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LONGEVITY OF STRATEGIC ALLIANCES  
BETWEEN COMPETITORS:  
A DYNAMIC VALUE CREATION APPROACH

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## **LONGEVITY OF STRATEGIC ALLIANCES BETWEEN COMPETITORS: A DYNAMIC VALUE CREATION APPROACH (\*)**

### **Introduction**

Strategic alliances (SAs) have both a high value creation potential (Kogut, 1988; Zajac & Olsen, 1993; Dyer, 1997; Doz & Hamel, 1998; Madhok & Tallman, 1998) and high management costs (Harrigan, 1986; Killing, 1983; Beamish, 1988; Parkhe 1993). Research on SA duration has generally focused on factors that affect management costs (Barkema et al., 1996; Park & Russo, 1996; Barkema et al., 1997; Park & Ungson, 1997). The underlying logic in these papers is that factors that increase management costs reduce the likelihood of SA survival and, therefore, SA longevity. The basic assumption is that these factors do not affect the rent-generating potential of the SA. However, we argue that certain factors that increase management costs also increase the rent-generating potential. In particular, this is the case in SAs between competitors. This view complements that of SAs between competitors as “learning races” (Hamel et al., 1989; Hamel, 1991; Khanna et al., 1998). The purpose of the present paper is to shed light on the question of how the fact that the partners in a SA are competitors affects the SA’s chances of survival and its longevity.

Before proceeding any further, we will clarify the meaning of some of the terms we use. By strategic alliance, we mean an explicit agreement between two (or more) firms to collaborate in a limited aspect of their activity for a relatively long term, which may or may not result in a separate organizational entity, and which contributes to the enhancement of the partners’ competitive position. By competitors we understand “firms operating in the same industry, offering similar products, and targeting similar customers” (Chen, 1996: 104). For the sake of clarity in the exposition, we will restrict our analysis to SAs between two partners, except when the number of partners is an essential factor in the argument.

Following Madhok and Tallman (1998), we define the realized value of the SA for one partner as the difference between realized rents from specialized resources and management costs or expenditures specifically associated with transacting through the SA. A partner’s realized value is the sum of its share of common benefits –“those that accrue collectively to all participants” (Khanna, 1998: 341)– plus its private benefits –“those that accrue to subsets of participants” (Khanna, 1998: 341). The sum of common and private

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benefits is identical to the realized rents minus management costs. The realized value may therefore be increased either by increasing the realized rents or by reducing the management costs. The realized value may be compared to an ideal, potential value that refers to the theoretical rents and management costs associated with the ideal combination of complementary resources and capabilities (Madhok & Tallman, 1998). The difference between the potential and the realized value will depend on the partners' relational quality (Dyer, 1997; Ariño & de la Torre, 1998; Madhok & Tallman, 1998). Inasmuch as relational quality contributes to increasing the realized rents and/or reducing management costs, the realized value will be closer to the potential value.

This paper contributes to the literature in two fundamental ways. Firstly, it complements studies on SA survival and longevity (Barkema et al., 1996; Park & Russo, 1996; Barkema et al., 1997; Park & Ungson, 1997). As already mentioned, this body of literature emphasizes the cost side of SAs, keeping the rent-generating capacity constant. Here, we combine both aspects and examine the relationship between them as the SA evolves. Secondly, this paper builds upon past research on SAs between competitors (Hamel et al., 1989; Hamel, 1991; Nohria & Garcia-Pont, 1991; Khanna et al., 1998). Previous studies have focused on the extreme case in which SAs between competitors become learning races. By acknowledging the variety of goal structures a SA may entail, we expand the discussion to the other extreme case in which competitors actually enhance the value creation potential of their SA by engaging in learning cycles (Doz, 1996), and to the intermediate case of low learning SAs in which the value creation potential remains about the same throughout the SA's life. In our discussion, we do not take into consideration the impact that environmental changes may have on the partners' incentives to remain in the SA.

The paper is structured as follows: after a brief review of the literature on SA survival and longevity, we discuss the potential for value creation in SAs between competitors. Expanding current views focused on SAs as learning races, we suggest a broader framework to explain the creation of value in SAs between competing firms. This framework is applied to particular cases: SAs in which the partners remain within their geographic boundaries, and SAs in which the partners expand such boundaries. The paper ends by highlighting its contributions to the literature and to the practitioner world.

### **Management costs and alliance longevity**

A SA creates value for the partners as long as the activities that they coordinate experience synergies or efficiency gains that would not arise if they were carried out by a single firm (Madhok & Tallman, 1998). Joint venture (JV) formation requires that partners expect the value they derive from it to be greater than the value they might derive from any alternative organizational arrangement. JV survival requires both the accomplishment of this value and the maintenance of the SA's comparative advantage over other organizational arrangements. Thus, for a SA to survive, two conditions must be met: first, the rent-earning potential of the resources committed to it must be superior to that of alternative governance forms; and second, the related management and coordination costs must be low enough so as not to exceed this value differential.

Researchers analyzing SA survival have tended to focus on the factors that make it difficult to achieve the potential value of SAs, specifically of JVs (Barkema et al., 1996; Park & Russo, 1996; Barkema et al., 1997; Park & Ungson, 1997). These factors include whether the partners are direct competitors (Park & Russo, 1996), the number of participating

companies in the JV (Park & Russo, 1996), their nationality and cultural distance (Barkema et al., 1996; Barkema & Vermeulen, 1997); Barkema et al., 1997; Park & Ungson, 1997), the existence of previous collaborative relations among the partners (Park & Russo, 1996; Park & Ungson, 1997), their experience in managing JVs (Barkema et al., 1997) and the distribution of equity (Blodgett, 1992; Park & Ungson, 1997). This literature analyzes the influence these factors have on JV survival through their influence on management costs. Obviously, these costs play a key role in JV survival; for a given level of rent-generating potential, a reduction in management costs increases the realized value of the JV and, consequently, its duration and chances of survival. However, as Kogut (1988) and Zajac and Olsen (1993) have pointed out, many inter-organizational strategies that entail significant management costs may lead to value gains to the partners involved that outweigh the transaction cost efficiency losses. Madhok and Tallman (1998) suggest that there is a trade-off between rent generation and transaction cost-related concerns. As they point out, when and in what situations one of the trade-off terms beats the other, and how these trade-offs are managed, are important questions for research.

### **Value creation in alliances between competitors: learning races vs. learning cycles**

The trade-off between rent-generation and management costs that we have just discussed is particularly relevant in SAs between competitors. On the one hand, the proportion of synergy-sensitive resources (Dyer & Singh, 1998) may be expected to be high in SAs between competitors relative to SAs involving other types of partners. Contractor and Lorange (1988) discuss a number of goals that partners can achieve through SAs. Many of these goals are easier to achieve if the partners compete in the same markets. If the partners are direct competitors, they have more opportunities to find activities that can be concentrated, thus benefiting from scale economies and spreading their risk between them. In particular, they have more opportunities to share R&D projects. Also, each partner may become a long-lasting learning source for its counterpart. Furthermore, some benefits of cooperation are only attainable in SAs between competitors, as happens with co-opting or blocking competition.

On the other hand, the potential for conflict –and, therefore, higher management costs– is greater in SAs between competitors than in other SAs. Each partner may have goals for the SA which are not shared by its counterpart. SAs are organizational arrangements in which two or more sovereign organizations collaborate by combining their resources to pursue shared interests (Borys & Jemison, 1989). However, since each partner is indeed a sovereign organization, they are sure to have their own agenda (Habib, 1983; Buckley & Casson, 1988; Doz, 1988) with different goals for the SA. The shared interests are the common goals of the SA, while the goals that each firm has for the SA and does not share with its partner are the private goals (Ariño, 1995). The existence of these common and private goals results in either common or private benefits (Khanna, 1998). Whether or not private goals lead to conflict depends on the extent to which a partner's goals are compatible with the common goals and with the counterpart's private goals. Goal incompatibility is likely to be higher in SAs between competitors than in other SAs, as there are more chances of one partner invading the other's market. Thus, appropriation of the benefits from the SA by the partners is likely to involve higher management costs when these are competitors.

By their very nature, some of the most common SA goals (Contractor & Lorange, 1988) tend to be shared by the partners, others are private goals, whilst some will be either common or private depending upon circumstances (see Table 1). Typical common goals

include reducing costs, blocking competition and reducing risk. In contrast, learning tends to be a private goal. Finally, complying with a governmental requisite, access to new markets and access to new technologies may be either private or common goals. The first two are common goals shared by the partners when neither of them acts as a local partner, while access to new technologies is a common goal if the SA is meant for developing a new technology rather than for the transfer of an existing one.

**Table 1. Strategic alliance goals**

Motives for forming alliances	Common goals	Private goals	Common or private goals
Reducing cost and achieving economies of scale	√		
Gaining access to new markets			√
Blocking competition	√		
Gaining access to and developing new technologies			√
Governmental requisite			√
Developing new abilities (learning)		√	
Reducing risks	√		

From each partner's perspective, the decision to join a SA makes sense when the total benefits from participating in the SA (TBPA) [their share ( $\alpha$ ;  $0 < \alpha < 1$ ) of the common benefits ( $\alpha CB$ ) plus the amount of private benefits (PB)] exceeds the benefits of going it alone (BGA). Thus, firms will join a SA when:

$$(\alpha CB + PB) > BGA.$$

Once in the SA, the value of each parameter changes with time (t), so a partner will remain in the SA if:

$$(\alpha CB_t + PB_t) > BGA_t.$$

Common and private benefits tend to decrease as time goes by. On the one hand, many common benefits decrease as the goals of the SA are achieved, as happens with access to new markets or access to new technologies. In other cases, environmental changes may reduce the value of common benefits, as happens with risk reduction and governmental requisites. On the other hand, private benefits in the form of learning also decrease with time. As time goes by, the amount of knowledge to be derived from the counterpart decreases. Thus, as partners learn from each other there is less room for future private benefits in the form of learning.

The flip side is that the benefits from going it alone tend to increase as common and private benefits decrease. Achieving specific goals such as entering new markets, acquiring new technologies or learning from partners improves the firm's competitive position, as it is now more capable of carrying out the SA activities on its own. The decision to leave the SA may therefore be viewed as the natural consequence of SA development. Within this context, SAs may be viewed as real options (Kogut, 1991). Real option SAs act as platforms for future expansion (Kogut & Zander, 1992; Kogut & Kulatilaka, 1994) through which firms prepare themselves for their future expansion, benefiting from risk reduction and learning opportunities.

As time goes by, there comes a time,  $t^*$ , when the total benefits of the partner (TBPA) equal the benefits of going it alone.

$$(\alpha CB_{t^*} + PB_{t^*}) = BGA_{t^*}.$$

At this time, the rational choice for the partner will be to leave the SA.

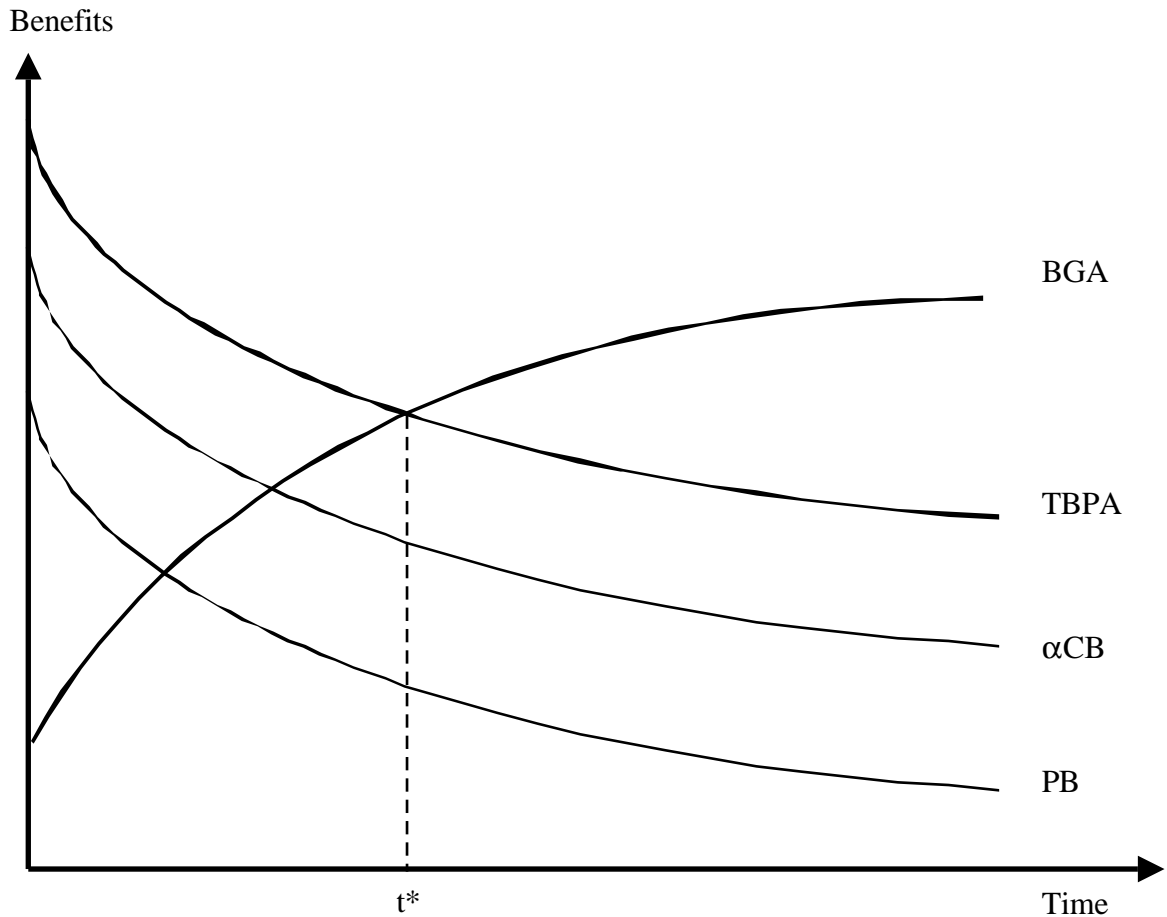
Considering the fact that all of the partners may share the same incentives, SAs may evolve into what Hamel (1991) calls learning races. In these races, each firm tries to speed up its learning in order to be the first partner capable of leaving the SA, and in this way become the one with the strongest competitive position. Partners losing the race will sell their share of the SA to the race winner (1). Thus, these SAs tend not to last as long as others, due to the existence of incentives to win the race. This effect is reinforced by the decrease in the relational quality that occurs when partners see themselves involved in a learning race. In learning races, partners tend to limit their cooperative behavior in order to slow the counterparts' learning. But in so doing, they limit the common benefits to be achieved and increase the chances of dissolution of the SA.

In short, SAs may be self-liquidating strategies (Gomes-Casseres, 1987; Kumar, 1999). Figure 1 shows how the process described above works. The rationale for forming an SA is that  $TBPA_0 > BGA_0$ . As time goes by, private and common benefits decrease and BGA increases. So, when at time  $t^*$  the first partner finds out that its BGA equals TBPA, its choice will be to leave the SA.

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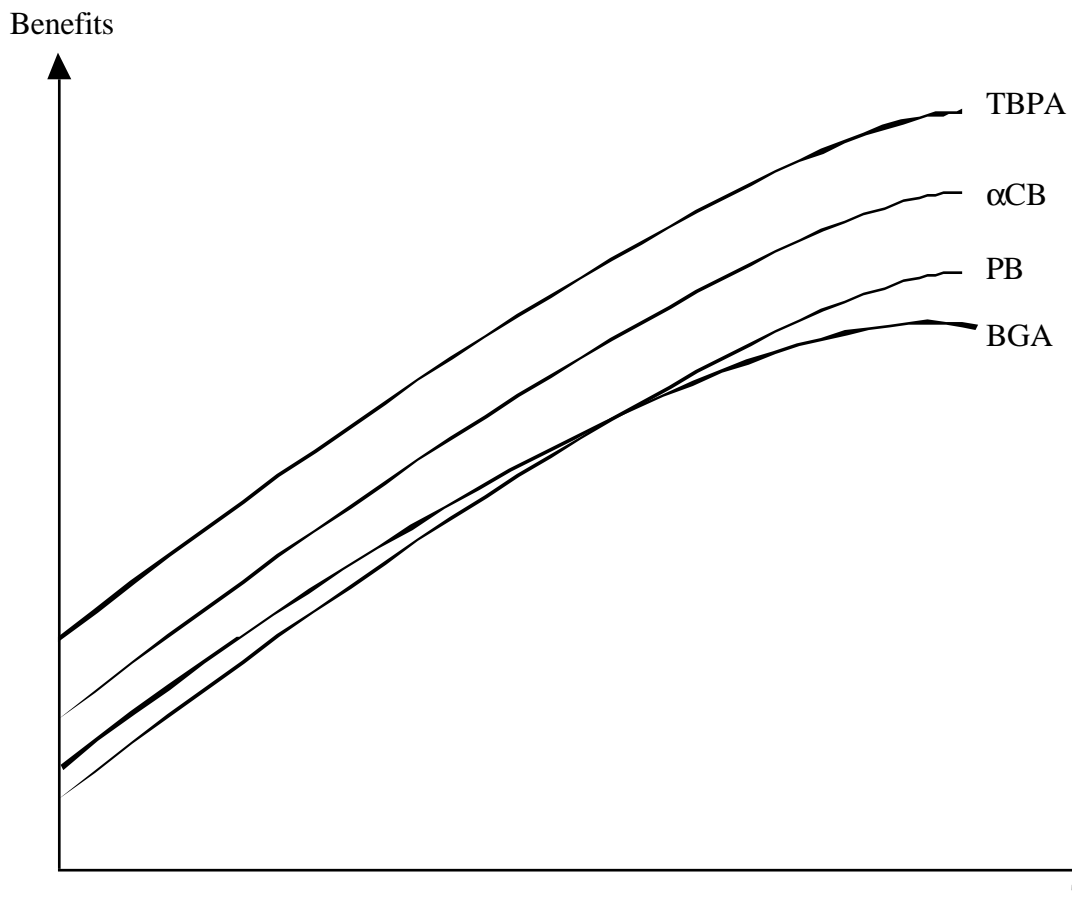
(1) If the partners are unable to achieve a minimum amount of common benefits due to management costs or changes in the environment, the alliance will be liquidated rather than acquired by one of the partners.

Figure 1. Alliances as learning races and real options: Value creation decay



However, value creation in SAs is affected by the way in which partners handle their relationship, a consideration that the learning race view does not take into account. Partners may make unilateral commitments (Gulati et al., 1994) that increase the value creation potential of the SA, demonstrating to their counterparts their willingness to remain within the SA. Through these commitments and, in general, through the building of trust and relational quality, partners can alter the incentives of the SA. In fact, not all of the private benefits in the form of learning reduce the expected duration of the SA; private benefits in the form of relational learning (learning about the partner's routines) facilitates the emergence of new cooperative projects and thus new common benefits. In these circumstances, SAs evolve towards what Doz (1996) calls learning cycles, in which value creation and commitment to the SA increase. Figure 2 shows how SAs evolve within this new context:

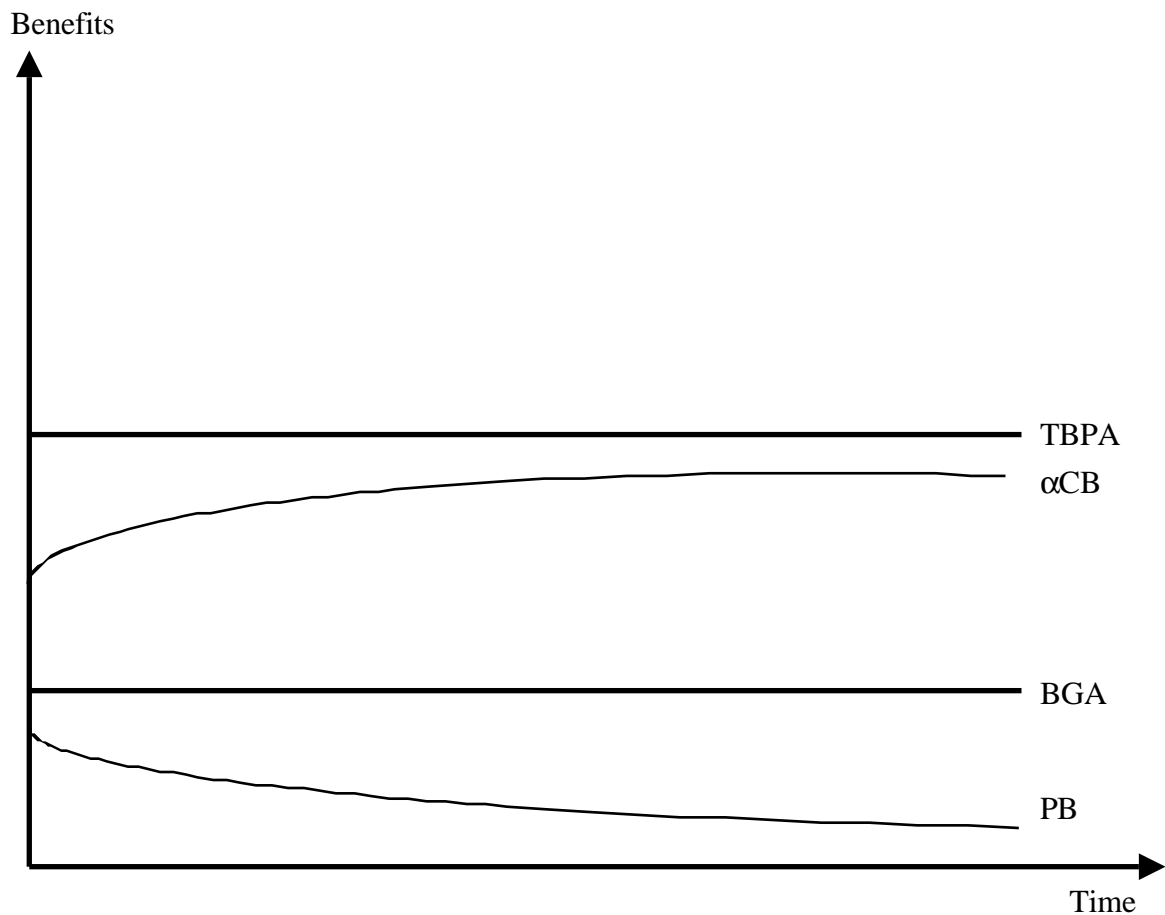
**Figure 2. Alliances as learning cycles: increasing value creation**



Another consideration the learning race view omits is that partners may structure their relationship in a way that reduces the erosion of common benefits, by designing SAs aimed at achieving sustainable gains that could not be achieved by any one firm on its own while at the same time reducing opportunities for learning. Learning opportunities are maximized when partners work together as a team to perform the tasks of the SA. However, if partners divide the global task between them, learning opportunities and the conflicts of interests associated with them drop dramatically (García-Canal, 1996), while relational quality increases. Thus, if the common benefits achieved by the SA are high enough, the SA will tend to last indefinitely unless external forces reduce the rents generated by the SA. Figure 3 shows the expected evolution of this type of SA. Common benefits tend to increase slightly, as relational quality increases, and private benefits are very low for the aforementioned reasons. Thus, the benefits of going it alone are always lower than the realized value of the SA as the partners cannot undertake the SA activities on their own.



**Figure 3. Low learning alliances: sustainable value creation**



Thus, SA survival depends first on the sustainability of the initial common benefits (the degree to which these benefits are not eroded as time goes by), and second, on the partners' efforts to identify new opportunities to increase the stream of common benefits. We next analyze the factors that influence SA survival and longevity.

### **Value creation and alliance longevity: some particular cases**

In our analysis of the factors influencing SA survival and longevity, we distinguish between two types of SAs between competitors: those in which the partners remain within their geographic boundaries, which may be called *status quo* SAs; and those in which the partners expand such boundaries. The underlying reason for this distinction is that when a firm expands its boundaries by entering new countries or new industries, there is more pressure to learn, as its competitive position is affected by the learning that it can obtain in the SA, and thus more room for private benefits to appear. It is likely that these SAs will be structured as real options. When partners are competitors and stay within their boundaries, the very existence of the SA implies a certain consensus to maintain the existing status quo.

### *Status quo alliances*

SAs that do not lead to expansion of the partners' geographical boundaries or business develop activities that fall within the market in which the partners traditionally operate, and thus maintain the status quo in the sector. Fundamentally, the creation of these SAs may obey three goals on the part of the partners: 1) to obtain efficiency gains through the attainment of scale economies or the sharing or reducing of risks in projects too costly to be carried out by one single firm; 2) to gain advantages derived from blocking competition; and 3) to gain access to knowledge and abilities (learning).

In the first case, the attainment of scale economies –for example, jointly producing a certain product or component in order for each partner to subsequently commercialize it independently– and the reduction of risks entail potential common rents for the partners in the SA. In both cases, we are faced with SAs that achieve sustainable value creation and will therefore be maintained over time –unless changes in the environment make it unnecessary to resort to the partners to obtain the aforementioned efficiency gains and lead to the abandonment of the agreement. Having a large number of partners would increase the management costs of the SA, but would also make it difficult for any one firm acting alone to obtain the same efficiency gains as those attained by combining the resources of different firms in a SA. In this sense, we consider that the increase in common rents that an SA with several partners would generate will be greater than the corresponding increase in management costs. Therefore, BGA will not reach TBPA, sustainability of TBPA being achieved with time. Thus, we predict that:

Proposition 1: SAs between competing firms whose aim is to obtain efficiency gains will last longer when they are created by more than two partners.

In the case of SAs between firms with a low level of geographical overlap, the benefits obtained by each partner (TBPA) are more likely to be sustainable if the geographical markets in which the partners operate belong to the same regional block (those countries which belong to a free-trade zone, such as the EU, NAFTA or Mercosur), as is the case of Spain within the EU. On the one hand, the cultural distance between the countries belonging to the same regional block is very small, which decreases information costs and facilitates communication, all of which positively affects the longevity of the SA (Barkema et al., 1997). On the other hand, in addition to geographical proximity and a smaller cultural distance, there is an institutional framework that favors the free movement of productive factors and facilitates the emergence of profitable projects in which sustainable rents may be obtained. Thus, within this context, just as in the previous one, it is to be expected that the BGA will not reach –and hence not exceed– the TBPA. Thus, we are faced with SAs which achieve sustainable value creation, and which may even become increasing value creation SAs, given that in this case there is an increase in the possibilities of identifying new cooperative projects and new opportunities to augment the stream of common rents. Thus, we predict that:

Proposition 2: SAs between competing firms with a low level of geographical overlap whose aim is to obtain efficiency gains will last longer if the partners come from countries that form part of the same regional block.

Blocking competition is the second aim that may lead to the partners engaging in status quo SAs. In this case, there will be an implicit or explicit pact between the partners to concentrate their efforts in different markets –normally their own local markets–, with the aim of generating and obtaining the potential common rents derived from blocking

competition. Fulfillment of this pact will guarantee the sustainability of the common benefits and, therefore, the longevity of the SA. Such fulfillment will be easier to achieve if there is a degree of geographical specialization among the partners, which is the case if the geographical scope of the partners does not coincide. If there were a high level of geographical overlap between the partners, they would have to refrain from competing against each other in the markets in which they were already present. We thus predict that:

Proposition 3: SAs between competing firms whose aim is to obtain advantages derived from blocking competition will last longer if they are carried out between partners with a low level of geographical overlap.

A third goal that the firms participating in this kind of SA may have is that of learning via access to certain knowledge and abilities of the partner. If one of the partners accesses and internalizes the know-how of the other, it may improve its position in the sector and alter the status quo. However, such a change is more marked and evident when the aim of the SA is to expand the boundaries of the participating firms. In this case, we are faced with SAs with decreasing value creation, since it is much more likely that learning races will develop (Hamel, 1991) instead of a situation of learning cycles (Doz, 1996).

Indeed, as these SAs are created by competing firms, there are more incentives to take advantage of the partner by appropriating its competencies. Thus, Park and Russo (1996), employing the concept of *absorptive capacity* developed by Cohen and Levinthal (1990), argue that it is easier for a firm to internalize its partner's know-how when the two are direct competitors (1). All of this acts as an incentive for the partners to engage in a learning race to be the first in appropriating potential private rents and then abandon the SA, thus strengthening their competitive position. This is particularly the case with SAs set up to carry out an R&D project. Furthermore, it is worth pointing out that if a SA leads to the transfer of some type of know-how, as occurs in this context, it will be more vulnerable than if the partners' contributions are limited to physical assets (Teece, 1986). Therefore, we predict that:

Proposition 4: SAs between competing firms whose aim is to jointly carry out an R&D project will last a shorter time than SAs between competitors.

### ***Boundary expanding alliances***

When an SA between competitors is set up with the aim of gaining access to foreign countries, two extreme situations may be identified: 1) SAs in which one partner opens its own market to its counterpart (which may do the same in its respective markets), contributing its local knowledge and resources to the SA; and 2) SAs created by partners which have no previous experience or involvement in the foreign country. In the first case, the overlap between the partners' geographical scope will be minimal, while in the second case it may range from non-existent to a complete overlap.

The first type of SA –one between competitors in which one of the firms acts as a local partner– tends to be unstable. Competition is more acute in these circumstances, since

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(1) The concept of absorptive capacity refers to the fact that an organization needs a minimum of related knowledge in order to use and assimilate new knowledge. Thus, the knowledge accumulated by competing in the same sector furnishes the basis for being able to internalize the partner's competencies. At the same time, competing in the same business facilitates the immediate application of such competencies.

the SA may be a way for the partner that expands its boundaries to access local knowledge. A conflict of interests may easily arise, since the SA is embedded in a wider process by means of which the foreign firm gains market share to the detriment of that of the domestic firm. Thus, cooperation is more likely to end in the short term once the partner has internalized the desired competencies. This is what Hennart et al. (1998) call the “Trojan Horse” hypothesis, previously formulated by Pucick (1988), Hamel (1991) and Reich & Mankin (1988) in the context of the behavior of Japanese firms in their international JVs with U.S. partners. In this case, the partners have incentives to speed up their appropriation of local knowledge in order to be able to go it alone in the new country as soon as possible. If both companies acted as local partners in their respective markets, the possibility of retaliation would deter undue appropriation of local knowledge. We therefore predict that:

Proposition 5: SAs between competitors in which one of the partners acts as a local partner will last less time than other SAs between competitors.

SAs between partners that have no previous involvement in the countries they wish to enter are less common, but may arise in two contexts: 1) SAs aimed at entering a high-risk country; and 2) SAs that are part of a global alliance in which partners try to plan a worldwide coordinated action (García-Canal et al., 1999). In the former case, the SA is a way of diversifying risks and may be considered as a real option (Kogut, 1991). This type of SA will create value as long as the risk is high for any one firm on its own. In the latter case, the SA is part of a set of alliances between partners in which the value of the total exceeds the sum of the parts (Gomes-Casseres, 1994). Because of this, this type of SA has a greater potential for sustainable, or even increasing (1), value creation than the previous type and so will tend to last longer. A similar situation arises when the aim of the competing partners is to diversify their activities. It makes sense to collaborate with another new entrant rather than an incumbent firm when the new sector is undergoing development and there is a high risk associated with the entry decision. Again, the odds of survival of this cooperation are different depending on whether this is an isolated SA (which may be a real option) than if it is part of a wider global alliance between the firms. Obviously, like all SAs, this type of SA may fail due to external factors. But our point is that the wider alliance acts as an umbrella that protects the SA, as defection by one of the partners may endanger the survival of the global alliance. Thus, the reciprocity mechanism enabled by the coexistence of several cooperative projects (Williamson, 1985; Kogut, 1989) contributes to the survival of the SA. We therefore predict that:

Proposition 6: SAs between competing firms set up to facilitate entry into a new country or to diversify into a new field will last longer if there exists a broader global alliance between partners than otherwise.

## Discussion and conclusions

In this paper we address issues posed by two streams of the literature. Firstly, most of the literature on SA survival and longevity emphasizes the negative effect on SA survival of factors influencing management costs. We have shown how some of these factors, particularly direct competition between the partners, also influences the SA’s rent-generating

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(1) Whether value creation is sustainable or increasing depends on the evolution of the wider global alliance in which the cooperative project is embedded.

potential, thus positively affecting its chances of survival. Secondly, the literature on SAs between competitors focuses on learning races. These types of SAs are inherently short-lived. By highlighting the importance of learning cycles, we have shown that SAs between competitors may be long-lasting. In elaborating this argument, we have built upon the work of Gulati et al. (1994). These authors claimed that SAs can be designed in such a way that they become a win-win situation, rather than a prisoners' dilemma game.

Our paper also contributes to clarifying the relationship between alliance survival and performance. In his classic paper, Gomes-Casseres (1987) showed that the relationship between survival and performance of joint ventures was not direct, as many joint ventures were terminated by the acquisition of the venture by one of the firms, which no longer needed partners to carry out the alliance activities. Obviously, this type of alliance is far from being a failure, at least from the acquirer's point of view. But in our paper we have argued that the dissolution of all the alliances that are dissolved as a consequence of a learning race represents the loss of an opportunity, in that not all of the efficiency gains that could have been achieved in a learning cycle are in fact gained.

We have dealt with a controversial topic: cooperation between competitors. When analyzing this topic, collusion is a factor regarded as a possible cause or consequence of these alliances. We have considered blocking competition as one of the possible goals of the alliance, and one implication of our propositions is that collusion is easier to practice across boundaries than within boundaries. Park and Russo (1996) argue that all agreements between competitors to collude are unstable, as they include a natural incentive to defect. But when partners are from different countries and their geographic overlap is low, defecting is less attractive due to the fact that the foreign firm has to deal with the liability of foreignness (Zaheer, 1995), which does not exist if firms are already in the same geographic market. However, alliances in which partners are committed to specific, non-overlapping markets are not solely aimed at restraining competition. Anecdotal evidence we are aware of suggests that partners in this sort of alliance benefit not only from reduced rivalry, but also obtain other advantages, such as joint purchasing, cross sourcing and benchmarking.

Our discussion has important implications for the configuration of industry in terms of networks of firms that ally together. In their contribution to this volume, García-Pont and Ariño identify two types of networks or strategic blocks: those in which the participating firms contribute similar types of strategic assets, or *pooling blocks*; and those in which the contributions by the firms are strategic assets of a different nature, or *complementary blocks*. Underlying their arguments is the idea that firms within a complementary block form these links as a real option. Faced with uncertainty as to what the relevant assets for future competition will be, firms with different types of resources join forces in an attempt to obtain access to the relevant assets, whatever they turn out to be. Once the uncertainty is resolved or once partners have appropriated their counterparts' assets, the SAs will be dissolved. However, these authors argue that complementary blocks may be long-lasting if the partners behave cooperatively and are able to find new areas for further cooperation. Therefore, even if the initial purpose was to enter the block as a real option, firms that avoid entering into learning races and engage instead in learning cycles may extend their SAs and embark on new projects. Their view that the resulting block will be of a pooling nature supports our argument that SA survival depends on the partners' ability to augment the stream of common benefits. This paper complements that of García-Pont and Ariño by articulating the motives underlying partners' decision to engage in learning cycles rather than in learning races.

At the heart of our argument lies the concept of *relational quality* (see Ariño et al., in this volume). Relational quality not only contributes to a reduction in management costs,

but also influences the rent-generating potential of the SA. Precisely because a SA in which the partners have a high level of relational quality has lower management costs, the partners are also more likely to expand the scope of their collaboration, and engage in more ambitious projects that create greater value.

We have focused on SAs between competitors because this type of SA involves a high potential for conflict. Our argument may be extended to SAs between non-competing firms. In this case, the proportion of synergy-sensitive resources will be lower, but so will the management costs, other conditions such as cultural differences remaining constant. Diving into the dynamics of value creation in this case is worth the effort.

We hope our discussion is good news for managers. When faced with the possibility of forming a SA, managers often step back, scared by the horror stories they have heard about SAs. We have argued that SAs with competitors are risky, but they may have a significant value creation potential. Therefore, it is important to understand under what conditions the gains from increased rent-generation outweigh the losses from increased management costs. We have identified conditions under which this is so. It is also important for managers to learn how to manage these SAs. By making the effort to improve relational quality, management costs may become lower, thus in turn enhancing the chances to engage in further collaborations.

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