Frontiers of Strategic Alliance Research

The art of alliance management is an integral part of the practice of business in the twenty-first century. Collaborations between companies provide synergistic ideas and a combined capability that surpasses what each firm can achieve, individually. This handbook comprehensively encompasses the latest research in the expanding fields of strategic alliances and interfirm collaborations, featuring twenty-eight contributions from leading international experts. It will enable the reader to develop skills in negotiating with a prospective partner firm; write alliance agreements that specify the rights, responsibilities, obligations, restraints and safeguards for each partner; govern and manage the relationship, taking into account behavioral and psychological considerations, as well as the power balance over the life of the alliance; and handle termination or dissolution of the agreement when appropriate. It will be an invaluable resource for graduate students and academic researchers in business management, as well as the consultants, executives and lawyers who negotiate, form and manage alliances.

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Frontiers of Strategic Alliance Research

Negotiating, Structuring and Governing Partnerships

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To our parents

Hilla and Jimmy (Contractor)

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Preface
The Evolution of Alliance Scholarship

From the dawn of human history cooperation has arguably been as important a force for economic progress as competition. As humanity transitions to a global civilization of the mind (or the “knowledge economy”), interconnected cooperation based on common standards, understandings and rules is imperative for future progress. The unit of cooperation has progressed from the interpersonal level to the interorganizational level, often under the label of “strategic alliances,” between otherwise distinct companies or between firms and governments.

This book is the third in a series, fifteen years apart. The first volume, based on a Rutgers/Wharton conference in 1986, helped to catalyze academic interest in the field of alliances. Until then, corporate strategy was, for the most part, based on a belief in internalization and vertical integration. Outsourcing and alliances were relatively minor aspects of business, except for cases in the then socialist-oriented developing world whose governments mandated a local joint venture partner as a precondition for entry by foreign direct investors. By the late 1980s two trends began to reverse themselves in a dramatic fashion. First, emerging nations began to abandon their restrictions on incoming foreign investment and, in general, began to liberalize their economies toward free market principles. At the same time, firms in advanced countries began to become more open to cooperating with other firms in all phases of the value chain, from outsourced components to joint marketing and even R&D where the fears of partner misbehavior and knowledge leakage are often the highest.

The 2001 conference by Rutgers and Institute for Management Development (IMD) held in Lausanne resulted in a second volume that explored how academic investigation of alliances had expanded into several subfields, accompanied by an exponential increase in submissions to scholarly journals. Papers at the third conference by Rutgers and the University of Colorado Boulder held in New Brunswick, New Jersey in October 2016 – the subject of this book – explore the still evolving field of alliances, a field of study which is far from mature.

This volume identifies puzzles and questions in the alliance field that still need to be investigated by further research. In the prior fifteen years several significant trends have enabled researchers to access sources of data that were previously unavailable. First, equity joint ventures (EJVs), which were a dominant mode of interorganizational cooperation until the 1980s, have been displaced by nonequity or contractual relationships that today account for some 90 percent of collaborations, by number. (See Chapter 22 by Frankort and Hagedoorn in this book.) Second, in the past decade, regulatory filing requirements in the USA and EU have made the actual texts of alliance contracts available for analysis – exposing the anatomy of alliance agreements for academic scrutiny in fine-grain detail, as was never possible before. This has opened up several new research questions, explored in the introductory chapter by Contractor and Reuer and highlighted in many of the other chapters in this volume.

It also appears that, with accumulated alliance experience, negotiators and company lawyers are writing longer and more detailed agreements, with


contingency and real options clauses that have partially assuaged the fears about losing control in alliances, enunciated in Transaction Cost Theory and the Theory of Incomplete Contracts\textsuperscript{3} that won Oliver Hart the Nobel Prize in 2016. We hypothesize that companies experienced in writing more detailed and longer agreements are envisaging and including future contingencies in finer detail, so as to reduce the fears of opportunism, shirking and other deterrents to contractual alliances. In the past thirty years, it appears that interfirm cooperation has partially supplanted internalization, and, within alliances, contractual arrangements have supplanted EJVs.

This represents a fundamental shift in the practice of business in the twenty-first century. The craft of a manager today necessarily includes “negotiating, structuring and governing partnerships” – an apt subtitle of this volume that aims to take stock of alliance research and identify future research opportunities. Strategy formulation today includes deciding what operations and functions to retain in-house (in a possibly shrunken company “core”) versus what to outsource, or offshore, or collaborate with allies, often located abroad, and then to determine what form the partnership will take and how it should be governed. This book is dedicated to exploring several still-unknown yet fundamental questions in the alliance field.

We are grateful to Rutgers Business School, particularly its Dean Lei Lei, who strongly supported and funded the idea of an incisive conference in 2016, which attracted scholars from around the world. Thanks also to Andres Velez Calle, doctoral candidate at Rutgers, who has handled the myriad logistics of this endeavor and fielded thousands of emails from conference participants and contributors while, at the same time, investigating the contract clauses and provisions of over seven hundred alliance agreements for his own groundbreaking dissertation.\textsuperscript{4}


\textsuperscript{4} Andres Velez Calle, “Joint Venture Governance: A Dissection of Agreements and Their Anatomy.” Ph.D. dissertation, Rutgers University, May 2018. He is now at Universidad EAFIT, Colombia.