerning whether or not to use a the distribution alliance. This decision may occur at other key points during negotiations. A potential partner may request major concessions or changes to the venture which could cause the company to terminate the negotiations. In fact, Geringer and Frayne (1991) suggest that there are four possible outcomes of this phase:

(a) Termination of negotiations and rejection of the alliance option.

(b) Termination of negotiations with a particular partner prospect but continued efforts to form a distribution alliance.

(c) Continuation of negotiations with a particular partner prospect.

(d) Successful negotiation and formation of the distribution alliance.

Table 2.5 **Questions to raise for the evaluation of a local partner by a foreign investor**

Strategic Fit

(a) Strategic Vision

- Is the proposed venture part of a global strategy or simply an opportunistic move?
- Is the proposed venture part of a deliberate attempt to strengthen the company position or to diversify in other lines of business?

(B) Strategic importance of the project

- What would be the effect of failure of the venture on the reputation of the company? On its profitability? Its competitive position?
- how vital for the future of this firm is the success of this project?

(C) Pressures

- What choices are open to this company?
- Is their any strong political, financial (or other) pressure to enter the venture?

Resource fit

(a) Previous experience in joint ventures

- Has this company already been involved in ventures with others? How successful?
- Has this company already been involved in ventures with others in a similar technology?

(B) Resources

Technology and managerial

- Is the company already operating in similar activities?
- Quantity and quality of technical expertise available?
- Is the organisation and management system conducive to industrial activities?

Finance

- Is the company in sound financial position?

(C) Commitment

- Is top management really committed?

Source: Lasserre, Philip (1984) "Selecting a Foreign Partner for Technology Transfer" Long Range Planning, Vol.17, No.6, p.46.

The first two outcomes could arise from difficulties experienced by the partners while negotiating the agreement. For example, if one of the parties demanded major concessions from the other, this may cause a company to reconsider the alliance. Alternatively, although resource and strategic fit may be fulfilled, if the potential partners fail to 'get-on' with each other, they may consider ending negotiations.

Negotiations could become protracted with a partner due to issues that have yet to be resolved or looked into. This may delay the final agreement of the alliance but if both parties remain committed to the project, they will continue to work toward eventual agreement. The final option simply involves the decision to approve a negotiated agreement, where both parties are satisfied that they can achieve their joint goals.

2.6 The Partner Selection Process Framework for Distribution Alliances

The PSP framework in Figure 2.4 replicates the structure that Geringer and Frayne (1991) used. Each of the stages and the sub-processes have been presented in the order that they are expected to progress. In practice, however, the sub-processes may not necessarily be discrete or sequential (Geringer and Frayne, 1991). Thus feedback loops have been included where they potentially may occur. The simplified linear process is highlighted by the arrows running through the centre of the diagram. Geringer and Frayne (1991) maintain that linear progression does not occur frequently in practice.

Complexity is added to the PSP by the various feedback loops which can arise at different junctures within the process. For example, during stage two after undertaking initial attempts to arrive at a list of suitable candidates, the company may not be satisfied with their findings. The partner selection criteria could be too strict resulting in an insufficient number of alternatives or it may not have been strict enough resulting in too many alternatives. Hence, the company may backtrack to develop different criteria. Feedback loops emerges from the third phase where failed attempts to establish an agreement with a potential partner may result in returning to stage two to modify criteria or generate a new list of prospects.

Figure 2.4 The Partner Selection Process Framework for Distribution Alliances

Stage One Strategy Development

⇓

Stage Two Partner Assessment

Prepare appropriate partner selection criteria
(Task-related and Partner-related)

⇩

Identify potential partners

⇩

Evaluate potential partners

⇩

Select a partner or partners to enter into negotiations

⇓

Stage Three Negotiations

Conduct further evaluations

⇩ ⇩

a. Form agreement

b. Reject alliance option

The author proposes to conduct interviews with companies who have established distribution alliances in order to examine whether companies follow the PSP in the forming their alliances. It is expected that there may be overlap between the stages and the sub-processes. It is also expected that while either party can initiate the process, both parties will have to go through each stage of the PSP.

The author stated earlier that defining partner-related criteria are a problem. Their nebulous nature creates difficulty in understanding how they can be used to select a partner when forming an alliance. Task-related criteria can be assessed through resource fit and strategic fit as suggested by Lasserre (1984). Therefore, partner-related criteria can be used to analyse partner fit. Achieving partner fit will result in a relationship between the partners. The author will now examine how a relationship may be formed through the use of partner-related criteria during the PSP.

2.7 Partner-related Criteria - The Issue

According to Geringer (1991) partner-related criteria refer to variables that are relevant when a venture based on interaction between two or more parties is proposed. Furthermore, although the parties seek complementarity on functional and strategic matters, they need to find similarity on partner-related criteria. Stafford (1994) maintained that a successful alliance is achieved through establishing a relationship with the partner. Therefore, the first step is to decide what relationship dimensions can be used as partner-related criteria.

Many researchers state that factors such as commitment or culture are important in selecting a partner (Slowinski, 1992; Forrest, 1992; Stiles, 1994). However, there appears to be little information as to how they can be operationalised in the PSP. In fact, Geringer (1991) explicitly ignored the treatment of partner-related variables once they were defined because of arguments presented by Renforth (1974) and Harrigan (1987). Geringer (1991, p.46) claimed that 'relationship traits are less important in determining the effectiveness of cooperative strategy than are industry traits, and that venturing firms should concentrate principally on the competitive needs of a JV.'

The author does not agree with this view. If a alliance can be more successful through establishing a relationship with the partner, then the development of a relationship must be important. This suggests that relationship dimensions which influence partnership success could be used to determine partner-related criteria.

Fedor and Werther (1995) are particularly adamant that the ability of an alliance to achieve its goals is dependent on analysis that goes beyond strategic and financial considerations.

> Going beyond the traditional analysis that currently passes for "due diligence" in creating international alliances. Strategic and financial considerations may create the desirability, and legal considerations the possibility for an international alliance. But, achievability (however measured) depends on a host of additional factors, especially those related to the integration of parent companies' corporate cultures. Integration demands an understanding and matching of both firms' cultures, especially since the primary barrier to that integration appears to be people - with a third to half of all failures attributed to the human dimension (Fedor and Werther, 1995, p.36).

In applying this to partner selection and assessment during the PSP, the author suggests that a further analysis must be carried out. This analysis will be called partner fit. Partner fit will be determined by using partner-related criteria to select an appropriate partner and the result of this analysis should be a relationship with the partner (see Figure 2.5). In order to be able to analyse partner fit, the objective is to find out how partner-related criteria are operationalised during the PSP.

Figure 2.5 The use of partner-related criteria

Partner-related criteria

↘

Analysis of partner fit

↘

Relationship

Therefore, the remainder of the review is concerned with determining the partner-related criteria. The challenge to the empirical research will be to find out how they can be operationalised in the pre-alliance state. To do this, the structure of alliance relationships as suggested by Achrol et al (1990) is examined. Secondly, the attributes associated with partnership success by Mohr and Spekman (1994) are reviewed to suggest criteria. Finally, the criteria for partner choice as outlined by Lewis (1990) are taken in conjunction with other variables suggested in the strategic alliance literature and in the literature pertaining to the manufacturer-distributor marketing channel. The evidence from this review is combined in order to probe five distinct variables. These are compatibility, commitment, communication, trust and conflict.

2.8 The Structure of Alliance Relationships

Achrol et al (1990) maintain that the characteristics and attitudes of the individual organisations can impact positively or negatively on the effectiveness of the alliance. The use of a strategic alliance which has no formal hierarchy i.e., where there is no independent entity, culture or authority system, such as in a distribution alliance, implies careful structuring of the agreement. According to Achrol et al (1990, p.6) these variables ascertain the "structure" of alliance partnership and they define structure as 'characteristics of the partner organisations and the sentiments they bring to bear on alliance relationships.' Achrol et al (1990) identifies the variables as; organisational compatibility, goal compatibility, partner commitment and trust.

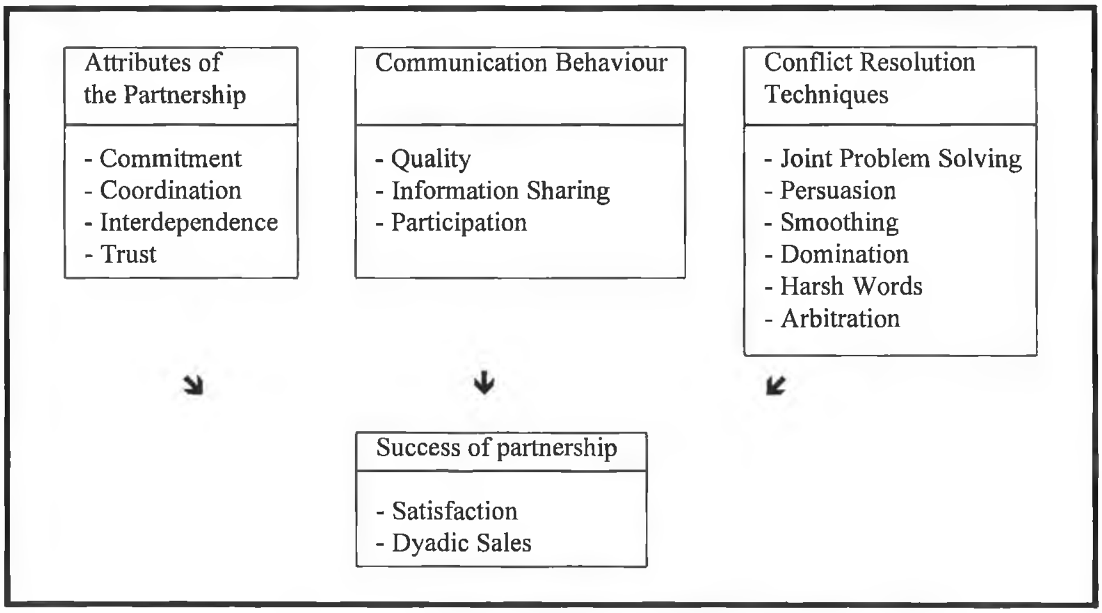
2.9 Characteristics of Partnership Success

> Knowledge of factors that are associated with partnership success could aid in the selection of partners as well as in the on-going management of the partnership (Mohr and Spekman, 1994, p.136).

Mohr and Spekman (1994) tested selected attributes of partnership success: partnership attributes, communication behaviour and conflict resolution techniques on vertical relationships between manufacturers and dealers (see Figure 2.6). They based the study on two assumptions. Firstly, partnerships exhibit behavioural characteristics distinguishing them from conventional business relationship (Borys and Jemison, 1989). Secondly, 'while partnerships in general tend to exhibit these behavioral characteristics, more successful partnerships will exhibit these characteristics with more intensity than less successful partnerships' (Mohr and Spekman, 1994, p.136-137).

The attributes of the partnership; commitment, co-ordination, interdependence and trust were hypothesised to be higher in more successful relationships. They found that these attributes apart from interdependence were positively correlated to partnership success.

Figure 2.6 Factors associated with partnership success



Source: Mohr, Jakki and Robert Spekman, (1994), "Characteristics of Partnership Success: Partnership Attributes, Communication Behavior and Conflict Resolution Techniques", Strategic Management Journal, Vol.15, p.137.

The three elements of communication behaviour; quality, information sharing and participation were again positively correlated with success in a partnership. Finally, the conflict resolution techniques outlined in their model were tested. Of these, joint problem solving was the only factor contributing to partnership success. They found no evidence to support persuasion as being a positive contributing factor to partnership success.

Therefore, if the attributes of the partnership, communication behaviour and conflict resolution techniques are characteristic of partnership success, then logically, it follows that by incorporating these into the partner selection process they may help to select a potential partner and negotiate a successful agreement.

2.10 The Use of Partner-related Criteria in the Partner Selection Process

Partner-related criteria as defined by Geringer (1991) are those that are associated with the efficiency and effectiveness of the co-operation (Frazier, 1990). Mohr and Spekman (1994) distinguish between traditional relationships and more intimate relationship on behavioural characteristics. They maintain that these characteristics are inherent in partnership success. The degree to which the partnership displays these characteristics will influence the success of the relationship (Mohr and Spekman, 1994).

Achrol et al (1990) describes the structure (characteristics and sentiments) of the alliance as being influenced by the individual differences in orientation, abilities and activities. Lewis (1990) suggests three criteria; combined strength, compatibility and commitment as suitable tests for partner choice (see Figure 2.7). In the strategic alliance literature relating to the management of these partnerships or in marketing channels literature, communication (Mohr and Nevin, 1990), power and conflict (Gaski, 1984), trust (Moorman, Despandé and Zaltman, 1993; Wolff, 1994; Gulati, 1995) conflict (Magrath and Hardy, 1989), commitment and trust (Morgan and Hunt, 1994), commitment (Anderson and Wietz, 1992; Gulati, Khanna and Nohria, 1994), and culture (Fedor and Werther, 1995) have been given attention. However, rarely are any of these relationship dimensions given operational consideration in the formation of alliances.

From the variety of behavioural characteristics (Mohr and Spekman, 1994) and 'sentiments' (Achrol et al, 1990) five partner-related criteria have been chosen. These are; compatibility, commitment, communication, trust and conflict. While caution must be used when generalising behavioural constructs in the inter-organisational context (Anderson and Narus, 1984), their adaptation as partner-related criteria is used to explore partner fit in the formation of the distribution alliance agreement.

Figure 2.7 Criteria for partner choice

Criterion	Measure	*through*
Combined Strength	Market requirements	strengths, weakness, resources and track record.
Compatibility	Acceptable trust, Understanding	people, culture, cooperation.
Commitment	Needed effort	management support, operating support, priority and other commitments.

Source: Adapted from Lewis, Jordan., (1990), Partnerships for Profit, The Free Press, p. 217

Moreover, in the marketing channels literature concerning the working relationship between manufacturers and distributors, the case has been made for congruity between the partners on behavioural constructs that underlie the relationship (Anderson and Narus, 1990). Sethuraman et al (1988) also discovered that perceptual congruity of partnership advantages was a determinant of partnership advantage. Consequently, the operationalisation of the partner-related criteria should be influenced by perceptual congruity when developing a relationship.

Thus, while in the remainder of this section the criteria are defined, the challenge rests in obtaining data through the case studies which supports the proposal:

> Relationship dimensions used as partner-related criteria can determine partner fit and as such should be operational in the PSP. Furthermore, the analysis of partner fit, which results in a relationship will be influenced positively by perceptual congruity on the importance of the partner-related criteria.

Each of the partner-related criteria are now examined. This consists of a description of the criteria. Questions on these criteria were drawn up from the descriptions and can be seen in Appendix B and D.

2.11 Compatibility

'Compatibility is a crucial element which effects the extent to which orientations, abilities and activities of organizations can be integrated successfully' (Shamdasani and Sheth, 1994, p.11). The degree of compatibility between partner firms has been found to be an important predictor of the success or failure of an alliance (Murray and Siehl, 1989). Organisational compatibility requires assessment on three district areas, cultural analysis, functional analysis and strategic compatibilities (Achrol et al, 1990). Harrigan (1988b) stresses that organisational incompatibility and asymmetries should be considered at the outset of the alliance.

However, functional and strategic compatibilities are regarded as part of resource fit and strategic fit. Cultural compatibility is taken as a partner-related criteria.

Cultural compatibility is '...the set of values, beliefs and conventions that influence the behaviour and goals of its employees' (Walters, Peters and Dess, 1994, p.9). Where two organisations are co-operating on a continuous basis, there is a need to have compatibility between their respective company cultures (Achrol et al, 1990).

There is a suggestion that cultural analysis can be made on two levels:

(a) an external culture which is national, regional, composed of values, common perceptions, similar views of reality

(b) internal cultures emerging from group mechanics, relevant in understanding the sub-populations who make up the firm (c.f. Thévenet, 1986, p.37).

Forrest (1992) and Kanter (1994) assert that the companies should experience a sense of 'chemistry' which will positively influence cultural integration. It is necessary for the companies to have the communication skills and awareness to bridge any differences in both internal culture and external culture (Kanter, 1994).

2.12 Commitment

Commitment in alliances is considered a substitute for traditional control mechanisms and is defined as 'the desire and intent of participants to give energy and loyalty to an organisation, to be affectively attached to its goals and values and to sustain the well-being of the relationship (Achrol et al, 1990, p.16). Commitment is an essential ingredient in every alliance. Commitment refers to the willingness of trading partners to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship and a confidence in the stability of the relationship (Anderson and Weitz, 1992). Lewis (1990, p.217) described commitment as being measured through 'needed efforts', and that this effort can be demonstrated through the establishment of leadership, setting up of management teams, operating support and giving the alliance priority in relation to other commitments.

Gulati, Khanna and Nohria (1994) contend that commitments help to neutralise the fear that the other party may act opportunistically. Anderson and Weitz (1992) in their study on the use of pledges to build and sustain commitment in distribution channels assert that the parties to the relationship will make specific actions binding the partners to each other and the alliance. Mutual commitment, where the parties work together to enhance profitability, is influenced by communications (Anderson and Weitz, 1992). 'Committed partners are likely to be more cooperative, communicative and flexible in accommodating conflict issues. The willingness to make future investments in the relationship is also expected to be positively related to partners' commitment' (Achrol et al, 1990, p.16). Commitment is an essential feature in forming the alliance.

2.13 Communication

'Communication can be defined as the formal as well as the informal sharing of information or meaning between the distributor and the manufacturer firms' (Anderson and Narus, 1984, p.66). The communication process underlies most aspects of organisational functioning and is critical to organisational success (Mohr and Nevin, 1990). In order to achieve the benefits of collaboration, effective communications between partners are essential.

Three aspects are examined; communication quality and intensity (which includes accuracy, timeliness, adequacy and credibility of information exchanges), information sharing (the extent to which critical, often proprietary, information is communicated to one's partner) and participation (the extent to which partners engage in joint planning and goal setting). In establishing a working partnership, meaningful communication is an antecedent of trust. Once trust is established this can lead to better communication (Anderson and Narus, 1990).

2.14 Trust

Trust in strategic alliances has been defined as one party's confidence in an exchange partner's sincerity, reliability and integrity in their partner (Achrol et al, 1990). The competence of the exchange partner is an important quality influencing this confidence (Morgan and Hunt, 1994). Anderson and Narus (1990) assert that once trust is established, firms learn that co-ordinated joint efforts will lead to outcomes exceeding those a firm would achieve if it acted solely in its own interests. Consequently, the realisation of similar and distinctive competencies and the perceived synergies from collaboration, is a major motivation to form and maintain 'trusting' alliances (Contractor and Lorange, 1988).

Granovetter (1985) describes trust in a relationship as reducing the potential for developing opportunistic behaviour. Achrol et al (1990) add a cautionary note for companies initiating an alliance. Parties to an alliance may wish to appear trusting. Hence, they avoid full discussion on all aspects of the agreement and this will lead to conflict at some point in their relationship. 'Therefore trust is no substitute for thorough contract negotiations. 'The process of negotiation flushes out and clarifies the whys and why nots of the alliance, and establishes a realistic and genuine basis for trust and commitment' (Achrol et al, 1990, p.19).

2.15 Conflict

Conflict is 'the perceived level of tension and disagreement between two parties' (Nugent, 1993, p.48). Here, conflict is discussed exclusively in terms of conflict resolution. Conflict resolution can take two paths i.e., constructive and destructive (Deutsch, 1973). According to Mohr and Spekman (1994) the manner in which partners resolve conflict has implications for partnership success. Joint problem solving is proposed to enhance negotiations because a mutually satisfactory solution may be reached, thus enhancing the likelihood of successful negotiations.

Anderson and Narus (1990, p.45) believe that 'firms that have the ability to resolve conflicts have a lower overall level of conflict in their working partnerships, in part because there are fewer recurring conflicts'. Similarly, firms that have developed strong trust in a partnership are more likely to work out their disagreements amicably and will accept some level of conflict as being just another part of doing business (Anderson and Narus, 1990).

Successfully establishing compatibility, commitment, communication, trust and joint conflict resolution should help determine whether the correct choice of partner is made.

2.16 Conclusions

The literature review highlighted a substantial gap in relation to partner selection in strategic alliances. In order to address this gap the author developed a contingency based PSP framework which could be used to help select a partner and form an distribution alliance. The PSP framework consists of three stages, strategy development, partner assessment and negotiation.

The literature review also highlighted a paucity of research into how a relationship can be developed during the formation process. The ability to develop a relationship with the intended partner can influence both partner selection and the success of the agreement. However, the research does not attempt to address the question of whether as a result of the PSP framework or the partner-related criteria the alliance will be more successful. It is beyond the scope of this study to do so.

The PSP framework is tested by asking three Irish companies and their overseas partners, for a description of the formation process of their alliance agreements. Five partner-related criteria were selected from the literature. These partner-related criteria should be used to analyse partner fit and determine the relationship between the potential parties. Questions are derived from the literature in order to discover how the companies operationalised these criteria during the PSP. The answers to these questions should determine how the companies analysed partner fit for the distribution alliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Objectives

The primary objective of the research conducted for this thesis was to develop a framework for partner selection in distribution alliances. This resulted in the PSP framework which considers both alliance formation and partner selection. The secondary objective was to examine variables deemed to be significant in developing a relationship with a potential partner during the partner selection process. Therefore, there are two central research questions.

Firstly, whether the framework developed is an adequate representation of the partner selection process for companies undertaking distribution agreements. Secondly, whether the variables posited as being relationship dimensions of alliance formation could be nurtured in the pre-alliance state.

The research conducted by the author was essentially exploratory in nature. It focused on a descriptive analysis of the PSP and the partner-related variables deemed to be of consequence in the formation of overseas distribution agreements. The author does not provide a normative account of the PSP, rather the author suggests that certain factors need to be taken into consideration when selecting a partner and negotiating an alliance agreement.

3.2 Research Design

The research lent towards a qualitative methodology. Qualitative data is used to 'explore a process' and 'describe the experiences' (Creswell, 1994, p.71). Miles and Huberman (1994) stress some of the advantages of qualitative data:

> They are a source of well-grounded, rich descriptions and explanations of processes in identifiable local contexts. With qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations. Then, too, good qualitative data are more likely to lead to serendipitous findings and new integrations; they help researchers to get beyond initial conceptions and to generate or revise conceptual frameworks. Finally, the findings from qualitative studies have a quality of "undeniability." Words, especially organised into incidents or stories, have a concrete, vivid,

> meaningful flavor that often proves far more convincing to a reader ... than pages of summarized numbers (Miles and Huberman, 1994, p.1)

The emphasis is on the 'perceptions, assumptions, prejudgements, presuppositions' (c.f. van Manen, 1977, p.205-228) of the meanings people place on events, processes and structures and 'for connecting these meanings to the social world around them' (Miles and Huberman, 1994, p.10).

Although the use of the qualitative paradigm has caused controversy in the marketing research arena[1], the requirement of data that are rich and deep necessitated a qualitative approach. A relatively small number of agreements were chosen as the appropriate sample because of the in-depth information required. Therefore, the qualitative approach suited the study which sought to understand, what process is followed in order to form an alliance and how are partner-related criteria nurtured at this stage.

3.3 Research Strategy

Having decided the methodological design of the study, an appropriate research strategy was sought to match the qualitative methodology. The case study method is chosen as its main purpose is 'to focus upon and analyse in an intensive and deeply probing manner some aspect(s) of the unit, and to identify patterns in the characteristics and features of the unit at that point in time' (Bright, 1991, p.71-72).

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[1] see Calder, Bobby (1994) "Qualitative Marketing Research" in Bagozzi, Richard (Ed) Principles of Marketing Research, Basil Blackwell Ltd: Oxford, p.68-69. Under the heading 'The Qualitative-Quantitative Distinction,' Calder presents the main tenets of the argument given for the use of quantitative techniques over qualitative techniques.

Yin (1994, p.13) maintains that the case study method has several advantages for the researcher.

- It copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
- relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result
- benefits from the prior development of theoretical propositions to guide data collection and analysis.

As the study contains three cases it uses a multiple-case design. Multiple-case design has an advantage in comparison with single cases. 'The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust' (Yin, 1994, p.45). According to Yin (1994) and Miles and Huberman (1994) the multiple-case design follows a replication logic, where each case must be carefully selected so that it either '(a) predicts similar results or (b) produces contrasting results but for predictable reasons' (Yin, 1994, p.46). Miles and Huberman (1994, p.29) add that the sample of multiple cases should allow a researcher to have confidence in predicting whether the emerging theory is generic, 'because we have seen it work out - and not work out - in predictable ways.' The replication approach is illustrated in Figure 3.1. This method allows for a cross-comparison of the cases rather than relying on data revealed within a single case.

3.3.1 Data Sources

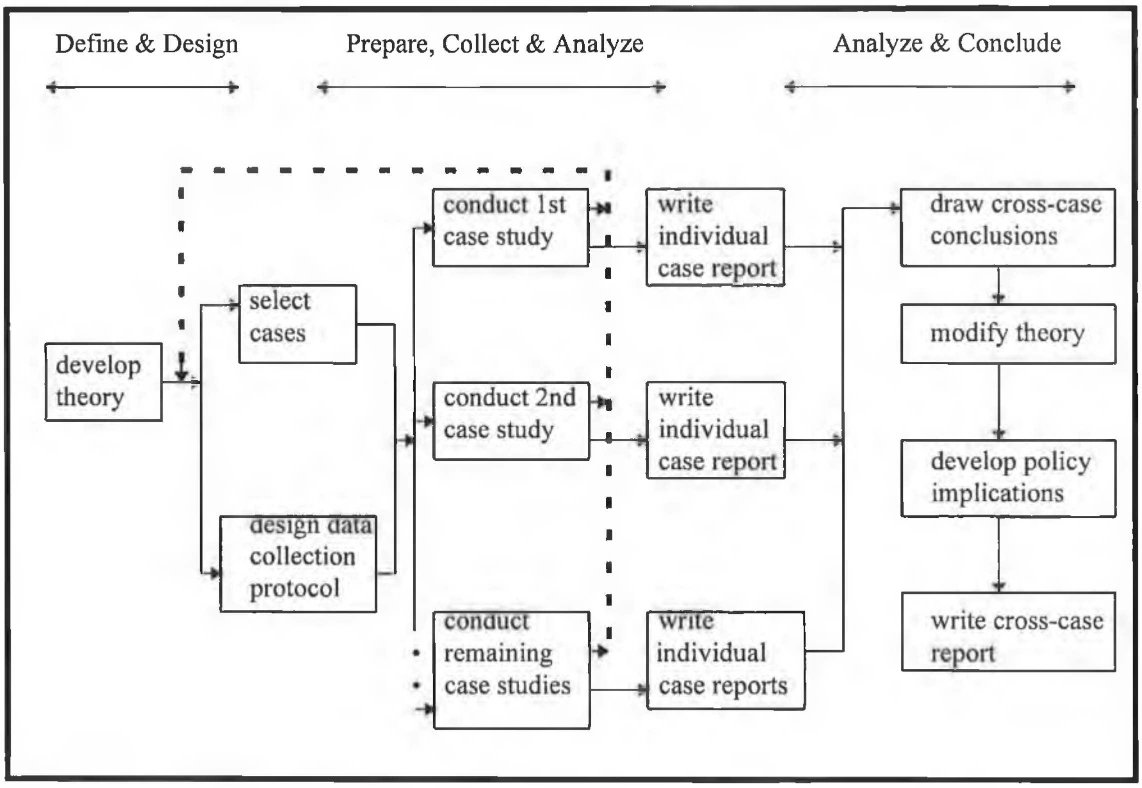
Three main data sources were identified for each of the case studies:

(a) a key informant from the manufacturing firm

(b) a key informant from the distributing firm

(c) any company files or documents provided by the companies (secondary data).

Figure 3.1 **The replication approach to multiple-case studies**



Source: Yin, Robert (1994) Case Study Research: Design and Methods. Sage Publications: Thousand Oaks, California, p.49.

John and Reve (1982), tested the validity of key informant data from dyadic relationships in marketing channels. Their findings indicated that key informants from the firms in the dyad provide reliable and valid data about the structural form of the relationship. In this study the key informant chosen was the person who negotiated the agreement on behalf of the company. It was expected that this person would still be involved in the management of the agreement.

There were a number of anticipated difficulties associated with the collection of information from channel dyads. Bucklin and Sengupta (1993) noted in their study of co-marketing alliances that despite attempts to obtain information from both alliance members, they were unable to do so. Bucklin and Sengupta (1993) found that companies were unwilling to identify their partner for (reportedly) strategic reasons.

Furthermore, for financial reasons and time constraints the author was aware that it would not be possible to visit the overseas companies. In order to overcome these difficulties information from the Irish companies were collected through an in-depth interview. Information from the overseas companies were collected through a questionnaire.

The author discovered that so far, only five distribution channel studies have been identified which include the collection of dyadic data and 'the use of pairs to test hypotheses about the dyad' (Anderson and Weitz, 1992, p.29).

3.3.2 Interview and Questionnaire Design and Structure

The interview is considered to be a principal tool for collecting qualitative information (Bright, 1991; McCracken, 1988; Yin, 1994). The strength of the in-depth interview is that it mirrors a conversation and the informant is encouraged 'to relate in their own terms, experiences and attitudes that are relevant to the research problem' (Walker, 1985, p.4).

Due to the expected duration of the interview (2-3 hours), a semi-structured approach was taken. A set of prepared questions (interview schedule) were used to guide the interview, see Appendix C. This framework provided scope for the respondent to elaborate on specific issues and for the researcher to insert questions which were not prepared in advance. For external validity, and reliability this approach to the interview was maintained in all three cases.

A questionnaire was used to obtain information form the overseas partner. The questionnaire used open-ended items in order for the respondents to construct a response in their own words, see Appendix D. The questionnaires for the overseas partners were identical except for the appropriate phrasing. For instance, an item in the distributor version that read "What advantages do you think accrue to the manufacturer?" would read "What advantages do you think accrue to the distributor?"

in the manufacturer version. This is consistent with the approach taken by John and Reve (1982).

Both the interview schedule and the questionnaire were pre-tested with the aid of a company involved in alliances. Although, they are not involved in distribution agreements, their knowledge of alliance formation was considered sufficient. A research colleague was also consulted to ensure consistency and readability. These pre-tests resulted in several amendments to both instruments, particularly in the questionnaire directed at overseas respondents to facilitate ease of response.

A pilot test of the interview was not conducted because of the intended length of the interview. However, as one of the companies involved was a personal contact of the author, and the first company to be interviewed, they were able to give the author feedback on the interview schedule. This resulted in several minor changes to the interview schedule. Essentially, different wording was used when asking the questions to the key informants in order to take account of individual circumstances.

3.3.3 Sample Selection

As the research was concerned with investigating the partner selection process of overseas distribution agreements, a number of distinct criteria were important. Firstly, the distribution agreement between the two companies had to be formal. The agreement had to be in the form of legal contract outlining the duties, responsibilities and functions of the both the distributor and the manufacturer.

A second criterion was that one of the partners had to be located overseas. It was not a specification of the sample that the Irish company had to be a manufacturer. It was considered that if at least one Irish manufacturer and one Irish distributor could participate, then the study would be strengthened. It would facilitate the examination of both the framework and the variables from both perspectives.

A third criterion was the date of the signing of the distribution agreement. It was decided that this date had to be after December 1990. This date was taken as it was thought that the establishment of an agreement that was more than five years old would yield inaccurate information. In addition, parties who were essential to negotiation may have left the company.

A number of sources were used to develop a list of companies. Newspapers, journals, and databases were searched. This resulted in a list of nine companies. Two semi-state bodies were also contacted and sixty-nine company names were procured. These companies were identified as being involved in alliances but the form of alliance was not known. The Kompass Directory (Irish Edition, 1995) was consulted to find out some basic information about the companies.

The first company was secured through a personal contact of the author. Then companies were randomly selected from the list and contacted by telephone. It was necessary to use phone contact first because the form of alliance was not known. Two companies showed interest in the study. As a result both companies were sent a fax, introducing and outlining the study, see Appendix A. Two Irish manufacturers and one Irish distributor agreed to take part.

In all three instances, the co-operation of the Irish company's overseas partner was also sought. This was the final selection criterion for participation in the study. Prior to their involvement confidentiality was the biggest concern for the companies. As a result all names have been changed in accordance with their wishes.

3.3.4 Data Collection

Before interviewing the respondents, a broad outline of the interview schedule was faxed to them. The fax also included a request for the companies distribution agreement and any other information pertaining to their specific alliances. As two of the agreements were made available to be included in the thesis, all company identification and direct product references have been removed

The course of the interviews, which varied in length from three to five hours, was tape recorded with permission from the respondents. To ensure that the key informant would speak freely about their arrangements, each respondent was promised a copy of their individual case to read prior to its inclusion in the final thesis. This ensured the validity of the information allowing the respondents to make any suggestions or factual corrections as they saw fit. This resulted in only two significant changes where incorrect dates were amended.

All three companies were willing to send the questionnaire to their partner. Each of the overseas partner's questionnaires included an introductory letter explaining the study and the instructions under which it was to be answered (see Appendix C). The completed questionnaires were returned directly to the author.

Apart from basic company detail obtained in the Kompass Directory, no other secondary sources of data were consulted on the companies prior to being interviewed. This was necessary, to ensure that the author would not introduce bias into the interviews, by being aware of any outside concerns of the individual companies. It was also deemed appropriate to allow the companies to provide details of the industry that they were working in for two reasons:

(a) It would be time consuming for the author to investigate each industry.

(b) Strategic alliances occur in many industries. No particular sector presented itself as being more likely to have a large number of overseas distribution agreements, although it is apparent in the case studies that technology is an influencing factor.

3.3.4.1 Case One: The Irish - German Partnership

The initial meeting with the Managing Director and the Financial administrator took place on the 27th April 1996 in Limerick. This meeting lasted approximately five hours, during which time all aspects of the agreement were discussed according to the interview schedule. The participants were eager to discuss their agreement and the process towards its formation. After the interview, they invited the author to their manufacturing site in Galway, where files of correspondence and other secondary data were made available. This resulted in an additional day being spent in Galway reviewing this material and a copy of the distribution agreement (Appendix E) was obtained.

3.3.4.2 Case Two: The Irish - Belgian Partnership

The interview took place on the Irish company's premises in Dublin on the 9th May 1996. In this instance the interview with the Sales Manager who was responsible for the formation of the alliance lasted approximately four hours. While on site the author was allowed to look through documentation pertaining to the agreement and was supplied with general company information. Again the company was willing to provide an amended copy of their distribution agreement for the thesis (Appendix F).

After their overseas partner returned the questionnaire, the author made a follow-up telephone call to their partner in Belgium. The General Manager in Belgium thought it more appropriate to discuss some of the issues in the questionnaire over the phone. This did not result in any major changes and indeed served to clarify perceptions as well as providing usable quotes.

3.3.4.3 Case Three: The Spanish - Irish Partnership

This case differed from the previous two in that the Irish company in this instance is a distributor. Although manufacturer-distributor arrangements are often instigated by the manufacturer, there was nothing in the literature to suggest that when forming an alliance the initiation of the agreement by one party over the other was preferable. The interview was conducted on 14th June 1996 and lasted approximately three hours. The only point that differed from the previous two cases, was that a copy of the distribution agreement was not obtained. The explanation given was that the partner in Spain is currently translating the agreement.

The interviews were transcribed following each interview by the author. The transcripts, in conjunction with the questionnaires and any other documentation supplied by the companies form the basis for the case studies described in the following chapter.

CHAPTER FOUR
RESEARCH FINDINGS

THREE CASES STUDIES ON THE PARTNER SELECTION PROCESS AND RELATIONSHIP DEVELOPMENT OF DISTRIBUTION ALLIANCES

Case One: **An Irish-German Partnership in the Electronic Hand Tool Industry**

Case Two: **An Irish-Belgian Partnership in Telecommunication Systems**

Case Three: **A Spanish-Irish Partnership in Precision Tooling**

4.1 Introduction

In this chapter the research findings are presented. The experiences of three companies and their overseas partners are recounted. The case studies describe the individual efforts made to select a partner and form the alliance. This data is used to analyse the PSP. Each of the partner-related criteria are individually depicted to illustrate the efforts made to form a relationship between the parties. Prior to reporting the case studies the case structure is outlined. To conclude the chapter a summary of research findings are presented. The analysis of the cases will be discussed in chapter five.

4.2 Case Study Structure

To facilitate analysis on the PSP framework and the partner-related criteria, all three cases are presented in a similar manner. Each case is pre-empted by a list of the main participants involved in founding the agreement and a schedule of important dates. The case studies are divided into two parts, part one: the companies and the process and part two: the partner-related criteria.

The first part of each case describes the partners, their background, the industry and the approach used to bring about the individual distribution agreement. Essentially, this is intended to outline the process used to establish the agreement.

The second part of each case describes the findings on the partner-related criteria. This relates the companies experiences on the dynamics of relationship development during the formation of the agreement. This approach is intended to facilitate clear analysis of both the process and the variables therein.

Case One

An Irish-German Partnership in the Electronic Hand Tool Industry

"If what we set out to do is successful, and we infiltrate the world market with our technology, then it should last for good" (Herr Mayer, Managing Director).

Participants in the Irish - German Partnership

Engine Ltd.
Formed February 1992 by Herr Mayer and two Irish engineers, recruited a financial controller in 1993, the four members are collectively known as the Management Team. Used as a vehicle to negotiate the joint venture and the distribution agreement. Dissolved in June 1995, to make way for the formation of Irish Tool Ltd.

Mechanic Ltd.
Former employer of Herr Mayer and the two Irish engineers.

Teknik GmbH (the distributor)
A German subsidiary of a multinational company with its home base in Sweden. Herr Schmidt acting Managing Director.

Irish Tool Ltd. (the manufacturer)
Formed in December 1995 as a partnership between Teknik GmbH, Engine Ltd. and an Irish Government Agency. Herr Mayer acting Managing Director.

Important Dates

February 1992 formation of Engine Ltd.

March 1993 Cologne Tool Fair - initial contact with Teknik GmbH

March 1994 presentation to Teknik GmbH
Shortly afterwards proposal to an Irish Government Agency

June 1994 commitment by Teknik GmbH to enter negotiations with Engine Ltd. and the Irish Government agency for the formation of Irish Tool Ltd.

June 1995 dissolution of Engine Ltd.

September 1995 Incorporation of Irish Tool Ltd.

20 December 1995 Formation of a partnership between Irish Tool Ltd., Teknik GmbH and the Irish Government agency by signing of a Shareholders Agreement and a Grants Agreement.

The signing of the Distribution Agreement between Irish Tool Ltd. and Teknik GmbH.

Part One: The Companies and the Process

Introduction

Irish Tool Ltd[1] (the manufacturer), is located in the Gealtacht region of the West of Ireland. Their partner, Teknik GmbH (the distributor) is located in North Germany. In December 1995 they signed three agreements; a grants agreement, a shareholders agreement and a distribution agreement. The first two agreements facilitated the establishment of a joint venture (a partnership) between both companies and an Irish development agency. The third agreement is the distribution agreement, between Irish Tool Ltd and Teknik GmbH, operationalising the joint venture. All three agreements were negotiated simultaneously.

The purpose of the joint venture is to finance the setting up of Irish Tool Ltd. This facilitates the mission of Irish Tool, which is, to develop the world's most progressive electronic hand tools and systems. Through the signing of the distribution agreement with Teknik GmbH, Teknik becomes the world-wide exclusive distributor of the tools and systems developed by Irish Tool Ltd.

Background of Irish Tool Ltd (the manufacturer)

In November 1992, Herr Mayer who is now the Managing Director of Irish Tool Ltd, set up a company called Engine Ltd., along with two engineers. Negotiations with Teknik GmbH were conducted through Engine Ltd. The company was established because Herr Mayer along with the engineers wanted to have a vehicle in place through which the opportunities to undertake product development for multiple industrial applications could be assessed. The setting up of Engine Ltd by Herr Mayer and the two engineers was done while all three were still employed by Mechanic Ltd. This was independent of Mechanic Ltd, because the management of Mechanic was not interested in developing technologies within the industry and the company had a poor image

[1] In all three cases, company and personal names have been changed to reflect the wishes of the participants.

abroad, especially in marketing and distribution. These three members of Engine Ltd formally left Mechanic Ltd in December 1995.

Engine Ltd was disbanded in June 1995 to make way for Irish Tool Ltd. Irish Tool Ltd has been set up as a manufacturing operation. Its purpose is to undertake, the research, development and design and ultimately manufacture of modern electronic hand tools and technologies. Irish Tool Ltd, currently employs four people, known as the Management Team[2]. The team is lead by Herr Mayer, a German national living and working in Ireland for the past 15 years, the two engineers from Engine Ltd and financial controller/ Administrator[3]. As the project progresses they will be providing highly skilled employment for up to forty two people by the turn of the century. The manufacturing facility will be in production by September 1996. The company expects to realistically achieve close to 20% of the world market within 10 years.

Background of Teknik GmbH (the distributor)

Teknik GmbH is a subsidiary of a multinational company with its home base in Sweden. The multinational operates in 60 countries world-wide, and has some 200 subsidiary companies. The group has annual sales of approximately SEK 22 billion[4] employing approximately 33,000. The division in Germany had invoiced sales of SEK 2,363 million and 2,972 employees in 1993.

In 1992, this subsidiary was integrated into the group's new pan-European distribution system. This serves a total of 20,000 customers, from two distribution centres in the Netherlands and Sweden, with an inventory of 8,000 mechanical and electronic tools.

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[2] 'The Management Team' was the term used by Engine Ltd and is still used now in Irish Tool Ltd, to describe the four employees of the company. It is an essential part of the ethos of the company that the members of the Management Team would refer to themselves as such and that Herr Mayer as leader of this team, always acted and conducted business on behalf of the team.

[3] The financial controller/ administrator was brought into the project prior to the first formal presentation to Teknik. He became a member of the Management Team of Engine Ltd and subsequently of Irish Tool Ltd.

[4] IR£1 = 10.6056 SEK (Irish Times, closing price 20/9/96)

The heart of the distribution system is an integrated, on-line computer system that is unique in the industry, handling orders, deliveries and invoicing. It has been adapted for various languages, currencies, levels of value-added tax and other local conditions. Teknik GmbH is viewed by the industry as having one the best European distribution systems.

Industry Profile[5]

The manufacture and selling of hand tools was both a traditional and local business. It was characterised by small family owned companies supplying local customers. In the last decade, this has changed from a local supply, to a regional supply and is progressing towards globalisation. There are three major market segments; Europe, North and South America, and Asia and the rest of the world. Market potential is $12,000 million. There are eight major competitors world wide, two German companies, two French companies, two companies in North America, one in Japan and one in the United Kingdom.

In the EU, 50% of the total market is shared by fifty companies. In the United States, 50% of the market is shared by four companies. As the industry is rapidly rationalising and restructuring, there is a recognised need to meet the change in structure and to meet customer demands. This is being done through reducing R&D time, tightening delivery dates, and acquiring market share rapidly.

However, the hand tool industry is considered to be maturing. Market share gains can only be made at the expense of other competitors in the market. The key to such gains lie in the provision of better quality, marketing, pricing and delivery. New product development is also seen as critical to maintain and gain market share. In light of this, many of the companies within the industry are seeking ways of developing new technologies to serve the industry and bring new growth into it.

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[5] In all three cases the industry profile is developed from information supplied by the partners.

Initial Contact

In April 1993, Herr Mayer, representing Mechanic Ltd., attended the annual Tool Fair held in Cologne, Germany. This is the most important marketing event of the year in the hand tool industry. While at the fair Herr Mayer received a number of serious complaints about Mechanic Ltd. This increased his dissatisfaction with his current employer.

One of the distributors of Mechanic Ltd., now the partner, Teknik GmbH, was in attendance at the fair. While discussing the problems that they were having and the industry in general, Herr Mayer mentioned some of the ideas he had about developing new technology for the industry. The distributor expressed an interest in these ideas, and asked permission to talk to his Managing Director, Herr Schmidt about them. This resulted in the distributor asking Herr Mayer to put forward a proposal on his ideas. The idea to enter into an alliance came from this initial contact with Teknik GmbH.

Reasons for allying

Herr Mayer's personal unhappiness with his current employer, formed only part of motivation to pursue the idea of creating a new company. From working within the hand tool industry, he perceived that there would be a major technology change in the industry, namely a transition from mechanical hand tools to electronic hand tools. Being a skilled designer and engineer, Herr Mayer along with two colleagues at Mechanic Ltd, had set up a company Engine Ltd, where the three worked on ideas to research, develop and design modern electronic hand tools and technologies. They were, however, discontent with the thought of giving someone else license to use their designs. At the same time they knew that they did not have the finance to develop and manufacture the products themselves.

Teknik GmbH had been involved since 1985 in trying to develop products to the quality and technologically advanced state of Engine Ltd's proposed designs. Teknik invest huge resources in R&D and are renowned within the industry for the conceptual design and production of ergonomic hand tools[6].

Herr Schmidt remarked that Teknik rarely distribute products under their brand name which have been manufactured by another company. The rationale being that they can not guarantee that the product would have the quality and ergonomic design of the products produced in-house. However, in the proposal presented by Engine Ltd they saw an exception worth pursuing. If they invested in the company and formed a partnership then they could access proprietary information about the development and design of the products. Engine Ltd, in return would access proprietary information on Teknik's developments in ergonomic design. This would ensure both quality and safe application of the products.

As a result there is a mutuality of interest and a mutual objective. Irish Tool Ltd will research, design and develop technologically advanced electronic hand tools. Teknik GmbH will assist by providing their company specific ergonomic technology. Irish Tool can concentrate on developing their core business through manufacturing the products, while Teknik will use their distribution expertise to market the products under their brand name. In this way they seek to provide the best products to the end users and customers, not only in Europe but throughout markets world wide.

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[6] Ergonomic handtools are tools which are designed to be efficient and safe for persons to use extensively in their working environment. Thus, their design meets EU requirements on safety in order to prevent injuries from sustained use in the work place.

Strategy formulation

Herr Mayer was invited to Germany to present his ideas to the board of Teknik GmbH which is headed by Herr Schmidt. Herr Mayer addressed principally two issues, finance, so that he could manufacture the products and distribution, as he wanted to enlist Teknik as the distributor for the products. He presented Teknik with a business plan developed by the Management Team. This described the company, the members of the Management Team, the products, the financial projections and the marketing plan for the products.

On submission to the board of Teknik GmbH the business plan served as the primary guide for approval of the project at board level. As this was the first formal contact that the two companies had with each other the business plan was extremely important because it formed part of the initial impression being made by the Irish manufacturer. Part of this impression was influenced by Herr Mayer himself, he was forthright in describing what he was looking for from Teknik:

> *"I said in my first presentation, I consider that the market is ready to change, from mechanical to electronic, a technology change. I said it will take ten or twenty years to change everything, but the change is starting now. I'm convinced it is the way it will be, otherwise I wouldn't be here and I said, for you, you have to make up your mind, do you want to be part of the change or not. Are you interested in being a leader in this technology or not. If you are not tell me now and I'll go somewhere else. If you are (interested) or need more time to research the market, I won't contact anybody else until then" (Herr Mayer, Managing Director).*

Teknik took three months to investigate the project as presented. Initially, they sent back an acknowledgement to the Management Team, "your business plan is excellent, thank you very much". They conducted extensive market research into the market potential for the products. These initial investigations into the market uncovered an immediate market potential of approximately £2 million, and that, within ten to twenty years a figure of several billion could be achieved.

This exceeded the projections calculated by the Management Team. They had forecast that 20% of the current market could be converted to using these hand tools within ten years. Teknik came back with the calculation that given their resources and strength they could convert as much as 50% of the market within ten years.

This information gave a formidable boost to the project. Once the investigation into the market potential of the products had been completed, the board of the German company were well placed to decide whether to enter into the negotiations for an alliance with Engine Ltd. Teknik held a meeting to establish whether this fitted in appropriately with their strategy and once that had been established, they agreed to enter into negotiations with Engine Ltd.

The companies choose to use the business plan that the Management Team had developed, as the agenda for their joint plan of action. There were two reasons for this; firstly, because of its clarity, it encompassed all the principal points that would have to be worked out between them. Secondly, because Herr Mayer had been forthright in his presentation of the project, Teknik could see clearly what the manufacturer was looking for.

From this beginning, they set a precedent that has remained in place throughout the negotiations and continues today. If there is a problem it is relayed immediately to the partner and dealt with promptly between them.

Part Two: The Partner-related Criteria

Compatibility

Strategic Compatibility

Herr Mayer had worked with Teknik's marketing and technical team on behalf of Mechanic Ltd. From this he had built up a working relationship with them which he described in terms of '..technical capabilities, trust, confidence and personal contact. We knew each other.' There was a shared belief that they could change the technology already on the market and bring it into the next century. They could see complementarity in their roles within the value chain in manufacturing and supplying the product to the end users.

Cultural Compatibility

Working with a company in a different country has presented few problems for either partner. This was aided, partly by the fact that Herr Mayer is a German national. Interpreters were not needed and the partners work together through English. Having lived and worked in various countries in Europe, Herr Mayer found this to be an advantage in negotiating the agreement with Teknik GmbH. He felt that he understood their thinking, behaviour and culture.

Herr Mayer thought that if an Irish person had approached the German partner with the same proposal he may not have received the same reception. It was to his advantage that he could understand the language and the cultural nuances. As the other members of the Management Team have not had much exposure to international business, Herr Mayer has spent time in introducing them to European ways of conducting business.

Teknik GmbH have a very positive image of Ireland, they enjoy the people and the clean image that Ireland has. Being an international company, this has given them an advantage in dealing with cultural differences. Teknik had one major problem while negotiating the partnership. As they had to work with an Irish development agency in the formation of Irish Tool Ltd, they found it difficult to understand the bureaucracy and the hierarchical structure of the agency.

This opinion was formed after a problem arose with the wording in the letter of offer. The German partner wanted to change one word "will" to "may" in this letter and this took four months. In order to resolve the problem, Engine Ltd approached the chairman of the agency in order to instigate proceedings to change this and subsequently the agency held a board meeting to ratify the change. The agency was seen as being inefficient and created a very unfavourable impression with the German partner, as demonstrated in this extract from a letter written by Irish Tool Ltd on behalf of Teknik GmbH: *"He also expressed his irritation about the time it takes to modify a few technicalities in the letter of offer to accommodate his company and I hope that they are not losing interest yet."*

Commitment

In undertaking many hours of preparation of the project, putting together the proposal, enlisting the grants assistance provided by the Irish agency and setting up both Engine Ltd and Irish Tool Ltd, the Management Team were committed to the project from its inception. They were determined to get the project off the ground. Engine Ltd made it clear from the initial presentation that if Teknik were not interested then they would be prepared to take the project to a competitor.

Because of the complexity of the project the Management Team knew it would take a totally committed partner to bring the project into being and that there would be problems to resolve in doing so. From its inception this was made clear by telling Teknik GmbH of any possible points that would have to be investigated. There were possible points of contention (see Conflict). Open communication was seen by both parties as one of the best ways to demonstrate the commitment that each partner in successfully negotiating the alliance.

Once Teknik GmbH had decided to enter into negotiations, they proved their commitment in many ways. They were flexible in their approach to any problems or suggestions throughout negotiations. Teknik left both their financial and legal resources at the disposal of Irish Tool in order to get the venture up and running. If one of the parties had a legal query, for example, the other party left their legal advisors at their direct disposal to answer that query. Their file of correspondence is punctuated with such phrases as “Can you help us with this?, What is your opinion on this?”

Irish Tool changed points in the distribution agreement to make the agreement more equitable to Teknik. Teknik, when drawing up the distribution agreement, gave Irish Tool an option to terminate the exclusivity of the agreement at 90 days notice if the distributor was not meeting their sales targets. Irish Tool Ltd recognised that it would not be in Teknik’s interest to do this and suggested the following approach, which was subsequently written into the contract (see Appendix E).

> ‘Should in any given period of not less than 6 months the actual deliveries of product in terms of invoiced value fall below say X% of agreed budgets, both parties shall come together to review marketing strategies in terms of products and features, pricing, competition and enhanced promotional activities with the objective to reach agreed targets.
>
> Failing to reach at least X% of new and agreed targets within xx months from commencement of such agreed activities shall give the manufacturer the right to terminate the exclusivity of this agreement within 90 days notice.
>
> But Herr Schmidt, what then? Shall the manufacturer then be free to sell to third parties (who are likely to be competitors to Teknik)? With a possible commission to Teknik GmbH over xx years?
>
> I (Herr Mayer) do not think, that this would be a good solution. A possibly better solution would be, that Teknik GmbH should then be prepared to offer the products to such (selected) third parties under their own private branding.

> Give consideration to the above' (Excerpt from a letter from Irish Tool to Teknik GmbH on the preparation of the distribution agreement)

Both parties expressed the ease at which they negotiated the signing of the agreement. Principally, their opinion was expressed as arising from the realisation of the long term benefits that they could realise from working with each other and the flexibility with which they could deal with each other.

<u>Communication</u>

> *"I think it is absolutely necessary that we exchange our views and comments by return of faxes to ensure a coherent understanding, prior to the presentation to Herr Schmidt. At this point in time, there is simply no sense in restricting communications between the parties involved" (Herr Mayer, Managing Director).*

This statement sums up the respective attitudes to communicating with each other. Fax was the most common method used as it was as fast as making a phone call and it provided a written record of the communications between them.

The Managing Directors of both companies visited each other four times in their respective countries during the negotiation period. As one of the parties expressed about the other "..they were always to the point and straight with us, no underhand dealings and no flowers, always up front from the beginning and that is how we built up credibility".

They provided and shared information with each other both voluntarily and on request. If information was on request it was always provided within forty-eight hours. Voluntarily, they passed information between them, relating to events occurring in the industry. Proprietary information also passed between the partners on the tool design and the ergonomic design of the products.

Both parties expressed the opinion that the communication channels were always open and that there was clarity in the information they exchanged. If there was any misunderstandings, they were easily cleared up by phoning or faxing the other party.

Trust

Trust was considered by the partners as developing over time from the initial contact. It was expressed on both sides as spanning all levels of interaction with each other and considered an expression of the mutual respect for the others capabilities. The open communication that they had between them, was used to develop trust, on top of the foundation laid by the previous dealings that the companies had with each other. The leap of faith that they were taking in developing the project also influenced the trust they developed, because of the risk they were taking, they had to be open and honest in their communications.

Conflict

There was no direct conflict between the partners. However, three problems arose which could have potentially caused conflict between the partners. The issue that came closest to causing a potential breach in the negotiations was that of Teknik's frustration with the bureaucracy of the Irish development agency. This was resolved by Engine Ltd, in their putting pressure on the agency to resolve the issue.

There were two other major issues which had be dealt with by the companies in order to secure an agreement. Engine Ltd made clear from the beginning that these issues existed. The first was a potential conflict of interest on behalf of the Management Team of the Irish company with their former employers. The second problem was in relation to proprietary information on the design of the products. Engine Ltd needed to establish without a doubt that no former employer could take action against any member of the Management Team for the use of any of their designs.

These issues were brought to the attention of the German company at the initial presentation. The distributor's interest in the project was such that they aided the Management Team in thoroughly investigating both issues. They supported the investigation into resolving the problems through financial means and by leaving their legal advisors available for consultation at any time. These critical issues were jointly resolved to the satisfaction of both partners.

Advantages of the Distribution Agreement

The advantages that the partners see arising out of their relationship are:

Irish Tool Ltd (the manufacturer)

1. To be allied with one of the best European companies in the hand tool industry.
2. To access a world-wide market for their products through the excellent logistical distribution system of Teknik GmbH (two centres in Europe supplying 20,000 customers).
3. To develop, in conjunction with Teknik GmbH , the best marketing strategy for their products because of Teknik's expertise in marketing products for the industry.
4. To access proprietary information on Teknik's ergonomic developments which will improve the safety and design of the new electronic hand tools.

Teknik GmbH (the distributor)

1. To access proprietary information regarding the research, development and design of the new electronic hand tools.
2. To have a world wide exclusive distributorship for these products.
3. To have the products branded in their name thus adding directly to their range of products.
4. To lead the industry in exploiting technology change by providing true alternatives to the mechanical hand tools on the market at present, using the technologies developed by Irish Tool Ltd.

Conclusion

Both companies asserted great confidence in this relationship. Irish Tool expressed the opinion that they could not have found another partner to fulfil the aims and objectives of the project. Together, they can exploit the relationship to both parties advantage. Since the signing of the agreement in December 1995, Irish Tool Ltd have focused on putting the production facility into operation, the first products are due out in September 1996. In preparation for this event, the partners have focused on jointly developing the marketing strategy. They regularly conduct meetings to ensure that targets for development are being met. The distribution agreement will be fully operational once production has started.

Case Two

An Irish-Belgian Partnership in Telecommunications Systems

"The business is the driver, so we were always concentrating on the business and it's only through doing the business and dealing with issue after issue that the relationship developed" (Mr. Marsh, Sales Manager).

Participants in the Irish - Belgian Partnership

Dataset Ltd. (the manufacturer)
Dataset Ltd is an Irish based manufacturer of small capacity telecommunications systems. Mr Marsh is the Sales Manager for the Belgian and Italian markets. He was responsible for negotiating the distribution agreement on behalf of Dataset Ltd and his current duties include the management of this alliance.

Prism et Cie (the distributor)
Prism et Cie is a Belgian distributor of small capacity telecommunications systems. Monsieur Legrand is the General Manager and was responsible for negotiating the distribution agreement on behalf of Prism. He currently manages the relationship with Dataset Ltd.

Token et Cie
Dataset Ltd previously distributed their products in the Belgian market through Token et Cie.

Belgian national PTT (Telecom)[7]
This is the largest national distributor in Belgium.

Important Dates

1992 Dataset Ltd distributes product in Belgium under an agreement with Token et Cie.

Late 1992 - Early 1993 Token et Cie is sold. This terminates the distribution between Dataset Ltd and Token et Cie.

October 1993 - February 1994 negotiation of the distribution agreement between Dataset Ltd and Prism et Cie.

2 February 1994 Formation of a partnership between Dataset Ltd and Prism et Cie for the purpose of distributing small business telecommunications systems.

[7] PTT is the commonly used acronym to describe the national Telecom providers in Europe.

Part One: The Companies and the Process

Introduction

Dataset Ltd (the manufacturer) is located in Dublin, Ireland. Their partner, Prism et Cie (the distributor) is located in the Flemish region of North Belgium. In February 1994 the companies signed a distribution agreement facilitating the distribution of Dataset products throughout Belgium. Through signing the agreement, Dataset have realised 10% of the market share in Belgium. Prism are the second largest distribution of these systems in Belgium after the Belgian national PTT. Subsequent to signing the initial distribution agreement, Dataset and Prism have optimised their relationship through developing new ties with the national PTT. This has resulted in Dataset penetrating 70% of the Belgian market for these sized systems.

Background of Dataset Ltd (the manufacturer)

Dataset Ltd was established in 1977 to develop and supply signalling units. In the early 1980's they began to develop small capacity telecommunications systems. They are now in the fourth phase of product evolution of these systems. The company currently employs sixty-two people in four divisions: Engineering and Design, Sales and Marketing, Finance and Administration, and Logistics. Dataset consider their core competence to be the research and development of the systems. As a result they have concentrated on R&D and most of the manufacturing of the systems is subcontracted within Ireland.

Dataset has positioned itself within a niche market by specialising in the production of the small capacity telecommunications systems. Dataset's stated mission is "to supply attractive, competitive products in the small business system sector to meet the portfolio needs of major telecommunications operators." [8] Their marketing strategy is to enter markets through distribution agreements with local distributors or the national PTTs.

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[8] Company Profile 1996

Therefore, this is not the first distribution agreement that Dataset have entered into. Dataset works in partnership with the telecommunications industry to fill the gaps in their product portfolios in order to ensure a complete product offering to customers. For the past six years they have concentrated their efforts in European markets. They have been successful in penetrating the German, Belgian, Italian, Norwegian and Irish markets. Dataset maintains that flexibility and responsiveness form the foundations of their working relationships, complementing product development, innovation and cost-effectiveness.[9]

Background of Prism et Cie (the distributor)

Prism et Cie was established in 1986 and employs eighteen people. They are the second largest distributor of small capacity telecommunications systems in Belgium. They control approximately 10% of the market share for these systems. They also distribute products under agreement on behalf of companies from Germany, Denmark and Hong Kong.

European Industry profile

The manufacture and selling of small capacity telecommunications systems is characterised by a highly competitive market place. The main channel of distribution is through national PTTs or independent distributors. There have been several major industry changes over the past decade which have had and continue to have an impact on the structure of the market place. There are three primary groups of competitors in Europe. Firstly, large European companies such as Phillips and Matra, secondly, companies from the Far East, and thirdly, small manufacturers (one or two indigenous suppliers per market) such as Dataset Ltd (see Figure 4.1). Each European country presents a separate marketing challenge.

[9] op. cit.

Figure 4.1 **Basic structure of European telecommunications systems market**

	Large manufacturers e.g. Phillips Ascom Matra	**Far Eastern Companies**	**Small manufacturers** e.g. Dataset Ltd. in Ireland
	↘	↓	↙
Supplying to:	**National PTTs** e.g. Belgian PTT 60-70% market share	&	**Independent Distributors** e.g. Prism Ltd. 10% market share
	↓		
Selling to:		**Endusers**	

European companies had an advantage over their Far Eastern competitors in terms of perceived quality of equipment, and local advantages of manufacturing in Europe. The equipment from the Far East was cheaper but the perception of quality was poor. Now however, the quality of Far Eastern products has improved and standards are considered a norm across industry. The smaller European manufacturers such as Dataset can not command the price levels of the larger European manufacturers or hold a price level lower than their Far Eastern competitors. They price their products in between the two extremes.

With the playing field levelled other differentiating factors have become important. A major event which has impacted the industry, has been the deregulation of national PTTs throughout Europe. This has given rise to increased competition with the growth of independent distributors.

The strong Telecom manufacturers such as Philips are perceived as a threat to the national PTTs and they want to remain independent of them. If they ally with a large manufacturer then they could potentially be restricted in terms of technology and price. Not only could they become instruments of price wars, but they also view themselves as potential acquisitions for the large PTTs. Rather than be associated or have their products associated with one of the large manufacturers, the national PTTs have sought instead to create their own image through developing their own brands.

The smaller manufacturers have responded to this need. They provide products which are technologically advanced due to their specialisation on specific niches within the telecommunications systems market. They optimise on deficiencies within the large manufacturers product ranges. When the national PTTs seek supply of a particular telecommunications systems product, they tender the contracts and take the best bids. Partnerships are created whereby the manufacturer works to the national PTTs specifications and the PTT sells the product under their own name. The same scenario is repeated with the independent distributors. The distribution agreements are considered to be only as good as the latest products and technology. The average life span of a particular range is generally three to four years.

The current environment is becoming more competitive. Due to the growth of the small business telecommunications systems market, the large manufacturers are becoming interested in supplying this market. The future for the small manufacturer is uncertain. They strive to create added value through their partnerships with the national PTTs and the growing number of independent distributors.[10]

Initial Contact

Dataset Ltd regularly exhibit at the Cebit Exhibition in Hannover, Germany which is held yearly. Arising from a contact made at the trade fair in 1992, Mr. Marsh set up a distributorship with Token et Cie. Shortly after setting up this distributorship Token encountered financial difficulties and was sold. When this occurred Dataset's contract with Token was immediately terminated. Dataset have specific provision in their

[10] Industry profile developed from interview with Mr. Marsh, Dataset Ltd.

distribution agreements that if the ownership of the company changes, then the agreement is terminated.

Token had been selling 60% of the products to Prism. Prism bought part of Token et Cie when it went for sale. Dataset still wanted market presence in Belgium and Prism wanted continuity of supply. In order for both companies to keep their options open they entered initially a verbal agreement. The verbal agreement declared the willingness of both parties to enter into negotiations with each other subject to an assessment of partner suitability.

Mr. Marsh had previously met with Prism. Whilst setting up the agreement with Token, Mr. Marsh had visited Belgium in order to investigate the progression of the product through the market, the perception of the product throughout the chain and to meet some of the dealers and customers of Token. Prism et Cie was one of these customers. On learning that Prism was interested in purchasing part of Token and in maintaining the supply of Dataset's products, Mr. Marsh made the verbal agreement with Prism.

Negotiations were formally entered into in October 1993, which resulted in the signing of the distribution agreement on February 2 1994.

Reasons for Allying

In the late 1980's and early 1990's Dataset Ltd made brief inroads into the Belgian market. In 1986/87 Dataset had a small contract for distribution of a product and this provided an initial experience of the Belgian market. Between 1988-1991 Dataset had been owned by another company. This company had a centre in Belgium and there had been communication about the market and opportunities there.

With the deregulation of the national Belgian PTT, this has presented further opportunities. The national PTT hold approximately 60%-70% of the market. A further agreement with an independent distributor creates the potential to gain another 10%-

20% of the Belgian market. In assessing Prism's ability to provide adequate market coverage, Dataset concluded that they could penetrate the Belgian market by 10%.

Prism had being buying the product through Token and they knew that they had a market for it. Essentially, they wanted continuity of supply. Through an agreement with Dataset, they could achieve this without one extra person in the chain. Both companies wanted to regularise a situation which could then be beneficial to both parties.

Partner Selection

One of major concerns for Dataset when entering into negotiations was the ability of Prism to provide technical support for the product. Technical competence was a necessity. Mr. Marsh noted in his visits to Prism that they had backroom support and a hot line for enquiries, as well as a shop through which they dealt directly with customers.

For Prism the most essential point was the products themselves. M. Legrand wanted to guarantee a supply of "reliable and competitive products." He was particularly concerned with the ability of Dataset to be able to adapt the products as soon as the market demanded change. This remained a concern for M. Legrand throughout negotiations. However, he entered into negotiations with Dataset because in his opinion "they had the best product."

Strategy Formulation

At the inaugural meeting in October 1993 the companies set out an agenda of issues to be dealt with. These included; the products, the import, warehousing and distribution, the prices, promotion and technical support system for the products. The agreement took five months to negotiate. This was used to set up the logistics of the agreement, send the agreement back and forth to clarify points and prepare it for signing. Mr. Marsh considered that this time frame was quite apt because of the verbal agreement in place and because the agreement was worked out and the parameters set at the initial meeting.

Prior to ultimately signing the distribution agreement Mr. Marsh put the agreement through their Contract Review Process. This involves a meeting with the Finance Director, Marketing Director, Quality Manager, and the Sales Manager of the market. Dataset considers this process essential to ensure that all commitments can be met. A secondary reason is although Mr. Marsh champions the agreement as the Sales manager for the Belgian market, he needs approval of the agreement at senior management level.

Dataset employ a standard agreement for forming partnerships. This guide goes through point by point what the agreement entails. Typically this covers the appointment of the distributor, payment of the products and the marketing of the products (see Appendix F). The agreement gives exclusivity to the distributor with one exception. In any particular market, there is an exception made for entering into agreements with the primary PTT of that country. The rationale being that the national PTT would typically have in excess of 60% of the total market share in a particular country. Dataset can optimise market penetration by allying with a national PTT.

Part Two: The Partner-related Criteria

Compatibility

Strategic Compatibility

Strategic compatibility was expressed in terms of professionalism, product capabilities and technical competence. This compatibility allows both companies to focus on their core competencies; Dataset on the development of the products and Prism on the distribution of the products. Size was also considered an important factor. The companies portrayed size as being essential to flexibility, a trait they recognised in each other. M. Legrand expressly noted that the companies had the same philosophy; a professional approach in order to optimise opportunities.

Cultural Compatibility

In terms of culture neither company encountered or perceived any problem. Although Mr. Marsh has French, the companies worked through English. Mr. Marsh thought that because of their experience in the Dutch and German markets, they had a good idea of what to expect in Belgium. He thought that Monsieur Legrand may not have known what to expect in dealing with an Irish company. He gave a very simple example saying that, in Ireland we generally use our first names when doing business, while in mainland Europe they tend to use the more formal Mister and the surname. Mr. Marsh had found in his experience that this tended to be a blockage in doing business and something that they have to watch out for. Rather than having a partner surprised, he would adjust by telling a potential partner that we use first names. He had found that this was inviting familiarity and was something that partners had appreciated.

Commitment

> *"It was important to the company that we made strong distribution agreements"(Mr. Marsh, Sales Manager).*

Both parties expressed the opinion that they were very committed to the relationship. At the time of negotiating and signing this agreement, Mr. Marsh and M. Legrand personally spent almost all of their time working on it. Mr. Marsh explained that Dataset Ltd at that time did not have large contracts and were intent on entering new markets and making a considerable impression on customers. They were determined to develop a good reputation through strong distribution agreements and this made the agreement a top priority.

Furthermore, between the termination of the contract with Token et Cie and the signing of the agreement with Prism et Cie, Dataset sold product directly to Prism. During this period, it would have been simple for Prism to switch suppliers. However, M. Legrand had customers that he wanted to supply and was prepared to pay in advance for any shipments. The fact that he was prepared to pay in advance and not make an issue about it while negotiating the agreement indicated to Dataset the seriousness of Prism's commitment. According to Mr. Marsh this also formed an initial basis for trust.

One of the determinants of commitment for Prism was the manner in which Dataset approached negotiations. M. Legrand considered that they had adequate experience, conducted each meeting in a professional manner and thoroughly investigated every item in the contract. He reflected upon the fact that, although Prism had entered into agreements with other companies, he felt that Dataset had been the most professional and had shown the most respect for them as a distributor. This was a significant influencing factor prior to signing the agreement.

Communication

The negotiations were punctuated with monthly visits, daily telephone contact and numerous faxes. The parties did not experience any delays from the agenda that they laid out at the first meeting. According to Mr. Marsh, communication was not wasted in going back and forth over every little point. As the negotiations were going through, all points would be discussed in advance so that when documents had to be sent or meetings took place, all issues would be addressed as far as both parties were aware of them. In this way there would not be duplication of contact or an increase in the amount of times necessary to contact their partner.

On the extent of information sharing, Mr. Marsh said that certainly on request, market information would pass about competitors and competitors' products. M. Legrand concurred with this view indicating that information had to be shared to ensure that if either party knew something that the other did not know they would be brought up to date immediately.

In relation to events or changes that may effect a partners business, the manufacturer went so far as to say that it was a selection criterion for them. It would be poorly regarded if the distributor or manufacturer was not up to date with changes and events in the market place and it was seen as unfavourable if the partner was not keeping a check on events that would affect them.

Both parties shared proprietary information. Mr Marsh explained that proprietary information was provided on request. It was expected that the information remain confidential and that the party receiving the information would sign a no disclosure contract. The information generally related to the product design and manufacture. From time to time in order to provide accurate and the best possible technical support to the end user, it would be necessary for the distributor to have such information. M. Legrand also passed proprietary information back to the manufacturer, specifically in relation to software, prices and contacts with customers.

Trust

Both parties asserted that their relationship is marked by high levels of trust. Mr. Marsh reflected that while negotiating the agreement they remained watchful. Trust was built up over time and through communication with their partner. On the issue of how did they know that they could trust each other, M. Legrand stated "they need us and we need them." The fact that both parties could see that the other was willing to make a commitment to the alliance was hugely influential. They also noted that because they could talk to each other openly, this provided a basis on which trust could grow and has continued to grow since signing the agreement.

Conflict

During negotiations the parties encountered no major problems or conflicts that upset the eventual signing of the distribution agreement. Throughout this period the problems that they would have had to deal with were issues in relation to finances, expenses, the forcing of issues or an unfair responsibility to do things such as forecasting. Mr. Marsh explained that all aspects of any contentious issues were discussed between the parties. M. Legrand said simply that problems were solved "by talking with each other."

Problem resolution was jointly sought by agreement, compromise and seeking "middle-ground." Mr. Marsh was very specific in reporting that if middle-ground couldn't be found or compromise made, then in their experience this resulted in failed negotiations. He commented that blame could not be assigned to one party above the other if a continuing win-win situation is to develop and remain in place throughout the life of the agreement. He also believed that if there was a problem to be solved by using outside help then there would be problems with the relationship from the beginning. The agreement would probably not be worth pursuing despite the negotiations that would have taken place.

Advantages of the Distribution Agreement

The advantages that the partners have realised from the relationship are:

Dataset Ltd (the manufacturer)

1. To enter the Belgian market and expand sales.
2. To be allied to the largest independent distributor in Belgium with 10 years of experience in distributing telecommunications system.
3. To have access to information about the Belgian market.
4. To have a technically competent staff to service their products in Belgium.

Prism et Cie (the distributor)

1. To access the most technologically advanced small business telecommunications systems.
2. To have an exclusive distributorship for the Belgian market.
3. To be allied to a partner who is committed to continuous R&D, and remain small, flexible and able to adapt to market changes as necessary.
4. To have marketing support when required.

Other Issues

In looking back over their experiences in forming alliances, both companies had a few final points to add. On the distributor side, M. Legrand thought that one of the most important issues for him as a distributor was the availability of a good lawyer. He thought that this was essential to ensure that his needs were fully represented and to avert potential problems from arising.

Mr. Marsh mentioned several pertinent factors. The first of these was languages. Although English is widely used, a company needs to have people competent in international languages in order to be able to hold discussions and deal with problems as they arise. This was followed by the opinion that if the company is interested in forming international alliances, they need to have people experienced in working internationally. Mr. Marsh concluded that it is fundamental to have the ability to listen and to evaluate what the prospective partner is saying. This in turn helps to alert the company to foreseeable problems.

Conclusion

> *"What better person to have as a representative but our own distributor, who already has a good rapport with us. He knows our products, he knows us well and we also then depend on him, for keeping his ear to the ground with our customers, for dealing with local problems that can be solved locally and informing us as to what the status is or what opportunities are there" (Mr. Marsh, Sales Manager).*

Both companies expressed happiness with the agreement. Dataset was particularly pleased with their experience with the Belgian market as a result of this agreement. It has facilitated the establishment of two further contracts. Dataset were successful in the past year in being awarded a major contract with the national PTT in Belgium. This has increased their market penetration to approximately 70%.

Two factors were imperative to being awarded this contract. Firstly, the fact that Dataset has market presence in Belgium through Prism and that Prism were prepared to become Dataset's official representative in Belgium. The second factor was the technical competence of Prism and their familiarity with Dataset's products.

This resulted in a second agreement between Prism and Dataset whereby Prism have become the agent for Dataset in Belgium. If Dataset now receive a technical enquiry from a customer from Belgium, they channel back all enquiries and complaints to Prism who deal with the customers directly from Belgium.

The relationship continued to grow after negotiations were completed and the alliance implemented. Both parties have sought a way to dampen the uncertainties of the competitive environment that they are working in. Despite the short life cycle of the small business telecommunications system, the manufacturer is aware that if he can keep ahead of the technology changes then he has a committed distributor in the Belgian market. The distributor will be loyal to a manufacturer who will continue to supply quality products and thus avert the tedious task of having to locate a new supplier.

Case Three

A Spanish-Irish Partnership in Precision Tooling

"Well the first thing that made me think that, (it was viable) was the fact that I could speak their language. The second thing was I liked what I saw, their way of working, the machinery they had, their expertise etc etc...and they are open, I mean we were brought totally through the factory, shown everything, there was nothing hidden from us" (Mr. Finch, Managing Director).

Participants in the Spanish-Irish Partnership

Montgat S.L. (the manufacturer)
Montgat S.L. is a Spanish based manufacturer of precision tooling machinery. Señor Pilar is the General Manager and was responsible for negotiating the distribution agreement on behalf of Montgat S.L. His current duties include the management of the alliance.

Turbo Ltd (the distributor)
Formed July 1993 by Mr. Finch, Managing Director to distribute the precision tooling machinery on behalf of Montgat S.L.

Classic Ltd
Former Employer of Mr. Finch.

Connect Ltd
The company instrumental in setting up an initial contact between Montgat S.L. and Turbo Ltd.

Important Dates

Late 1992 Classic Ltd make the initial visit to Montgat S.L

29 July 1993 formation of Turbo Ltd.

13 February 1996 formation of a partnership between Montgat S.L. and Turbo Ltd for the purpose of distributing precision tooling machinery in Ireland and the United Kingdom.

Part One: The Companies and the Process

Introduction

Montgat S.L. is located in the South of Spain, their partner Turbo Ltd is located in the South West of Ireland. In February 1996, the companies formally came together to sign a distribution agreement facilitating the distribution of Montgat's precision tooling products. The agreement covers distribution throughout Ireland and the United Kingdom. Through signing the agreement Montgat have realised market entry into Ireland and the UK. In the coming year the partners expect to establish a joint venture, whereby the Irish distributor will produce the products in Ireland under licence.

Background of Montgat S.L. (the manufacturer)

Montgat S.L. was established in 1971 to manufacture precision tooling products. They currently have thirty employees. Montgat distributes its products throughout Europe and many countries world-wide through alliances. They are considered to be the leading manufacturer in this field in the Spanish market and deemed to be one of the best in Europe. Their core business is the research and development of tooling machinery. The product that they are now selling on the Irish and UK markets is a new development. The technology being is a relatively recent development. As yet the extent of market penetration is undefined primarily because they are still discovering new industrial applications. Originally the products were intended for use in the wood-work industries. However, over the past couple of years the equipment has found a place in car manufacturing companies and the electronics industry amongst others.

Background of Turbo Ltd (the distributor)

Turbo Ltd was founded by Mr. Finch in July 1993. They currently have three employees, Mr. Finch as Managing Director, a Sales Director and an Administrator. They also retain a Technical Director from Montgat. Mr. Finch was working for Classic

Ltd until July 1993 after which time he left to establish Turbo Ltd. Over the past three years, Turbo has concentrated on becoming established in the Irish and the UK markets. They currently contend with three Dublin based distributors of competing products. Their aim is to become the leading Irish distributor.

Industry profile

The market for the precision tooling machinery is in its infancy at present. There are many manufacturers of similar products but few have reached the technologically advanced state of Montgat's products. This is why Montgat is considered to be one of Europe's finest manufacturers. They face intense competition in Europe from German companies of similar products. The full scope of the products applications is as yet undetermined. Montgat is still discovering new applications in various industries.

In Ireland there are currently no manufacturers or servicing sites for comparable products. Turbo intend to become the first company to install a servicing unit and through a joint venture with Montgat become the first Irish manufacturer of the precision tooling machinery. The competition from other distributors is Dublin based due to the location of the wood-work industries in Monaghan and Navan. For this reason the Sales Manager of Turbo works from a Carlow base and all product shipments arrive through Dublin.

Initial Contact

Mr. Finch was employed as a Sales Manager by Classic Ltd, a wood-work company situated in the South West of Ireland. In early 1992, Classic contracted an English company to custom build machinery for them in an attempt to update their technology. When it was introduced into the company it made a considerable difference in terms of accuracy, production down-time and the length of servicing time. They realised that this tooling product would make a significant difference to other companies within the industry.

Thinking that there may have been an Irish manufacturer, Classic approached Connect Ltd a company based in Ireland specialising in supplying sub-components for similar products. Classic thought that they may actually manufacture comparable machinery. Classic approached Connect with the specific intention of investigating the possibility of setting up some form of distributorship. However, Connect Ltd was not involved in manufacture but were able to provide Classic with the names two companies, one based in Germany and the other in Spain.

Connect specifically recommended the Spanish company Montgat S.L. As a supplier of sub-components to Montgat and being in touch with the industry they recognised that the proposal was viable and would in turn be beneficial for them. They were prepared to set up an introductory meeting between the two companies. Thus, the Managing Director of Classic and Mr. Finch, Sales Director visited Montgat in Spain in late 1992.

The result of this meeting was that Classic became a customer of Montgat S.L. and began reselling on behalf of Montgat in Ireland.

Reasons for allying

From the initial contact Montgat were interested in developing ties. They had analysed the UK and American market and had put aside thoughts of market entry. They thought that they did not have the communications skills, especially the language skills necessary to conduct negotiations and business dealings through English. Sr. Pilar considered this a significant deterrent to market entry. Even when he had visited Ireland to buy sub-components from Contact Ltd he used Contacts agent in Spain as an interpreter. On learning that Mr. Finch spoke Spanish, Sr. Pilar recognised that this could possibly allow Montgat the means to gain entry into the Irish, UK market and potentially, the American market.

When initiating the introductory meeting between the parties, Contact had supplied both with good references of the other. They confirmed any query the other had in respect of their reliability. A further consideration was Classic's expertise. Classic's business is the manufacture of products in the wood-work industry. This is the primary market for Montgat's products. Therefore, they realised that Mr. Finch as Sales Manager had both experience of selling and a certain level of technical competence.

For two years prior to signing the agreement, Montgat worked with Turbo. During this period Turbo proved their ability to make the necessary sales and develop the markets. As market entry was being realised Montgat were anxious to establish an agreement whereby they could be totally committed to market development, in the knowledge that Turbo was dedicated to distributing their products.

Classic had recognised an opportunity worth pursuing. Mr. Finch recognised that other companies could benefit from the products technical capabilities in the same way as Classic had. Mr. Finch has worked in sales and distribution for many years and the thought of establishing a new company was a lucrative prospect. He knows the markets that he is dealing with and sought the challenge of penetrating and developing these with a product that has a proven performance record.

Strategy Development

The partnership was built in incremental stages. Initially, Mr. Finch started selling the product and concentrated on evolving the market in Ireland in this manner. Meanwhile Montgat conducted investigations over five months into the Irish and UK markets. It became apparent that they had a viable opportunity. Mr. Finch was committing most of his time to developing the market. At this point, as they had agreed in their initial meeting, Mr. Finch took leave of Classic. He set up Turbo Ltd in July 1993 as the means through which he would effectively become the sole distributor for Montgat. Turbo Ltd officially started trading at the end of 1993.

From the end of 1993 until February 1996, Turbo consolidated its position in the Irish market and introduced the product to the UK market. To build awareness of the product, Mr. Finch used his contacts and exhibited in trade fairs in Ireland and the UK. There is at least one major trade fair held yearly in Ireland and the WoodMex trade fair which is held bi-annually in Birmingham for Ireland and Great Britain. When it had became apparent that the venture was viable the companies formally bound ties in February 1996. The agreement covers the sales, distribution and promotion of precision tools in Ireland, England and eventually the USA.

Part Two: The Partner-related Criteria

Compatibility

Strategic Compatibility

The crux of the companies' strategic compatibility is that it has been jointly developed. Turbo is directly responding to Montgat's needs and has purposely been created to do so. Sr. Pilar commented on the enthusiasm of Turbo Ltd, which he felt matched their own enthusiasm, particularly to acquire new markets. A further factor enhancing their compatibility is the fact that both companies are small family owned and run businesses. They maintain that this preserves an appreciation for the difficulties and challenges that they face.

Cultural compatibility

Both companies highlighted again and again that the fact that Spanish was a common language was an immediate breakthrough. This was the most important cultural factor. They were able to develop a rapport based on this and a business which satisfies both their ambitions. No other problems arose because of distance or cultural factors. Montgat considered the location of Turbo to be ideal to suit their needs.

Commitment

As it became apparent that the opportunity was viable, both parties became committed. Montgat employed financial and legal advice to ensure accuracy and authenticity in negotiations. Turbo also sought help in the form of advice from Forbairt in order to ensure that they would cover all issues necessary to secure their interests in negotiations. Moreover, Mr. Finch found that when he travelled to Spain to set out the agenda for their business plan, the Spanish company without prompting provided him with all the particulars he required. This signalled to him that they had accounted for Turbo's best interests.

Sr. Pilar noted their enthusiasm, effort and input into developing the markets for Montgat and this he considered to be a sign of their commitment. He also remarked that Montgat visibly demonstrated their commitment, "we gave tools in good faith without prior payment and we are also looking towards potential investment." Mr. Finch thought that Montgat were also able to take the opportunity seriously because of his willingness to travel to Spain. He felt that this provided a credible commitment and assured Sr. Pilar of his seriousness. Both parties view the alliance as a permanent arrangement.

Mr. Finch though that Montgat were very flexible in their approach. In providing an example Mr. Finch related how during 1994, Turbo exhibited at WoodMex in Birmingham on behalf of Montgat. One of his concerns in attending the fair was his lack of familiarity with the technical capabilities of the product. He asked Sr. Pilar for some help and Montgat supplied two technical advisors for the duration of the exhibition. Mr. Finch was very impressed with this as it confirmed Montgat's commitment and at the same time enhanced his experience and learning about the company and the products. Sr. Pilar also went with Mr. Finch on many of their early trips to the UK market so that the customers could see that they had credible backing.

There was one problem that Sr. Pilar experienced while working through negotiations. He stated that he found one persistent problem in dealing with the Irish company which was the difficulty in obtaining documentation from them. He felt that this demonstrated inflexibility, because it lacked understanding of how important it was to their Spanish partner. Sr. Pilar overcame the problem by repeated requests and explaining its importance.

Communication

Again in this case, as in the previous two, the development of the alliance was marked by frequent visits, numerous phone calls, and faxes. Mr. Finch noted that as much as 95% of their communication is through Spanish.

The fax plays a critical role in their business. When Mr. Finch requires technical drawings for a customer, Montgat can have a scale drawing faxed to them within a few hours. Montgat employ the use of CAD-CAM technology in order to produce the high quality drawings. Mr. Finch also noted that this was a vital bonus for Turbo. Because of their relationship, he can, when necessary get designs drawn up under time pressure. He asserted that this response to his needs has frequently resulted in obtaining sales that could otherwise be lost.

With the industry is in its infancy, both partners are provided with the opportunity to explore possibilities. Any information requested is readily given. Mr. Finch provides information on the Irish and UK markets. Sr. Pilar commented on the exchange of information in relation to price changes, new products and discoveries as they occur. He stated that "the alliance is an open one where we feel we are able to share any information."

Mr. Finch confirmed this, remarking that through their knowledge of the woodworking industry in Ireland, which utilises different processes than the Spanish woodworking industry, they have been able to offer suggestions on design of machinery for the Irish and UK market. The growing number of industries that the machinery can be adapted for has also provided may instances for the companies to share ideas. Recently, Montgat discovered a new application in the plastic industry through Turbo.

Proprietary information is frequently shared in order to pursue any new challenges thoroughly.

Trust

There is high accord on the level of trust that they have for each other. Both companies when asked about trust described it as "total." Mr. Finch and Sr. Pilar emphasised that the length of time they spent getting to know each other before formalising the agreement gave them a chance to develop their trust for each other.

Conflict

While Turbo experienced no major conflicts establishing the agreement, Sr. Pilar did point to the fact that the difficulty of obtaining documentation was a problem for them. Sr. Pilar said that he resolved the problem by repeating requests and explaining their importance. Mr. Finch had not realised that this was an issue for them. The problem did not appear to have been big enough to cause Montgat to reassess their partners suitability and certainly it did not deter them from getting involved with Turbo.

Advantages of the Distribution Agreement

The advantages that the partners see arising out of their relationship are:

Montgat S.L. (the manufacturer)

1. Achieving access to markets that could not be reached otherwise.
2. The distributor has knowledge and confidence in their products.
3. That the distributor is working solely for them.

Turbo Ltd (the distributor)

1. To have exclusive distributorship for the Irish and UK markets.
2. To be allied to a manufacturer who responds to their needs on request.
3. To be able to develop Turbo's potential with secure back up.

Conclusion

The comment from both companies to the question 'Are you still happy with your agreement?' was identical "yes, because it works!" Montgat has had past experience in developing alliances and found this to be an advantage because they knew what to expect. Sr. Pilar thought however, that companies do need, technical, financial and promotional assistance and that this should be supplied by government institutions and the participating companies.

Within the next year the partners will enter a new phase in the development in their relationship. They are currently working towards the founding of a joint venture. The first step will be the establishment of a back-up service in Ireland for the machinery. Following that will be the licensing of the technology in order to set up a production base in Ireland. This will be achieved through the purchase of half the company in Ireland by Montgat in order to emerge as a joint venture. In conjunction with these changes, Mr. Finch intends to continue expanding the Irish and the UK markets and eventually progress to entering North America.

4.3 Summary of Research Findings

The literature review undertaken on partner selection and alliance formation resulted in a PSP framework for Irish manufacturers and distributors. The case studies demonstrate that the PSP is viable irrespective of the companies own requirements and the motives for allying. However, there does appear to be considerable overlap between the stages and sub-processes.

There appears to be high accord on the importance of the partner-related criteria associated with relationship evolution. This extends to the point where, if they cannot form relationship when assessing partner fit in the PSP, the parties would not consider entering the agreement. Although the research did not intend to investigate the inter-relatedness of the criteria, it is evident from the case studies that the criteria are dependent on each other.

In summary, there appears to be support for the framework's ability to describe the process by which companies select partners and form their agreements. The criteria associated with developing the relationship have received strong support, to the point where negotiations to form an alliance will fail if the criteria are not met. The final chapter consists of a full analysis of the PSP and the partner-related criteria and conclusions are drawn on the complete study.

CHAPTER FIVE

DATA ANALYSIS AND CONCLUSIONS

'Alliances and partnership are initially romantic...: their formation rests largely on hopes and dreams - what might be possible if certain opportunities are pursued. Strategic and financial analyses contribute a level of confidence, but, like all new business ventures, collaborative relationships draw energy largely from the optimistic ambition of their creators' (Kanter, 1994, p.99).

5.1 Introduction

The final chapter seeks to bring together the evidence of the cases and compare it to the partner selection process framework for distribution alliances and the partner-related criteria which determine partner fit.

The development of the PSP framework for distribution alliances was initiated through a review of strategic alliance literature on partner selection and alliance formation. The descriptive case studies provided evidence to support the PSP framework. However, the data collected also suggested that there are several other sub-processes in the partner selection and assessment stage. This resulted in a revised PSP for distribution alliances which can be seen in Figure 5.1 on page 130.

The author collected substantial data on the partner-related criteria. The five criteria, compatibility, commitment, communication, trust and conflict were essential to the development of a relationship between the partners in each case. The companies provided abundant information to support the proposition that an analysis of partner fit can aid partner selection and alliance formation during the partner selection process.

The chapter progresses in the following manner. Firstly, the evidence relating to the framework are displayed. Secondly, the data on relationship development and partner-related criteria are discussed in the pre-alliance state. Thirdly, limitations of the study are outlined. Fourthly, suggestions for further research are made and finally, conclusions are drawn on the study overall.

5.2 The Partner Selection Process Framework for Distribution Alliances

The partner selection process was described in three stages. In the first stage, strategy development, the manufacturer considers an alliance for overseas entry or expansion or the distributor considers the enhancement of a current product range. In the second stage, partner selection and assessment, partner selection criteria are developed taking account of both task-related and partner-related variables. Prospective partner(s) are identified through some means, and are evaluated on these criteria. In the third stage, negotiation, the parties continue to evaluate the project and the potential partner, and ultimately either sign the agreement or discontinue the negotiations of the proposed venture.

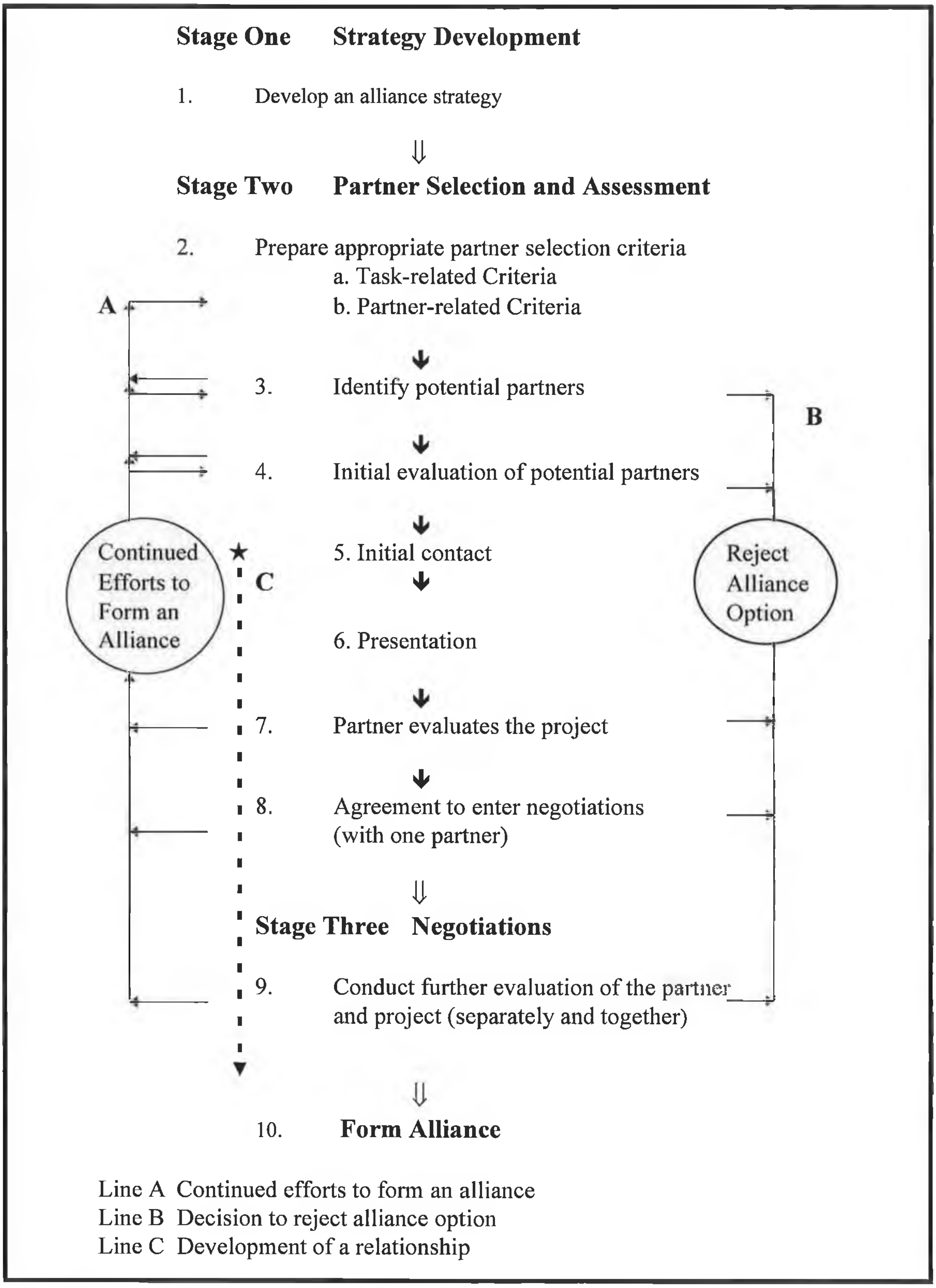
Contingency based feedback loops were incorporated for flexibility. It was expected that a linear progression of the process would not be completely realistic, i.e. that at some points along the process, the potential partners may have to re-evaluate their compatibility in relation to the project and each other and may as a result opt out of the proposed venture. It was also expected that there may be overlaps between the sub-processes. Finally, it was expected that while either party can initiate the agreement, both parties are equally concerned with the partner selection process (Hakansson, 1982; Bradley, 1991).

Evidence emerged from the case studies to suggest that the framework is a rudimentary outline of the process that the manufacturers and distributors used to establish their distribution agreements. There are six main findings from the analysis:

1. The framework does not adequately describe the sub-processes taking place.
2. Although the case studies did not confirm the use of feedback loops in the PSP, evidence emerged that suggests that they should still be included in the PSP.
3. There is overlap between stages and the sub-processes.
4. The PSP does not occur in a sequential fashion.
5. Both parties to the agreement are involved in the partner selection process.
6. The relationship between the parties commences at the initial meeting.

The first two results are not as the author expected. When describing alliance formation, the companies in the cases detailed further steps that they progressed through in order to form the agreement (see Figure 5.1). Additionally, none of the companies experienced difficulties which would have confirmed the use of feedback loops in the

Figure 5.1 The Revised PSP Framework for Distribution Alliances



PSP. Each point is now analysed with reference to the findings. Point six deserves special consideration as a result of the copious findings on the partner-related criteria. Therefore, relationship development is considered separately.

5.2.1 Stage One - Strategy Development

The author found that the strategy developed depended upon the individual objectives of the companies. The companies stated that they made a business plan or written proposal to set out the proposed project. This proposal was typically endorsed by everyone involved in the project from the company. The proposal or business plan formed the basis for the development of partner selection criteria. In fact, many of the task-related criteria became apparent as the company developed the proposal. This finding is similar to the suggestion made by Navear and Deck (1990) to use the alliance benchmarks as partner selection criteria. Thus, there was overlap between strategy development and preparing partner selection criteria.

5.2.2 Stage Two - Partner Selection and Assessment

The findings on the partner selection and assessment stage of the PSP are particularly interesting. Contrary to the proposed four sub-processes in this stage, namely, the preparation of appropriate partner selection criteria, the identification of potential partners, the evaluation of potential partners and the selection of a partner or partners to enter into negotiations, on analysing the data the author detected three additional sub-processes. These are, initial contact, the presentation and the potential partners analysis of the project. All are discussed in detail below. The identification of the three additional sub-processes has significant implications for the PSP.

Firstly, the initial contact is the point at which the partners start their relationship. This may only be a telephone call but it will still create a first impression. Secondly, from the initial contact through to concluding or rejecting the agreement, this prospective partner is involved in the PSP. The prospective partner may also decide that the project is not in line with their company strategy and opt out of alliance negotiations.

relations with the company (case two). The Irish company in the third case based their initial evaluation on the recommendation of another company working in the industry.

5.2.2.4 Initial Contact

This is the first new sub-process that the author identified from the case studies. Initial contact involved giving the prospect an outline of the proposal and if interested arranged a meeting. This may take the form of a simple telephone conversation followed by a fax or letter confirming the meeting. Moreover, two other issues were identified in analysing this step.

The initial contact is the first time that the parties interact with each other, information is exchanged by both the initiating party and the prospective partner. Once the prospective partner agrees to meet the initiating party, they become involved in the PSP. The initial contact also marks the point where relationship development begins.

The case studies evidenced a considerable amount of overlap between identifying potential partner, initial evaluation and initial contact. For example, in the third case they appear to have occurred almost simultaneously. Furthermore, although there was awareness of other potential candidates, the initiating parties sought a prospective partner best meeting the task-related criteria and contacted this company first.

5.2.2.5 Presentation

This is one of the most important steps in the PSP. In all three cases, the presentation of the proposal was face to face in the overseas partner's offices. The presentation may be the first occasion for the management of the companies to meet, as was the case in the Irish-German partnership and the Spanish-Irish partnership.

5.2.2.6 Partner Evaluates the Project

It appears that the potential partner uses the initial contact to assess the proposal prior to the presentation. Further, during or after the presentation the potential partner evaluates the project in order to decide whether to enter negotiations. In the first case the German partner took a number of months to evaluate the project to their satisfaction. In the second case the potential ally had completed most of their evaluations prior to presentation.

Again it was apparent that there was overlap between the presentation and the prospective partner evaluating the project. The analyses of the cases studies led the author to believe that these two points should be included in the revised PSP.

5.2.2.7 Agreement to Enter Negotiations

This sub-process consisted of the formal decision to enter into negotiations for an alliance agreement. It was marked by a letter of intent stating that the parties are going to negotiate an agreement for the purpose of distributing products in the overseas market. From the initial contact, informal negotiations have been in place. However, the decision to formalise these negotiations was important in that it placed a commitment on both parties.

Again there was overlap between the presentation, partner evaluation and the agreement to enter negotiations. In the first case these were distinct sub-processes. In contrast, in the third case the Irish distributor gave a presentation and returned to Ireland with product on the same day, having secured the Spanish companies involvement to work towards an alliance.

5.2.3 Negotiations to Form a Distribution Agreement

As the author proposed in the development of the PSP, full evaluation of the prospective partner and the project occurred during the negotiations of the agreement.

5.2.3.1 Further Evaluations

The companies were only able to fully assess strategic fit, resources fit and partner fit during negotiations of the agreement. Negotiations are a continuation of the two previous stages, strategy development, and partner selection and assessment. As Lasserre (1984) suggested the companies need to complete these evaluations both separately and jointly.

5.2.3.2 Decision to Form an Alliance (or reject the alliance option)

If negotiations have progressed smoothly and without any major difficulties then the signing of the agreement is a formality. In two of the cases, the companies were already conducting business with the partners on an ongoing basis prior to this formalisation of the alliance. None of the companies experienced significant difficulties which affected their decision to enter the agreement. However, it must be cautioned that as none of the agreements are in place for more than three years it is difficult to judge whether they will continue to progress smoothly.

5.2.4 Feedback Loops

The author could not confirm the use of feedback loops in the PSP from the case studies. However, the author suggests that enough evidence emerged from the cases to conclude that feedback loops are still a necessary part of the PSP. In case one, the Irish company informed their German partner at the presentation that they were giving the German company right of first refusal on the project. They were willing to go back and identify and evaluate other companies if the German company was not interested in the proposed venture.

The background of Irish/Belgian partnership demonstrated that at later stages of a strategic alliance, problems may occur that will result in the termination of an alliance agreement. Moreover, as Dataset have a marketing strategy geared toward the use of partnerships, they simply returned to an earlier stage in the process and sought a new partner in the same market to form another alliance.

Consequently, in the revised diagram (Figure 5.1, p.130) the author has included feedback loops for both continued efforts to form an agreement (A) and points at which the alliance option is rejected (B). A larger sample size, with companies that have had more experience of alliance relationships, may result in additional data to support this claim.

5.2.5 Overlap in the PSP

The data from the case studies supports the claim that there is overlap between the stages and sub-processes. Overlap occurs on most of the points in the PSP. The cases demonstrated that partner-selection criteria arise in conjunction with strategy development. During partner selection and assessment some of the sub-processes are undertaken almost simultaneously.

Another interesting finding arose in regard to overlap in the PSP. The author speculates, that a relationship may exist between the level of vertical integration and the clarity of the stages in the PSP. In case one where the partners formed a joint venture as well as a distribution agreement, the PSP was better defined and the stages more distinct that in the other cases.

5.2.6 Sequential Progression of the PSP

The author discovered that only one case demonstrated a linear progression through the stages and sub-processes in the PSP. Deviations arose in case one, when initial contact was made prior to strategy development. In the Spanish-Irish partnership, the alliance strategy was developed jointly by the partners as the trading relationship progressed. Nevertheless, the author found that although there may not have been sequential progression, this did not negate any stage or sub-process of the PSP.

5.2.7 Partner Involvement in the PSP

It was stated in the development of the PSP framework that there would be interaction between the parties during the formation of the alliance. In each of the three case studies, it was obvious that this was the case. After the prospective partner was contacted, the prospective partner had to assess and evaluate the proposal in terms of their own company strategy. Then there was joint development of the project and joint negotiations to formalise the arrangement. The author has taken this finding into account in devising the revised PSP for distribution alliances.

5.2.8 Additional Findings

Two additional findings arose from the analysis of the PSP framework. Prior experience and previous relationships may affect the duration of the PSP. In the Irish-Belgian partnership both companies had prior experience of forming strategic alliances. They took just six months to negotiate and set up the distribution alliance. The time frame was much shorter in comparison to the other two cases, where neither of the Irish companies had experience in alliance formation. Therefore, the author concludes that prior experience in alliance formation will positively influence the firms' joint ability to progress through the PSP more swiftly.

Similarly, the author proposes that previous relationships with a prospective partner may also result in a condensation of the PSP. None of the companies in the case studies had previous direct relationships which would confirm this proposal. Consequently, this remains an area for further investigation.

The partner selection process framework described the stages that the companies entered when selecting a partner and forming a distribution alliance. The author surmised from the cases that there is no ideal length of time in which the PSP should be concluded. However, the PSP should not be excessively long or the prospect could become disenchanted with the project. Neither should the process be too short as resource fit, strategic fit and partner fit must be adequately analysed. Martin (1995) suggested similar findings. He reported that companies which had established their agreements in less than three months had experienced most problems.

As the study did not seek to assess the PSP in relation to the overall success of the distribution arrangement it is not possible to state with authority that the process followed will result in a successful alliance. However, the parties appeared very confident that they had covered every issue and that their agreements would be successful.

The case studies confirm that a process is followed in selecting a partner and negotiating an alliance agreement. The author posits that the revised PSP framework including the newly identified sub-processes, accounts for all the stages and sub-processes that the companies worked through when selecting a partner and forming a distribution alliance. The revised framework also takes into consideration the prospective partner's role in progressing through the PSP. Yet, more research could be conducted into many aspects of the PSP which could help companies contemplating distribution alliances. These are discussed in the limitations section of the chapter. Relationship development is now analysed with regard to the partner-related criteria, partner fit and the PSP.

5.3 Relationship Development in Distribution Alliances

Relationship development between two parties forming a strategic alliance can be seen in Figure 5.2. The case studies confirmed the assertion that partner-related criteria should be operationalised in the PSP. By analysing partner fit the companies can determine whether they have a relationship that will continue to develop throughout the life of an alliance. This is achieved by realising the importance of the relationship. A strong relationship can add extra partnership advantages such as the expansion into other projects with the same partner.

5.3.1 The Partner-related Criteria

The data collected by the author resulted in rich information on the five partner-related criteria. The author proposed that assessing the partner on cultural compatibility, commitment, communication, trust, and constructive conflict resolution can strengthen the partner selection process. However, the dilemma was to understand how these partner-related criteria could be used in the PSP. While it remains difficult to define partner-related criteria when preparing appropriate partner selection criteria, a pertinent

Figure 5.2 Relationship Development During the PSP

Define Partner-related Criteria		**Stage in the PSP**
Understand what a distribution alliance is.	→	During Strategy Development.
Be aware of the relationship variables that make up a distribution alliance.	→	When preparing appropriate partner selection criteria.

⇓

Determine Partner Fit		**Stage in the PSP**
(see Table 5.1)	→	From the initial contact and meeting between the potential partners through to negotiations and beyond.

⇒

Relationship Development

Achieved by perceptual congruity of the importance of a relationship between the partners.
Continues through the life of the alliance.

⇓

Benefits of a Successful Relationship
Expand into other projects with the same partner

finding emerged from the analysis which should assist the preparation of partner-related criteria.

Through the interviews and questionnaires the author found that the companies knew that prior to engaging in discussions to form an alliance they had to understand what is meant by a strategic alliance. The companies had knowledge of many of the issues described in chapter one and an understanding of distribution alliances as described in chapter two. The author deduced from this that the companies in the case studies were aware of the relationship aspects needed to make an alliance work.

Therefore, two points were evident from the case studies. During strategy development the companies understood what is meant by a strategic alliance i.e., that an alliance must have common objectives, mutual need and risk-sharing. When the companies prepared their business plans and proposals they were aware of the relationship variables that are part an alliance such as, commitment, trust, communication, and compatibility.

Thus, the author concludes that a company should research and learn about strategic alliances prior to engaging in an alliance. It would also be useful to talk to other companies that have formed distribution alliances in order to learn from their experiences.

5.3.2 Determining Partner Fit

The companies in the case studies indicated that relationship development began when initial contact was made. This was a first impression. The presentation provided a further basis on which companies assessed the potential partner on a personal and company level. Thereafter, the five partner-related criteria are used to determine partner fit. Arising from the case studies, the author has drawn up a table of the criteria and the issues on which partners can analyse partner fit. These can be seen in Table 5.1. Each of the criteria is now examined.

Table 5.1 Determinants of Partner Fit

Cultural Compatibility

Measures of internal cultural compatibility
- Leadership friendship (rapport)
- Strategic compatibility

Measures of external cultural compatibility
- Language
- International Experience

Commitment
- Giving time and priority to negotiations
- Working informally with the partner
- Helping the partner
- Being flexible in relation to problems or other commitments
- Keeping promises
- Open communications (honesty)
- Having a long term outlook on the project
- Treating the partner as an equal

Communication

Communicate through
- Face to face contact
- Fax
- Phone

Clarity of information
- Common language
- Improved by face to face contact
- Requests for information are met
- Avoiding misunderstandings

Exchange of information
- Voluntarily on non-proprietary matters
- On request and reciprocated on proprietary matters

Conflict Resolution
- Communicate the problem
- Don't assign blame
- Seek middleground
- Make concessions/compromise

Trust
- Joint risk-taking binds the parties together
- Establish good communications
- Keep Commitments

5.3.2.1 Compatibility

Cultural compatibility formed the focus for examing compatibility on a partner-related level. The companies used friendship and strategic compatibility as a measure of the internal cultural compatibility between them.

Friendship was the prime determinant of partner fit. A rapport was developed between the management of both companies involved in negotiating the alliance. Kanter (1994, p.99) described this as the 'optimistic ambition' of the negotiating partners.

This friendship allowed the companies to communicate freely and overcome problems that arose in negotiating the agreement. It was a bond that formed at the initial face to face meeting and developed throughout the course of negotiations and beyond. From the interviews and the questionnaires, it was apparent that if friendship between the partners did not exist or could not be realised then the alliance was not worth pursuing. The inherent risk-taking in an alliance required the partners to trust each other. If they did not develop a rapport then the likelihood of trusting each other was slim.

The companies used strategic compatibility as a measure of internal compatibility. The author was surprised at this finding. Strategic fit was viewed as a separate issue to partner fit. However, the companies described compatibility in terms of the desire to increase market penetration and thus increase sales. They asserted that working in partnership with another firm formed the basis for achieving company objectives. Adaptability and flexibility were fundamental to achieve these goals. The companies sought partners who could adapt quickly to changes in technology and changes in the market place. Similarly, they wanted partners who were flexible in accommodating suggestions and meeting marketplace demands as required. This appeared to be one of the reasons that the companies sought partners who had specific product or marketing capabilities and of a specific size.

Two factors resulted from questions relating to external cultural compatibility; language skills and international experience. The companies found common language imperative to being able to form a strategic alliance. In two of the cases, the managing directors informed the author that the fact that they spoke the overseas partners language influenced the decision as to whether the project went ahead or not. Experience in international or at least European markets was also important. Both Irish and overseas managers declared that international experience allows them to anticipate and overcome national cultural problems that may arise.

5.3.2.2 Commitment

The author found that dedication to the formation of the venture was manifested in many ways. Four main points resulted from analysing commitment during the formation of the distribution alliance.

1. Giving time and priority to negotiations.
2. Working with the partner or helping the partner during negotiations.
3. Open communications.
4. Treating the partner as an equal.

Each case exhibited an individual time scale for negotiations to meet specific circumstances. There were no indications of 'hurried' negotiations. Flexibility was given to the partner where the partner had to meet other responsibilities while working through negotiations. However, as negotiations approached the formation deadline the alliance was given priority in relation to other business. In the three to four months before signing, the companies were spending most of their time preparing for the signing and implementation of the agreement.

The participants of the study provided many examples of evidence where they demonstrated commitment to the potential ally. For example, in the first case, the German company promised to help with legal investigations, and their partner suggested changes to the distribution agreement to make the arrangement more equitable. The

Spanish company helped their Irish partner by providing technical assistance in the form of two company experts at a trade fair where the product was exhibited. They pledged commitment by keeping promises, providing assistance in good faith, and agreeing to enter informal trading relationships prior to formalising the agreement.

Open communication is also a method of signalled commitment to the agreement. Honesty is an important part of this. In the Irish-German partnership for expamle, the Irish company told their German partner that they were giving them right of first refusal. They would not approach any other company unless they had official confirmation that Teknik were not interested. Thus, they signalled their commitment to enter negotiations with this partner and were honest in making the partner aware that there were other candidates.

The author contends that treating a partner as an equal even when they are not, is also a means of demonstrating commitment. Sherman (1992) also proposed this point. In case one, where the German partner is many times the size of the Irish company, the German partner never undermined their partner and have not provided any evidence to suggest that they will act opportunistically. Teknik are also prepared to educate their partner with their technical expertise in order to improve the products.

5.3.2.3 Communication

Through the three cases studied the author established that communication was vital to the formation of the alliance and the relationship between the partners. The most important methods of communication were personal visits and faxes. The visits were especially necessary at the outset of the negotiations and then at pertinent points during the process. These visits were not viewed as an unnecessary expense. Clarity of information exchanged was essential to good communication. Clarity was achieved when the parties did not have to repeatedly request further explanations, and information was understood when received. The personal visits improved clarity because in a face to face context misunderstandings were easily overcome. The expediency of both fax and telephone allowed the companies to sort out problems quickly and conduct business.

The volunteering and sharing of information was also important. The companies were able to judge the other parties intentions through the amount and nature of the information requested. Proprietary information was only given on request, when necessary and had to be reciprocated in order to prevent a partner from acting opportunistically. Other information such as changes in industry legislation or competition within the industry were reported voluntarily. Again the companies used this as a means to judge whether the candidate was truly interested in the alliance.

5.3.2.4 Conflict Resolution

All the companies reported minor conflicts. However, none of these situations warranted a reassessment of the proposed project. Conflict was resolved by discussing any problems and reaching agreement through compromise or seeking "middle-ground." There was 'give and take' according to the Sales Manager in the Irish-Belgian partnership. The respondents were adamant in asserting that communication is essential to conflict resolution. Unless the problem is communicated to the partner, they can not take action to resolve the issue. Blame can not be assigned to one party above the other. Instead, support must be given in order to overcome problems in order to achieve a 'win-win' result. The companies maintained that if outside help was needed in order to arbitrate any disagreement between the parties, then the agreement was not worth pursuing. This is similar to the finding by Mohr and Spekman (1994).

5.3.2.5 Trust

The author ascertained from the replies on questions about trust during the formation process, that trust cannot be taken for granted in the alliance. Trust was achieved through the other partner-related criteria, and developed slowly over the formation period and during the implementation and management of the alliance. Friendship and familiarity were essential to bring about trust in the relationship. Gulati (1995) contends that familiarity resulting from previous alliances with a partner will increase trust. The author found that this is indeed the situation. Two of the original alliances described in the case studies have already lead to further alliance efforts between the partners based on trusting relationships.

The respondents indicated that trust was built out of the communications they had with their partners. Anderson and Narus (1990) suggested that this may well be the case, that meaningful communication is an antecedent of trust and that that trust once established results in better communication. Trust was also developed by meeting commitments made during the partner selection process. Furthermore, joint risk-taking which served to bind the partners together created trust. This was evident in the case studies. The question "how did you know that you could trust your partner?" was met invariably with the same response "because we have to!"

5.3.3 Perceptual Congruity

> Furthermore, the analysis of partner fit, which results in a relationship will be influenced positively by perceptual congruity on the importance of the partner-related criteria (Author, p.65).

Perceptual congruity on the partner-related criteria which determine partner fit and the development of a relationship during the PSP was evident from the data. In each case, both the interviews and the completed questionnaires provided similar data. The parties to each agreement highlighted how their relationship has grown and developed since the initial meeting. The perception of equitable benefits for both parties served to increase the trust and willingness of the parties to forge stronger and further relationships with the same partner. Two of the distribution alliances documented have formed the basis for other projects between the partners. Other researchers have noticed this trend proclaiming that successful alliances are achieved by starting on a small project and working toward further integration (Kanter, 1994; Slowinski, 1992).

The partner-related criteria used to establish a relationship are positively affected when both parties communicate and understand the benefits to be achieved by the alliance. The companies appeared to make extra efforts (commitments) above those that they would make in a traditional arms length relationship. The formation of a relationship between the parties during the PSP, appears to have a powerful effect on the achievement of synergy envisaged by alliance performance.

It was also evident that despite having examined each criteria separately, they are highly inter-related and dependent on each other. Compatibility appears to positively affect communications, commitment positively affects trusts and communication affects commitment, trust and the ability to handle conflict.

In conclusion, the companies in this study displayed a strong appreciation of the need to assess the potential partner on the partner-related criteria in order to form a relationship which continues through the life of an alliance. Directions for further research in relation to both the study of the PSP and relationship development are outlined forthwith.

5.4 Directions for Further Research

The author proposes that there are several directions for further research arising from the study of the PSP and relationship development during the PSP.

A PSP framework for distribution alliances could be designed to including both task-related and partner-related criteria, where both are given equal attention. A full study is needed of both task-related and partner-related criteria in the PSP.

Another potentially fruitful avenue for further research would be to examine the PSP for distribution alliances in relation to other forms of strategic alliance. The author suggests that there may be reason to believe that the PSP could be formalised into more distinct stages, with less overlap between the stages. This could be related to the degree of vertical integration in the form of alliance.

The PSP could be studied in relation to a complete strategic alliance process and a longitudinal approach taken to examine the alliance process over its lifetime. This would allow for a richer understanding of the dynamics and complexity of the relationship.

The study of a PSP with a larger sample size could serve to provide more evidence of the use of feedback loops in the PSP and strengthen our understanding of each stage of the PSP.

Furthermore, the author contends that several of the sub-processes could be investigated to determine whether they have an impact on the success of an alliance. For example, Martin (1995) noted in his study that companies were not aware of many of the potentially useful instruments for identifying partners. During the interviews the respondents informed the author that although they were aware of some of the instruments, they had found that using outside organisations to locate a partner had not been particularly successful.

Further research on relationship development during the PSP could take several directions.

1. An increased number of partner-related variables could be examined.
2. Further work could be conducted on the inter-relatedness of the partner-related criteria.
3. Additional research could be conducted into the methods used to measure partner-related criteria.

Studies such as these should serve to improve our understanding of relationship development through the entire life of a strategic alliance. Knowledge of these issues should help reduce time and effort spent in pursuing an alliance with an unsuitable partner.

5.5 Limitations of the Study

The study represents a first step in developing an approach for manufacturers and distributors to follow when forming distribution alliances. Nevertheless, it is not complete. The deliberate exclusion of task-related criteria from the PSP limits a full assessment of the issues that occur at each stage of the PSP. Furthermore, as the study sought to determine whether a PSP could be identified from the case studies, many of the sub-process within the PSP still need more investigation. Therefore, generalisation of the research results is made with caution.

Managers' retrospective perceptions were used to study the PSP framework and operationalise the criteria. Though it has been demonstrated that this approach to data collection is generally appropriate, the findings can be strengthened with more objective data (Cavusgil and Zou, 1994).

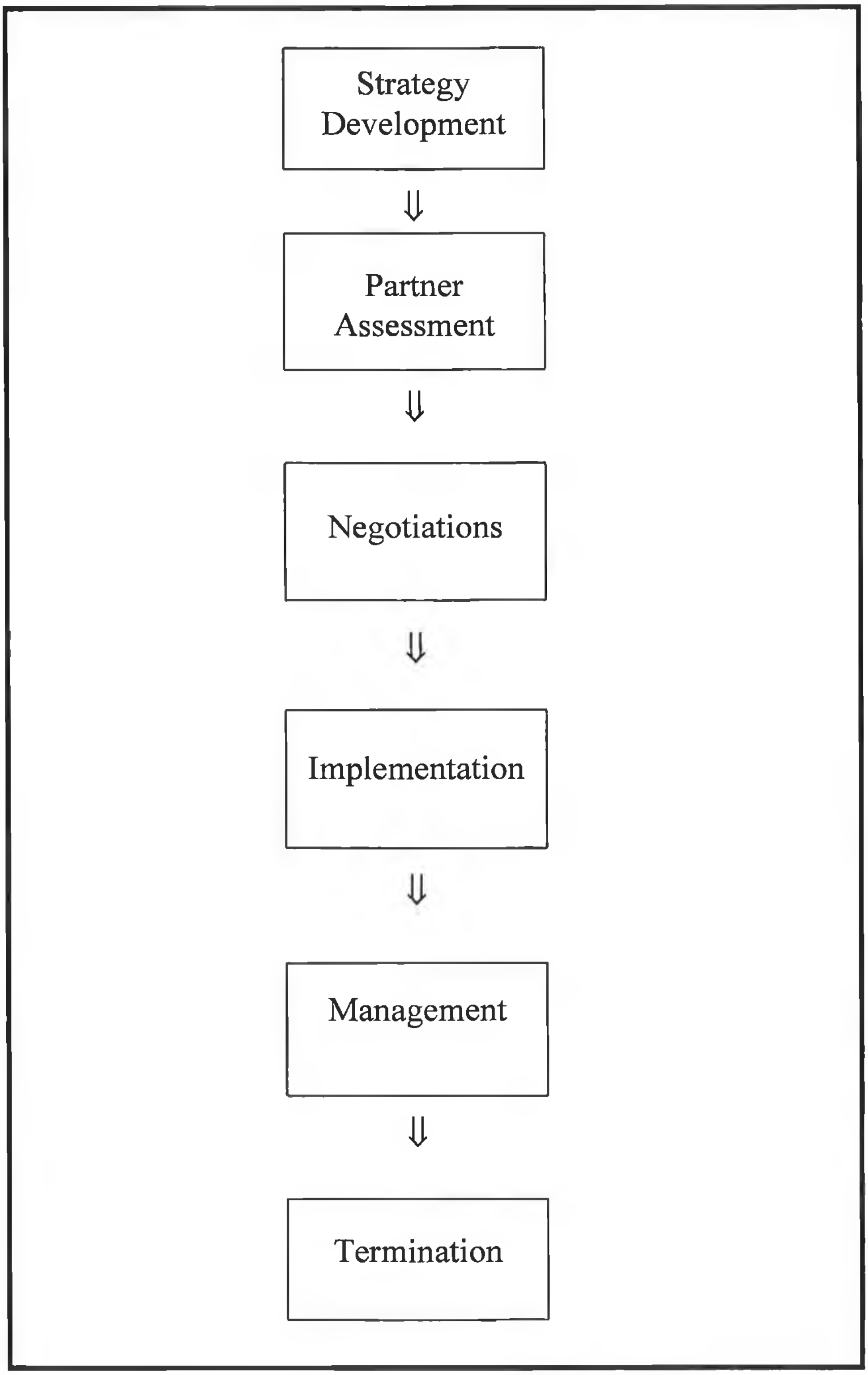
Despite testing five partner-related variables, not all potentially relevant variables have been explored.

Some of the results may be context specific and as such may be of limited help in developing a general conceptual understanding of strategic alliance formation.

5.6 Conclusion

The revised PSP describes the first three stages of the strategic alliance process for manufacturers and distributors contemplating a partnership strategy. These three stages are strategy development, partner selection and assessment, and negotiations. Combined they constitute the formation of an alliance. There are three further stages to a strategic alliance, implementation of the agreement, management of the alliance and termination (see Figure 5.3).

Figure 5.3 The Strategic Alliance Process



The PSP framework is not perfect in capturing the complexity and depth of formation because so many factors depend on the individual objectives of the parties. Many areas for further research are apparent from the study. Issues relating to prior experience and previous relationships may result in a different configuration of the PSP. The PSP needs to be examined in relation to the overall success of the alliance.

However, from the study it is apparent that the PSP can be conceptualised into distinct stages with attendant sub-processes. This should assist companies contemplating a distribution alliance and help them to understand the process that they will go through in order to select a partner and form an alliance agreement. The outcome of a successful alliance should be an equitable arrangement providing synergy and specific advantages for both companies.

Relationship development is part of the PSP. Companies contemplating a distribution alliance need to be aware of the difficulties that can arise if partner fit is not achieved. Lack of partner fit can result in dissatisfaction and failure of the alliance. Finding a partner or friend is essential to accommodating the partner-related criteria and determining partner fit.

The partner-related criteria are fundamental to the formation of the alliance. They should not, as suggested by Geringer (1991), be assigned to second place after the task-related criteria. They are of equal importance to task-related criteria. Partner-related criteria are difficult to define and difficult to measure but the cases demonstrate that they need to be given consideration throughout the partner selection process. Therefore, despite achieving resource fit and strategic fit, the alliance cannot exist without partner fit. The determinants of partner fit as realised from the case studies are intended to be used by companies in the establishment of an alliance. It suggests ways in which the companies can measure a prospective partners suitability for a proposed venture.

The author noticed the willingness of the participants to discuss their alliance arrangements. Enthusiasm and optimism were apparent as well as many references to the advantages they are realising because of their alliances. Two of the partnerships are already expanding with further ties and projects currently underway.

The distribution alliances studied are aimed at capitalising on reciprocal strengths and complementary resources. Yet there is still only limited attention focused on the benefits of working in partnerships in the marketing channels literature. Chief among these advantages are optimal market entry and penetration for the manufacturer and exclusive access to superior products for the distributor.

The PSP and relationship development are just part of strategic alliances. The author stresses again the need for a more cohesive framework that takes account of both task-related and partner-related criteria in order to develop the PSP to its full potential. Furthermore, the PSP needs to be investigated in relation to the complete process in order to find a way to judge and measure the success of the PSP. The benefits to be gained are found in the joint ability to anticipate and adapt faster than individually possible to market demands and opportunities as they arise.

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APPENDIX A

Example of the fax sent to the Irish companies after

initial telephone contact was made.

FAX COVER SHEET

DATE:		**TIME:**	
TO:		**PHONE:**	062-46767
		FAX:	062-46087
FROM:	Joanne Laffan	**PHONE:**	01-7045680
	Dublin City University	**FAX:**	01-7045446
RE:	Distribution Agreement Study		

Number of pages including cover sheet: [1]

Message

Dear ________,

Further to our telephone conversation on Friday, here are the details regarding the post-graduate study being undertaken.

The study is on the examination of the process of partner selection and negotiation of distribution agreements between Irish manufacturers and their overseas distributors or vice versa. As the study is process based, financial data will not be required. The factors under investigation are compatibility, commitment, communication, trust and conflict. One of the primary features of the study is that the distribution agreement is backed up by a formal written contract, and that the agreement is viewed as a partnership or alliance.

In order to complete the study, I am asking for your participation in a discussion on a selected distribution agreement. The study also requires the cooperation of the selected partner, and the exact same questions will be addressed to this partner. Considerable work has been undertaken in the preparation of questions, in order that the interview should not exceed two hours duration. Absolute confidentiality is guaranteed in relation to company details.

Again, thank you for your interest. I would appreciate any help you can give me regarding participation in the study and I look forward to hearing from you.

Yours sincerely,

____

Joanne Laffan

APPENDIX B

Semi Structured Questionnaire

(For the Irish Company)

Name of Company: ______________________________
Address:______________________________
Telephone:______________________________
Fax:______________________________
Name of company representative:______________________________
Position in Company: ______________________________

Part A- Company Background

1. In what year was the company established? ______________

2. Current number of employees: ______________

3. What is the position of person within your company who had responsibility for negotiating the distribution agreement with your partner?

____

4. Did this person have other responsibilities at the time? ☐ Yes ☐ No
If yes, what were they? ______________________________

____

5. Does this person have any foreign languages? ☐ Yes ☐ No
If yes, please specify:

☐	French	☐	Spanish
☐	German	☐	Italian
☐	English	☐	Others (please specify)______

7. What is the competitive position of your company within the market in Ireland?

____

Part B - Alliance Details

1. How did you locate your partner?

____

2. How much time (man weeks/man months) were spent on basic research of the business conditions in the country where the partner was sought?

____

3. How much time (man weeks/man months) were spent on setting up and establishing the alliance?______________________________________

4. What were the approximate costs (in local currency) involved in setting up the alliance?____

5. Did you receive a grant or financial contribution from any government agency, towards the setting up of the alliances?___________________________
If yes, which government agency?______________________________
If not, why not?____
____

6. Can you describe the activities and the products covered in the distribution agreement with your partner?

____
____
____

Part C: Strategy Formulation

1. Where did the idea to get involved in or establish a distribution alliance come from?____
____
____

2. Did you set out any plan of action? ☐ Yes ☐ No
If yes, please give details of the plan:______________________________
____
____
____
____
If no, why not?____
____
____

3. What were the reasons and expectations for entering into the alliance?

____

____

____

Part D: Partner Selection

1. What criteria did you use for selecting your partner?

____

____

____

2. What type of information did you seek about your partner and from whom did you seek it?____

____

____

____

3. Was the information in pt. 2 easily and freely available?______________

____

4. Was there a selection to be made between potential partners? □ Yes □ No
If yes, why did you choose your partner ?______________________________

____

____

If no, why not?____

____

____

5. Who initiated the contact between the two companies?

____

____

Part E: Negotiation

Theme One - Compatibility

1. What made you think that the two companies could work together? (Chemistry)

2. What had your partner in common with you?

3. Were cultural factors or cultural distance between the two parties an issue in negotiating the alliance?
Please give example(s):

Theme Two - Commitment

1. Was the negotiation of the alliance given priority in relation to your other commitments at that time?

2. Did you make extra efforts such as; using outside advisors, setting up management teams or operating support teams? ☐ Yes ☐ No
If yes, what were they, and why?

3. Before the alliance was signed, what made you believe that your partner was genuinely interested in the alliance?

4. How did you demonstrate that you were committed to the signing of the alliance? ____

____

____

5. When selecting your partner and negotiating the alliance with this partner, how long did you think that the alliance would last (in years)?______________

____

6. Were they flexible in their approach to any problems or suggestions throughout negotiations?____
How did they demonstrate this?______________________________

____

____

____

Theme Three - Communication

Regarding your methods of communicating with your partner, while negotiating the alliance.

1. Contact Intensity

1a. How did you communicate with your potential partner?

- ☐ In person (face-to-face)
- ☐ Telephone
- ☐ Electronic mail
- ☐ Other (please specify) ______________________________
- ☐ Fax
- ☐ Personally addressed letters
- ☐ Unaddressed documents

1b. Please indicate appropriate number of contacts by each communication method:

Personal visits ______________________________
Telephone ______________________________
Electronic mail ______________________________
Fax ______________________________
Personally addressed letters ______________________________
Unaddressed documents ______________________________
Other ______________________________

2. Information Sharing

2a. Did you provide information which may have helped your partner?
Voluntarily ☐ Yes ☐ No On request ☐ Yes ☐ No
Give an example ______________________________

2b. Did you keep your partner informed about events or changes that affect them?
____
In advance?______________________________
Give an example______________________________

2c. Did you share proprietary information with this partner? ☐ Yes ☐ No
If yes, please give an example: ______________________________

If no, why not?______________________________

<u>Theme Four - Trust</u>

1. How would you describe the level of trust you have for your partner?

2. How did you know that you could trust your partner?

Theme Five - Conflict

1. What were the difficulties and problems that you encountered in negotiating the alliance?

3. How did you resolve these problems?

Theme Six - Outcomes

1. At the stage of signing the alliance what did you think the main advantage of it would be?

2. On a day-to-day level, what specific advantages accrue to you because of this alliance?

2. After signing the agreement, were there any points that you felt unsure about? Why?

Theme Seven - Partnership advantage.

1. What advantages do you think accrue to your partner?

3. What advantage do you think that this partner is providing that another partner could not provide?

Part F: Concluding Questions

1. Are you still happy with your agreement?________________________
   Why? ________________________

2. Is this the first alliance that the company has entered into? ☐ Yes ☐ No
   If No, please answer section titled No prior experience
   If Yes, please answer section titled Prior experience

No prior experience

1. Would you enter into an alliance again? ☐ Yes ☐ No

2. If yes to pt.1, what would you do differently?________________________

   If no, why not?________________________

Prior Experience

1. Can you describe briefly your past experience in forming alliances, in both local and international markets?________________________

2. How did this help you in selecting your partner and negotiating the agreement with them?________________________

General

1. What assistance do you think companies need when entering into alliances? ______________________________

2. Who should give this assistance? ______________________________

3. Is there any thing else, that hasn't been discussed here, that you consider important? ______________________________

Thank you for your participation.

APPENDIC C

Example of the letter and instructions sent to the overseas partner

Dear ______________________,

Please allow me to introduce myself. My name is Joanne Laffan and I am a post-graduate student at Dublin City University, Ireland. I am currently working on a project with examines the partner-related variables in the process of selecting a partner and negotiating an overseas distribution agreement (an alliance). The variables under investigation are compatibility, commitment, communication, trust and conflict.

The objectives of the study are twofold:

1. To study the partner selection process used in forming the alliance.
2. To study certain partner-related criteria used in the formation of the alliance.

___________________________, has nominated your company as an excellent example of a working partnership. To this effect, I have already discussed with your partner the origins of your relationship, specifically concentrating on partner selection and the negotiation of the agreement. In order to complete the case study on this relationship, I need to include your perceptions and opinions on the formation of the distribution agreement. To do this, I would be very grateful if you could complete the enclosed questionnaire.

If you have any questions or difficulties in understanding any of the questions, please do not hesitate to contact me. I have also included some information on the study and instructions for the questionnaire which should help in understanding and answering the questions. A final point of note is that absolute confidentiality is guaranteed in relation to company details. The case study will be sent to you for approval once it is completed, in order to double check for any information that is company sensitive.

Thanking you in advance and I look forward to hearing from you at your earliest possible convenience.

Yours sincerely,

____

Joanne Laffan

Partner Selection and Negotiation of Overseas Distribution Agreements

Background Information

This study commenced in late 1994 and shall be submitted for the award of Master in Business Studies in September 1996. To this effect, the gathering of primary information is one of the final stages of its completion. This is the culmination of a long process of reviewing the theoretical literature and developing a framework for the variables (compatibility, commitment, communication, trust and conflict), to be operationalised in a pre-alliance context.

To test the framework, a qualitative methodology is being employed. This consists of asking three manufacturing companies, across industry, to discuss a nominated formal distribution agreement that they have with an overseas distributor. This, in effect, means that a total of six companies are being either interviewed, or filling out a questionnaire in respect of an agreement that they have successfully negotiated with their partner.

The partner selection process of distribution agreements was chosen because of the growing increase in the use of strategic alliances in International Business. This is of particular interest in an Irish context because of our peripheral location and because exporting from Ireland is a primary means of increasing sales and entering into new markets. A second reason for conducting a study into this area is because of the lack of literature examining aspects of forming and managing alliances for Irish companies.

Instructions

1. This questionnaire must be answered directly in relation to the distribution agreement signed with ______________. It is not concerned with any other alliance or agreement that the company may have entered into, except for historical purposes.

2. In Parts C, D, and E, it is particularly important to remember that the questions are being asked in relation to the distribution agreement with your Irish partner. It is also important to bear in mind at all times that, the questions are intended to cover the period of time before the agreement was signed (forming a strategy, selecting the partner and negotiating the agreement), the PRE-alliance state.

3. In order to ensure accuracy of information, it is essential that the person who negotiated the alliance on behalf of your company answer the questionnaire.

Confidentiality

In order to ensure confidentiality in relation to matters of company sensitivity, the manufacturer will be referred in the dissertation as Company A, and the distributor as Company B, unless otherwise requested.

Other Points

If there are any other problems are queries in relation to the questionnaire or the study please contact me.

Telephone number:	07 353 1 7045680
Fax number:	07 353 1 7045446
E - Mail number:	94970831@tolka.dcu.ie

Please send the completed questionnaire to:

Joanne Laffan
Dublin Business School
Dublin City University
Dublin 9
Ireland

APPENDIX D

Overseas Partner Questionnaire

(For the Overseas Partner)

Part A- Company Background

1. In what year was the company established? ____________________

2. Current number of employees: ______________________________

3. What is the position of person within your company who had responsibility for negotiating the distribution agreement with your Irish partner?

____

4. Did this person have other responsibilities at the time? ☐ Yes ☐ No
If yes, what were they? ____

____

____

5. Does this person have any foreign languages? ☐ Yes ☐ No
If yes, please specify:

☐ French	☐ Spanish
☐ German	☐ Italian
☐ English	☐ Others (please specify)______

6. What is the competitive position of your company within the market in Spain?

____

____

____

Part B - Alliance Details

1. How did you locate your Irish partner?

____

____

____

____

2. How much time (man weeks/man months) were spent on basic research of the business conditions in the country where the partner was sought?

____

____

3. How much time (man weeks/man months) were spent on setting up and establishing the alliance?______________________________

____

4. What were the approximate costs (in local currency) involved in setting up the alliance?______________________________

5. Did you receive a grant or financial contribution from any governmental agency, towards the setting up of the alliances?____________________
If yes, which government agency?____________________
If not, why not?____________________

____

____

6. Can you describe the activities and the products covered in the distribution agreement with your Irish partner ?

____

____

____

Part C: Strategy Formulation

1. Where did the idea to get involved in or establish a distribution alliance come from?______________________________

____

____

2. Did you set out any plan of action? □ Yes □ No
If yes, please give details of the plan:____________________

____

____

____

____

If no, why not?______________________________

____

____

3. What were the reasons and expectations for entering into the alliance?

____
____
____
____

Part D: Partner Selection

1. What criteria did you use for selecting your partner?

____
____
____

2. What type of information did you seek about your partner and from whom did you seek it?____

____
____
____

3. Was the information in pt. 2 easily and freely available?______________

____

4. Was there a selection to be made between potential partners? ☐ Yes ☐ No
If yes, why did you choose your current Irish partner?______________

____
____

If no, why not?____

____
____

5. Who initiated the contact between the two companies?

____
____

Part E: Negotiation

Theme One - Compatibility

1. What made you think that the two companies could work together? (Chemistry)

____

____

____

2. What had your partner in common with you?

____

____

____

3. Were cultural factors or cultural distance between the two parties an issue in negotiating the alliance?______________________
Please give example(s):______________________

____

____

____

Theme Two - Commitment

1. Was the negotiation of the alliance given priority in relation to your other commitments at that time?______________________

____

____

2. Did you make extra efforts such as; using outside advisors, setting up management teams or operating support teams? ☐ Yes ☐ No
If yes, what were they, and why?______________________

____

____

____

3. Before the alliance was signed, what made you believe that your partner was genuinely interested in the alliance?________________________________

4. How did you demonstrate that you were committed to the signing of the alliance?

5. When selecting your partner and negotiating the alliance with this partner, how long did you think that the alliance would last (in years)?_______________

6. Were they flexible in their approach to any problems or suggestions throughout negotiations?______________________________________
How did they demonstrate this?__________________________________

<u>Theme Three - Communication</u>

Regarding your methods of communicating with your partner, while negotiating the alliance.

1. Contact Intensity

1a. How did you communicate with your potential partner?

- ☐ In person (face-to-face)
- ☐ Telephone
- ☐ Electronic mail
- ☐ Other (please specify) ___________________________________
- ☐ Fax
- ☐ Personally addressed letters
- ☐ Unaddressed documents

1b. Please indicate appropriate number of contacts by each communication method:

Personal visits ____
Telephone ____

Electronic mail ____________________
Fax ____________________
Personally addressed letters ____________________
Unaddressed documents ____________________
Other ____________________

2. Information Sharing

2a. Did you provide information which may have helped your Irish partner?
Voluntarily □ Yes □ No On request □ Yes □ No
Give an example ____________________

2b. Did you keep your partner informed about events or changes that affect them? ____________________
In advance?____________________
Give an example____________________

2c. Did you share proprietary information with this partner? □ Yes □ No
If yes, please give an example: ____________________

If no, why not?____________________

Theme Four - Trust

1. How would you describe the level of trust you have for your partner?

2. How did you know that you could trust your Irish partner?

Theme Five - Conflict

1. What were the difficulties and problems that you encountered in negotiating the alliance?

2. How did you resolve these problems?

Theme Six - Outcomes

1. At the stage of signing the alliance what did you think the main advantage of it would be?

2. On a day-to-day level, what specific advantages accrue to you because of this alliance?

3. After signing the agreement, were there any points that you felt unsure about? Why?

Theme Seven - Partnership advantage.

1. What advantages do you think accrue to your partner?
____
____
____
____

2. What advantage do you think that this partner is providing that another partner could not provide?
____
____
____
____

Part F: Concluding Questions

1. Are you still happy with your agreement?____________________
   Why? ____________________________________
____

2. Is this the first alliance that the company has entered into? ☐ Yes ☐ No
   If No, please answer section titled No prior experience
   If Yes, please answer section titled Prior experience

No prior experience

1. Would you enter into an alliance again? ☐ Yes ☐ No

2. If yes to pt.1, what would you do differently?____________________
____
____
   If no, why not?________________________________
____
____

Prior Experience

1. Can you describe briefly your past experience in forming alliances, in both local and international markets?____________________________

2. How did this help you in selecting your Irish partner and negotiating the agreement with them?

General

1. What assistance do you think companies need when entering into alliances?

2. Who should give this assistance?

3. Is there any thing else, that hasn't been discussed here, that you consider important?

Thank you for your participation.

APPENDIX E

(This is a copy of the full Distribution Agreement between Irish Tool Ltd and Teknik GmbH, the Irish-German partnership)

DISTRIBUTOR AGREEMENT

entered into the ..... day of ....,199.,

by and between

....
a company incorporated under the laws of Ireland and having its registered office at ....Ireland, (hereinafter called "the Manufacturer")

of the first part

and

....
a company incorporated under the laws of Germany and having its registered office at ....,Germany, (hereinafter called "the Distributor")

of the second part.

Article 1 - Grant and Scope

The Manufacturer hereby appoints the Distributor, and the Distributor accepts the appointment as the Manufacturer's exclusive distributor for the resale of the products specified in **Appendix A,** hereinafter referred to as "the Products", in the entire world, hereinafter referred to as "the Territory".

Article 2-Basic Legal Relation between the Manufacturer and the Distributor

The Distributor shall buy and sell the Products in its own name and for its own account. The Distributor shall act as independent trader in relation to both the Manufacturer and the customers. The Distributor is not in any way the legal representative or agent of the Manufacturer and may not undertake any engagement on behalf of the Manufacturer or on the Manufacturer's account, nor is the Distributor authorized to give any warranty or make any representation or agree on any condition on behalf of the Manufacturer. The Distributor is not authorized to act in the name of the Manufacturer.

Article 3 - Active Promotion

The Distributor shall to the best of its ability promote the sale of the Products and shall for this purpose maintain an appropriate sales organization. It shall safeguard the interests of the Manufacturer in accordance with equitable business principles and shall keep the Manufacturer currently informed of its activities as well as of the market conditions in the Territory.

Article 4 - Stock

In order to satisfy the demand for prompt deliveries the Distributor shall establish and keep an appropriate stock of the Products sufficient to meet the needs in the Territory. Matters regarding such stock shall from time to time be subject to consultations between the parties in order to adapt the size and composition of such stock to the demands of the market and achieve a co-ordination with the stock of the Manufacturer.

Article 5 - Sales Budgets

The Distributor shall submit to the Manufacturer in writing in October each year the sales and requirement forecast for the following year. The final delivery budget will then be agreed upon between the parties.

Article 6 - Catalogues etc.

The Distributor shall carry its own costs for marketing the Products. The Manufacturer will, however, free of charge, provide the Distributor with sales promotional material in its possession such as catalogues, brochures and pamphlets, which the Manufacturer finds suitable for the marketing of the Products. The Manufacturer will further keep the Distributor informed about all technical matters relative to the Products and of importance for their marketing. All catalogues etc. will remain the property of the Manufacturer until they for their purpose are handed over to prospective customers.

Article 7 - Prices and Delivery Conditions

7.1 The Distributor shall purchase the Products at the Manufacturer's current list prices.

The Distributor shall keep the Manufacturer informed about all changes in the market conditions as duties, price changes etc. having an influence on the prices between the Manufacturer and the Distributor.

The Manufacturer shall supply the Distributor with current and relevant price lists for the Products. Prices according to current price list shall apply to all orders confirmed and intended to be delivered during the period such price list is valid. Said prices shall further apply to deliveries being effected until three (3) months after the date the new price list has become effective, if such delivery is the result of an order confirmed by the Manufacturer prior to the date when the Distributor was informed of the new prices. If a price shall be firm for a longer period than above said this has to be explicitly stated.

New price lists shall be furnished the Distributor not later than one (1) month before the date they are intended to enter into force.

Should substantial changes in exchange rates or market conditions appear which should make it unreasonable for either party to apply the valid prices, the parties undertake to meet with the aim to adjust the prices even before the end of the valid price period to avoid as far as possible the negative influence of such changes in ex-change rates or market conditions.

7.2 If not otherwise agreed and prescribed in the price list valid from time to time, payment shall be effected within thirty (30) days from date of invoice. The Manufacturer shall, however, have the right to make such alterations in the conditions of payment that can be caused by changes in the financial status of the Distributor.

Any delay in payment of the invoices by the Distributor shall entail an automatic liability on the part of the Distributor to pay interest on sums due, without notice to that effect, at a rate corresponding to the official discount rate in .... plus nine (9) per cent per year.

If not otherwise explicitly stated the prices are valid ex works.

7.3 Delivery shall be effected as agreed upon between the parties. The Manufacturer's general delivery conditions ALBIF-EXPORT 83, **Appendix B,** shall be applicable to all deliveries under this Agreement. In case of conflict between the provisions of this

Agreement and said general delivery conditions, this Agreement shall govern.

Article 8 - Trade Marks and Industrial Property Rights

It is agreed between the parties that the Distributor shall have the right to sell the Products under such trade marks as the Distributor see appropriate from time to time.

However, the Distributor shall not at any time during the term of this Agreement directly or indirectly use any registered or unregistered trade mark owned by the Manufacturer or which the Manufacturer otherwise may be legally authorized to use, except in the manner and to the extent the Manufacturer may specifically and expressly consent in writing.

The Distributor hereby acknowledges that the use by it of any trade mark of the Manufacturer shall not create any trade mark ownership of the Distributor.

The Distributor shall not remove or alter the Manufacturer's signs, name or other marks on the Products.

Upon the termination of this Agreement the Distributor shall not be entitled to any use of the Manufacturer's name or other trade mark.

Nothing in this Agreement shall be construed as transferring any patent, utility model, trade mark, design or copyright in connection with the Products.

Article 9 - Competing Products

The Distributor undertakes during the life of this Agreement not to manufacture or distribute products which compete with the Products.

Article 10 - Unfair Competition

The Distributor shall inform the Manufacturer of all acts of unfair competition and of all infringements of patents or similar rights of the Manufacturer which come to its notice. Furtheron, the Distributor shall, upon the written request of the Manufacturer, render reasonable assistance to the Manufacturer in the enforcement of the Manufacturer's patents and other rights, such assistance being rendered at the expense of the Manufacturer and the Distributor shall not be liable for the payment of any expenses or court judgements relating thereto.

Article 11 - Secrecy

The Distributor undertakes that without prior written consent of the Manufacturer no commercial or technical information, which the Distributor has come to know in one way or another through its work for the Manufacturer, shall be disclosed in whole or in part to any third party not in the employment of the Distributor, except to the extent necessary for the exercise of its rights granted under this Agreement. The Distributor shall use all reasonable means to preserve the secrecy of such confidential information, such undertaking to continue in so far and for so long as such confidential information has not become part of the public knowledge. This article shall survive the expiration of the Agreement.

Article 12 - Sub-distributors or Sub-agents

The Distributor is entitled to designate independent traders or commercial agents for the sale of the Products in the Territory, provided that the Distributor causes the applicable provisions of this Agreement to be complied with in full by such sub-distributor/sub-agent. The Distributor shall in advance agree with the Manufacturer about such designations.

Article 13 - Term of the Agreement

This Agreement shall enter into force when duly signed by both parties and shall unless terminated according to the provisions in subsection 2) below or as may otherwise be agreed, expire as provided in subsection 1) below.

1) Each party shall have the right to cause this Agreement to be terminated to expire at any time after December 31, 2005, by giving the other party written notice to that effect not less than twelve (12) months in advance.

(2) Notwithstanding the provisions under 1) above, this Agreement may be terminated:

i) by either party with immediate effect upon written notice if the other party should become insolvent or a petition in bankruptcy should be filed by or against it, or a receiver of its property or a substantial part thereof should be appointed;

ii) by either party upon thirty (30) days written notice if the other party should fail to fulfil its obligations under this Agreement and such failure should not be remedied within thirty (30) days of notice;

iii) Notwithstanding what is stated above, this Agreement shall be terminated with immediate effect, should the Shareholders Agreement signed by the parties .... be terminated.

Article 14 - Notice of Termination

Notice of termination must be given by registered mail.

Article 15 - Effects of Termination

Neither party shall at the termination of the Agreement for whatever reason be entitled to any compensation for loss of customers or any other detriment, unless the termination is caused by gross negligence of the other party. Upon the termination of this Agreement, the Distributor shall be entitled to fulfil deliveries of Products under sales agreements concluded prior to the date when the notice of termination was given or received by the Distributor as well as to provide service on Products sold, all in accordance with the provisions of this Agreement, provided, however, that in case of termination by the Manufacturer according to Article 13.2 the Distributor will furnish such guarantees for the fulfilment of its obligations under this Agreement, that the Manufacturer may reasonably request.

The Manufacturer shall be entitled to repurchase ex the Distributor's warehouse at a price corresponding to the Distributor's landed cost any new and current Products bought from the Manufacturer and not being required in order to fulfil such sales contracts of the Distributor as are referred to in the preceding paragraph. If the Manufacturer does not so repurchase the stock of Products at the time of termination, the Distributor shall have the right to sell also the Products in stock in accordance with the provisions of this Agreement.

On the expiration of this Agreement, the Distributor shall return to the Manufacturer all catalogues etc. provided by the Manufacturer according to Article 6.

Article 16 - No Revival

After the termination of this Agreement, the acceptance of orders from the Distributor by the Manufacturer or the continuance of the sales by the Distributor of the Products or the referring **of** inquiries to the Distributor by the

Manufacturer shall not be construed as a revival of this Agreement.

Article 17 - Waiver

The failure of either party hereto to insist upon the strict adherence to any term of this Agreement on any occasion shall not be considered as a waiver of any right hereunder nor shall it deprive that party of the right to insist upon the strict adherence to that term or any other term of this Agreement at some other time.

Article 18 - Headings

Headings are used in this Agreement for convenience only and shall not affect any construction or interpretation of this Agreement.

Article 19 - Language

All correspondence and all communications between the parties under this Agreement shall be in the English language.

Article 20 - Modifications

The Agreement constitutes the entire agreement between the parties and supersedes all oral negotiations, correspondence and other previous agreement between the parties in this matter.

All modifications and amendments to this Agreement must be made in writing and signed by all parties hereto.

Article 21 - Assignability

Without the mutual consent of the parties this Agreement shall not be assignable.

Notwithstanding what is stated in the first paragraph the Distributor shall have the right to assign this Agreement to another company within the .... Group.

Article 22 - Applicable Law

This Agreement shall be governed by German Substantive law. It is explicitly agreed that the rules of the "United Nations convention on contract for the international sale of goods" and the "Uniform law on the international sale of goods" shall not apply.

Article 23 - Arbitration

Any dispute arising out of or in connection with this Agreement shall be finally settled by arbitration in accordance with the rules of conciliation and arbitration of the International Chamber of Commerce by three arbitrators designated in conformity with those rules. The arbitrators shall have the power to rule on their competence and on the validity of the Agreement as admit for arbitration. The arbitration shall be conducted in English. Judgement upon any award rendered may be entered in any court having jurisdiction or application may be made to such court for judicial acceptance of the award or an order of enforcement as the case may be.

The proceedings shall take place and the award shall be given in .... Germany.

If an award rendered by an ICC-Arbitral Tribunal in accordance with this arbitration clause would not be capable of being executed in the country of domicile of a party against whom claim for payment is made or in any country where that party resides or carries on business, neither the award not the said arbitration clause shall bar a party hereto from taking proceedings against such other party hereto before the courts of any country having jurisdiction over such other party.

The foregoing Agreement has been drawn up in two copies, whereof the parties have each received their copy.

....

....

APPENDIX F

(This is an excerpt from the Distribution Agreement between Dataset Ltd and Prisme et Cie, The Irish-Belgian partnership).

Distribution Agreement

NOW THE PARTIES AGREE

1. INTERPRETATION

(1) In this Agreement unless the context otherwise requires:

"House Accounts" means in relation to any country:-

(a) any telecommunications entity in which a government has a share (such as);

(b) any Government Department of Posts Telegraph and Communications by whatever name called

(c) any persons, firms or corporations with whom the Seller may from time to time enter into **OEM** arrangements, joint ventures, strategic alliances, partnerships or concurrent shareholdings in a body corporate.

"Products" means the Products listed in Schedule 1 and such other Products as may from time to time be agreed in writing by the parties.

"Territory" means the geographical areas set out in Schedule 2.

"Year of this Agreement" means the period of 1 2 months from the date of this Agreement and each subsequent period of 1 2 months during the period of this Agreement.

2. APPOINTMENT OF DISTRIBUTOR

(1) **Appointment.** The Seller hereby appoints the Distributor as its sole distributor for the resale of the Products in the Territory and the Distributor agrees to act in that capacity subject to the terms and conditions of this Agreement for a period of no less than 1 2 months renewable thereafter subject to performance.

PROVIDED ALWAYS that nothing in this clause or in this Agreement enerally will prohibit the Seller from dealing with and/or sell to House Accounts directly.

Where the seller deals with and/or sells to House accounts directly a commission will be paid to the Distributor. This commission is negotiable from between 2% and 7.5%.

(2) **Product Approval.** Failure to achieve the official type approval of the Products in the Territory within 90 days from the date of this Agreement will render this agreement automatically null and void without any claim for compensation by either party to the other.

(3) **Distributor not Seller's agent.** The Distributor will be entitled to describe itself as the Seller's "Authorised Distributor" for the Products but must not hold itself out as the Seller's agent for sales of the Products or as being entitled to bind the Seller in any way.

(4) **Failure to achieve Agreed Sales Targets.** If in any Year of this Agreement the quantity of the Products ordered by the Distributor from the Seller fails short of the figures set out in Schedule 3, the Seller may at its sole discretion, at any time thereafter, terminate this Agreement by giving the Distributor 30 days written notice.

(5) **Amendment of Sales Targets.** The figures set out in Schedule 3 will be agreed for each Year of this Agreement by the Seller and the Distributor and in default of agreement will be determined by arbitration in accordance with clause 7.

(6) **Restrictions on Distributor.** The Distributor must not:

(a) obtain the Products (or any goods which compete with the Products) or resale from any person, firm or company other than the Seller;

(b) be concerned or interested either directly or indirectly in the manufacture or distribution in the Territory of any goods which in the opinion of the Seller compete with the Products.

3. PAYMENT FOR THE PRODUCTS

The manner of payment is set out in Schedule 4.

4. MARKETING OF THE PRODUCTS

The Distributor shall :

(1) use its best endeavours to promote the sale of the Products throughout the Territory and to satisfy market demand therefor.

(2) maintain adequate stocks of the Products and of replacement parts, facilities and personnel throughout the Territory to meet its customer's requirements.

(3) provide an after sales service for customers in relation to the Products to the Seller's reasonable satisfaction.

(4) notify the Seller as soon as practicable any technical enquiries concerning the Products which are made by the Distributor's customers.

(5) regularly, and when requested by the Seller, provide details of Product field performance, Market Reports and assessments of the Competition.

(6) provide monthly Rolling Sales Forecasts for 12 months forward, as an essential element to the Seller's production planning.