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OMISSION AND COMMISSION:
RECIPROCITY RULES IN INTER-FIRM ALLIANCES

Africa Ariño *

* Professor of General Management, IESE

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IESE Business School - Universidad de Navarra
Avda. Pearson, 21 - 08034 Barcelona. Tel.: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43
Camino del Cerro del Águila, 3 (Ctra. de Castilla, km. 5,180) - 28023 Madrid. Tel.: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

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Abstract

Although cooperation in alliances is desirable for their satisfactory performance, it is not automatic. The different goals participating companies may hold entail the risk of unreciprocated cooperation. Rules of reciprocity emerge by observing the partner's behavior and reacting to it. Non-cooperation may take two forms: omission and commission. These two entail different informational value regarding the partner's goals and intentions. Based on a case study of one joint venture between two multinational companies, and on data from managers in alliances based in Europe, we identify reciprocity rules that emerge in alliances.

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Introduction

Undoubtedly, in the last decade inter-firm alliances have become an increasingly important strategy for competing in the international arena (Dacin, Hitt & Levitas, 1997). We have an extensive knowledge of the reasons why firms engage in alliances (Hennart, 1988). However, we still know little about the dynamics of the inter-partner relationship, an issue at the heart of alliance success or failure. In particular, the dynamics of cooperation and reciprocity deserve more attention, as they influence alliance success (Parkhe, 1993a).

By alliance we mean an explicit agreement between two (or more) (1) firms to collaborate in a limited aspect of their activity for a relatively long term, and this may or may not result in a separate organizational entity. By cooperation we mean the adaptation of a firm's behavior to the actual or anticipated needs of its partner (2).

Alliances are cooperative and competitive at the same time. While the partners share some common goals that compel them to cooperate, each partner may also hold some private goals that introduce a competitive element (Ariño, 1997). The risk that the partner may not reciprocate hinders cooperation. Thus, the companies involved in an alliance need to learn how to cooperate. A firm may cooperate in some aspects of the relationship and not in others (Heide and Miner, 1992). Non-cooperation may be either by omission or commission (Buckley and Casson, 1988). While omission implies failing to perform an action beneficial to the partner, commission means performing an action that is harmful to the partner. By observing its partner's behavior, a firm may infer the partner's real interests in the alliance, and adjust its own behavior accordingly.

In this two-phase study, we examine how a firm's perception of its partner's cooperative behavior affects the firm's own cooperative behavior. In the first phase, findings from a case study of one joint venture between two multinational companies show that non-cooperation by commission entails a more intense informational value than non-cooperative behavior by omission. In the second phase, we use survey data gathered from executives involved in alliances to identify some reciprocity rules that help explain firms' cooperative and non-cooperative behavior.

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(1) For the sake of simplicity in the exposition, we will focus on alliances between only two companies.
(2) So as to avoid confusion, we will refer to the focal firm as "the firm," and to the focal firm's partner as "the partner."

Cooperation in alliances

Cooperation becomes necessary in situations, such as alliances, where both conflict and interdependence are present (Schelling, 1960). Conflict arises if individuals or organizations have incongruent, mutually exclusive goals. Interdependence makes mutual accommodation necessary if the parties are to meet their incongruent goals.

Alliances are organizational forms which combine both conflict and interdependence. On the one hand, conflict is possible because each company may hold different goals for the alliance. In addition to the goals shared by both companies forming the alliance, each firm may have some private goals which are not shared by its partner. On the other hand, interdependence is at the core of alliances, as each company would be unable to achieve the desired outcome of the alliance independently (Ariño, 1997).

Although necessary for the good performance of an alliance (Parkhe, 1993), cooperation is not automatic. Finding out what the partner's goals are and monitoring its behavior are difficult tasks that pose obstacles to cooperation. A firm will cooperate to the extent that it may expect reciprocity from its partner. When engaging in an alliance, some initial conditions may foster cooperation. For instance, if a firm invests in assets difficult to use outside the alliance, it will be in its own interest to cooperate with its partner to make the alliance work. Another compelling argument for inter-firm cooperation lies in the impact this behavior may have on the firm's reputation. Once the alliance starts unfolding, the firm observes how its partner carries out the commitments and rules of action entailed in the agreement (Ring and Van de Ven, 1994). The partner's behavior acts as a signal to the firm regarding the partner's goals for the alliance. Rules of reciprocity emerge (Mody, 1993). Thus:

> Proposition 1: a firm's perception of non-cooperative behavior on the part of the partner shows a positive relationship with the firm's own non-cooperative behavior.

Doz (1996) provides evidence that firms assess their partner's behavior. However, we do not have evidence of whether the perception of non-cooperation by omission and by commission have a similar effect on the firm's own behavior or not.

To advance in this direction, we carried out a two-phase study. In the first phase, a longitudinal case study tracked the evolution of the behavior by the partners to a joint venture between two multinational companies in the consumer products industry. From these qualitative data, we drew some additional propositions. In the second phase, we tested our propositions through statistical analysis of survey data from companies with alliance activities based in Europe.

Phase I: Case Study

JVCO: The NAMCO-Hexagon Joint Venture

JVCO is a 50/50 joint venture owned by two multinational companies –the U.S.-based North American Company (NAMCO) and the French company Hexagon, S.A. NAMCO is active in a number of segments of the household products industry, including cleaning products, toiletries, and personal hygiene. Hexagon is a French company with high product diversity in three main fields: specialty chemicals, cosmetics, and pharmaceuticals. Despite this diversity, Hexagon has a star product in its "Hexa" cosmetic line.

The Initial Set-up

NAMCO and Hexagon had been competing in Scandinavia with a marginal but profitable product that each had developed independently for the local market. The product was a new "ecological" cleaning liquid applicable to both personal and household uses, made of natural ingredients, fully biodegradable, and appealing to the high levels of environmental consciousness of Scandinavian consumers. Both firms were interested in the potential for such ecological cleaners in other world markets, but lacked the full complement of resources to venture out on their own.

NAMCO had a strong manufacturing and distribution system worldwide, composed of a network of independent agents. Yet, the necessary technical capabilities were tied to its Scandinavian distributors, which made it difficult to develop the product on a world-wide scale. Furthermore, NAMCO had no appropriate global brand name for such a product and had a history of failure in recent product introductions. Management was understandably wary of the risks involved in such a new product area. Hexagon, on the other hand, possessed strong technical capabilities in this area and had a powerful brand name with global recognition. They, however, lacked the distribution system necessary to launch the product on a world scale, particularly in terms of access to specialized retailers.

Beginning in the late 1980s, NAMCO's President of International Operations and Hexagon's Executive VP met on several occasions to compare notes on international market developments. Realizing their common interest in ecological cleaners and their complementary capabilities, they argued for the creation of a joint venture that would pool resources and exploit this latent possibility. They eventually sold the idea to both companies' boards, signed a letter of agreement in November 1989, and concluded negotiations for the joint venture in March 1990. After nearly four years of common operations, the joint venture was dissolved in December 1993.

JVCO's Design

The initial thrust and primary objective of JVCO was the international expansion of the ecological cleaning products originally developed for the Scandinavian market. Two other product areas were added to JVCO's portfolio in order to "exploit economies of scope and take advantage of the parents' distribution and technical resources, while providing a more diversified portfolio to the venture." One was a new line of hypoallergenic soaps and skin care products for the mass market, based on similar products traditionally distributed by Hexagon to the pharmacy channels in Europe. The third area of activity was to consist of ready-to-drink dietary supplements, based once again on Hexagon's pharmaceutical trade

products. All of these products differed from the traditional ones on which they were based in two main respects: they were aimed at the mass market, and they represented a "convenience" item as compared with the more specialized positioning and channels associated with the traditional formulations. The venture would have worldwide rights, except for Scandinavia, where the two companies would continue to compete with their respective products.

Hexagon's contributions included its trademarks –"Hexa", "Hexa-Kleen" and "Hexa-Care"– and its production technology and know-how. NAMCO would contribute its own corporate trademark, along with access to its global manufacturing, packaging and distribution system, and would assist JVCO in demonstrating to its independent distributors the advantage of introducing and aggressively promoting JVCO's products. Distribution of Hexa-Kleen would require investments in point-of-sale promotional equipment, to be funded by JVCO or by the distributors, independently or jointly with JVCO.

The incentive system was conceived to reflect these economic contributions. Both partners would receive royalties at 4% of net sales for the use of their respective trademarks. JVCO would reimburse the parent companies for all activities subcontracted to them at cost plus a reasonable margin (generally 10%). The specifics of this reimbursement would be the object of a manufacturing or service contract between JVCO and Hexagon or NAMCO. Finally, all the joint venture's profits and losses would be split between the partners on a 50/50 basis. It was expected, however, that initially most profits would be retained within JVCO to finance its international expansion.

Table 1 shows the various options available to JVCO to carry out its functional activities. The partners made it clear to the joint venture management team that they should avoid duplicating the partners' respective infrastructures. R&D would be subcontracted to Hexagon, and most product bases would be bought from Hexagon. Manufacturing and packaging of final products would be done either at Hexagon facilities or at NAMCO's distributors' (including company-owned distributors) –or else by unrelated third parties. JVCO's management retained the option to invest in production facilities. Hexa-Care products could be manufactured through two distinct processes. One involved high-temperature sterilization, whereas the other made use of certain chemical additives and preservatives. Hexagon had always favored the former as resulting in a healthier and more natural product, consistent with its products' positioning and image. Most of NAMCO's distributors, however, did not have the equipment needed to produce Hexa-Care under the high-temperature process. For them to do so would require costly investments and training in new manufacturing techniques.

Table 1
Options Available for JVCO to Carry Out its Functional Activities

Functional Activities	Options: JVCO	Hexagon	NAMCO	NAMCO's independent distributors *	Independent third parties
R&D		√			
Production	√	√		√	√
Sales and distribution	√		√	√	√
Other functions	√				

* NAMCO's distributors performed both manufacturing and distribution functions.

Sales and distribution would normally go through NAMCO's distribution system (including its network of independent agents all over the world, as well as NAMCO's Retail Division in North America), but could also be carried out independently or, eventually, through JVCO's own distribution system. Whereas the joint venture agreement did not require JVCO to seek approval from NAMCO in order to access the latter's distribution system, the partners recognized from the beginning the mutual benefit of requiring JVCO to work through NAMCO's divisional and regional offices (particularly in North America) when contacting its distributors.

1990: The Kick-off

The first product launch of Hexa-Kleen was scheduled for Germany in September 1990. In August, the Executive Committee agreed to transfer Hexagon's pre-existing Hexa-Care business in North America to JVCO. As of January 1991, NAMCO's distributors would distribute Hexa-Care to their wholesale and retail channels, whereas NAMCO's Retail Division would handle distribution to beauty salons and hairdressers. It was agreed that NAMCO's distributors would be engaged only in the distribution of Hexa-Care, whereas all manufacturing and packaging operations would be carried out by Hexagon or by third parties. A manufacturing contract between JVCO and Hexagon was concluded in August 1990, and a formula for calculating transfer prices was established.

In the meantime, the launch of Hexa-Kleen in Germany did not occur without hitches. Hexagon's original product formula proved inadequate and difficult to modify for the German market. After several ill-fated attempts, the product was launched on schedule thanks to the adoption of NAMCO's Scandinavian formulation, which proved more appropriate for German tastes.

1991: A Series of Unanticipated Events

A series of events in 1991 brought to the surface some differences in the partners' interpretations of the joint venture contract.

Market Opportunity or Unexpected Cannibalization. The competitive environment in the market for Hexa-Kleen differed notably from that for Hexa-Care. After the difficulties and slow start associated with Hexa-Kleen in Germany, JVCO saw Hexa-Care's development in North America as a wonderful opportunity for rapid growth and profits. Driven mainly by JVCO's management, a shift in emphasis from ecological cleaners to specialized toiletries was formalized in October 1991: the Hexa-Kleen project would not be abandoned, but it would receive less attention from the management team than Hexa-Care.

As this shift in emphasis developed, NAMCO grew increasingly aware that its underlying incentive structure had changed. The sale of Hexa-Kleen through NAMCO's distribution system did not result in any conflict of interest since it appealed mainly to a different market segment. Hexa-Care, on the other hand, utilized the same distribution channels and point-of-sale equipment, competing for shelf space and consumer attention with many of NAMCO's other products. At the May 1991 Executive Board meeting, Jim Sharp, NAMCO's CFO, argued that a more specific agreement concerning the availability of the NAMCO distribution system was necessary. NAMCO's operating units could not be expected to push JVCO's products if they were cannibalizing their own. Cost reimbursement was not sufficient compensation, and an additional incentive had to be negotiated. This depended, of course, on Hexagon's willingness to accept such a view.

Divergent Contractual Interpretations. An event in early 1991 made Hexagon sceptical of NAMCO's commitment to the venture. Since the early 1980s, BigName –a company that had entered the market with an already strong brand name in a related business– had been manufacturing and packaging its own line of hypoallergenic products at the facilities of certain NAMCO distributors. These contracts were between BigName and the distributors, and were generally renewable on a yearly basis. They included a clause by which, if BigName were to cancel unilaterally, it would be obligated to exit the market for comparable products during one year.

Once JVCO was formed, BigName cancelled its contracts with NAMCO's distributors and established a joint venture, modeled on JVCO, with Rival Corporation, NAMCO's strongest North American competitor in the household products line. BigName then approached a number of NAMCO distributors with which it had agreements and offered $l.5 million to compensate them for the contract cancellation, provided the latter lifted the one-year non-competition clause. Southern Distributors, a large regional distributor in which NAMCO owned a minority equity position, was the first to accept BigName's offer. Others soon followed, thus allowing BigName to re-enter the market immediately and not lose competitive position relative to Hexa-Care.

The partners' interpretations of these events differed. In Hexagon's view, the incident signaled a lack of commitment to JVCO on the part of NAMCO. As one executive put it, "How could they [NAMCO] let our most formidable competitor back in the market for a lousy $1.5 million?" The issue was aggravated by the fact that NAMCO owned a significant share of Southern Distributors, and that Jim Sharp, NAMCO's CFO and a member of JVCO's Executive Board, was a member of Southern Distributors' Board of Directors. Furthermore, once BigName retired its product from Southern Distributors, the latter did not embrace the introduction of Hexa-Care as rapidly as Hexagon thought they should. From

NAMCO's perspective, there was little they could do to avoid Southern Distributors' action. NAMCO could not control Southern Distributors' decisions since they had only a minority shareholding in the company. Furthermore, it was NAMCO's policy not to interfere in the distributors' operational decisions.

These different interpretations affected Hexagon's willingness to review their contractual terms regarding compensation for NAMCO's regional offices. From Hexagon's perspective, the event showed NAMCO's passive unwillingness to avoid a behavior they considered outside the contractual boundaries. From NAMCO's perspective, the event was within the contractual boundaries because they lacked control over the distributors' decisions. From this point on, Hexagon became considerably more sceptical about NAMCO's commitment to the joint venture.

1992: Escalating Divergence and Undermining of the Relationship

Additional circumstances that would test the commitment of both partners concurred during this year. Some resulted from unresolved prior issues, whereas others were the consequence of continuing changes in the nature of the markets and competitors.

Resolving the Controversy over Compensation to Distributors. By mid-1992, the shifting logic of the joint venture was affecting each company's interpretation of the spirit of the agreement. In June, JVCO's CEO, Howard Taylor, described the partners' differing views as follows:

> "Hexagon held the view that access to the NAMCO distributor system meant that the regional and divisional offices of NAMCO would sell in and manage the Hexa-Care brand with the distributor as if it were a NAMCO brand. From the NAMCO side, they viewed their obligation as introducing JVCO representatives to the distributors and recommending that the distributors introduce Hexa-Care into their territory; JVCO would be responsible for selling in and managing the products. If JVCO elected to subcontract that activity to an operating division of NAMCO, it would (have to) be on a cost-plus incentive basis."

An agreement was reached in August with regard to the distribution service contract. NAMCO was willing to allow JVCO access to services sourced from its regional and divisional offices at cost. NAMCO would also offer its offices an administrative credit representing NAMCO's share of local JVCO margins. JVCO could offer personal incentives –such as prizes and sweepstakes– directly to NAMCO personnel in these regional offices.

JVCO also arrived at an agreement with NAMCO's Retail Division regarding Hexa-Care distribution to the beauty salon/hairdressers channel. JVCO and NAMCO's Retail Division would operate on an "open book" basis and equally share any profits generated by sales of Hexa-Care to this channel. JVCO's management agreed to this exceptional treatment in order to maintain the relationship with this division of NAMCO, which had a strong, and virtually irreplaceable, position in the beauty salon channel.

From Hexagon's perspective, however, this last concession breached the 50/50 split agreement. If NAMCO's Retail Division were to get 50% of the profits from its sales, and then the 50% accruing to JVCO were to be divided equally between NAMCO and Hexagon, then NAMCO's share of the JV's profits would exceed Hexagon's share. To Hexagon, this made the relationship clearly inequitable. Not only would NAMCO be under-committing resources (in their view), but they would also be getting a greater share of the pie.

Hexagon appeared to test NAMCO's commitment by removing one of NAMCO's stated obstacles to their cooperation and adopting the following Guiding Principle for JVCO:

> "… access to the distributors system by JVCO means that NAMCO and its distributors [will] deal with JVCO products on a basis equal to NAMCO corporate products. For example, provided that JVCO contributes to investment in additional distribution equipment, the current distribution space will be equally available to JVCO products."

Hexagon's assent to contribute to buy new equipment was seen by NAMCO as a return to the initial spirit of the joint venture.

Manufacturing Process and Product Portfolio. NAMCO had also suggested that a different manufacturing process would encourage its distributors to push Hexa-Care. NAMCO held the view that if its distributors could perform the production and packaging, as well as the distribution functions, they would be more motivated. As a result, Hexagon agreed to produce Hexa-Care in the NAMCO facilities using the lower temperature, chemical-additives process and to develop an adequate formula. Members of JVCO's management team asked whether it would be an issue for Hexagon to use the Hexa-Care brand on a product manufactured with preservatives. Hexagon's representative responded that he did not believe so, "provided NAMCO's distributors would back up this product as vigorously as the competitors were pushing theirs." However, according to JVCO's management, Hexagon delayed solving the low-temperature formula problem, frustrating their ability to introduce a new version of Hexa-Care to the market.

In August 1990, at Taylor's request, it had been agreed that JVCO would also become a vehicle for ready-to-drink diet products. In May 1992, JVCO's management asked Hexagon to transfer the rights to one particular kind of diet product over to the joint venture. Hexagon declined to do so, advising JVCO's management team to concentrate on ecological cleaners, hypoallergenic soaps and skin care products instead. Once these products were well introduced in the market, JVCO was told, they could make their request again. But at the August Executive Board meeting, Hexagon's representatives asked that the possibility of transferring diet products to JVCO be removed from the Guiding Principles document.

In December, Oscar Thibault –head of Hexagon's global liquid cleaners strategic business unit and a member of JVCO's Executive Board– addressed a request to Howard Taylor. One of Hexagon's operating units in Asia wanted to approach NAMCO's distributors in that country directly and ask them to handle local distribution for one type of dietary product. Taylor, after consulting with NAMCO's senior executives, transmitted the message that such a request would be outside the spirit of the joint venture agreement. Thibault then asked Taylor what he would think if Hexagon approached the local distributor of Rival Corp. for this service, to which Taylor replied, "that would be clearly against the intent and best interests of the joint venture."

1993: The Dissolution of the Joint Venture

NAMCO's representatives suggested at the May meeting the possibility of starting production of a new kind of skin care product using traditional Asian ingredients, a product with significant potential in Asian markets. The shareholders would discuss this issue during the following months. In the course of their conversations, it became increasingly obvious that their interests were diverging. Hexagon wanted to pursue the ecological cleaners project,

while NAMCO was more interested in opening the Asian-style skin care category in that continent. Hexagon had acquired a U.S.-based cosmetics company that could provide Hexagon with a good distribution system in North America and Europe for Hexa-Care, thus reducing the relative value of NAMCO's contribution. Also, Hexagon's brand weakness in the Asian-style product category diminished its relative value to NAMCO. As a result of their discussions, the partners announced in September their decision to dissolve the joint venture as of December 1993. It had become clear to both parties that an equitable relationship was no longer feasible.

Insights from JVCO's History

JVCO's history shows how a firm's perception of its partner's cooperative –or rather, non-cooperative– behavior affects the firm's own behavior.

Initially, the underlying incentives were conducive to cooperation in that both NAMCO and Hexagon perceived their contributions to the joint venture as yielding positive results to both companies. The 50/50 distribution of profit and losses, along with the negotiated cost reimbursement contracts, made the joint venture appear as a fair deal to both companies. Thus, both were willing to bring into JVCO the resources necessary to make it work. Their willingness to step in when the other partner failed (as NAMCO did in providing a product formula for Germany or Hexagon in manufacturing Hexa-Care for North America) contributed to strengthen the bonds between the partners at this early stage in the venture's life.

During the second year, Hexagon found, first, that NAMCO retreated from its initial commitment to provide access to its distribution system; and, second, that NAMCO allowed BigName –JVCO's main competitor– to remain in the market. NAMCO's complaints about the unexpected cannibalization and its subsequent reluctance to provide access to the distributors could have left some doubts regarding its commitment to the joint venture. From the outside, it seems clear that the JV's shift in goals substantially altered the incentive structure for NAMCO, thus calling for contract renegotiation. However, the incident with BigName made Hexagon become very suspicious about NAMCO's interest in the joint venture. Hexagon's reaction was to agree to compensate NAMCO for shelf space, as a way to remove what NAMCO claimed to be obstacles. In this way, Hexagon would be able to verify whether NAMCO's difficulties to contribute the expected resources were real difficulties or excuses for a lack of interest in the joint venture.

Despite this, Hexagon was increasingly discontented with NAMCO's behavior. The agreement between JVCO and NAMCO's Retail Division to split profits from the Division's sales was clearly against Hexagon's interests. Hexagon's subsequent reaction was to delay key work in product formulation, and to back out from promises by denying JVCO the rights to diet products. Eventually, Hexagon threatened to approach NAMCO's main competitor's distributor to handle one of Hexagon's diet products.

When Hexagon became aware of the harmful behavior of NAMCO, it initially declined to perform actions beneficial to its partner, and then it proceeded to exhibit behavior that was outright detrimental to NAMCO. At first, both behaved cooperatively, as the experience of the first launch in Germany shows. Later, Hexagon began to perceive that NAMCO was omitting cooperative actions (failure to commit resources to the joint venture). However, what alarmed Hexagon was its perception that NAMCO also committed non-

cooperative actions (the BigName incident). To clear up doubts, Hexagon's initial reaction was to behave somewhat cooperatively (agreeing to compensate NAMCO for use of shelf space). As time went on, Hexagon confirmed its perception that NAMCO was committing non-cooperative actions (profit split between JVCO and NAMCO's Retail Division). Hexagon began omitting cooperative acts (delaying key work, backing out from promises). Eventually, Hexagon also committed non-cooperative actions (threatening to make deals with NAMCO's main competitor's distributors).

JVCO's history suggests that the message conveyed by the commission of a non-cooperative action is stronger than the one transmitted by the omission of a cooperative action. In the case of non-cooperation by commission, the firm receives a signal that the partner is pursuing its own interests at the expense of the firm. We would expect to see the firm reacting and reciprocating with similar behavior. Conversely, if non-cooperation takes the form of omission, the signal is not so clear. The firm cannot be positive as to whether that behavior is to be attributed to unwillingness or to an inability on the partner's side to do better. Thus, we submit Proposition 2, which states that:

> A firm's perception of non-cooperative behavior on the part of the partner has a stronger relationship with the firm's own behavior when non-cooperative behavior takes the form of commission than when it takes the form of omission.

We will now turn to the second phase of this project. In this phase, statistical treatment of survey data tests Propositions 1 and 2, and allows us to identify a number of reciprocity rules.

Phase II: Survey Study

We obtained information from 82 executives representing firms involved in alliances based in Europe. On average, these executives had been familiar with their alliances for about five years. The firms were either Spanish companies or subsidiaries of multinational companies in Spain. Most of the alliances had been formed just prior to the establishment of the Single European Market, which represented an opportunity for some Spanish companies, and a threat to others. Opportunity lay in the opening of a vast market to which Spanish companies would now have easier access than before. The flip side of the coin was that companies from other European countries would also have easier access to the Spanish market, thus creating more intense competition for domestic companies and posing a threat to them. The creation of the Single European Market was generally perceived by European companies as a deadline for which they had to prepare themselves if they wanted to remain competitive. Alliances became an important tool in this context.

The information requested from the executives was used to identify what they thought their partner's as well as their own company's behavior was. The study focused on two aspects of cooperation: veracity and commitment. Veracity refers to the extent to which a company is truthful in its relations with its partner and with the alliance management team. Commitment refers to the extent to which a firm exerts the necessary effort to make the alliance work. In the case of veracity, non-cooperation takes the form of commission: being untruthful –namely, lying– implies performing an act that is harmful to the partner. In the case of commitment, non-cooperation takes the form of omission: not exerting effort to make the alliance work implies failing to perform an action beneficial to the partner.

Managers from alliances still in operation outnumbered those from alliances that had gone out of business; however, the proportion of the latter was significantly high. Also, there were considerably more managers from less veracious firms than from more veracious firms. Firms in operating alliances were substantially less veracious and more committed to the alliance than firms in dissolved alliances.

Data analysis showed that a firm is veracious to the extent that its managers think the partner is veracious. However, and contrary to what one would expect if no distinction between omission and commission were traced, when managers think the partner is veracious, their company shows a lower degree of commitment to the alliance. These results may be explained by the different nature of veracity and commitment. As we discussed earlier, non-cooperation by commission is more likely to be detected, and when detected it sends a stronger signal than non-cooperation by omission. If a firm perceives its partner as highly veracious, the firm may reciprocate by behaving veraciously, while taking advantage of its partner in other aspects where non-cooperation is less likely to be detected, that is, being less committed to the alliance.

Data analysis also showed that a firm's levels of veracity and commitment are significantly related to its perception of the partner's veracity, but are not significantly related to the firm's perception of the partner's commitment. These results suggest that a firm's perception of non-cooperation on the part of the partner has a stronger relationship with the firm's own behavior when non-cooperation takes the form of commission than when it takes the form of omission. The results show the informational differences contained in non-cooperation by commission and by omission.

Rules of Reciprocity

When engaging in an alliance, a firm faces uncertainty about how its partner will behave. As the alliance unfolds, the firm begins learning about its partner by observing how it behaves. Our study suggests that a firm's response to its perception of the partner's behavior depends on the informational value of this behavior. Consequently, a variety of reciprocity rules may emerge. Table 2 shows the reciprocity rules derived from our survey data:

- Rule 1: When a firm perceives its partner as cooperating in aspects where non-cooperation would be of the commission kind, the firm will reciprocate with a similar kind of behavior, since non-cooperation by commission can be easily detected. However, the firm may still non-cooperate by omission, as this behavior is likely to go unnoticed. This rule was significantly supported by our data.

- Rule 2: When a firm perceives its partner as cooperating in aspects where non-cooperation would be of the omission kind, the firm will reciprocate by cooperating in all aspects, both of the commission and of the omission kind of non-cooperation. This rule, although emerging from the data, was not significantly supported. This may be due to the fact that developing a consistent sense of the partner's cooperation in omission-type aspects takes longer than in the case of commission-type aspects.

– Rule 3: When a firm perceives its partner as committing actions that harm the firm, it is more likely to reciprocate with similar actions. It may still cooperate in omission-type aspects: if there were no cooperation at all, the alliance would be soon dissolved. This rule –significantly supported by the evidence– may have emerged from the data because most of the managers participating in the study were involved in alliances still in operation, whose firms were less veracious and more committed to the alliance than firms in alliances that had not survived.

– Rule 4: When a firm perceives its partner as omitting actions that would benefit the firm, it may delay its response until finding out whether those omissions are intended or not. This rule was also significantly supported by the data.

Table 2
Rules of Reciprocity

Partner Company's Behavior as Perceived by Focal Firm		Focal Firm's Behavior: Cooperative behavior – Commission	Focal Firm's Behavior: Cooperative behavior – Omission	Focal Firm's Behavior: Non-cooperative behavior – Commission	Focal Firm's Behavior: Non-cooperative behavior – Omission	
Cooperative behavior	Commission	√			√	Rule 1
Cooperative behavior	Omission	√	√			Rule 2
Non-cooperative behavior	Commission		√	√		Rule 3
Non-cooperative behavior	Omission	Hold reaction				Rule 4

Conclusions and Implications

A very substantial proportion of alliances is not active by the end of the first or second year (Osborn, Denekamp & Baugh, 1997). This means that alliances show a threshold point: they are likely to be prematurely dissolved in their early years; however, if that threshold point is reached, alliances are likely to last and succeed (1). These early years become critical, as it is during this period that the partners become acquainted and reciprocity rules emerge. Early engagement in cooperative actions is likely to result in positive reciprocity rules that will strengthen the inter-partner relationship and push the alliance past the threshold point. Conversely, if the companies engage in non-cooperation, negative reciprocity rules are likely to set in. As the relationship deteriorates, the alliance is unlikely to go beyond the threshold point. However, even if the threshold is reached, alliance survival is

(1) Alliance survival is not synonymous with alliance success, as this refers to the degree to which the goals of the alliance are accomplished. However, if an alliance does not last enough time to meet its goals, the alliance will have been a failure.

not guaranteed. Environmental changes may result in new conditions that make the alliance an inefficient organizational form, thus bringing about its dissolution.

As engagement in positive reciprocity rules is crucial for the success of the alliance, managers should keep in mind some important points:

- How the alliance will develop depends on the degree of inter-partner understanding. Thus, partners must
  - at the alliance negotiation stage, improve that understanding by devoting time to informal discussions, and having employees at all levels meet each other; as well as
  - transmit the purpose across the organization through "alliance champions."
- Perceptions of partners' behavior improve or deteriorate the quality of the relationship. Thus, it is essential to
  - establish communication channels with your partner, such as joint strategy formulation and discussion arenas;
  - establish procedures for conflict resolution that induce positive reciprocity rules;
  - try to persuade your partner about your points, instead of imposing your own views.

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