# Management of International Strategic Business Cooperation: Situational Conditions, Performance Criteria, and Success Factors

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Executive Summary

*In recent years, international strategic business cooperation has attracted great attention in both international management theory and practice. Several prominent examples demonstrate that interfirm alliances can no longer be viewed as second-best solutions but must be recognized as efficient forms of internationalization.*

*In this article, the specific management problems of international strategic business cooperation are analyzed and a systematic approach for their solution is presented. After outlining three examples that represent three different forms of international strategic business cooperation, a conceptual framework is developed that integrates three different perspectives: situational conditions, management instruments, and performance criteria. In the main part of the article, five success factors of international strategic business cooperation (partner selection, cooperation agreement, management structure, acculturation process, and knowledge management) are discussed. The article ends with a short summary and implications for further research. © 2004 Wiley Periodicals, Inc.*

## STRATEGIC BUSINESS COOPERATION IN INTERNATIONAL MANAGEMENT THEORY

For a long time, international management theory did not place much emphasis on the study of international business cooperation. In most cases, collaborations were viewed as second-best solutions, for example, in countries where the investment regulations do not allow the establishment of wholly-owned foreign subsidiaries (e.g., Beamish, 1988; Franko, 1971; Harrigan, 1986). Moreover, they were perceived to have a negative impact on competitiveness. For example, in his

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study on the competitive advantage of nations, Porter (1990, p. 67) concludes that "alliances appear to be most common among second-tier competitors or companies trying to catch up ... (while) global leaders rarely if ever rely on a partner for assets and skills essential to competitive advantage."

*Cooperation allows the partner firms to achieve scale economies and reduce excess capacity . . .*

In recent years, however, the attention paid to international cooperation has increased, in both international management theory and practice. Perlmutter & Heenan (1986), for example, argue that increased global competition underlines the necessity to achieve worldwide economies of scale and to cope with internationally diversified customers. In their opinion, only firms that cooperate across national borders will be able to meet these new challenges and compete globally. According to a study by Dyer, Kale, and Singh (2001), the 500 largest firms in the world have an average of 60 major cooperation agreements each.

International strategic cooperation has at least three distinct purposes:

1. *Scale advantages.* Cooperation allows the partner firms to achieve scale economies and reduce excess capacity by combining similar resources that belong to the same stages in the value-adding process. This motive is particularly relevant in global industries where large standardization and integration advantages exist (e.g., Dussauge, Garette, & Mitchell, 2000; Park & Russo, 1996; Porter & Fuller, 1986).
2. *Resource advantages.* Cooperation may also be aimed at combining complementary resources, skills, and strengths that belong to different stages in the value-adding process. Resource advantages are especially important for partnerships between firms from developed and developing or transformational countries where the former provide management know-how, financial resources, and technological capabilities, while the latter contribute access to local customers, suppliers, and governmental officials (e.g., Beamish & Killing, 1997; Holtbrügge, 1995; Sim & Ali, 1998).
3. *Learning advantages.* Cooperation can also be a means for learning and internalizing new skills. This motive is particularly relevant in high-tech industries where the ability to acquire and apply knowledge is a key success factor (e.g., Kale, Singh, & Perlmutter, 2000; Simonin, 1999; Stuart, 2000).

For Dunning (1997), the implications of international strategic cooperation go even beyond the firm level. According to him, a transition of the entire economic system from market capitalism to "alliance capitalism" can be observed, wherein large multinational corporations are interconnected with small and medium-sized firms in a dense network of joint ventures, licensing agreements, and other forms of equity and non-equity cooperation.

The paradigm shift in international management that can be omitted with this transition may be illustrated by the following three examples of German firms, which represent different motives and different forms of international strategic cooperation.

*. . . Lufthansa was able to increase its capacity utilization through code sharing and global consolidation of flights.*

**Star Alliance**

Star Alliance is a network of airline companies founded by Air Canada, Lufthansa, Scandinavian Airlines, Singapore Airlines, Thai Airways, and United Airlines in 1997. Today, it has 15 members. For Lufthansa, the main motive for participating in this alliance is to reduce costs by exploiting the synergy effects of $100 million annually. These range from the joint use of ground facilities, such as check-in counters, city offices, and airport terminals. Other cost advantages accrue from the joint purchasing of materials and equipment as well as from the consolidation of accounts and joint computer networks. A second motive for Lufthansa is to strengthen customer retention. Due to global presence, coordinated timetables and short waiting times, the company registered a 10% increase in passengers in 1998 alone. Third, Lufthansa was able to increase its capacity utilization through code sharing and global consolidation of flights. From 1997 to 1998 this figure grew from 60% to 74%.

Although they are partners of Star Alliance, the members remain competitors at the same time. Each airline decides independently about routes, prices, service, and incentive programs. Several activities, however, are coordinated by an alliance management team consisting of representatives from all partner airlines. Another coordination instrument is the alliance's computer network, StarNet, which gives all partner airlines online, real-time access to systems operated by other partners, including flight status, reservations, and frequent flyer plans (http://www.star-alliance.com/cgi-bin/SA.storefront/; http://www.lufthansa-financials.de/english/ir/company/star_b.htm).

**DaimlerChrysler**

A second example of international strategic business cooperation is the collaboration of Daimler-Benz and Chrysler, which created one of the largest mergers in international business history. The main motive for this cooperation is the realization of synergy effects in production and other core operations ("platform strategy"). Technological improvements and the globalization of markets have increased the optimal scale of automobile plants significantly. As a consequence, only those firms with a worldwide presence and a comprehensive product portfolio are expected to survive. A second benefit is to exploit economies of scale through joint research and development, sourcing, and distribution. According to the proxy statement, the cost reduction in these fields is expected to reach €1.2 to €2.5 billion annually. Moreover, both partners plan to increase the rate of innovation through the companywide exchange of knowledge and the integration of management systems (http://www.daimler-benz.de/index_e.htm).

*. . . the collaboration of Daimler and Chrysler managers revealed several cross-cultural management problems on all hierarchical levels.*

Three years after the merger was concluded, however, these goals were only partially reached. One reason for this is that the postmerger integration of different strategies, resources, and corporate cultures proved to be much harder than expected. Moreover, the collaboration of Daimler and Chrysler managers revealed several cross-cultural management problems on all hierarchical levels. As a consequence, the stock price of DaimlerChrysler shares has dropped from €72.40 in November 1998 to €47.80 in January 2002.

### International Center for Education (IBB) Minsk

A third example of international strategic business cooperation, however different in both size and form, is the International Center for Education (IBB), a German-Belorussian joint venture located in Minsk, the capital of the former Soviet republic Belarus. Its partners are the International Association for Education, a German entrepreneurial company with 10 employees that specializes in intercultural training and consulting, and the Belorussian youth travel agency Sputnik, as well as the Minsk City Council and the Belarus-Sparbank as local partners. Both parties hold 50% of the joint stock of $4.9 million.

When IBB was founded in 1989, the Belorussian government did not allow foreign companies to establish wholly-owned subsidiaries in its territory (Welge & Holtbrügge, 1995). Although this restriction was lifted in 1991, the German investor decided to maintain the cooperation. The main reason for this decision was the access to the resources (especially land and market entrance) of the local partners. Another aim of the cooperation was to reduce the political risk of the investment. This motive is of particular relevance, given the unstable political regime in the country. Finally, the cooperation supports the idea of mutual learning that is central to a company active in intercultural training and consulting (http://www.ibb.com.by/eindex.htm).

## DEFINITION OF INTERNATIONAL STRATEGIC BUSINESS COOPERATION

What are the main features of these and other examples of international strategic business cooperation? Basically, international cooperation can be defined as

- inter-firm collaboration
- between two or more partners from different countries,
- which remain independent in all areas that are not subject to collaboration,
- for the joint realization of specified tasks that cannot be realized by the collaborating firms alone.

*To be of strategic importance for the partners, an international cooperation must have a long-term orientation.*

With respect to the area and direction of cooperation, four different types can be distinguished. *Vertical backward* or *upstream* cooperation takes place when a firm engages with its suppliers. *Vertical forward* or *downstream* cooperation occurs between a company and either its distributors or customers. Horizontal cooperation, such as Star Alliance or DaimlerChrysler, arises between companies at the same stage of the supply chain or value system, while *diversified* cooperation is concluded between companies in industries that are not closely related to each other. An example of the latter is the collaboration of IBB with partners coming from different industries such as consulting, tourism, and banking.

To be of strategic importance for the partners, an international cooperation must have a *long-term orientation*. At IBB, for example, the partnership agreement was concluded for a period of no less than 20 years. Moreover, the areas of cooperation must have a *strategic impact* for all partners. That is, each partner must have access to the other's strategically relevant know-how. Finally, interdependencies between the partners must be reciprocal. Collaborations where one partner depends on the other but not vice versa are not considered strategic.

As the examples of Star Alliance, DaimlerChrysler, and IBB demonstrate, three generic forms of international strategic cooperation can be distinguished (Figure 1). The main characteristic of *joint ventures* like IBB and *mergers* like DaimlerChrysler are the pooling of resources and sharing of equity by two or more firms and the creation

**Figure 1. Forms of International Strategic Cooperation**

| | Non-Equity Forms of Cooperation | Joint Ventures | Mergers |
|---|---|---|---|
| Equity investment in a new legal entity | – | + | + |
| Legal sovereignty of all partners remains intact | + | + | – |

of a new legal entity. *Non-equity forms of cooperation* (NECs) such as Star Alliance, however, have no shareholders but consist of a network of legal contracts. The characteristic feature of a merger, in contrast to joint ventures and NECs, is the fact that at least one of the partners loses its legal sovereignty and a new legal entity is established. For example, after merging, both the Daimler-Benz AG and the Chrysler Corp. ceased to exist as legal entities, while the legal status of the partners of Star Alliance and IBB was not affected by the cooperation (Figure 1).

In academic literature, the classification of mergers as a form of cooperation is a matter of controversy. For example, according to transaction-cost theory, mergers are not considered as interfirm cooperation. In contrast to joint ventures and contractual agreements, which are characterized as hybrid organizational forms between markets and hierarchies, mergers are understood to have distinct organizational boundaries and clear governance structures, and are thus defined as hierarchies (Williamson, 1985). From an interpretative or symbolic perspective, however, legal and economic aspects play only a minor role. The interpretative paradigm of organization is based on the assumption that organizations are socially constructed identities that emerge in the heads of individuals. This means that, in contrast to realistic approaches like the transaction-cost theory, the boundaries of an organization are determined by subjective perceptions, values, and emotions rather than by presumably objective facts like ownership or governance structures (e.g., Bouchikhi et al., 1998; Parker, 2000).

From this perspective, mergers, like joint ventures and non-equity forms of cooperation, are complex organizational identities that consist of the mixture of two or more different organizational cultures, which remain noticeable in most cases long after the merger is concluded. Moreover, mergers imply management problems and tasks similar to other forms of cooperation. The choice of the right partner, the balance of different interests, and the integration of corporate cultures are even more important than in joint ventures and non-equity forms of cooperation because merger agreements are concluded for an unlimited period of time and may not be cancelled. It is, however, important to distinguish between mergers of equals and acquisitions. While in a merger of equals two firms characterized by reciprocal interdependencies agree to join together and pool their assets, an acquisition is a joining of unequal partners where the acquired firm is typically forced to cede itself to the acquiring firm (hostile takeover) without any influence on the acquisition process and the new governance structure. Consequently, cooperative elements are mostly insignificant.

*It is . . . important to distinguish between mergers of equals and acquisitions.*

## CONCEPTUAL FRAMEWORK OF INTERNATIONAL STRATEGIC BUSINESS COOPERATION

In recent years, several theoretical approaches have been applied to explain why strategic partnerships are concluded, how their partners interact, and under which conditions they are more successful than noncooperative forms of internationalization. For example, the relevance of transaction-cost theory, agency theory, game theory, and the resource-based view for international business cooperation is discussed (e.g., Faulkner & de Rond, 2000; Parkhe, 1993; Tsang, 2000). While these theories may explain *why* international strategic partnerships are concluded they do not provide much evidence of *how* to manage them. Moreover, these theories are based on an economic viewpoint that assumes that the behavior of both individuals and firms is guided by rational principles, and thus underestimate the influence of managerial and organizational aspects.

In this article, a contingency approach is applied that reflects the idea that consists of three different perspectives (Figure 2):

1. *Situational conditions* contain the external constraints of international strategic business cooperation that cannot be influenced by the partners themselves. Empirical studies (e.g., Harrigan, 1988; Kogut, 1988b) demonstrate that the success of cooperation is influenced particularly by the degree of competitive rivalry and the degree of industry concentration.
2. The second perspective of the conceptual framework considers the fact that traditional *performance criteria* are not able to

adequately reflect the purpose and logic of strategic partnerships. Therefore, special indicators have to be developed to measure the success of different forms and purposes of international strategic cooperation.

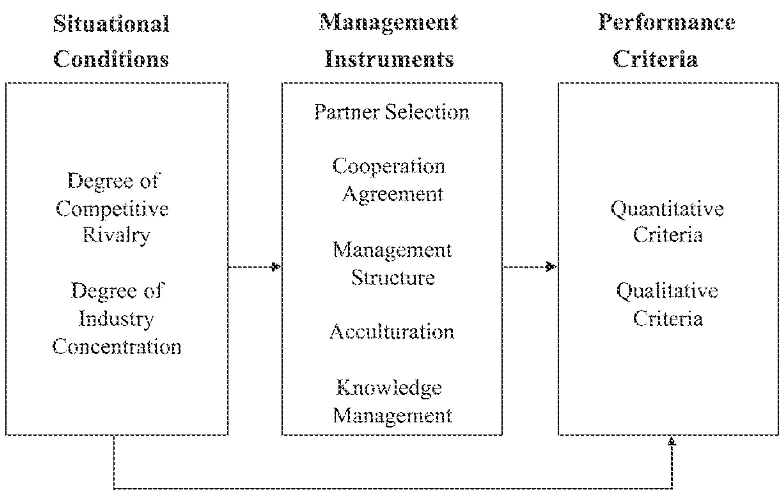
3. At the center of the conceptual framework stand five *management instruments* that reflect success factors that can be actively influenced by the cooperating firms. Since from a managerial perspective these instruments are particularly important, they will be discussed in more detail.

It is argued that the success of international strategic cooperation depends on both situational conditions and management instruments. While the situational conditions determine the general usefulness of strategic cooperation in a given industry, the implementation of efficient management instruments may enhance the success of a particular firm. In the following—according to the relevant literature—the most important situational conditions and management instruments are discussed.

## SITUATIONAL CONDITIONS

As mentioned above, situational conditions reflect the external constraints of international strategic business cooperation that cannot be

**Figure 2. Conceptual Framework: A Contingency Approach to International Strategic Business Cooperation**



influenced by the partners themselves. Their impact is widely discussed in international management literature. Kogut (1988b), among others, shows that the *degree of competitive rivalry* in an industry has a negative impact on the stability and longevity of cooperation. Obviously for companies in highly competitive industries, collaborations are only short-term mechanisms to gain access to strategically relevant know-how that cannot be acquired by other means. The highly competitive environment, however, forces them to terminate the cooperation as soon as possible (e.g., by either acquiring the former partner or transforming the cooperation into a wholly-owned firm).

*... firms often enter a partnership with different interests, thus requiring a differentiated evaluation.*

Closely related to this is the impact of *industry concentration*. As Harrigan (1988) shows, the higher the degree of concentration, the more likely is the termination of the cooperation before its agreed term. At the same time, cooperation in growing industries is more likely to be efficient. An explanation for this finding may be that in concentrated industries, the competitive incentives inducing partners to defect are increasing. The degree of industry concentration can be measured by the Herfindahl index, which is defined as the sum of the squares of the market shares of the companies in an industry. If a few key players have high market shares, then the Herfindahl index is higher than if the industry's market shares are spread more evenly across more companies (Ghemawat & Ghadar, 2000).

## PERFORMANCE CRITERIA

A main difference between international strategic business cooperation and stand-alone firms is the *inappropriateness of traditional quantitative performance criteria* such as profitability, return on investment, or cash flow. Not only do these criteria vary in definition across different national boundaries, but they often do not reflect the purpose and logic of strategic partnerships. In many cases, the cooperation is limited to selected functions (like R&D or distribution) or founded to meet clearly defined objectives (e.g., to develop a new product or to get access to a foreign market). Moreover, firms often enter a partnership with different interests, thus requiring a differentiated evaluation. Likewise, the longevity and stability of partnerships may not be useful criteria, since a long-lasting cooperation may either expose the failure of one or both partners to learn or reveal the fact that the cooperation is unable to meet the aimed objectives in the predicted period of time (Inkpen & Ross, 2001). Therefore, special performance criteria for mapping particular forms and objectives are required (Boersma & Ghauri, 1999; Mills & Chen, 1996).

In this context, Anderson (1990) has developed a model of performance evaluation that is based on an input-output continuum (Figure 3). The core idea of this model is to supplement traditional quantitative measures of performance, such as profit rate and cash flow, with input indicators that reflect the functioning of cooperation. These criteria, such as harmony, morale, and adaptiveness, include the achievement of objectives and qualitative satisfaction measures that can be designed individually for the particular cooperation. While these factors are not themselves measures of effectiveness, they show how the cooperation uses resources, and they reflect the strategy it pursues.

## MANAGEMENT INSTRUMENTS

### Partner Selection

A key success factor of international strategic business cooperation is the choice of the right partner. Three criteria are of particular relevance, namely the compatibility of strategies, resources, and corporate cultures (Brouthers, Brouthers, & Wilkinson, 1993; Geringer, 1988; Stiles, 2001).

**Figure 3. Performance Criteria of Interfirm Cooperation**

| | |
|---|---|
| input<br>longer-term orientation | **State of the Cooperation**<br>harmony among partners<br>morale<br>productivity<br>financial resources indicators<br>adaptiveness<br>innovativeness |
| | **Learning**<br>access to new markets<br>access to new technologies |
| | **Market Intermediate Variables**<br>relative product quality<br>relative product price |
| output | **Marketing Measures of Performance**<br>market share<br>customer satisfaction |
| shorter-term orientation | **Financial Measures of Performance**<br>profit rate<br>cash flow |

(Source: Adapted from Anderson, 1990, p. 22)

*Strategic compatibility* means that there must be a win-win situation between the partners. The partners of DaimlerChrysler, for example, had congruent strategies on different markets with different product portfolios. While Daimler-Benz was the market leader in the luxury and high-price segment in Europe, Chrysler was strong in the medium-price segment of the U.S. market. By combining the strengths of two complementary firms, the merger was intended to earn a leading market position in two of the three largest regional markets in the world. However, this example also shows that congruent strategies do not automatically increase profitability, particularly if the partners do not pay enough attention to resource integration and acculturation.

*Partners with similar corporate cultures tend to have similar objectives, values, and decision-making structures.*

With respect to *resource compatibility*, a distinction can be made between scale and link cooperation (Hennart, 1988). *Scale collaborations* are created when two or more firms enter a contiguous stage of the value-added process or a new market together. The main motive for this form of cooperation is to achieve economies of scale through joint sourcing, production, or distribution. This objective is relevant for Star Alliance and DaimlerChrysler where the partners expect to enhance economies of scale by the global pooling of resources and skills. In *link collaborations*, the position of the partners is asymmetrical. An example for the combination of complimentary resource profiles is IBB, where the financial capital and management know-how of the foreign partner and the land and market access of the local partners are consolidated in a new resource combination.

A third important criterion of partner selection is the *cultural compatibility* of the cooperating firms. Several empirical studies (e.g., Holtbrügge, 1995; Vaara, 2000) demonstrate that this soft factor has a strong influence on efficiency and stability. Partners with similar corporate cultures tend to have similar objectives, values, and decision-making structures. Moreover, cultural compatibility enhances mutual understanding and trust between the partners.

In practice, the choice of the right partner is often impeded by the lack of valid information. It is particularly difficult to predict whether corporate cultures will fit together since cultures are to a large extent tacit and unconscious; therefore, a long period of observation is required to decode and understand them. Moreover, the intellectual resources of potential partners (brands, patents, licenses, etc.) are often difficult to assess. This is especially true in developing and transformational economies where financial statements are not available or not reliable because they do not meet international standards.

Even when all relevant information about potential partners is available, the three criteria may lead to different conclusions. In the example presented in Table 1, for instance, the strategic and resource compatibility of company B is greater than that of company A, while the cultural compatibility of company A is greater than that of company B. In such cases where the compatibility of strategies, resources, and cultures remains uncertain, firms often choose a form of cooperation with lower risk before they agree on a long-term partnership with large financial investments. At Star Alliance, for example, bilateral agreements in selected fields are first concluded with new partners before they may become full and equal alliance members.

### Cooperation Agreement

A second important success factor of international strategic cooperation is the careful preparation of the cooperation agreement. Empirical studies (e.g., Beamish, 1988; Killing, 1983) demonstrate a strong positive correlation between the length of the preparation period and the success of the cooperation. Especially when conflicts between the partners arise, a clear regulation of the duties and rights of all the partners enhances the potential for a fair and rational solution to the conflict. This applies particularly to alliance constellations that consist of three or more partners (Das & Teng, 2002).

**Table 1. Scoring Model for Partner Analysis**

| Criteria | Weight (w) | Company A | | Company B | |
|---|---|---|---|---|---|
| | | benefit (b) | weighted benefit (w*b) | benefit (b) | weighted benefit (w*b) |
| Market Share | 0.10 | 3 | 0.30 | 6 | 0.60 |
| Market Potential | 0.15 | 3 | 0.45 | 6 | 0.90 |
| Product Portfolio | 0.10 | 6 | 0.60 | 3 | 0.30 |
| < Strategic Compatibility | | | 1.35 | | 1.80 |
| Human Resources | 0.05 | 6 | 0.30 | 9 | 0.45 |
| Material Resources | 0.10 | 0 | 0.00 | 3 | 0.30 |
| Financial Resources | 0.20 | 3 | 0.60 | 3 | 0.60 |
| < Resource Compatibility | | | 0.90 | | 1.35 |
| Cultural Distance | 0.15 | 9 | 1.35 | 3 | 0.45 |
| Cooperation Experience | 0.10 | 3 | 0.30 | 0 | 0.00 |
| International Experience | 0.05 | 0 | 0.00 | 0 | 0.00 |
| < Cultural Compatibility | | | 1.65 | | 0.45 |
| Total | 1.00 | | 3.90 | | 3.60 |

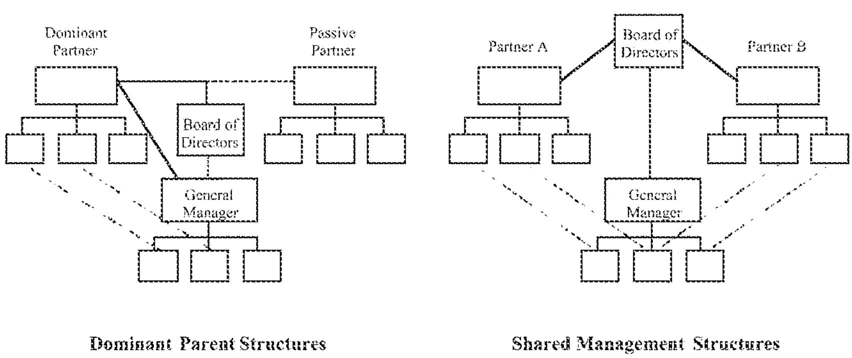
In practice, however, cooperation negotiations often take place under pressure, with only a handful of top managers involved who have neither the time nor the resources for a careful preparation of the cooperation agreement. Moreover, there is a trade-off between legal security and the protection of interests on the one hand and flexibility on the other. As the motives and bargaining powers of the partners may change during the life cycle of a cooperation agreement (Kogut, 1988b), procedures for resolving conflicts should be as simple as possible, and negative control mechanisms (such as unanimity clauses) should be reduced to a minimum. Equally important are appropriate management structures that allow for a flexible and fair handling of conflicts.

## MANAGEMENT STRUCTURE

With respect to the management structure of international strategic business cooperation, there are basically two distinguishable forms (Figure 4). While dominant parent structures are characterized by asymmetric power relations, in shared management structures all partners have equal representation in the governance bodies.

Empirical studies demonstrate that *dominant parent structures* have lower failure rates than shared management structures (e.g., Beamish, 1988; Killing, 1983). Asymmetric power relations make them more flexible and the decision-making process less time-consuming. However, they can cause negative emotions in employees

**Figure 4. Management Structures of International Strategic Business Cooperation**




(Source: Adapted from Killing, 1983)

who are subordinated to managers who represent the interests of a foreign firm.

*Shared management structures,* on the other hand, are based on the idea of joint responsibilities and joint decision-making. Symmetric power relations enhance mutual understanding and support the process of intercultural learning but are more time-consuming, less flexible, and more conflict-intensive. However, conflicts between the partners are not bad per se. Often it is not a conflict itself but efforts to avoid disputes among the partners that have a negative impact on the stability of a cooperation. Therefore, it is important that different opinions do not remain unspoken and thus increase misunderstandings, but are discussed and handled as soon as they arise. As Holtbrügge (1995, p. 142) stated in his summary of the results of an empirical study among joint ventures in Eastern Europe, "It cannot be stressed strongly enough that joint venture partners must fully inform each other of their plans, activities and management methods in order to facilitate understanding and establish the basis for a successful joint venture operation."

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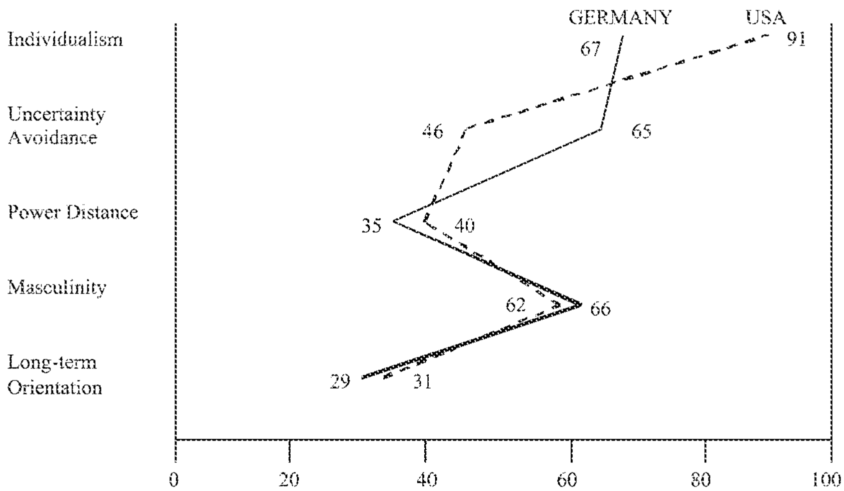
In practice, a tendency toward dominant parent structures can be observed. The main reason for this is that the emergence of governance structures is not only affected by market requirements and shareholder decisions, but also by personal ambitions and micro-political actions of top managers (Seth, Song, & Pettit, 2000). As the example of DaimlerChrysler demonstrates, managers often tend to push out their colleagues when their compensation and reputation is tied to the amount of assets under their control (Vlasic & Stertz, 2000).

## ACCULTURATION

Another important success factor of international strategic cooperation is the convergence of corporate cultures. The process of acculturation supports trust, reduces the tendency of opportunistic behavior, and makes emotional and cultural conflicts between the partners less likely. Moreover, the integration of values, attitudes, and symbols reduces the need for technocratic coordination and encourages mutual understanding and learning. Especially in international partnerships, however, acculturation is very difficult and time-consuming because the cultural distance between the firms is usually larger than in a national context (e.g., Gertsen & Søderberg, 1998; Veiga, Lubatkin, Calori, & Very, 2000). This can be best explained by the integration of German and American cultures at DaimlerChrysler.

As Hofstede (1991) has emphasized in his landmark study, the German and American cultures are very similar concerning long-term orientation, masculinity, and power distance (Figure 5). With respect to the remaining two dimensions, uncertainty avoidance and individualism, however, the differences between the two countries are remarkable. At DaimlerChrysler these differences become visible, for example, in corporate planning. While at the former Daimler-Benz AG the forecast of key macroeconomic indicators (inflation rate, GDP growth, etc.) was based on complex econometric models involving an entire department, at Chrysler Corp., these indicators were forecasted by the chief economist alone based on his personal experience. No instruments were employed, either to avoid uncertainty or to reduce individual risks by involving others. As Vlasic and Stertz (2000, p. 249) state: "When it comes to the cultures of the two companies, they're oil and water.... Daimler embraced formality and hierarchy, from its intricately structured decision-making processes to its suit-and-tie dress code and starchy respect for titles and proper names. Chrysler shucked barriers and promoted cross-functional teams that favored open collars, free-form discussions, and casual repartee.... Daimler executives had larger staffs and fatter expense accounts. Chrysler officers had broader responsibilities and bigger salaries and bonuses. Virtually all German executives spoke English. None of the Americans ... spoke German."

**Figure 5. Comparison of German and American Culture**




(Source: Hofstede, 1991)

How can the process of acculturation be managed, particularly when the cultural distance between the partners is very large? One instrument is to staff key positions with managers who have a high intercultural competence. Such "cultural cross-border commuters" (Ringlstetter, 1994) may support mutual understanding and reduce emotional and cultural conflicts. Equally important is to base the reward system on the success criteria of the cooperation and not on that of the collaborating firms. At Star Alliance, for example, managers who were initially on the payroll of the partners are now rewarded by the Alliance itself. Finally, intercultural training may enhance the awareness of other cultures and increase awareness of one's own.

*. . . intercultural training may enhance the awareness of other cultures and increase awareness of one's own.*

Although these and other instruments may support the acculturation process within corporate cultures, the direction this process will take and the ultimate aim can only be planned to a certain degree. Corporate cultures are deeply rooted in corporate history, thus presenting an organizational heritage with a strong influence on organizational decision-making and behavior. Moreover, significant parts of corporate culture are subconscious and therefore difficult to control (Hofstede, 1991).

Generally, empirical studies show that decision makers, while concluding strategic partnerships, rarely pay enough attention to cultural differences and concentrate more on strategic issues. The result may be organizational problems created by unrealistic change programs or disappointments in terms of synergies achieved (e.g., Vaara, 2000). At DaimlerChrysler, for example, the integration of operational activities was almost complete within one year, while the process of acculturation is expected to last another six to seven years.

## KNOWLEDGE MANAGEMENT

The three examples in this article show that one of the main reasons for cooperative strategies in international business is to gain access to the strategically relevant know-how of other firms. Strategic partnerships can be understood as "learning arenas" (Simonin, 1999) that give firms access to "knowledge (that) is not available on an open market" (Doz & Hamel, 1998, p. 5). In particular, they may share embedded or tacit knowledge that is implicit, nonverbalized, and therefore hard to formalize and communicate. As Stuart (2000, p. 792) argues, this potential to learn from partners and to acquire knowledge that resides within other organizations "highlights the fact that alliances are, in the first instance, access relationships."

A firm's ability to learn from its partners depends mainly on its *absorptive capacity.* According to Cohen and Levinthal (1990), absorptive capacity refers to the ability of a firm to understand and exploit knowledge in various knowledge domains. It shapes its motivational orientation, technological competence, and the quality of the human assets it attracts and develops. As absorptive capacity is a product of a firm's history and organizational culture, some firms may appropriate more knowledge from cooperation than others (Nti & Kumar, 2000).

*Without trust and commitment, collaborations run the risk of asymmetric or differential learning. . .*

Therefore, to benefit from interpartner learning, trust and mutual commitment between the partners is essential. Without trust and commitment, collaborations run the risk of asymmetric or differential learning, which can often be observed in collaborations with Japanese and Chinese firms (Hennart, Roehl, & Zietlow, 1999). This means that each firm must share relevant knowledge with its partners but, on the other hand, must take care not to give them access to its core competencies. Otherwise, the firm could be forced to renegotiate the terms of the collaboration to its own disadvantage or even risk becoming redundant. As Hamel (1991) argues, to create an atmosphere where differential learning and opportunistic behavior are less likely, the process of cooperation and the willingness to replace decision-taking by consensus-building are more important than legal arrangements and governance structures. The greater the extent to which conflicts are managed in an integrative fashion, the greater will be the degree of learning achieved and the ability to protect core competencies from each other (Kale, Singh, & Perlmutter, 2000).

A good example of successful knowledge management is IBB. While the local partners gained access to Western management techniques, the German partner learned much about the importance of relationship-building and incremental planning in a transition economy. Without this learning process, IBB would not have been able to improve its reputation among its local stakeholders, who perceive IBB as a company with high Western standards but, simultaneously, high local responsiveness.

## CONCLUSION

The aim of this article was to demonstrate that international strategic business cooperation may be an efficient form of internationalization, and not only a second-best alternative in countries where the investment regulations do not allow the establishment of wholly-owned foreign subsidiaries. In the age of alliance capitalism they are often the only way to cope with global competitors and increasing customer demand. This tendency toward cooperative forms of internationalization is enhanced by new information and communication technologies, which lead to a general disintegration of organizational boundaries and promote the emergence of borderless or even virtual firms. On the other hand, joint ventures, strategic alliances, and mergers are difficult to manage and require more attention than other forms of internationalization. For example, a survey of more than 5,500 cross-border alliances by Harbinson & Pekar (1997) found that more than 40 percent of them failed.

In this article, five success factors were presented that enhance the efficiency of international strategic business cooperation. Several management problems can be prevented if firms choose their partners carefully. The cultural compatibility of the partners proved to be a particularly important criterion. Moreover, the management should be guided by the idea that the partnership between two or more firms needs legal and operational structures that allow for a flexible and fair handling of conflicts. Especially when the honeymoon period is over, a clear definition of duties and rights, as well as an open discussion of interests, plans, and problems, significantly enhance the potential for success. Finally, cooperating firms can only share knowledge with their partners and learn from each other if they are able to create an atmosphere of trust and mutual commitment.

The importance of these five success factors was demonstrated by three examples of German firms that represent typical forms, motives, and management problems of international strategic cooperation. In the future, more empirical studies are needed to explore their interplay and their impact under different economic, technological, and cultural conditions. Another focus of research should be longitudinal studies that reflect the fact that cooperative forms of internationalization are transitional organizational forms with different requirements, options, and outcomes in different stages of their life cycle.

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