The International Networking between European Logistical Operators

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Contents

Part I

Introduction

1 Preamble

International alliances represent a form of strategic behavior which firms increasingly use to internationalize their business operations. This strategy has recently received growing attention from a variety of academic researchers. Despite this interest, our understanding of forces that lead to the formation of alliances and trigger their structural evolution and adaptation to external pressures, still remains limited in magnitude and depth. Previous studies have reported a high occurrence of failure and instability among international alliances (Doz & Hamel, 1998; Dunning, 1999; Gomes-Casseres, 1996; Gulati, 1998; Gilroy, 1993; Harrigan, 1986; Kogut, 1989; Powell 1990).

Factors predicting the successful performance of alliances remain unclear (Parkhe, 1993). Longitudinal studies are underrepresented in research today, and, as a result, little is known about how alliances evolve over time and what phases in their lifecycle are critical for their survival and functional development. In addition, empirical studies conducted to test the existing conceptual models have produced contradictory results or have been difficult to compare because of the different ways variables are measured.

This study addresses the issue of integration among seven European logistics suppliers who forged a strategic alliance for joint service provision to international markets. Specifically, the focus is on the sequence of changes occurring in the alliance structure through inter- and intra-organizational interventions that affect the scope of integration among its members. In this regard, we posed the question of how an initial coalition of loosely coupled firms became a formal consortium organization capable of performing highly complex tasks and collective risk-taking in response to environmental constraints and time-limit pressures.

More specifically, this inquiry seeks to:

1) Explain the role of time needed to build up, restructure and utilize the resources invested in the creation and development of a complex and coordinated alliance organization.

2) Bridge the network-based conceptualization of international strategic alliances with the latest developments in management of organizational change, business process redesign, logistical systems evolution, and the decision-making of inter-cultural groups.

3) Develop an explanatory framework for empirical analyses of alliance-like organizational formations.

Integration is defined as a change process that affects the alliance's lifecycle by transforming a loose collaborative coalition into a network with a high level of internal fit. Fit is achieved by the adoption of common policies and procedures for strategic and operational consistency at network level. The more standardized the network, the higher the propensity among its members to perform collectively in a uniform manner and adhere to common policies.

However, network integration is defined not just as the willingness of an individual alliance member to belong to a given network and perform in accordance with its standards. It also requires that a given party accept certain sacrifices for attainment of collective gains and acquire network-specific know-how in order to be able to function in concert with other system members (Kogut, Shan & Walker, 1993).

To trace the sequence of dynamics that changed the patterns of partners' interaction and the alliance's structure, a broad theoretical framework has been applied that allowed assessing different stages in the establishment of relational bonds. The empirical example we refer to in this study represents a life history of an alliance, which operates at a Pan-European scale and comprises three logistical firms from Continental Europe, and four establishments from the Nordic region.[1]

In order to trace the patterns of intertemporal transformation in the alliance's organizational blueprint, and collaboration between its members, we employed a dynamic evolutionary approach based on a longitudinal research method. This study covers the decade-long life course of an alliance from its inception in 1988 to its institutionalization in 1997.

Employing the longitudinal, interactive perspective on alliance formation and evolution presupposed that the focal alliance was envisaged as a mixed motive game in which partners concurrently collaborate and disagree. The analytical vision is derived from a network paradigm that conceives of alliances in terms of the social links produced by the interaction among their members (Arndt, 1984; Doz & Hamel, 1998; Gomes-Casseres, 1996; Gulati, 1997; Håkansson & Johanson, 1993; Mattsson, 1987, 1999; Powell, 1990; Thorelli, 1986).

This conceptual approach was supplemented by an ontological perspective defining the focal alliance as an outcome of voluntary collective action and a set of subsidiary theories that highlight the various aspects of interpartner convergence and adaptations analyzed in terms of collaboration, power-wielding, crisis-handling and cross-cultural fertilization.

The first theoretical instrument, a model devised by Gomes-Casseres (1996), posits that the widespread phenomenon of volitional alliances which emerge from firms pooling individual capabilities and/or operations domains is an outcome of an increasingly more complex and rapidly changing business environment. Alliances create new units of competition that challenge one another and contend against traditional single firms. They therefore change the way business is conducted, particularly in global industries with worldwide operations. The loosely coupled structure of a multi-firm constellation gives them advantages over traditional firms, offsetting the diseconomies of hierarchical, proprietary and unified control. When managed effectively, alliances can enhance the collective competitive standing of their members and narrow the competitive gap between the leading players and the second-tier operators.

This study sets the analytical spotlight on the development of integration awareness that triggered a series of interventions into individual business models. These interventions disrupted the status quo, but attuned the individual player's operations and strategic visions so that the entire group could master the collective task performance and become able to respond jointly to environmental exigencies. This model helped us to conceptualize the modes of behavior that part-

[1] The Nordic region covers Denmark, Norway, Sweden and Finland.

ners use to attain an operational and strategic fit, and the measures which modified the alliance structure and partly standardized its service provision.

Subsequently, we draw on theories dealing with social mechanisms of coordination and control (Bacharach & Lawler, 1976, 1981; Blau, 1964; Emerson, 1962, Pfeffer & Salancik, 1978). The analytical relevance of these propositions stems from the fact that an alliance's primary competitive advantage involves its ability to react quickly to environmental change at low transactional cost owing to relatively weak formal managerial structures. Transaction costs are generated by an incentive to default. Internalization theory emphasizes that firms are created to reduce transaction costs (Dunning, 1991; Porter, 1985; Williamson, 1975, 1981, 1985). Internalization reduces transaction costs because owners can use the formal power of supervision to mitigate and curb opportunistic behavior and thus reduce the propensity to default on intermediate trade.

The introduction of a rigorous supervisory system is not affordable for an alliance because this usually represents a voluntary association of medium-sized firms with certain common goals. This has two important consequences. Alliances seldom possess the resources necessary to exercise stringent control over their members' behavior, and, therefore, within an alliance framework trust and volitional commitment act in concert with contractual measures of enforcement (Casson, 1995; Gomes-Casseres, 1996; Gulati, 1997).

Trust can become a social instrument that can mitigate opportunistic tendencies, facilitate the commitment of partners to alliance objectives, and it can promote adherence to coordination rules. Trust can also reduce the partners' uncertainty about future commitments, and by so doing solidify their working relationships and motivate to the contribution of proprietary resources to alliance welfare (Casson, 1980, 1981, 1995; Garfinkel, 1963; Kim & Mouborgne, 1996; Helper, 1993).

The above suggests that the way partners behave toward each other can create an incentive system containing social and functional standards. Trust and commitment achieved within a given alliance group can serve as control mechanisms for obtaining both economic and social ends. The pertinence of these theories for our study consisted in providing a framework within which a number of preconditions for the durability of alliance collaboration have been identified.

The fact that international alliances involve partners from different cultural and ethnic backgrounds suggests that the cultural differences in perception and behavior may impact on their performance and should be explored. There is, however, a surprising shortage of research applying a multicultural perspective in the study of international alliances.

Culture is a societal factor that affects the modes of perception and quality of judgment in decision-making by framing the cognition and patterns of scripted actions. Since the quality of judgment is a critical determinant of entrepreneurial performance, the way it is enacted affects the quality of managerial action (Casson, 1990; Fukuyama, 1995; Gudykunst, 1993; Triandis et al. 1988).

Different cultures can emphasize different aspects or qualities of the same phenomena, and lead people to draw different conclusions from similar pieces of information. Different perceptions of the social environment can affect performance through choices of competitive strategy and modes of operation. Culturally embedded attitudes towards social trust, rivalry and cooperation can lead managers in firms with culturally different backgrounds to disagree on some basic principles for alliance performance and management. Culture should not, however, be conceived of as an insurmountable impediment to interpartner integration. The multicultural background of alliance members may increase the scope of an alliance's competitive advantage by incorporating the different cultural perspectives of its members, who bring in a broad array of cognitive skills. Inclusion of a larger number of decision variables, which in a mono-cultural environment would be disregarded, can enhance the quality of decision-making and the output from group collaboration. Thus, by fostering interactive learning and cross-fertilization, the cultural variety of partners can enrich the alliance's competitive repertoire.

However, the role of culture can be different in the short and long term. Depending on the amount of experience partners have from dealing with culturally disparate attitudes and values, these factors may, at least in the initial stage of their interaction, delay the process of consensus-building. In this context, we employed the theories of cultural idiosyncrasies in values and business performance to shed some light on how the culturally embedded pre-dispositions may affect the process of interpartner interaction and alliance evolution (Gudykunst, 1993; Fukuyama, 1995; Porter, 1985, 1990; Ting-Tommey, 1988).

Finally, we turned to the theories of social power (Bacharach & Lawler, 1976, 1981; Håkansson & Johanson, 1993; Pfeffer, 1980) to derive an understanding of how the dynamics of power distribution between alliance members may change their power positions, and how the power asymmetry may be mobilized to integrate the national service supply systems. We included the perspective of social power because of widespread scholarly consensus that power within voluntary networks is an effective mechanism in the control and distribution of a wide array of resources that may play a critical role in interorganizational integration (Ibarra, 1993).

Empirical evidence linking networks, power and integration is scarce, and, as a result, several key areas of ambiguity characterize the literature. First, the points raised by considering alliances as networks managed through socially embedded mechanisms, such as volitional consensus, trust and commitment, must not be confused with an absolute state of interparty symmetry and a naive vision of a *"harmonious partnership"*. As Keohane (1986) observed: *"Each contact in network relations can be a source of conflict as well as concurrence. Processes of reciprocity and cooperation in no way insulate practitioners from considering and mobilizing power"*.

Håkansson and Johanson (1993) went so far as to consider power to be an inherent and functional element of a network system that stimulates innovation and efficiency through radical learning.[2]

Power thus seems to be an important structural and situational factor that affects one's propensity for commitment, collaboration and consensus on joint strategic action. Second, although current thinking encompasses multiple bases of power *in* and *among* organizations (Pfeffer, 1981), exploration of the potentially different

[2] We refer to Benassi's (1993) typology of efficiency and distinction, which he made between the dynamic and the static efficiencies. Dynamic efficiency emerges from an object's own radical learning, which usually leads to major structural changes generated from within the system. On the contrary, static efficiency is usually manifested by marginal adjustments or changes implemented in small increments, which are usually externally imposed. From this perspective, radical learning can be seen as an instigator of a profound and fundamental change.

impacts of power seen from the different cultural perspectives has been lacking. Consequently, a few empirical reports have employed a mobilized power approach rather than a reputational power in studying the causes of structural change in international alliances (Doz & Hamel, 1998; Ibarra, 1993).

In this research, we utilized a comparative case study method to examine the pace of alliance integration through changes in interaction among its members and the organizational design of their venture. By combining divergent theories into one conceptual framework, we sought to explain how the forces of collaboration and conflict interrelate within the alliance system. Employing an in-depth, longitudinal approach, we unpack the *black box* of complexities related to coordination of individual performance for the joint service provision to international markets.

The study explores the pace of alliance transformation by employing individual, relational, group and network levels of analysis. We investigate factors that structured the individual partner's commitments and contributed to alliance advancement. We identify the social structuring measures that the partners used to transform a loosely coupled working coalition into an interorganizational consortium with Pan-European market coverage.

Finally, we assess how two contextual determinants, liberalization of the European transportation market and the variability of demand composition in international logistical markets, first contributed to alliance formation and then restrained the scope of its operational standardization and the degree of fit between its partners.

The study comprises five constituent parts. Part I specifies the purpose and scope, and provides a theoretical baseline for empirical analyses. The basic tenets of the network paradigm are discussed and this conceptual framework as guidance for field procedures is applied. Thus, the network approach and a number of subsidiary theories have created an analytical space in which the anticipated changes in interpartner relationships, and their impacts on the network's structure, has been placed and examined over a ten-year period. This section also specifies the research questions and provides the ontological embededdment for the field study and result formulation.

Part II presents a conceptual framework providing schematic representations of three classes of factors expected to affect the structure and process of alliance integration. The linkages between the five background conditions and six intermediating factors are specified in this section. These function as a set of conceptual instruments that allow exploration of the content and scope of interpartner integration during the implementation of alliance agreement. This framework provided the basis for several conjectures with regard to how the set of antecedent and mediating factors would affect the attainment of interpartner match. In this context, the constructs describing the background and mediating factors were related to what has been defined as an outcome variable, and conceived of as the state of integration between the alliance's partners.

Part III contains information on the methodology, with a special focus on the collection and analysis of longitudinal data that reflect the various stages in the alliance development process. Within this section special attention is given to the means employed to measure the process causality and the procedures applied to enhance the validity of research findings.

Part IV presents the empirical accounts of historical and substantial events, initiatives and actions, and their desired and manifested outcomes, which structure the process of alliance integration. It also contains a summary of the theoretical implications of the results obtained.

Part V confronts the theoretical assumptions with empirical outcomes, and by so doing creates an analytical groundwork for several empirical findings. It also presents an empirically verified model of determinants of alliance match, synthesizes three types of value-added produced by the current study, and suggests several avenues for future research.

Appendix 1 presents high-impact exogenous events that released forces of consolidation and internationalization within the European market for transportation and logistics, and created a strategic rationale for international alliances. It also contains the historical and contextual material that explains the motives behind alliance formation. Appendix 2 provides a time-event matrix involving important happenings that affected the life course of the focal alliance. Appendix 3 lists the managerial informants who participated in this study.

As the present development of knowledge on voluntary collaborative business networks remains at the pre-paradigmatic stage, we hope that the findings from this study can assist construction of a theory and further our understanding of processes driving the functional evolution of these business arrangements. Such a theory may, at a later time, become the subject of multiple empirical validations and provide sound guidance for managerial practitioners.

2 Nature of Logistical Alliances and Their Functioning

Before we present a set of conceptual visions with regard to how the focal logistical alliance may evolve over time, below we shortly review the latest developments in definition and functions of logistics as a line of business specialized in freight flow management in domestic and border-crossing movements. Next, we discuss the types of strategic alliances, which operate in the logistical industry.

2.1 Evolution in the Function of Logistics and Definition

Today, the term 'logistics' is associated with and connotes a vast number of functions and services performed in the field of physical distribution, production and operations management, and global supply chain management. Yet, until the early 1970s, logistics was perceived of mainly as a sub-field of physical distribution and included outbound transportation, logistics administration, intra-company transportation, logistics control, finished goods field warehousing, and logistics system planning (Coyle, Bardi & Langley, 1996).

However, this classification proved too narrow to capture the progress that occurred in the 1980s as regards the characteristics of logistics demands, the scope of its supply, and the degree of the industry's diversification. The above factors contributed to the emergence of new structure in the logistics industry, which was characterized by the supply of highly customized services through highly specialized firms (Ballou, 1992; Coyle, Bardi & Langley, 1996).

This provided the basis for a broader interpretation of logistics and led to the inclusion of order processing, customer service, finished goods plant warehousing, finished goods inventory management, and inbound transportation into the mainstream of a logistics definition. The next phase in logistics concept development was related to the evolution of flexible modes of production through flexible technologies and flexible specialization. This process spurred a wide application of global manufacturing based on disintegrated production systems, synchronous construction and design, and concurrent engineering, for rapid product development and simultaneous manufacturing and distribution in multiple geographical locations.

These trends contributed to a further broadening of the logistics' domain through the inclusion of logistics engineering, production planning, quality control, sourcing and purchasing, raw materials and work in process inventory management, sales forecasting, and servicing the international supply chains (Novak, Langley & Rinehart, 1995).

The importance of logistics to global manufacturing is twofold. First, logistics has been defined as a mode of managing the movement and storage of materials throughout the conversion process. As such, it has been largely responsible for the creation of time and place-utility for its users. From this perspective, its value-adding role is equally as applicable to global operators as it is to domestic operations. Second, when a manufacturing firm moves from a domestic to a global environment, the amount of uncertainty which has to be managed increases dramatically, while management control over the supply chain decreases. In this respect, logistics provides a functional mechanism for managing this environmental uncertainty by coordinating a number of spatially separated activities that link manufacturers and/or suppliers of globally manufactured products to their markets and end-users (Wood, Barone, Murthy & Wardlow, 1995).

The need for managing a web of complicated international sourcing operations led to the inclusion of systemic solutions for serving the international supply chain in the logistics domain and prompted structural changes in the organization of its industry. These changes were derived from the need for logistical firms to meet the high level of business risk related to the service of various geographical and culturally different markets, which was not always possible to offset through standard contractual terms. This led to teaming of service provisions through collaborative arrangements between formally autonomous but financially interdependent logistical firms that started operating through alliances. The proliferation of logistical alliances can be related to the service of new markets with a new organization of production and distribution, and a broadened use of information technology that together produced pressures on the integration of individual and/or parallel networks into coordinated service supply systems.

An enhanced demand for system integration generated the need for cooperation among logistical firms, especially those operating in the international environment, and this in turn led either to the establishment of larger joint service supply systems or to the development of common standards for individual service provisions.

The operation of logistical alliances capable of servicing transnational markets provided access to global manufacturing and distribution systems for the Nordic marketers, manufacturers and end-users. This created a fertile soil for forging alliances among the region's logistical firms and the merchandisers of globally distributed products from Continental Europe and other continents.

2.2 Types of Collaborative Agreements

The fact that logistical alliances became a popular mode of service provision for various manufacturing industries indicates a growing market demand for their services (Wood, Barone, Murphy & Wardlow, 1995). Logistical alliances among business firms who operate on a Pan-Continental scale are usually forged to utilize the opportunities created by: [3]

1) *"Intra-modal"* horizontal agreements among single-modal operators, i.e. multiple airlines, several motor carriers, or a group of shipping companies providing the same type of service on an international or world-wide scale.
2) *"Intermodal"* horizontal agreements between various modes' operators who collaborate by moving the freight throughout international supply channels, and in so doing bridge the shippers with consignees and/or freight end-users.
3) *"Inter-industry"* vertical agreements in which logistical companies operate as third-party service providers on behalf of manufacturing and/or merchandising firms and manage highly specialized distribution operations for globally supplied products and/or international end-users.

2.3 Evolution of Strategic Alliances

Before we can discuss the different categories of alliances functioning in the logistical industry, we have to address the basic question of what a strategic alliance actually is.

"Strategic alliance" is a term of art, and like so many other terms of art it can have as many discretionary meanings as we choose to give it. If we accept an alliance as a vehicle which has as one of its characteristics the ability to preserve, to some extent at least, the unique features of the participants, then there is a variety of legal and organizational structures that can fall under the alliance definition. The key in all cases is the assumption that this vehicle has a structure which permits the participants to continue to be intimately involved with their own governance, and to directly and separately influence decisions on the choices and directions which their undertakings are to follow (Carter, Cushman & Hartz, 1988). An alliance will be called *"strategic"* when it produces a competitive advantage for its participants and the end-users of its services.

[3] This is not to say that the entire transcontinental supply of logistics and transportation is monopolized by strategic alliances. In the following, we review the process of European consolidation, which created several large multinational corporations providing the same type of service on the global scale.

Morris & Hergert (1987) defined strategic alliances as joint collaborative ventures among sovereign firms inclined to pursue common goals. The purpose of such venturing can be defined as a process, by which capital and expertise are joined to achieve certain commercial objectives. Both of these key ingredients are scarce resources. The risk arising from the commitment of capital must be carefully managed, since it is so scarce and many enterprises are simply too large to be undertaken individually without unacceptable risk. This implies that logistical firms may use non-ownership-based solutions to achieve a larger scale for their operations and to expand their services into wider geographical markets.

Our investigation distinguishes between two generic alliance forms, equity and non-equity, both creatures of contract. Equity arrangements represented by joint ventures involve joint stock companies that often, but not always, are integrated financially by equity swaps among their owners. Non-equity alliances apply much looser governance modes and often exploit the complementarity of skills and domains among their partners for extending the geographical coverage of distribution, and/or management of subcontracting operations, and may involve partial standardization of the partners' operations. Research shows that a non-equity alliance can sometimes evolve into formal joint venture with proprietary capital holdings (Carter, Cushman & Hartz, 1988).

In the logistics industry, as elsewhere, firms enter into alliances and joint ventures to achieve economies of scale, scope and density, save on capital outlays, draw on complementary strengths or expertise, share risk, and obtain the resources necessary to expand operations more quickly than would otherwise be possible. These factors also appear to be important in the transportation and logistics industry, where volitional collaborative agreements, such as equipment pooling and integration of several companies' service provision networks, have frequently been used to spread capital costs and realize economies of scale (Hertz, 1993).

It is often argued that an intrinsic feature of an alliance is its temporary character. The very notion of an alliance denotes an arrangement whose raison d'être is task-specific, action-oriented and time-limited. Many scholars tend to judge the effectiveness of an alliance by the duration of its working life. Research reports a high rate of failure and dissolution of alliance arrangements. A study carried out by Harrigan (1988) of 880 joint ventures and cooperative arrangements found that only 45 percent were assessed as successful by all sponsors. Only three out of five ventures lasted for more than four years, and only 14 percent lasted for more than 10 years. The research results cited by Berquist, Betwee & Manuel (1995) confirm that one out of three of the partnerships studied either failed outright, or survived in a radically restructured form after one or more initial partners dropped out, or because the partners could not extricate themselves from the unrewarding establishment.

Yet, a survey of 49 cross-border alliances conducted in 1991 by Bleeke & Ernst for the *Harvard Business Review* revealed that alliances were viable vehicles for international strategy. This was the first research work exploring the utility of alliances in regard to internationalization and comparing their effectiveness with more orthodox internationalization strategy, cross-border acquisitions. While two-thirds of cross-border alliances run into serious managerial and financial trouble within the first two years, many overcome their problems. The authors assessed that of the 49 alliances analyzed, 51 percent were successful for both partners, while 33 percent resulted in failure. On analyzing interpartner relationships, the authors concluded that alliances between strong and weak companies rarely worked, and that the hallmark of successful alliances was the ability to evolve beyond initial expectations. This required autonomy for the venture and flexibility on the part of the parties. The authors also established that more than 75 percent of alliances that terminated ended with acquisition by one of the parents.

This survey was also revealing for another reason. It found that volitional cross-border alliances were just as good vehicles for internationalization as cross-border acquisitions (with similar success rates: 51 percent and 57 percent, respectively). However, it concluded that these two strategies were not interchangeable. When used to expand core businesses, both cross-border alliances and acquisitions worked well, but for expanding existing businesses into new geographic regions, and for edging out into new businesses, cross-border alliances worked better (p. 128). When moving into new geographic markets, managers should try to structure alliances such that they can capitalize on the distinctive geographical positions of the partners. Some 62 percent of alliances that involved partners with different geographic strengths succeeded. This was very different for cross-border acquisitions, where the success rate was just 8 percent when the acquirer and the target company did not have significant overlapping presence in the same geographic markets.

Whereas the literature reviewed pertained mainly to two-party alliances or equity-based joint ventures between partners, over the last years we have witnessed an explosive growth in multi-firm alliances with international scope of operations. Such collaborative arrangements face much greater uncertainty in terms of both internal coordination and external turbulence. The more international partners, the greater the risk of operational and strategic divergence, power struggles, defection, and problems with managing the multiple organizations (Mattsson, 1995; Doz & Hamel, 1998; Gomes-Casseres, 1996).

In this respect it is worthy to mention a study conducted by Hertz (1993), which longitudinally explored the scope of interconnectivity within a multi-firm alliance called "WACO" [4] that links airfreight forwarding agents on worldwide basis. This research has shown how the incompatibility of partners' strategic interests in various international markets caused expulsion from alliance membership and changed the alliance's structure.

Following this lead, some authors have defined alliances as a transitional stage preceding staggered divestment or acquisition (Casson, 1990, p. 153). This reasoning was based on opportunistic rationalism, which assumed that alliances are formed to secure resources that firms only temporarily do not possess. As alliances usually involve functionally autonomous but economically interdependent firms, the convention of equity ownership as a basis for alliance control and governance is inadequate without risking the loss of collaborative spirit. Non-equity alliances are managed through contracts or informal collaborative agreements, where there is little room for formal power enforcement in the form of fiat (Williamson, 1975).

However, according to opportunistic rationalism, as alliances acquire some highly unique assets on which their existence relies, their partners are bound to secure them through proprietary control solutions such as mergers or acquisitions. But, as Doz & Hamel (1998) observed *"acquisition is a blunt tool, often leading one to acquire more, for a higher price, than one needs"* (p. 3). In this context, alliances provide a vehicle of choice for many companies that need to access the skills and the re-

[4] "WACO" stands for Worldwide Aviation Collaborative Organization.

sources that nobody these days controls entirely in order to survive in ever more volatile competitive environments.

Our research focuses on the process through which seven allied firms learned to master collaboration within the network system. They enhanced their individual competitive positions in autonomously served markets and learned the skills of coordination in order to be in a position, over time, to perform in concert more complicated and more profitable international tasks. Although time was an important prerequisite for integration to occur, we did not judge the success of an alliance by the longevity of its existence. Rather, the scope of alliance success was judged by the extent of interpartner integration achieved through voluntary and irreversible re-structuring by each partner of its individual business model in order to attain functional match with other partners, and, by so doing, contribute to fulfillment of the alliance mission and increase of its competitive power.

Since multi-firm alliance can help to convert potential competitors into allies and merge individual capabilities and resources into new business options, we conjecture that this vehicle of internationalization will endure, perhaps becoming even more preponderant in the future. The reason is that volitional alliances represent dynamic collaborative arrangements capable of reconfiguring in response to environmental needs and opportunities. That is why it is necessary to adopt a process approach to the analysis of strategic alliances. This means that strategic alliances are characterized by different degrees of interconnectedness at different stages in their lifecycle. Each stage has different features, purposes and aims, which occur in response to different environmental states. Such flexibility makes alliances highly reactive, which means that they are capable of rapidly transforming operations, functional domains and collaborative output (Doz & Hamel, 1998).

Alliances represent powerful instruments for minimizing the negative outcomes of managerial diseconomies arising from the diversity of international markets. In order to preserve functional stability and ensure efficient performance, they tend to internalize and utilize changes in their partners' relative market positions, bargaining power and external competitive pressures (Harrigan & Newman, 1990; Yan & Gray, 1994).

Another reason that alliances may endure can arise simply from the net disadvantages of mergers and/or other forms of ownership-based managerial control. The high cost of foreign direct investment and the indivisibility of assets, both technological and organizational, within the partners' firms, can provide one type of justification. Others may arise from the difficulties of financing foreign stock acquisitions, high risks arising from irreversibility of direct investments, and/or cultural obstacles to effectiveness of uniform managerial rules in multinational markets.

The network paradigm, which we use to analyze the focal alliance, holds that alliances represent special forms of social systems. Some organizational scholars classify them as hybrids, the constellations of loosely coupled firms, operating in an orchestrated manner (Borys & Jemison, 1989; Gomes-Casseres, 1996; Håkansson & Johanson, 1993; Kogut, Shan & Walker, 1993; Hagedoorn, 1993). The hybrid metaphor was derived from biology, where it is used to describe organisms produced by a combination of potentially compatible elements that produce robust and flexible structures that prove resilient to adversity.

Hybrid organizations seldom rely on formal coordination measures such as hierarchical governance structures and power authority, and sometimes may even lack them all together. They survive by using resources and diverse governance modes that are often borrowed from more than just one partner. Their comparative advantage is in their ability to react quickly to various environmental developments (Chong Ju Choi, 1995). Hybrid arrangements command our attention because they involve different working relationships and different managerial mechanisms compared to orthodox joint ventures.

Hybrids are seen as simultaneously two types of organizational form. In one perspective they are considered as single organizational arrangements, but in another they are seen as a product of the contribution of several sovereign organizations that mix at the functional level (Borys & Jemison, 1989).

The development of hybrid organizations is derived from an interpartner dependence for value-creation and the need for a collaborative arrangement for serving the highly demanding international markets through operational flexibility, geographical transfer of goods, and service customization. This form of collaborative venture seems well suited to meeting the environmental volatility created by the changing market conditions, where the utilization of opportunity windows depends on rapid reaction to an unpredictable economic momentum. That is why hybrid-like arrangements depend to a lesser degree than orthodox organizations on managerial role specification, the structured modes of decision-making and strict operational standards. Their leadership often resides with a party possessing integrative ability and the coordination skills by which the strategic steps necessary to cope with environmental uncertainty can be envisioned and designed. The hybrid-like managerial style is most effective when the network's task is uncertain and when there is a high level of mutual resource dependency among collaborating parties for their task accomplishment. Because complex or highly variable tasks are difficult to preprogram, it may be that informal working relationships are more efficient at accomplishing them (Fombrun, Tichy & Tushman, 1979).

In sum, the network metaphor underscores each partner's formal autonomy and high-level co-dependence on other network members for long-term survival, weak hierarchical control of venture's operations, uncontested commitment on the part of its members, and ability to generate both incremental and radical innovation through voluntary collaborative contributions which confer discernible competitive advantage on the entire system. However, the hybrid metaphor denotes also that the networks' social and geographical boundaries and the degree of internal authority may change over time (Mattsson, 1995). This suggests that in order to perpetuate in highly competitive environments, networks transform their scope and governance structures. Consequently, the position of an individual network member may change over time along with the degree of its embeddedness in the network structure (Mattsson, 1995; Gulati, 1997). These dynamics are released by strong internal and external pressures, which networks have to withstand in order to survive.

2.4 The Most Common Types of Logistical Alliance

Formal and informal contractual partnerships, which are quite commonplace among logistics and manufacturing companies, often operate as strategic alliances. The level of functional involvement on the part of an individual alliance partner ranges widely from the routine provision of carrier services, which complete the responsibilities for the logistics requirements of a shipper or commodity end-user, to handling a complete chain of logistics operations. These operations begin with importing components from abroad and terminate with customer distribution of mixed shipments of products through a network of centrally located warehouses linked to a web of regional distribution outlets. The acting parties in a typical alliance agreement include the providers of customized logistics services and producers and/or marketeers of the goods distributed that jointly engineer and launch a delivery system to their customers and end-users.

Against this background we can discern between at least three generic categories of logistical alliance: *A partnership agreement, a third party service provision agreement, and a comprehensive or integrated service provision agreement.* These differ in the scale of commitment among their members and in the degree of formalization of their collaboration embodied in the rules regulating performance and scope of services offered (Hertz, 1993).

An unincorporated partnership agreement is the most informal type of strategic alliance. As partners, firms acknowledge their *mutual* dependence but do not make formal or exclusive arrangements; neither do they extensively modify their business structures to facilitate the partnership. In other words, the parties to a partnership agreement create the capacity to gain synergistic benefits through the supply of basic services, but typically do not modify or integrate their business systems to the point where separation would be difficult or costly. The fact that partnerships are relational but not fully integrated offers the attraction of joint benefits while retaining independence. For these reasons, a vast majority of logistical alliances are often viewed as partnerships (Bowersox, 1989).

Unincorporated partnerships are tools for rapid diversification combined with the acquisition of certain benefits of economies of scale. The strategic rationale for entering a partnership can be derived from an assessment of the limitations of one's freedom of action that precludes taking responsibility for long-term business relationships or investing in service supply in a market where the partner's operations are an unwanted burden. A partnership can provide a temporarily expedient means of bringing new competencies into a business. The chances are, however, that there will be a steady turnover of venturers within this arrangement, as the relative strengths, interests, and goals of partners change over time. It is therefore important to remember that in the case of termination or dissolution of an unincorporated partnership the liability of the partners is joint, several and unlimited. Members to some partnerships develop stronger working bonds, commit capital investments to the venture, and emerge as integrated third-party service providers or co-owners of a syndicated joint-stock company.[5]

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[5] Syndicated venturing represents a special form of multilateral project finance in which two or more institutions each provide equity as well as collaborative finance and expertise for a start-up firm. Venturers remain separate shareholders coordinating their investments through information exchange, which means, through reciprocal access to each other's pool of knowledge and management capabilities.

A third-party agreement is more integrated in terms of internal relationships and a more formalized collaborative arrangement that is expected to last longer than a typical partnership. Usually it is established between companies from different sectors, such as logistical firms and the end-users of their services in manufacturing industries. Because of the financial commitments binding both parties, third-party agreements are usually fairly specific and formal, and bear the marks of contract. The most prominent examples of third-party arrangements are those between contract carriers, suppliers of warehousing services, and freight shippers. Functioning as a third party logistics supplier requires that the structure of the basic service supply, related equipment, production facilities, and the modes of operations, become modified and adjusted to the discretionary needs of a given customer. This typically involves investments, with the financial liabilities being assumed by the service providers. Operation as third-party service providers requires that the involved parties possess some management structure, one that renders them capable of coordinating a number of offerings and delivering the required service quality. It is therefore common that service providers form consortia in which two or three specialized firms pool resources in, for example, the joint service of one international client.

This form of service supply is generally most suitable for a single-venture arrangement or a project that can be commenced and completed within a reasonably short period of time, and one that is not intended to own or hold large capital assets. This is used extensively by contractors wishing to combine forces and resources to bid for a particular contract, such as distribution of a particular product line within a given geographical region. The parties agree on their respective roles in the project, the management of operational structure, the method of funding, and the manner in which profits and losses will be shared. As a competitive rationale for their existence, third-party consortia usually seek to achieve a strategic role in the shippers' distribution network by offering comprehensive service programs and highly customized solutions with a definite cost advantage.

The main benefit of a third-party arrangement is that it creates a service supply system where service providers, as well as shippers, adjust their operations to achieve and share the jointly obtained benefits. Since third-party arrangements are often exclusive and valid for a given period of time only, they are subject to periodic reviews and alterations, taking account of changes in the clients' business requirements.

Finally, the most advanced form of service supply is by *comprehensive* or *integrated service provision arrangements*. This organizational form offers the most sophisticated types of logistical services, including transportation and warehousing on a contractual and dedicated base, order fulfillment, inventory management, post-sale customer service, information management, and the performance of purchasing functions in accordance with customer specification. The integrated service providers are also capable of servicing the entire distribution system. They perform break-bulk operations, freight consolidation, packaging, light assembly of postponed manufacturing, price marking, sorting, inventory management, returned goods handling, order fulfillment, service of points of sale, and re-design of the entire distribution system through inclusion of reverse logistics.

Most integrative service provision entities operate in a consultative style in the sense that they are problem-solvers and suppliers of systemic solutions whose operations are highly customized. They actually replace the client's distribution system with their own service provision schemes. They offer a managerial perspective based on logistics as applied to the firm's entire marketing function, a highly qualified staff and production facilities which provide solutions with the lowest total distribution cost.

The essential feature of integrated logistics supply is that it represents a comprehensive commitment that replaces the client's internal capability with external expertise. As such, it is the most extensive form of outsourcing or subcontracting that, to a large extent, owes its growth to developments in information technology and international trade in global commodities.

These types of service are usually provided by highly efficient logistical establishments operating on a Pan-Continental scale and offering service coverage with a geographical scope by far exceeding their clients' own distribution network. This type of service supply has often been based on the formation of an independent corporate entity acting as a joint venture vehicle. Because of task complexity and the large scope of contractual liabilities, it usually has a more formalized constitution and management structure. Such an organization can readily employ its own personnel dedicated to joint venture projects and who may not be subject to any conflicting interests of the participants in the non-corporate joint venture. It has a limited liability of its own, and in most countries it has the benefits of applicable statute law providing it with various safeguards and a clear legal framework within which to operate (Bowersox, 1989).

It goes without saying, however, that formalization of corporate joint ventures removes much of the flexibility of unincorporated partnerships and consortia arrangements, and makes it more difficult to provide suitable escape routes in the event that the parties fall foul of one another. Because of this, a corporate joint venture is perhaps more suitable for the long-term or permanent business assignment than for a single undertaking. This was confirmed by Hertz's (1993) study of volitional working association between international airfreight forwarders which showed how incompatible strategic preferences may change the members' composition, and how a voluntary working association may survive in a long term with a modified structure.

A review of the literature on organization of collaborative relationships within non-corporate partnerships, consortia, and corporate joint ventures leads to the conclusion that our understanding of these structures, their functioning and organizational transformation is somehow incomplete (Gulati, 1998).

This underscores a need to analyze these entities on a micro-behavioral level. In order to assess how these voluntary structures resist centrifugal forces dividing the autonomous firms, we might need to look into the pattern of firms' mutual embeddedness and explore how the social proximity between the collaborating parties impacts on the network structure and modes of operation (Gulati, 1998).

The above was confirmed in a survey of alliances between logistical companies conducted by Bowersox et al. (1989). Their study revealed that pure partnering was the most popular form of collaboration in the US, and that relatively few firms reported extensive involvement in comprehensive logistical ventures, such as third party or integrated service supply establishments. The most frequently cited explanation was the risk associated with a need for managerial and operational re-alignments and the burden of financial demands that these latter two forms of venturing required.

A few firms, however, those that had created management teams with a long history of collaboration, managed to develop highly integrated networks which proved efficient in serving their customers at both international and national levels. These teams explicitly invested in the development of trust-based working relationships where their members felt they could disclose the financial details of their operations to each other in order to compete *together* supplying a more cost-efficient total solution. Executives in these firms articulated a strong conviction that their ability to work in concert and to synchronize individual operations derived from a need to maximize the value adding for their end-users. This working strategy involved development of social ties of friendship and group loyalty, which helped, through collaborative efforts, to meet the level of competition which neither of these firms was in a position to withstand separately.

The willingness to share information on strategic and operational issues and coordinate functional undertakings indicates that working relationships among members to strategic alliances were both task-functional and socially embedded (Gulati, 1998).

Summarizing our review of different forms of logistical alliances, we agree with the Kanter (1994) and Gulati (1998) observations that these strategic ventures must be seen as living entities which progress over time. They should not be considered as functional systems alone, but as groups of participants basing their existence on perceptions of commonality, trust and commitment to collective goals, but also as arrangements that can suffer from conflict and animosity caused by diversity between their partners.

The hallmark of alliance constellation is the quest for geographical expansion and broadening of operational reach achieved through multi-firm collaboration. International integration, conceived of as the establishment of working linkages for joint service provision by business firms operating in different spatial locations, has the characteristic of being gradual and happening over time, thus reinforcing the analytical relevance of the network paradigm.

Such an approach defines volitional alliances as social systems composed of partners that over time become interconnected, and as result change their attitudes, relational positions, power status and roles in the performance of network-vital functions (Forsgren & Johanson, 1992; Gomes-Casseres, 1996).

3 Purpose Statement and Research Questions

The purpose of this study is to develop a comprehensive *understanding* of how a strategic alliance of partners with different cultural backgrounds, operating in an international market environment, was formed and transformed in order to fulfil its strategic objectives. Specifically, the aim is to explicate, using a longitudinal multivariate qualitative case study method, how an alliance of seven autonomous but interdependent logistics firms integrated their operations, thereby creating an interorganizational consortium capable of performing in concert and acquiring a discernible competitive position in a Pan-European market.

To develop this understanding, we must go beyond quantitative and qualitative analysis to a creative synthesis of the impacts of a series of compositional variables on alliance evolution with a group of corresponding theoretical anticipations.[6]

3.1 Research Purpose

The centerpiece of our inquiry is the *phenomenon of integration* among the seven alliance partners. Integration was envisioned in terms of multidimensional, multilevel and intertemporal processes and was defined as both an evolutionary and a reactive sequence of changes that affected several organizational attributes of the voluntary venture. These comprised the modes of operation of the individual members, the governance structure for coordinating interpartner behaviors, decision-making, and operations of the multi-firm consortium.

This study seeks to open the "*black box*" of alliance metamorphosis. By exploring how a set of exogenous and endogenous forces paved the way towards collective task-mastery, this study provides the theoretical and empirical explanations for interventions, processes and events, which transformed a loose coalition of logistical firms operating in fifteen national markets into an international consortium with franchise-guarded service-provision technology.
One reason for which the process of integration attracted our attention was the fact that the re-alignment of partners' operational patterns and market domains, and coordination of their strategic priorities within the alliance system, which lacked a formal power authority, was an extremely difficult task. Still another cause derived from the observation that the present body of knowledge on strategic alliances lacks the understanding for the processes, which underlay the alliances' functional and organizational evolution and the acquisition of discernible competitive advantage.

3.2 Research Questions

In postulating that internationalization of market supply may happen though alliances, which do not require equity investments, we rely on large body of research, which empirically confirmed this contention (Chong Ju Choi,1995; Dunning, 1997; Eisenhardt & Schoonhoven, 1996; Doz & Hamel, 1998; Hertz,1993; Gilroy, 1993; Gomes-Casseres, 1996; Mattsson, 1999; Parkhe, 1993; Stuart, 1988; Tsang, 1998). These authors have established that alliance-like voluntary associations create a larger pool of resources that can contribute to development of new technologies, overcoming constraints to capital poverty, limits to managerial capacity and market scope. As a result, they make participants capable to utilize international diversity and withstand global competition.

International alliances can create synergies from long-term teamwork and cultural cross-fertilization (Doz & Hamel, 1998). To this end, this investigation seeks to unravel how the focal alliance created a larger pool of resources that made its

[6] In this study we utilized compositional rather than simple variables to describe and explain the complex nature of alliance change because we assumed that such change is driven by several layers of determinants and their repercussions, which, over time, may modify the alliance's *modus operandi*, and fortify the links among its members.

partners capable to supply output demanded and appreciated by international markets (Dunning, 1997; Gomes-Casseres, 1996; Gulati, 1998; Hofstede, 1990).

However, the resource-based view of alliances fails short of explaining how the individual assets and strategic intentions of alliance members become integrated in higher-value outputs. This issue is important, because how a given partnership is implemented may influence its *modus operandi*, the level of fit among its partners, and the synergies attained through international collaboration.

The current study provides an example of non-equity alliance that created a Pan-European logistical supply network by integrating its partners' national domains. As an effect, the alliance extended its partners' operational reach and became a vehicle of internationalization. In terms of conceptual utility, the main goal of this research is to open the *black box* of alliance's integration. Unpacking the black box content means identifying the change mechanisms that both, inhibited and fostered relational re-alignments and produced intra-alliance fit.

The knowledge of relational processes that structure developments of multi-firm alliances is missing from the current literature on alliances. The extant research traditionally focuses on determinants of alliance formation (Eisenhardt & Schoonhoven, 1996, Gulati, 1997), or on benefits produced by alliance collaboration (Doz & Hamel, 1998; Dunning, 1997; Stuart, 1988; Tsang, 1998).

Exploring the *black box* content requires identifying forces, which prompted organizational re-structuring, removed the interpartner mismatch, and over time, made the alliance functionally coherent. The needs for relational adjustments and domain re-structuring derived from variability of partners' backgrounds and inconsistent operational models.

The partners to the focal alliance represented different cultural ethos and different operational philosophies. The above suggests that they held dissimilar beliefs and disparate priorities on how the venture should be managed, what should be its strategic purpose, and what benefits it should deliver. Therefore, we hypothesize that the respective idiosyncrasies would produce incompatible preferences as to alliance's organization and governance, which in turn may delay and hamper the systemic fit (Pelled, Eisenhardt & Xin, 1999). In so doing they would release motion for re-arrangement, re-location, innovation and integration.

Therefore our investigation identifies the process dynamics that changed the patterns of partners' behaviors and the alliance's structure. In analytical terms, this amounted to determining the *intervening variables* that structured the partners' interactions and bonded them into one organizational unit, despite structural and demographic disparities.

In addition, a number of research studies have shown that volitional alliances easily fall prey to forces of conflict, disruption, and premature dissolution (Bleeke & Ernst, 1991; Doz & Hamel, 1998, Hertz; 1993; Hurrigan, 1988,). The above suggests that contractual agreements on which volitional collaborative constellations are based and which incorporate only legal control measures do not provide adequate safeguards against defection and profiting at other partners' expense (Kogut, Shan & Walker, 1992; Podolny & Stuart, 1995; Powell, Kogut & Smith-Doerr, 1996; Doz & Hamel 1998).

Thus, in order to determine how the alliance that is focus of this study tackled the challenges arising from the partners' heterogeneity and threats of opportunism, the following general question has been devised:

I. How did a coalition of initially loosely coupled logistical firms with operational bases in fifteen European countries become a formal consortium organization capable of supplying, in a coordinated fashion, a broad range of logistical services to Pan-European market?

In order to trace and align the changes in organizational structure of the focal alliance and social behaviors of its partners over a decade-long lifecycle, the above question was broken down into a series of more specific inquiries:

1) Given the partners' idiosyncrasies, what measures did alliance partners apply to re-align their operations and market domains in order to create one European service supply system? *(cf. Part IV, Chapters 2 and 3)*
2) What social influence measures and structural interventions did partners use to facilitate the alliance fit? *(cf. Part IV, Chapter 4)*
3) How did this loose association of logistics firms without a formal decision-making apparatus manage to adopt the joint governance rules that coordinated its partners' actions, and what means did partners use to formalize their collaboration? *(cf. Part IV, Chapter 5)*
4) What were the sequence and the scope of the partners' mutual adaptations, and which stages could be discerned in this process? *(cf. Part IV, Chapter 6)*
5) Which issues related to alliance's integration proved to be the most difficult to resolve, and because of their divisive nature, hindered the alliance partners from reaching a working consensus over a long time? *(cf. Part IV, Chapter 7)*

Further, in order to assess how the integration of individual capabilities, domains and operations produced collective competitive gains, the following second general question has been posed:

II. How did an alliance among seven European logistical companies acquire an international competitive position?

The above issue consisted of three queries concerning partners' strategic behaviors:

1) What were the individual partner's contributions to fulfillment of alliance's mission? *(Part V, Chapter 2)*
2) Which strategies did partners apply to enhance the alliance's competitive strength? *(Part V, Chapters 4 and 6)*
3) Which factors did ultimately determine the alliance's fit? *(cf. Part V, Chapter 9)*

However, it is important to remember that alliances do not emerge in ecological vacuum, but in highly competitive international environment that provided clear-cut motives for their foundation. Thus, to capture the complex relationship between the features of business environment and the circumstances surrounding the creation of the focal alliance, the following third general question has been risen:

III. How did the policy of deregulation of the European transportation market contribute to formation of the focal alliance?

Subsequently, this query was divided into two more specific probes:

1) How did the internationalization of the European transportation market create a strategic rationale for the alliance's formation? *(cf. Appendix No.1: "Environmental Factors Behind Alliance Formation")*

2) Which contextual factors restrained the standardization of partners' operations, and how did these factors affect the scope of intra-alliance integration? *(cf. Part V, Chapter 8)*

In order to trace the path of alliance's organizational and functional evolution, this inquiry has been *"designed endogenously"* (Gerybadze, 1995). The impacts that the contextual, operational and domain diversity, plus an array of individual professional and social capabilities exerted on venture's development have been first assessed on individual levels and then elevated to dyadic, triadic and network perspectives. By this means, we have inductively identified a series of events, states, initiatives and actions, and these occurrences' repercussions, which contributed to alliance's metamorphosis.

These effects were then pieced together in order to identify the modes of alliance integration and the subsequent stages in this process. This method disclosed a series of organizational sub-structures, which emerged from adoption of more formalized managerial structures. Finally, through a series of subsequent comparisons of field observations with *a priori* conceptualizations of alliance's change scenario, a thick description and an in-depth understanding for alliance evolution was obtained in the sense of *"verstehen"* (Guba & Lincoln, 1994) [7].

4 Research Approach

Non-equity alliances frequently lack formal managerial structures. The alliance, which is the focus of this inquiry, is no exception. Thus, the paradigm of organizational power based on proprietary control is unsuitable both for managing alliances and for the study of their behaviors. The network paradigm, with its explicit focus on the multitude of relationships that alliance members establish over time as a consequence of their collaboration, is more suitable for shedding new light on how alliances develop and how they transform their organizational structures. This is because the integration that occurs without equity-based controlling powers differs profoundly from that which takes place among the subsidiaries of an international corporate system.

A network, in generic sense, consists of a system of nodes or positions occupied by firms with complementary or equivalent business domains, performing similar or interrelated operations in different geographical markets, and the links between them. The position of a firm in a network depends on its strategic sig-

[7] In their paper *"Competitive Paradigms in Qualitative Research"* E. Guba and I. Lincoln (1994) used the Weberian concept of *"verstehen"* to define a broad comprehension of the numerous facts, associations and circumstances that contributed to understanding of the phenomenon studied.

nificance for the customers and/or the competitive or relational significance of its service provision apparatus for collaboration management. A link is a collaborative relationship between two or more units, such as firms or individuals that participate in a network system. The link is the basic element in any type of relationship, which binds the network elements together. Without knowing the content of the links within a given network, no assessment of a network system and its functioning is possible (Thorelli, 1986).

4.1 Paradigmatic Approach

Thus, in analysis of industrial networks the basic focus is not on a firm or a single economic agent acting in isolation, but on groups of firms, interfirm relationships and social dependencies (Gilroy, 1993). The network view is basically a process view. Therefore, in order to trace the pattern of evolution in collaboration among the alliance partners, which transformed a loose association into a formal consortium organization, a more explicit understanding of *internal networking, cross-border extension,* and time-paced *change in network structure* is required.

This inquiry seeks to uncover the dynamics related to the building of an international network, which modified the relationships among its members, and in so doing, transformed them from individuals into a functional network. Since our goal was to explore the dynamics of structural transformation, rather than to present a static and orderly aligned picture of the network firms' mutual positions at various points in time (Gilroy, 1993, p.11), we examined the chronology of events that changed the relationships among the network members and the nature of their activities. In so doing, we unearthed the processes behind network metamorphosis.

Networks as Means of Collective Competition

The definition of network used here does not consider it to be an intermediate governance structure that lies somewhere between the spot-market and organizational hierarchy (Thorelli, 1986). Rather, networks are distinct modes of organizing economic activity, which affect the business performance of their members by linking them in specific constellations. Such constellations acquire their own economic power and create a basis for collective competition (Gomes-Casseres, 1996; Mattsson, 1999). The competitive strength of these constellations depends on their internal structure and differs from the competitive behavior of individual firms. When managed effectively, these constellations, or alliances, may become highly potent and dangerous rivals to the established single leading firms.

Multi-firm alliances can thus be viewed as networks of firms who collaborate for the purpose of competing collectively. Following Mattsson's (1999) conceptualization, an alliance is a network, which connects several actors who jointly develop a range of resources in order to enhance the system's efficiency and effectiveness (p.244). Each actor's position in a given network is affected by the nature of its relationships to other actors, and its role in the performance of network-vital functions. Over time new relationships are established, while the existing ones may be maintained, extended, or disrupted (Hertz, 1998).[9] These are processes of both change and stability. The inconsistency between change and stability releases centripetal and centrifugal forces that transform the network's structure and make the group capable to cope with different exigencies. Flexibility and adaptability affect the network's goal functionality, and hence, its longevity.

Networks operate within boundaries, which demarcate their functional reach in relation to other networks or their components. These boundaries emerge from greater codependence among the network members as compared to the outside world. Codependence causes the network members to integrate and seek internal match in order to coordinate their functions and attainment of common goals. Since resulting interconnectedness affects the degree of interunit integration, it may also influence the network's longevity.

Internetwork boundaries may also demarcate the spatial scope of networks' operations. These boundaries may overlap, thus blurring the distinction between individual networks. Internationally operating networks engage in business activities that transcend national boundaries and, in geographical terms, may cover whole groups of countries, regions or entire continents. According to Johanson & Mattsson (1988), *"Firms may be more or less international in the sense that they are more or less engaged in networks in different countries, and that these engagements are more or less interrelated. Internationalization of the firm means that it develops positions in networks in a growing number of countries, and that these network positions become increasingly interconnected"* [(Johanson & Mattsson, 1988) quoted in Forsgren & Johanson, 1992, p.19)]. The wider the geographical scope of a given network, the more that scope affects its organization, operations, and interunit coordination.

Another effect of multi-firm alliances is that interpartner networking extends the operational and market boundaries for single firms, and may create synergy for all system members. Alliances provide a powerful strategic rationale for network formation and/or network accession. Their proclivity for change and stability makes networks flexible. But, flexibility may also lead to almost unconstrained entry and exit, which may affect network composition, with two possible results. When managed effectively, flexibility may enhance the competitive vigor of the entire constellation, but when not, it may lead to the system's implosion (Doz & Hamel, 1998).

Cognizant of this fragility, alliances strive for network allegiance on the part of their members and for volitional contributions to generate network synergies. These inputs, when managed effectively, may create collaborative payoffs called *network economies* or *network effects* (Gomes-Casseres, 1996; Shapiro & Varian, 1999).

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[9] In her longitudinal study of internationalization of Swedish freight transport companies Hertz (1998) has shown that changes in composition and domains of international networks may occur through the so called *"domino effects"*. Domino effects may be released by acquisitions and/or termination of existing working agreements, and materialize in cascading withdrawals from network boundaries of seemingly unrelated actors. Domino effects may lead to disintegration of existing networks or creation of new network combinations and/or network-like company clusters. Since domino effects trigger encompassing, radical and interlocking changes, they are difficult to control for, but possible to foresee and preempt. For an empirical study of interlocking series of changes in the European transportation market see Hertz, S. (1998): *"Domino Effects in International Networks"*, Journal of Business-to-Business Marketing, Vol.5(3), pp.31

Network economies can manifest themselves in several positive ways. When interenterprise associations function complementarily and synergistically, they may minimize transaction costs, produce scale and scope benefits, and reduce business risks associated with technology acquisition, organizing of international product and service supplies, and exchange of information (Hertz, 1993). In this sense, networking helps to externalize market volatility (Gilroy, 1993; Coyle, Bardi & Novak, 1994; Boyer, 1997). Other network effects include *innovative designs* for production, supply, and transfer of information, instead of the traditional methods of simply enlarging the system and executing the predetermined tasks more efficiently. This may result in value adding to a network's customers, creating systemic benefits to its partners that would not be available to each of them individually (Imai, 1989).

When a network, as a result of its members' contributions, enhances its competitive position, the scope of the competitive benefits is contingent on the network size (the geographical scope of its operations), and the group's design. Since alliances base their functional and competitive existence on the capabilities of their members, the mix of capabilities within a given group and how the group manages and controls its members' inputs determine whether the potential synergies of the network are realized (Gomes-Casseres, 1986).

Network management may be quite complicated. Because networks depend on volitional links through which they exchange resources, several strategic prerequisites must be met, and certain organizational infrastructures must be in place so that networks can develop and function efficiently. The above preconditions, plus the relatively informal managerial power, make well functioning and economically efficient networks very beneficial, but at the same time very difficult to achieve. Networks are not always hierarchical, and when they are, the pattern of hierarchy is often flexible. Authority and control are not tightly centralized, and the group is seldom dependent on one single individual or enterprise for its survival (Gilroy, 1993). As participation in a network is voluntary, its members often have recourse to both social and formal regulations to manage their relations (Parkhe, 1993). Because networks do not solely function as a nexus of contracts, but also on a social level, our paradigmatic view incorporates the demographic and functional diversity arising from the group members' operational and cultural variability.

Based on the above paradigmatic approach, our analysis seeks to illuminate how the distinguishing traits of the allied firms, the cultural variability of their managers, and the business environment affected their interactions and the pace and scope of their integration. The hypothesized causal relationship among these five variables is shown below.

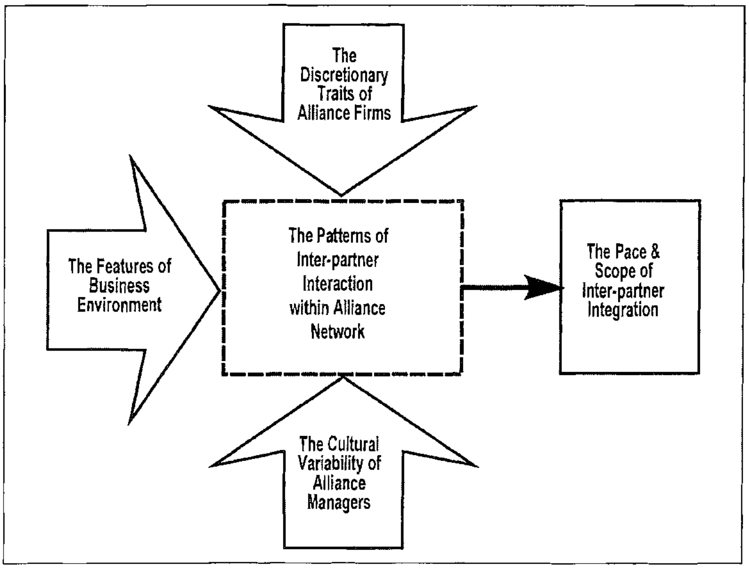


Figure 4.1.1: The Determinants of Intra-network Integration.

The phenomenon of integration was approached from multiple analytical perspectives and viewed as an outcome of several countervailing forces: *collaboration and competition, global and local, conflict and consensus, dominance and parity, individualism and collectivism, standardization and idiosyncrasy, and loyalty and defection.*

Integration thus emerged from the multiple interpartner adjustments that took place during and after the formation of the alliance. In order to explore the role and significance of the forces that structured the alliance and ensured its functional efficiency, we applied a lifecycle approach. This approach focused on the dynamics of the alliance system and the relationships among its partners. This method helped us to identify the different classes of determinants that directly or indirectly affected the alliance's organizational evolution and shaping of its business competence.

The Social Nature of Networks

Clusters of networks composed of firms who collaborate internally and compete externally within distinct and/or overlapping domains can be seen as markets and/or industrial systems (Mattsson, 1999). The trust of the *"markets-as-networks"* approach is that "*markets are conceived of as sets of connected, voluntary exchange relationships between actors controlling resources and carrying out activities in production systems*" (Mattson, 1995, p.761). Reasons why sellers and buyers engage in ongoing exchange relations and not in erratic exchange incidents is that both demand and supply are heterogeneous., Mutual adaptations are thus needed not only for an efficient handling of production functions and the logistical flows, but also for achieving an effective long-term match between the structure of demand and supply. This vision is confirmed by Ireland's (1990) definition of the market: "*A market, in its broadest sense, is nothing more than an informational integrated network within which the individuals transact and compete with each other, and consider alternative individuals with whom to transact or compete in the future*"(p.107). So, a network structure can be defined as an *extended system* where a number of operating agents in a given market are directly or indirectly interconnected in a pursuit of some common goals. *"Exchange in one relationship is conditioned by exchange in other relationships"*(Mattsson, 1995, p.761) causing thus networks to be inter-linked and interlocked through various bonding mechanisms.

This definition suggests that networks can be *"real"* or *"virtual"*. They may be hard to discern due to domain overlaps, or quite prominent with clearly defined boundaries (Mattsson, 1999; Shapiro & Varian, 1999). In *"real"* networks, the links between systemic nodes are physical, such as the network of roads for physical freight transfer, the Internet, and the EDI grid of computer-to-computer communications. In *"virtual"* networks, the intra and internetwork ties are composed of social bonds among the system's members, such as power or loyalty, but also of physical links created by exchanges of tangible resources, which require coordination and information. Therefore, virtual and real networks are interconnected, reinforcing each other and providing the rationale for the networks' existence and expansion, but also their occasional demise. Following Grannovetter (1985), Gulati (1997), and Mattson (1995) we may say that both real and virtual networks are socially embedded, and emerge as a result of network members' interactions.

Thus, the basic proposition of the network paradigm is that resource exchange and value creation within a given network happens not only through the market principle, but also through the rules of system organization and the pattern of interaction among the network players, who may operate in different business and societal contexts (Gilroy, 1993; Gulati, 1997; Mattsson,1995).

Interactions among members of an international alliance involve people who may have different operational and cultural backgrounds and different cognitive blueprints for perceiving and interpreting the world. An example can be found in the variety of approaches to conflict resolution. In cultures that emphasize individualism, conflict is viewed as a healthy, natural and inevitable part of relationships and organizations. In these cultures, programmed or structured conflict (e.g. devil's advocate and dialectical inquiry methods) is often used as a way to enhance the intellectual vigilance of the group and the quality of decision-making. But in cultures with a more collectivist orientation, vigorous conflict and open confrontations are deemed distasteful. Embarrassment and loss of face for either party are avoided at all costs, and replaced with efforts to find common ground through mediation and consensus. Such fundamental differences in approach may also affect problem-solving, power-wielding, decision-making, and trust in parties both internal and external to the group. All these disparities may impede the ongoing management of network interactions and performance (Parkhe, 1993; Tinsley, 1998).

Thus, volitional, non-equity alliances formed by partners with diverse cultural value dispositions and professional ideals may be affected by differences in partners' social network embeddness, and therefore prone to conflict and premature breakdown (Doz & Hamel, 1998; Gulati,1997; Grannovetter,1995; Mattsson,1995). To this end, this study shows how persistent efforts to narrow the structural and functional disparities and build the alliance allegiance helped to resolve interpartner conflicts, regulate interpartner dealings, improve the quality of professional interactions and put the alliance collaboration on a higher qualitative level with higher payoff structure.

There is a surprising lack of research on international alliances operating as voluntary multi-firm constellations (Gulati, 1997). Systematic accounts of how these multi-organizational arrangements transform themselves over time in order to comply with environmental exigencies and internal dynamics are almost totally absent in the research literature on international collaborative ventures.[10] However, one remarkable exception is Hertz's study (1993) of: "The Internationalization Process of Freight Transport Companies". This research explored the various aspects of internationalization of the Swedish transportation industry through proprietary and collaborative strategies over a thirty-year period.

Nonetheless, the general dearth of knowledge as regards internationalization of logistics and transportation industries is surprising, especially when considering that these two lines of service provision are operationally specialized in serving international trade flows with a global span of operations. As a result, strategic alliances have long been used for coordination of the operations of multiple service providers and organizing the supplies of goods for shippers and end-users in distant geographical locations.

Problems with the Application of MNE Theory to International Alliances

A strategic alliance, which does not expand its geographical coverage through cross-border merger or acquisition, but through volitional collaboration among several partners, deviates radically from the dominant paradigm of international production theory and internationalization theory. The literature on international trade and business is overwhelmingly oriented towards multi-national corporations (usually modeled on the US and/or Japanese practice), and the manufacturing sector. These writings systematically neglect the middle-sized, second-tier service provision enterprises which, by integrating their resources into an alliance system, enhance the level of collective competitiveness (Gomes-Casseres, 1996).

This conceptual gap derives from the generic differences between the large multi-national corporations and strategic alliances, and their founders. Border-crossing, multi-firm alliances create significant strategic advantages from the use of resources and sales in multiple countries. The distinguishing feature of these networks is that their origins are national, but their operations are international, as demonstrated by their deployment of resources (production facilities, people, rolling stock, fleet and customers) in more than one country. However, they do not necessarily own foreign assets; in other words, foreign direct investment (FDI) is not a requirement. These strategic alliances arrange to use resources in multiple foreign markets by accessing their partners' production capacity and distribution systems. Thus, consistent with Buckley & Casson's (1976) definition of multinational enterprise, the mission of international multi-firm coalitions is concerned with value-adding, not asset-owning (Casson, 1990). To this end, several empirical studies revealed that FDI, such as portfolio differentiation or green field establishments, which are centerpieces of orthodox internationalization theories, seldom takes place in the context of alliance ventures (Oviatt &

[10] The dearth of academic studies and the lack of adequate knowledge on volitional alliances as a measure of international expansion was discussed by Richard W. Wright and David A. Ricks in a summary article: *"Trends in International Business Research: Twenty-Five Years Later"*, JIBS, 1994, Vol.25, 4, pp. 687-701. The article was written on the occasion of the twenty-fifth anniversary of the Journal of International Business Studies and listed several major themes, which needed more scholarly attention. The author's own search in multiple databases conducted in 1999 for research work on multi-firm, border-crossing alliances confirms this view.

McDougall, 1994; O'Farrell, Moffat & Wood, 1995; Dunning, 1997; O'Farrell & Wood, 1998).

Second, for manufacturing businesses, the investment in foreign markets compared with exporting generally increases the fixed cost level, but lowers the variable costs (Buckley, 1988). For medium-sized business-service-provision-firms, the constraints of capital availability, management time and effective information about foreign markets are more significant than for larger firms. In business services, such as logistics third-party operations, variable costs (mainly labor) are generally much higher than in manufacturing. Capital requirements are relatively low and so impose less of a barrier to foreign establishment, but uncertainty and the higher risk of operating in foreign markets do not generally favor FDI. Thus, generally speaking, management capacity and market information constraints impose high marginal costs on foreign activity for medium-sized operators (Enderwick, 1989; Boyer, 1997; Newburry & Zeira, 1997).

Third, the formation of border-crossing alliances, which are international from inception, is an increasingly pervasive phenomenon. This trend is a reversal of the established order, as evidenced by the sequential stage model of internationalization (Johanson & Vahlne, 1977; Johanson, 1990). The fact that international collaborative ventures among firms in several countries are international from inception (by virtue of their partners' geographical locations and collaboration, allowing international service provision) implies that some internationalization decisions must be made from the outset. Whereas for multi-national enterprises, international expansion is usually equated with a merger or acquisition, or with the time during which they evolve from domestic to international operations by gradually committing larger amounts of proprietary resources to foreign operations, there is no ultimate resolution of this issue for international alliances. Strategic alliances begin with a proactive international strategy, although their organizational evolution may be spread over time, in which they become more integrated and functionally fit. Here we emphasize the importance of a time-based approach to the study of these formations (Bjørkman & Eklund, 1995).

Further, if the production processes of service provision firms are inherently collaborative, the primary behavior of these firms in foreign markets must reflect how such collaboration is organized at a distance. Studies of internationalization processes of large firms, usually in manufacturing, tend to focus on their internal resources, including organizational and managerial assets. The availability within the firms of resources for planning export-activities and/or proprietary acquisitions is therefore taken for granted (Buckley et al. 1990). However, the same cannot be assumed in the case of a group of middle-sized autonomous service firms, which form an alliance. The alliance's competitive advantage is essentially defined not just by the members' internal resources (although the scope of market domains, individual expertise of service provision and apparatus may be prerequisites to alliance formation), but also by the nature of their interactions.

The development of interfirm collaboration that would allow the group to perform in concert and respond to market exigencies is a cumulative process, which involves operational adjustments and technical changes, but foremost, trust in functional interdependence. Thus, in the case of a volitional alliance, interpersonal, calculative and institutional trust, in addition to alliance commitment, are the most important resources, affecting the scope, durability, and quality of the international collaboration (O'Farrell & Wood, 1998).

Finally, in our search for a plausible alliance conceptualization, we turned to the research on international entrepreneurship, as we assumed that phenomenologically speaking, the ventures of middle-sized service provision firms most likely belong there. However, the studies of international entrepreneurship have largely concerned themselves with:

1) The impact of public policies on small firms' exporting (Rossmann, 1984);
2) Entrepreneurs and entrepreneurial activities in various countries (Westhead, 1990; Ohe, Honjo, Considine & MacMillan, 1991); and
3) Comparisons between small exporters and non-exporters (Kedia & Chokar, 1985).

Under these circumstances, we could not build on the conceptual work of international manufacturing theories, nor on entrepreneurial activity research. Instead, the network paradigm provided a viable source of illumination, embodying several analytical categories and causal relationships that were helpful in analyzing the alliance's organizational evolution and the development of its competitive advantage. Networking as a source of competitive advantage combined the ability

- To create functionally complementary relationships (such as moving freight jointly through a Pan-European pipeline) that increased the system's geographical coverage, the scale of service provision, and market access for individual partners, and
- To harness the network potential (such as the broad range of services provided) for attainment of common goals (such as enhancement of the alliance's competitive standing).

Although successful networks are based on collaboration, the underlying motive for their existence is their members' quest for competitive advantage. Activities are coordinated by a set of gradually adopted norms and measures which, over time, may contribute to the firms' ability to work together under joint governance.

Dunning (1997), the author of the classical *"eclectic paradigm"* who was the first to specify the strategic benefits of foreign direct investments, took note of the growing role of volitional alliances in organizing international value-added activity. He re-appraised his original analytical approach by admitting that horizontal and vertical networking may occasionally become the viable alternatives, although not the substitutes for ownership-based internationalization. Consequently, he expressed the benefits of volitional networking as follows: *"It is rather that [interfirm agreements] may help to achieve the same objectives more effectively [as compared to FDI], or spread the capital and other risks of participating firms. In other words, interfirm agreements may provide additional avenues to circumventing or lessening market failures where the FDI route is an impractical option"* (Dunning, 1997, p.85).

However, Dunning's (1997) skepticism as to the functionality of volitional networking was revealed by his assertion that despite many short-term advantages, collaborative strategic venturing is inadequate to garner the benefits of cross-border value-adding because such benefits *"can only be realized through full hierarchical control over such operations"* (p.86).

With reference thereto, we show how the formation of cross-border logistics alliances was prompted by the failure of international mergers and acquisitions to produce sound economic returns on foreign direct investments.[11] To this end, and in line with other studies (Cunningham & Calligan, 1991; Forsgren & Johanson, 1992; Gomes-Casseres, 1996), this study shows how a volitional, long-term, collaborative network without proprietary control over its partners' production assets did realize competitive benefits from Pan-European operations by utilizing functional flexibility and alternative management structures.

Within a given volitional network, a company may collaborate with one or more foreign firms to supply complementary services to international markets (Hertz, 1993). Such a network can be very flexible by varying which partners participate in different projects; capability, skills, trust, and location may all affect the level and scope of individual involvement in the performance of collective tasks. Some collaborative arrangements in business service provision may continue over many assignments (such as third-party-service-provision-consortia), whereas others may cease after a few weeks on a particular project (such as *ad hoc* partnerships). A dynamic perspective is thus required to analyze these collaborative associations. Therefore, the network paradigm, with its conceptual foci on

1) Changing pattern of social and functional embeddedness of individual operational units in the network context due to heterogeneity of business operations, cultural backgrounds and patterns of demand in international markets;
2) Organizational formalization that gradually regulates partners' performance;
3) Reliance on alternative governance modes, such as volitional commitment, trust in the virtues of collaboration, and fairness in decision-making for managing the network's actions;
4) Gradual development of a large-scale integrated system capable of competing with multi-divisional formal corporations

provided a framework that allowed exploring not only of the pace of alliance's transformation, but also of the forces that structured this process and its temporal dynamics.

4.2 Ontological Perspective

This study deals with transition in organizational structure over time and interorganizational relations. The case illustrates how a loose coalition of autonomous firms, facilitated by major structural shifts in the business environment, transformed the working relationships among its partners and its own organizational design, and became capable of performing in concert and jointly responding to various opportunities.

This study focuses on the forces that induced the change process and prompted relational adjustments among the group's members. The consortium in question is equipped with a registered trademark and managed through a hierarchical governance body, which regulates the supply of distribution services to fifteen European countries.

The purposes of this section are to place this study within a broader framework of organizational theory, assign the ontological perspective to the phenomenon studied, and to justify the choice of methodology for its analysis. The ontological

[11] See Appendix no.1:"Environmental Factors Behind Alliance Formation" for historical and contextual factors that preceded the alliance formation.

perspective helped us to determine the causal motors behind the venture's evolution and contributed to our understanding of the strategic and operational activities among its partners. It guided our search for the intricacies of the alliance's integration process.

Figure 4.2.1 below presents several schools of thought within organizational literature. The scheme classifies the important streams of organizational thinking in a four-cell matrix, revealing clearly discernible paradigmatic orientations. By juxtaposing conceptual differences among the different academic schools, the scheme proposes four determinants of organizational design and behavior (Astley & Van de Ven, 1981).

Two factors divide the scheme: The level of organizational analysis, and the relative emphasis placed on structural determinism versus personal actions and internal processes as change agents. We have chosen to place our study in the right-hand field of the classification scheme. This field turns the conceptual spotlight on *collective action* and *strategic choice views*, and combines the micro- and macro-analytical perspectives.

In order to explore and arrange the sequence of organizational transformation in time, this study embraced several analytical levels. It focused on individual managers and their leadership styles, on entire partner firms, and on relationships among the allied firms within the venture network. In addition, it also included the superstructure of the alliance consortium by focusing on the European Economic Interest Group as a strategic apex for managing the network's international operations.

	Focus on Structural Configurations	**Focus on Personal Actions and Internal Processes**
Macro Level (Populations or Networks of Organizations, Industries, Communities)	**Natural Selection View** 1 Societal Evolution 2 Scientific Marxism 3 Population Ecology 4 Institutional Economics	**Collective Action View** 1 Societal Guidance 2 Critical Marxism 3 Social Ecology 4 Pluralism/Collective Bargaining
Micro Level (Individual Organizations, Groups, Persons, Individual Units within Organizations, and Individual Actors)	**System Structural View** 1 Structural Functionalism 2 Human Engineering 3 Social Systems Theory 4 Structural Contingency Theory	**Strategic Choice View** 1 Quality of Working Life 2 Strategic Policy Formulation 3 Decision Theory 4 Interaction Theory

Source: Adapted from W. G. Astley and A. H. Van de Ven (1981): "Mapping the Field to Create a Dynamic Perspective on Organizational Design and Behavior", in A. H. Van de Ven and W. F. Joyce (Eds.), Perspectives on Organizational Design and Behavior, John Wiley & Sons, New York, pp. 427-486.

Figure 4.2.1: Classification Scheme of Major Schools of Organizational Design and Behavior

We believed that adoption of several analytical perspectives would better explain the part–whole relations among the semi-autonomous actors, the patterns of their collaboration, and the impacts that their interactions exerted on alliance evolution.

Moreover, as the change-process investigated here did not proceed linearly, but in waves and spells that affected the allied organizations to varying degrees, a layering investigation method was applied. This method helped to capture the complex interrelationships and different stages in the process of the alliance's integration. This technique allowed the assessment of the timing and contents of several parallel interventions and led to establishment of a centrally coordinated apparatus for Pan-European service supply.

The many stages of integration were of different natures and functions. They included distinct psychological states and situations, had unique environmental impacts, featured transient processes that structured interpartner interactions, and contributed to changes in awareness. These changes in managerial awareness pertained to restructuring of individual business models in line with alliance interests, and acceptance of both market idiosyncrasies and operational standardization for achievement of alliance goals.

Next, a cross-layer approach was applied in order to add insight into different parts of the puzzle and assess the impact of various re-alignments on the overall system.

The second factor that distinguishes the different schools of organizational thinking is the role ascribed to the environment as an external control mechanism as compared to the influence attributed to internal processes and free will. These competing visions contrast the voluntaristic view against its deterministic antithesis by positing either

1. That human beings and their institutions are determined by exogenous forces, or
2. That human beings are unconstrained by environmental factors, and that patterns of social institutions are autonomously chosen.

The ontological perspective adopted in this study emphasizes a voluntary view on human action and incorporates the macro and the micro levels of analysis. Thus, individual actions and interaction processes are the two foci of scientific inquiry. The scheme in Figure 4.2.2 refines the division between the system-structural approach and the collective action view. It specifies four analytical categories: *structure, change, behavior, and the managers' roles*, which function as major ontological determinants of organizational transformation.

MACRO LEVEL	System-Structural View: Structure: Roles and positions hierarchically arranged to achieve the goals of the system efficiently. Change: Divide and integrate roles to adapt subsystems to changes in environment, technology, size and resource needs. Behavior: Determined, constrained, and adaptive. Manager Role: Reactive.	Strategic Choice View: Structure: People both organize their relationships and socialize in order to serve the choices and purposes of those in power. Change: Environment and structure are enacted and embody the meaning of actions of those in power. Behavior: Constructed, autonomous, and enacted. Manager Role: Proactive.
MICRO LEVEL	System-Structural View: Structure: Roles and positions hierarchically arranged to achieve the goals of the system efficiently. Change: Divide and integrate roles to adapt subsystems to changes in environment, technology, size and resource needs. Behavior: Determined, constrained and adaptive. Manager Role: Reactive.	Strategic Choice View: Structure: People both organize their relationships and socialize in order to serve the choices and purposes of those in power. Change: Environment and structure are enacted and embody the meaning of actions of those in power. Behavior: Constructed, autonomous, and enacted. Manager Role: Proactive.
	Deterministic Orientation	**Voluntaristic Orientation**

Source: Adapted from W. G. Astley and A. H. Van de Ven (1981): "Mapping the Field to Create a Dynamic Perspective on Organizational Design and Behavior", in A. H. Van de Ven and W. F. Joyce (Eds.), "Perspectives on Organizational Design and Behavior", John Wiley & Sons, New York, pp. 427-486.

Figure 4.2.2: Four Ontological Views of Organizational Change and Development

The centerpiece of the collective action view is the interaction among a group of interdependent, yet functionally autonomous organizations and/or partisan individuals, who collaborate within a network system to create a collective environment and expand their business options. In so doing, they devise a set of working rules and change their individual organizations in order to establish a new business system. The purpose of this system is to attain collective goals and change the competitive positions of its members in relation to the external environment.

Change occurs through a variety of social mechanisms, such as negotiations, consensus-building, power wielding and intercultural learning, which gradually narrow the gaps between the partisan interests. Over time, the divergent interests are overridden by shared values that transform the initial self-orientation into pursuit of collective goals. Interparty interaction is eventually governed by collective norms, values and rules that reflect the common experience gained during the joint struggle for existence. Such a system is an interorganizational network that constitutes *"an emergent entity with idiosyncratic characteristics which make it an object of analysis in its own right"* (Benson, 1977).

The collective action perspective was next coupled with the strategic choice view that emphasizes the possibility of real and substantial choices in designing organizations. Such processes are both facilitated and hampered by the divergent cultural backgrounds of actors and the political struggles in which they engage (Forsgren & Johanson, 1992). The strategic choice perspective ascribes relatively little merit to technical standards and laws of technology that organizations are supposed to abide by. Rather, it maintains that a given organizational format is largely a product of choice and the tensions emerging from how different individuals construct and enact their realities (Weick, 1979).

Organizational roles and structure provide a framework for action, but these are often modified as people impose their own versions of reality upon different situations. The strategic choice orientation posits that adoption of strategic positions and implementation of strategic actions occurs through competing perceptions of environmental signals, power asymmetry, and cultural heterogeneity. The contingency generated by interactive dynamics makes the strategy implemented only vaguely linked to the strategy formulated. Besides, the *"strategy"* is often devised after the relevant actions have already been taken. Hence, in order to rationalize past behavior and retain a normative value of the strategy notion, a retrospective logic is invented that *ex ante* justifies the past action. So, the *"retrospective consciousness superimposes a quality of logic upon the existing order"* (Bergen & Luckman, 1966).

These two perspectives, *collective action* and *strategic choice view*, created a broad conceptual framework within which a multi-level analysis of organizational change and development has been situated. It allowed us to adopt a dynamic and historical approach towards network evolution. The fact that both perspectives explicitly articulate the voluntaristic features of human actions directed this investigation towards the individual and collective efforts that transformed the network's design, and endowed our analyses with multiple foci.

However, in order to balance the conceptual one-sidedness of a voluntaristic orientation, our explorative agenda also included several environmental factors that we assumed would affect the development of the focal alliance. For no single organization or organizational system can exist and function independently of its surroundings. Table 4.2.1 presents the important dimensions of interfirm diversity and relates them causally to the impacts of societal and corporate cultures. It systematically links each diversity dimension to components of the alliance structure and the partners' interactions.

Table 4.2.1: Sources of Cultural Diversity and Their Bearings on International Alliances

Conceptual Level	Phenomenological Level	Dimension of Diversity	Sources of Tension	Alliance Structure Components	
				Pattern of Linkages	Shadow of the Future
Meta	Supranational	Societal culture	Differences in perceptions and interpretations of phenomena, analytical processes	Reliable/ Uncertain	Interpartner commitment
Macro	National	National context	Differences in home government policies, national industry structure and demand composition	Stable/ Temporal	Degree of interpartner integration
Meso	Top management	Corporate culture	Differences in ideologies and values guiding companies' behaviors	Rivalrous/ Collaborative	Pay-off distribution, interpartner trust
Meso	Policy group	Strategic direction	Differences in strategic priorities between partners with collectivistic and individualistic identities	Standardized/ Non-standardized	Alliance's competitive position
Micro	Functional	Management practices	Differences in management styles, decision-making, conflict resolution, communication competence	Loose/ Tight	Willingness to introduce irrevocable changes in individual business systems

Source: Adapted from A. Parkhe: "Partner Nationality and the Structure-Performance Relationship in Strategic Alliances", Organizational Science, Vol. 4, 2, May 1993, pp. 301-324.[12]

This study embodied several impacts of contextual determinism. We reviewed the pace of liberalization of the European market for transportation and explored how the European Union's policy of deregulation affected the industry structure and formation of border-crossing strategic alliances. Further, we utilized our knowledge of demand composition for freight supply solutions in the Nordic countries to assess the scope of standardization that was viable for the partners' international operations.[13] Finally, we probed into the national cultures of alliance managers and linked the differences in cultural identities to the patterns of individual performance and the modes of functioning within the alliance system.

In the following, several explanatory theories are reviewed. These models submit a *"pattern of interconnected thoughts"* on the different aspects of alliance evolution envisioned from the network perspective (Guba & Lincoln, 1994). However, the role and purpose of this theoretical perspective were not to provide a framework for testing the propositions or defining relationships among the variables that structured the alliance progression. Rather, it provided a set of analytical instruments, which guided collection and analyses of data and comparisons of theoretical visions with empirical outcomes. In this respect, it functioned as a point of departure and a reservoir of metaphors, analogies, categories, and associations, which

[12] The adaptation pertained to various patterns of interpartner linkages.

[13] See Ludvigsen (1999):"Freight Transport Supply and Demand in the Nordic Countries. Recent Evidence", Transportation Journal, Winter, Vol.39, No 2, pp.31-54.

allowed the dialectical generation of tentative causal links between the data and the theory.

The flexible and tentative character of the theoretical framework allowed us to supplement the conceptual perspectives when the intricacies encountered by the empirical investigation were not adequately addressed, or could not be sufficiently explained by the model concepts. Together, both the *a priori* stated and the later co-opted conceptualizations were used to compare the theoretical suppositions with the results from the fieldwork, and for establishing the links between the *a priori* expectations and the empirical results.

The sequential comparisons between the conceptually envisioned and the empirically verified outcomes were conducted until a thorough, holistic understanding of the alliance's lifecycle emerged. Thus, the research work, the outcome of which is reported here can be viewed as a theory in progress, or as a theory under development, because the phenomenon studied has so far been incompletely conceptualized and, as a consequence, inadequately understood and explained.

5 Summary

Part I of the study reviews the literature on the nature of strategic alliances and places this research study within the realm of the network paradigm. In addition, it assigns the ontological perspective to the forthcoming empirical exploration. Based on the network perspective, the evolution of the focal alliance is conceptualized in terms of changes in social and functional links among the network units. The *free will* perspective serves as a major conceptual anchor because it envisions the focal alliance in terms of voluntary contributions from autonomous but interdependent actors who have merged their individual capabilities and domains in order to expand their collective market reach and improve their collective competitive standing.

Subsequently, several conceptual and analytical arguments are rehearsed which support our choice of network perspective to the exclusion of traditional internationalization theories. The crux of this reasoning is that the alliance in question was forged between large and middle-sized service provision firms which, by joining their operations in fifteen national markets, created a Pan-European freight distribution system without taking over the production assets and/or market domains of their fellow partners.

More specifically, Part I of this study creates an analytical space in which a set of research questions is posed. These questions address several classes of determinants that contributed to the formation and functional evolution of the alliance in focus here. Mainly, they allow us to examine the measures that the alliance partners took to integrate their efforts toward the venture more thoroughly and put themselves in a position to withstand several threats and challenges.

The external challenges included the diversity of market demands for freight supply solutions and the liberalization of the European transportation market that together created a highly competitive European business environment. The internal obstacles emerged from the operational and demographic variability of the partners, which affected their interaction and the attainment of synergy as a result of their collaboration. The analyses of the internal and external determinants serve the purpose of opening the black box of the alliance's transformation, a transformation that changed the patterns of the alliance's organization and its management.

Thus, Part I of this study reviews the mechanisms that both enhanced and impeded the alliance's integration. This research focus incorporates the effects of the interplay between the exogenous and endogenous forces that interchangeably shaped the alliance's advancement.

Part II

Conceptual Model

1 Introduction

In this chapter, based on the paradigmatic view of strategic alliances, we present a conceptual framework, which serves as analytical underpinning for our analyses of the focal alliance.

The model below synthesizes the effects hypothesized by theories of social networks, and background factors such as the cultural differences between alliance managers and their business models, and the features of the European economic environment, which we assume, will affect efforts toward joint problem-solving. The ontological perspective of this study assumes that these conditions will shape the interorganizational realignments needed for making the alliance in position to operate as one service provision system.

The framework incorporates three blocks of determinants of interpartner fit presented in sequential order. These are the factors, which we assumed would affect the magnitude and types of interparner adjustments, and duration of time required for fit-building.

The first part of the framework defined as antecedent factors contains five background dimensions, which illustrate the scope of interpartner diversity. This diversity may at the initial stage of the alliance's life differentiate and disunite the partners, delaying thereby the process of integration

The six subsequent constructs represent the mediating process variables. These include a series of strategies, actions, inputs and achievements that over time may reduce the structural and demographic disparity by creating a web of collaborative links and a strong allegiance to the alliance on the part of its members. Stronger collaborative links and loyalty to fulfillment of the alliance mission may enhance perceptual and behavioral willingness to re-structure individual business models, allow the partners to perform in concert and reap the competitive gains produced by network's geographical enlargement.

However, the partners' diversity may hamper this process, making the practical integration not easily attainable. Therefore, it could be expected that an effective integration may be an outcome of highly focused actions as well as random external shocks. It may emerge from performance of common tasks and ad-hoc adjustments, which might be influenced by some highly unexpected but compelling circumstances. Together, these two classes of constructs, i.e. the antecedent and mediating factors compose the *black box* of alliance transformation. This transformation may be driven by a host of intervening processes that, over time, will mould the partners' conversion from separate entities to parts of a whole though positive and negative influences.

Finally, the third set of constructs includes the outcome factors defined as the state of interpartner integration. This condition is manifested by completion of necessary interpartner adjustments and attainment of systemic fit at the alliance level. The model anticipates that a system of geographically inter-linked independent units operating as one taskforce at Pan-European scale would gain a discernible competitive position in international business environment.

Thus, the model envisions how the alliance partners may attune their production assets, service provision technologies, domestic markets, competitive competencies, and integrate them into a larger pool of resources that would enhance the collective competitive standing of the entire constellation.

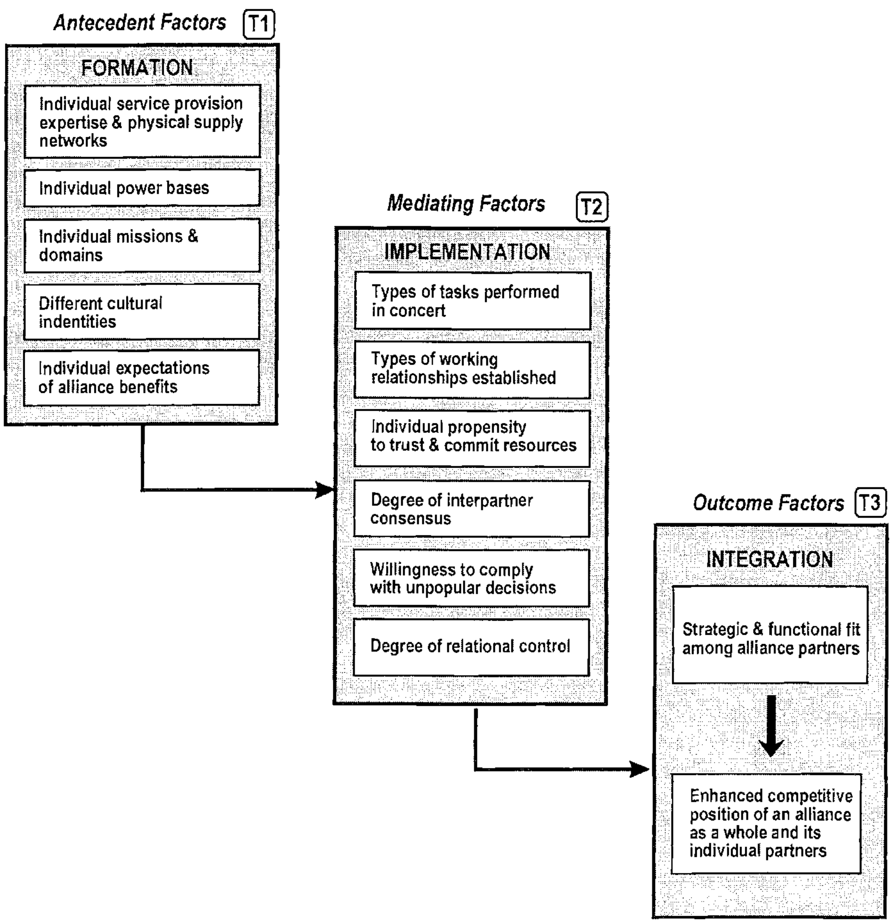


Figure 1.1: Analytical Framework of an Alliance's Integration Process.

The links among the constructs in Figure 1.1 suggests that a successful integration will be a product of multi-step functional and strategic re-alignments that, gradually, will narrow the discrepancies dividing the alliance partners. The conceptual links in the framework are specified as predictive statements of causal relationships. For example, *"The greater the cultural diversity among the alliance members, the more difficult for them it will be to achieve a working consensus, and the less each of them will be willing to comply with unpopular decisions related to fulfillment of the alliance mission".*

It is our supposition that the causal relationships among these three classes of determinants of integration will vary with regard to the strength and direction of their impacts at different points in time. The questions, however, of *in which areas* and *to what degree* this variability has an effect will require empirical verification.

The framework is constructed around the principle of *layering*. *Layering* is a metaphor and an ontological assumption used to describe people's experiences, their motivations, and their understandings of the issues: *"Layering implies that there are alternative ways of knowing that are continually juxtaposed and played against each other, and/or blended together"* (Hecht, 1993, p.7). In order not to foreclose the multitude of results by imposing a set of limited definitions on this study, three forms of layering have been applied.

The first meaning of layering is *meta-theoretical*. The notion of layering suggests that there are alternative ways of experiencing the world and interpreting the phenomenon observed, which occur in parallel. For example, some authors argue that behavior is determined by prior actions and individual propensities. Others propose that behavior is influenced by intention and purpose, but becomes moderated as a consequence of interactions with others. In fact, the behavioral patterns that people demonstrate may depend upon the stimuli they receive, and many stimuli may result from intentional behaviors. In addition, there are some *"realities"* which are objective and generalizable.

However, at the same time, each individual experiences these realities *differently*, sometimes to the point that consideration of reality itself is not as important as understanding people's interpretation of it. Therefore, rather than opposing each other, different perspectives can actually complement one another. As some scholars have put it: *"Theories on experiential realms may present competing assumptions and competing explanations about the phenomena studied, but this is a strength and not a weakness of the perspective: The divergent theories, when combined in a creative and illuminating manner, may produce new insights and/or change the established viewpoints that do not withstand such new light"* (Baldwin & Hoecht, 1994, p.60).

The second function of layering is *descriptive*, in which the layers of meaning at different levels of analyses are discussed. A layered perspective at the individual level encompasses a plethora of conflicting factors, which separate individuals from and integrate them within groups and society. However, one also has to know how certain events, ideologies and relational positioning affect and are affected by individual behaviors, and how they contribute to harmony and conflict within the organizational collectivities. This aspect of layering can aid in determining what happened among the partners of an international alliance at different points in time.

Third, layering has been also used as a *methodological* concept to emphasize that many layers of social action can be at work at a given time. Most scholars acknowledge that individual behavior cannot be divorced from collective conduct, although the former is not a mirror reflection of the latter. Individual behavior is influenced by cultural norms, shared meanings, and individual dispositions, while collective behavior is influenced by the relationships among its participants. Culture is a multi-level phenomenon that creates a loop between society and an individual.

Thus, different perspectives can be layered one upon another to gain a better understanding of the behavioral and perceptual consequences of cultural norms on the interactions within multi-cultural groups. That is why we employ several approaches, which visualize various aspects and determinants of integration among the members of an international alliance. We do not favor any one of these, for none of them alone gives a complete picture of the integration process. Each of them, however, provides insights which, taken together with the others, may explain the social phenomenon of formation and development of a voluntary international venture. However, having said this, we want to make clear that the objective of this research is not to support or refute any of the theories that were applied in the construction of the theoretical framework, but to use them to understand the intertemporal, multi-layered phenomenon of integration.

Consistent with this reasoning, in the following we delve into the theoretical dimensions of the explanatory framework. These include three blocks of key factors, and their presumed relationships, which have been identified and assessed by means of an extensive literature review and a pilot study conducted prior to the main investigation.

As mentioned, this framework is not used for empirical testing of theoretical concepts, but as a conceptual preamble, which evolved and changed in the course of the investigation as a consequence of the feedback from informants and our own insight-building. In this sense, the theory which emerged through this process is *"grounded"* in the data, which means that the theory has been related to, verified and modified by the patterns and content of phenomenological manifestations (Glaser & Strauss, 1967; Strauss, 1987).

The theoretical framework incorporates constructs at various levels of analysis. Motivation, a propensity to collaborate or commit resources, power status arising from control over resources needed for accomplishment of the alliance mission, tolerance of functional complexity, trust and loyalty, are all individual-level phenomena. Interpersonal constructs include, but are not limited to, working linkages, patterns of exchange relationships, the alliance's overall level of commitment, social bonds, coordination through relational adjustments and power asymmetry. Alliance goals, strategies for managing logistical operations and service of an international supply chain are all discussed as intra-group phenomena. The dimensions of cultural variability, such as individualism, collectivism, and divergent managerial praxis, are cultural-level phenomena that may operate at individual, group and societal levels. Finally, probing into various degrees of interorganizational integration presupposed the dyadic, triadic and network's perspectives.

All these constructs are employed to describe the processes of mutual realignment and structural change occurring within an alliance venture. It is important to emphasize that although the theoretical perspectives reviewed in the following have been compiled to analyze the change process in an international alliance operating in one particular type of industry, this framework may also apply to alliances forged by firms or corporations in other industries. The differences may pertain to alliances' core activities and the strategic rationale underlying their existence. However, the nature of the social and functional processes related to formation and evolution of these collaborations should remain the same, although their transition may happen at different times and in a different sequence.

Our goal in constructing this theoretical framework was to provide an explanation of the phenomenon under investigation. In this case, it was the integration among a group of partners to a strategic alliance forged by seven European logistical firms with different cultural backgrounds and national operating domains.

While devising this theoretical framework, we endeavored to be logically consistent and include constructs at five levels of analysis in order to identify the different layers of their causal bearings on interpartner fit-building. By focusing on several social processes which we expected would impact on the alliance's transition toward an operationally more efficient taskforce, we attempted to remain realistic in defining the hindrances an alliance has to confront, the determinants of its partners' relational behavior, and the factors influencing the patterns of their interactions. Therefore, we employed a vast body of theories and several analytical perspectives.

2 Antecedent Factors

The first set of determinants in our conceptual framework pertains to the stage of *"formation"* of the alliance arrangement. It defines five basic types of organizational resources and characteristics of the alliance partners, which may both facilitate and inhibit interpartner integration. These are grouped into five classes of contextual attributes, which condition the partners' behavior while they negotiate the definition of the alliance mission and the conditions for the alliance's development. They are:

1 Individual service provision expertise and physical supply networks.
2 Individual power bases.
3 Individual missions and domains.
4 Cultural identities of alliance managers.
5 Individual expectations of alliance benefits.

Below, each element is discussed from the perspective of its assumed bearing on the process of alliance formation.

2.1 Individual Service Provision Expertise and Physical Supply Network

In a heavily competitive environment, a major concern of business management is the development of specific expertise and the possession of operating facilities that allow a firm to compete successfully and prosper in the market place (Conant, Mokwa & Varadajan, 1990). In a strategic sense, the combination of expertise and an operational base creates firm-specific capabilities and distinctive competencies that constitute the core of a competitive advantage. Firms' capabilities have been defined as those attributes, abilities, organizational processes, knowledge and skills that allow a company to achieve superior performance and a sustained competitive advantage over competitors. In logistical terms, the firm's capabilities refer to the physical service provision apparatus and possession of relevant operational competencies, which determine the quality of customer service, and ensure product availability, time advantages, a short order cycle time, and a low-cost of service provision.

Both, the researchers and the managerial practitioners agree that the different logistical capabilities which that the firms possess contribute to different types of competitive advantages. In this respect, They have identified two types of *"value disciplines"* or *"strategic emphases"*. The first value discipline is related to customer closeness or intimacy, while the other second is related to operational excellence.

This first value discipline stresses the external customer, external interfaces, and external goals and objectives (Langley & Holcomb, 1992; Morash, 1986, 1990). It often embraces product or service differentiation and service enhancement from by means of logistics capabilities, such as time advantages or a high level of customer service. This value discipline is therefore defined as the *"demand-oriented"* or *"customer*-oriented" approach. The *"Demand-oriented"* logistics capabilities relate to customer service, time- advantages, and responsiveness to target markets.

The second value discipline is related to an organization's operational capabilities. It is labeled *"supply-oriented"* value discipline and stresses the internal customers within the company, such as the marketing and production departments, retail outlets and company owners. It emphasizes the need for distribution networks that create market values and competitive advantage to freight shippers, freight end-users and logistics operators through efficient movement of goods and services.

Table 2.1.1: Definitions of Major Strategic Logistics Capabilities

Demand-oriented Capabilities (D)	**Definitions**
1.Pre-Sale Customer Service	The ability to service the customer during the purchase decision process, before the customer buys the product
2. Post-Delivery Customer Service	The ability to service the customer after the delivery of the product to ensure a high level of customer service
3.Delivery Speed	The ability to reduce the time between order taking and customer delivery as close to zero as possible
4.Delivery Reliability	The ability to meet quoted and anticipated delivery dates and quantities exactly
5 Responsiveness to Target Market(s)	The ability to respond to the needs and wants of the firm's target market(s)
Supply-oriented Capabilities (S)	**Definitions**
6. Widespread Distribution Coverage (Availability)	The ability to provide widespread and/or intensive distribution coverage effectively
7. Selective Distribution Coverage	The ability to target selective or exclusive distribution outlets effectively
8. Low Total Cost Distribution	The ability to minimize the total cost of distribution

Source: Adopted from Morash, Dröge & Vickery (1996), *Journal of Business Logistics*, Volume 17, p. 3.

Table 2.1.1 provides a listing of major *"demand-oriented"* and *"supply-oriented"* logistics capabilities and their definitions. It shows that the *"supply-oriented"* logistics capabilities, which can potentially result in superior business performance, relate to product availability, convenience, and low distribution costs. For simplicity, we refer to the strategic emphasis on supply-oriented values as the *"operations-oriented strategic focus"*.

There is quite a vast body of literature describing both value disciplines of demand-oriented and operations-oriented capabilities. However, it is not clear whether they are equally effective at creating a sustainable competitive advantage. Neither has it been established whether these strategies are easily substituted for one another, are simple complements, or are equally beneficial to firm performance.

The existing literature disagrees on these two strategic orientations. Some authors say that there is a mutual exclusivity between them, while others assert that superior firms need to combine both value disciplines in order to compete successfully in global markets (Porter, 1990). Authors who analyzed the viability of operations-based competitiveness arising from new technology or process computerization concluded that this type of relative superiority is inherently imitable, and as such cannot contribute to a long-term sustainable competitive advantage (Barney, 1991).

In contrast, the demand-oriented capabilities that lead to close collaborative interaction with customers and other channel members, and are rooted in the company's cultural identity, are less duplicable. Such capabilities are therefore more likely to result in a sustained competitive advantage and superior economic performance. The logistics literature on the effectiveness of different competitive capabilities is likewise equivocal about their rank order contributions to firms' successful performance and long-term survival (Morach, Dröge & Vickery, 1996).

On the basis of the discussion so far, we can draw two conclusions. Whereas the extent of the group-based advantages of a constellation depends on the degree of coherence among its partners, firms that embrace one or another generic strategic orientation may differ quite profoundly in terms of operational patterns, decision-making styles and strategic preferences (Gomes-Casseres, 1996). Second, since membership in an internationally collaborative constellation is usually motivated by competitive pressures that partners are unable to withstand on their own, the firms may strive to expand their own strategic orientation by acquiring different, and even incompatible capabilities, in order to respond to demand variability in international markets.

The need to cultivate multiple logistics capabilities in order to internalize different value disciplines and offer various operational skills may indeed provide a powerful impetus for firms' venturing into strategic alliances. Since development of a dual strategic and operational structure is extremely costly and difficult, firms may assume that by pooling resources and efforts, and working together within an alliance, they may complement each other by learning different skills and expanding the range of their individual capabilities, thereby enhancing their individual competitive standing and operational effectiveness.

However, the initial incompatibility of the partners' strategic orientations may become detrimental to their effective operational interaction and their willingness to make concessions of their own value disciplines for the sake of enhancing the alliance's strategic advantage. The impact of these impediments might vary depending on the strength of the competitive pressures to which each partner is exposed, and the quality of its performance in the target market.

Firms with poor performance records which are exposed to fierce competition in national or international markets are more likely to change strategic orientation by intervening in their operational and managerial models than their counterparts that are operating in markets with less competitive pressure, attaining more satisfactory outcomes.

2.2 Individual Power Bases

Our exploration of factors, which may affect an alliance's evolution, also includes the use of power conceived as an element structuring the network collaboration. Power may become an important structural element, which conditions the partners' mutual behavior, market performance and relationships with the environment. Power may release centrifugal forces that may stratify the network members, and diversify their relational standings. The importance of power may be magnified in the context of an international alliance as culturally divergent attitudes towards power wielding may become more pronounce here, and hence, have more bearing on working relations among its members (Bacharach and Lawler, 1982; Hofstede, 1990).

A considerable body of theoretical and empirical work on power has recognized and defined power as emerging from different *"bases"* (French & Raven, 1959), manifested in various *"kinds"* (Etzoni, 1961), and derived from different *"sources"* (Bacharach & Lawler, 1982; Pfeffer, 1980). The legitimacy of different sources and uses of power varies across societies in different ways and affects the choices of managerial tools for interorganizational integration and collaboration (Hofstede, 1991). In this context, we focus on two sources of power that may exist within a network system:

1. Resource Control: The capacity for obtaining resources from the environment and controlling their supply to other network members through exchange processes plus larger individual resource endowment in the form of professional knowledge and managerial skills.
2. Network Centrality: The centrality of location within a network of workflows connecting various and distinct interacting entities.

The *resource dependency perspective* views organizations as open systems, which require resources from the environment to sustain their operations. In this context, power is defined as an ability to control the supply of such resources. As different resources obtained through transactions with the environment vary in terms of how difficult they are to secure and how critical they are for organizational functioning, those organizational actors which obtain the most difficult to secure and the most vital resources (for network functioning and/or survival) consequently acquire power because of the dependencies these resources generate (Pfeffer & Salancik, 1978). The environment is viewed as a major source of uncertainty with which a given organization must cope. Consequently, the capacity to deal with such uncertainty can be regarded as a valuable resource in itself, and a source of power. Such ability may also be enhanced by larger individual resource endowment manifested in higher-level managerial skills and professional acumen (Pfeffer, 1980).

On the other hand, the *network centrality hypothesis* posits that the work of complex systems spanning multiple physical locations can be typically segmented into discrete positions of its units, which are differentiated vertically by their hierarchical levels, and horizontally by their geographical placements. These differentiated positions are integrated into one system or a network through interconnecting work flows that form relatively stable patterns of interaction. To the extent that actors, such as individual firms, are located at nodes, which provide connections for the resource flows required by other firms or their units, they gain power because they may control both the volume and the direction of these flows. Being centrally connected, they act as pipelines integrating the remote others who are not directly connected. Such a position makes them functionally indispensable for those who are dependent on access to resource flows and resource exchange (Tichy & Fombrun, 1979).

The dominant position of a centrally located actor in a network composed of a group of companies is derived from Freeman's (1979) concept of *"betweenness"*, where centrality is defined by how many other firms a given firm ties together, which otherwise would have little or no connection with each other.[14] Such a central function determines the size of a network. A central firm is regarded as a broker of information and maker of decisions on standards of network performance. Maximum centrality can be described as a star configuration, when all firms are interconnected through one important broker, who becomes a center of operations for the remaining players (Cook & Emerson, 1978; Mardsen, 1983).

Network centrality is thus another source of interorganizational power over and above the unit's ability to generate dependencies through access to resources needed by others. Such power is related to the unit's physical and relational position in a network of multiple units, and is both analytically and functionally distant from that generated through control over resources within one particular relationship.

The first of these two conceptualizations can be seen as *"functional"* or resource-based kind of power. The other, which is derived from the control over resource flows within a given system, can be defined as a *"positional"* or contextual source of hegemony. The *"positional"* source of power in a logistical alliance may be related to the geo-economic advantage created by a strategically important position within the Pan-European network of goods flow.

Both the functional and positional forms of power asymmetry may exist not only at the early stage of an alliance's formation, but also throughout its entire life. These forms of power may differentiate the partners with regard to bargaining strengths and network dependency.

It can thus be hypothesized that within a certain period of time both sources of power become activated within a given network. In addition, they can be inversely related, thus countervailing each other. This power inter-relatedness in the context of an international alliance poses an interesting question of how power becomes effectively used by its partners for allocating the network-generated gains and for modifying the individual partner's modes of performance. This issue deserves special attention, as the way power becomes mobilized may affect network longevity, performance in relation to objectives, management, and developments in terms of membership, operations, and geographical coverage. Moreover, the intra-network pattern of power mobilization may also impact the scope of network effects created from contributions of individual partners, and by so doing affect the collective competitive position of the entire constellation.

Prior to entering an alliance, each firm carries out a private assessment of the magnitude of future outputs, the urgency for new solutions and resources needed, weighing them against the scope of individual inputs and sacrifices. In other words, each partner individually contemplates its power position in relation to important others, be it in latent or mobilized form, evaluating the value of indi-

[14] The concept of *"betweenness"* corresponds with Granovetter's (1973) notion of a *"linking pin"* within a given network.

vidual inputs vs. individual shares of collaboratively created outputs, thus affecting its individual bargaining strength (Harrigan, 1986).

One of the immediate outcomes of inequality in resource control or network placement may be an asymmetry of bargaining power. Bargaining power refers to a bargainer's ability to affect the bargaining outcome in interpartner negotiations favorably by winning accommodations from other parties (Dwyer & Walker, 1981). The benefits due to each member in a group vary with the total network effects as well as with the bargaining power of each firm (Gomes-Casseres, 1996). Thus, each partner's relative bargaining power may affect its proclivity to collaborate. More importantly still, it may also influence its willingness to endure sacrifices and accept the share of benefits collectively created by the entire alliance.

Thus, the amount of bargaining power and the level of dependency on resources controlled by other partners within a given network may be predictive of how collaborative and accommodating individual partners will be at a particular stage in the alliance life course.

Linking the concept of bargaining power (Dwyer & Walker, 1988) with resource dependency (Pfeffer & Salancik, 1978) leads to the proposition that possession of or control over critical resources differentiates the power status in network relations. If a firm contributes more critical resources in an interorganizational venture than its partners do, it will be more powerful in this partnership. Put simply, the relative bargaining power of potential alliance partners is determined by who brings what and how much to the venture (Harrigan, 1986). A partner gains power if an alliance depends heavily on resources it contributes, which *are "costly or impossible for other partners to replace and critical to the venture's success"* (Harrigan & Newman, 1990).

The relative bargaining power arises thus out of the relative urgency for accessing a given type of resource, the availability of multiple opportunities, and each partner's business preferences. Therefore, the propensity of each partner to collaborate, abide by alliance decisions, and commit resources to its mission, will be strongly conditioned by how power is used during the process leading to an alliance agreement, and subsequently, during the agreement implementation.

The different aspects of power discussed above may provide analytical guidance for how to investigate the relative power distribution among the network partners and its influence over their behaviors within the alliance system. More specifically, we can examine how power inequality affects the sequence and magnitude of interventions into individual operations and market domains.

2.3 Individual Missions and Domains

When an alliance is formed, each partner has its own strategic mission, and a domain within which the mission is to be accomplished. Entering an alliance is usually strategically justified because doing so will contribute, in some way, to the achievement of that mission. The fact that individual missions overlap is a positive contribution to the development of an alliance's joint strategic focus. However, the same cannot be said about overlapping domains, especially those related to duplication of services offered within the same markets. This situation may call for rationalization of individual operational patterns to reduce the diseconomies arising from service disarray. Rationalization may necessitate operational re-alignments in which some partners must abandon their entrenched positions in certain geographical markets and/or draw a clearer borderline between their respective market coverage and that of the rest of the group (Mattsson, 1999). In this way, a more transparent service provision system can be established within the European market.

A primary domain of any organization can be defined in terms of five dimensions (Thorelli, 1986):

Products and services offered.
Clientele served.
Functions and operations performed.
Territory.
Time.

A domain also includes the immediate environment, which surrounds the service provision facilities or the operating units of partners' organizations. Thus, a domain consists not only of the customers in the market area that a given firm serves, but also of suppliers, sub-contractors, and authorities in a given country or region.

Since overlapping or incongruent domains may deter the new division of labor for performance of alliance-mandated tasks and delay alliance coordination, the establishment of efficient alliance operations requires that partners' markets be re-arranged in space and time. Such changes may seem straightforward in a strategic sense, but they may be quite costly to implement and difficult to accept in the individual organizations. There may be differences of opinion among partners about the scope and necessity of re-locations, for example. Thus, the practical aspects of domain re-design require shifts in how individual partners define their domains, organize their service supply operations and make decisions about their market coverage.

Conflict may arise from pressures put on individual partners to concede in individual domains and missions for the sake of fulfillment of the alliance's objectives, as against each partner's short-term preference to keep the system intact as a result of past efforts toward domain-building.[15]

Partners with operations on various scales will have different strategic foci and different attitudes towards the desirability and future strategic benefits of domain rationalization. Large international firms with a vast scale of service operations and networks of wholly owned production facilities in different countries will obviously differ on strategic preferences from smaller firms with one national operational domain.

Large corporations' strategic objectives typically involve optimizing earnings for the whole system rather than for any particular country's operations. Smaller firms, which become partners with the internationals because of their dependence on accessing international supply systems to achieve economies of scale, will, therefore, be unlikely to exert much influence over the strategic considera-

[15] There are at least two reasons for partners to protect their current market domains. The first arises from past struggles for resources required for mission attainment. Second, measures adopted by each firm to expand their domains and fulfill their missions are usually stimulated by historically idiosyncratic opportunities for growth, which may not recur in the future.

tions of their large counterparts. The development of a joint strategic vision for the entire alliance may thus remain beyond their control at the beginning of the alliance work process.

Therefore, some means of creating positive working relationships among partners with vague and possibly conflicting interests must be devised from the outset. The lack of clarity, which typically surrounds alliance objectives, and the fact that there is often a certain degree of conflict among partners' individual objectives, creates a need for an entity with a reconciliation function. The party to facilitate this reconciliation must be free enough to take a broader approach and to be trusted to make others adopt a *"let's do what's best for the alliance"* attitude. Without such coordinating assistance, the incompatibility of individual domains and objectives may deter alliance members from agreeing on the strategic course for their venture and impede implementation of operational interventions.

To resolve the critical issue of the scope of the re-alignments partners are expected to make in their domains and operations, each partner must be convinced that others are not getting preferential treatment, and that those who suffered in strategic and financial terms in the beginning will be compensated in the future. Further, since the goodwill and proprietary contributions of all partners are critical to alliance success, the large and powerful partners cannot be allowed to capitalize on their relatively greater power to force the smaller partners to accept unilaterally harmful measures for improvement of the alliance's functional conditions.

Integration will not occur before partners reach a working consensus regarding the scope and scale of operational re-alignments. Before a strategically viable plan for re-locations can be established at both individual and organizational levels, the collaborators must acquire a reasonable degree of personal and institutional trust in each other's capabilities and intentions (Gombetta, 1988). This social confidence will condition the undertaking of any risk arising from re-arrangement of individual operations and committing proprietary resources to the alliance mission.

2.4 Individual Differences in Cultural Identities

A group of alliance partners can be thought of as a decision-making group or a taskforce negotiating a choice of action and attempting to predict its outcome. An example is the choice of governance modes for coordination of partners' individual actions and inter-linking of operations systems. Such a group has input, throughput or processes, and output. Group input comes from the individuals of whom the group is composed. They bring to the group different characteristics, such as cultural and ethnic background, attitudes, beliefs, abilities, and the resources their organizations control (Traindis, 1989). The work of the group is a targeted interaction that occurs among these individuals. It includes role formation, information processing, conflict, decision-making, and decision outcome. Thus, a task-oriented group is a system of individuals who come together to create a specific output. For multicultural groups, such as an international alliance, culture is one of the key inputs or explanatory variables, interaction is the mediating, process variable, and the decision, evaluated in terms of its effectiveness and quality, is an output variable (Gudykunst & Nishida, 1986; Markus & Kitayama, 1991; Steward, 1985).

The primary practical implication underlying this set of variables is that the diversity of partners' cultural backgrounds may impact on the effectiveness of their interactions, the quality of the decisions they make, and the quality of the alliance performance.

In order to examine how the diverse cultural backgrounds may affect the process of alliance formation and its functioning, we applied a broad theoretical perspective, linking the features of the cultures of the alliance's managers to the properties of national business settings. Then, this perspective was coupled with a series of more specific theories and research findings, which related the elements of societal and business cultures to the quality of decision-making by the members of cross-cultural groups. Finally, to capture the possible effect of cross-fertilization among alliance members, a model of cross-cultural learning was applied, which also suggests a strategy for utilization of partners' cultural variability to improve an alliance's decision-making quality and increase payoffs from collaboration (Hoecklin, 1995).

The Features of Societal and Business Cultures

The first analytical instrument applied in this context involves the four categories devised by Hofstede (1979, 1981, 1984, 1990, 1991) that describe the differences in value emphasis characterizing various cultural orientations: *Power distance, individualism–collectivism, uncertainty avoidance, and masculinity–femininity.*

Here, the focus is on *individualism–collectivism* and *power distance* as the two most relevant indicators of cultural variability. Individualism is a concern for oneself as an individual as opposed to a concern for the priorities and rules of the group to which one belongs (Hofstede, 1981). In the majority of societies, the interests of the group take precedence over the interests of the individual, although the concern for individual wellbeing versus group welfare differs considerably between cultures that emphasize individualistic or collectivistic identity.

Cultural incongruity may affect an alliance's performance. The degree may vary to which an individual partner may be willing to sacrifice some short-term benefits for the sake of the alliance as a whole, in return for presumably higher but uncertain future gains accruing after implementation of painful interventions into its individual business model. An example of such a sacrifice is the decision to abstain from service provisions to certain markets as a consequence of realignment of individual market coverage and an adherence to the decisions mandated by the alliance's managerial body.

Related to individualistic and collectivistic orientations is power distance. *Power distance* is the extent to which inequality or social hierarchy is seen as an irreducible fact of life (Hofstede, 1981). It conditions the extent to which subordinates accept the fact that their boss has more power than they have, and the extent to which they accept that their boss's opinions and decisions are right because of her/his position. An organizational setting with low power distance is one in which employees accept that their boss has more power and is right only when he or she knows the best way to perform the task. In contrast, in a high power distance environment, a superior's prerogatives are usually vested in hierarchical position and remain unchallenged.

These two types of cultural divergence may affect the management and performance of an international alliance. One group of partners espousing the ideology of low power distance may prefer to make collegial decisions regarding the alliance operations, while their counterparts with the opposite cultural mores may favor a single-executive model for ease of control and administration.

The second analytical instrument we applied is derived from Francis Fukuyama's treatise on *"Trust"* (1995), which highlights the substantial differences between North and South European societal and business cultures. These differences consist, among other things, in the amount of trust present in South and North European societies and the divergent attitudes to power distance in social institutions. According to Fukuyama, these cultural differences provide key explanations for why North European society (in contrast to South European) managed to develop multi-divisional business systems with an international scope of operations, and why early on these systems applied professional management methods that utilized individual resourcefulness for attaining collective goals.

More specifically, in order to address explicitly the differences in national cultures of alliance managers, we draw on Fukuyama's (1995) assessment of French and Italian cultures and juxtapose them against the features of Dutch and Scandinavian *communitarianism.*[16]

The Features of National Cultures

According to Fukuyama, both French and Italian national cultures are characterized by a low-trust disposition. The links that hold firms in these countries together bear the marks of *"familism"* or the bonds that develop among family members, although such working relations may also arise from cooperation between non-kin on a professional basis (Fukuyama, 1995, p.105). The reliance of Italian and French firms on family-like bonds puts a distinctive stamp on business life in these two countries and highlights the magnitude of social and interpersonal trust among groups in their societies. The immediate implication of this cultural disposition is that interpersonal trust of *in-group* members is much greater than confidence in *out-group* members. In-group members include *"insiders"* or participants in close circles, such as family and kindred associations, while out-group members comprise *"outsiders"*, defined as the rest of society.

The strong distinction between in-group and out-group members as regards levels of confidence has profoundly impacted on the economic structures and strength of business organizations. Two immediate consequences of these attitudes were the development of a large state sector with strong power bases and the relative weakness of private enterprise. According to Fukuyama (1995), France until recently has suffered from "*a weakness in intermediate associations between the family and the state that has constrained the French private sector's ability to produce large, strong and dynamic enterprises. As a result, the French economic life has clustered around either family-oriented business or giant state-owned companies that were founded when the French government stepped in to rescue faltering large private corporations*" (p.114).

The significance of family for generating interpersonal allegiance and work-related loyalty lies in the fact that the family was a source of social cohesion due to a lack of other intermediate groups (between the family and the state) that

[16] As the four partners that founded the alliance in focus in this study were DanTransport of Denmark, The Royal Nedlloyd N.V. of The Netherlands, Saima-Avandero of Italy and E. Dubois et Fils of France, a focus on these parties' national cultures is justified.

could claim individual loyalty. This resulted in a paucity of informal groups in France, teams or voluntary associations to provide spontaneous bases for establishment of business enterprises. In addition, there is still a cultural distaste for informal relationships and business dealings, and a strong preference for formal procedures and rules, and adherence to written contracts. Management relies on bureaucratic rules, and decision-making adheres to formal procedures prescribed for a given authority. The dislike of informal associations or loosely structured work conditions leads to the basing of collaboration on formally accepted and pre-determined procedures. As power is usually concentrated at the highest level within the organizational hierarchy, the lower echelons of managers and associates enjoy very limited decision-making autonomy. Consequently, mid-level managers do not see any merit in and are actually discouraged from taking voluntary initiatives or engaging in actions that exceed their formal status.

Patterns of power distribution affect working relationships between people at different levels in organizations, and generate large power distance between the highest and lowest organizational ranks. Cultural features like those in France restrain personal initiative and autonomy, and reduce willingness to collaborate among people at different hierarchical levels within the same organization, not to mention among members of distant or separate organizations (i.e. *out-groups or outsiders*).

Similar to France, Italy also has a relatively small number of large international organizations as compared to Germany, Holland, or Sweden (Fukuyama, 1995). Even in Northern Italy (*La Terza Italia*), which economically has been the most dynamic in terms of social and entrepreneurial capital, the industrial structure is largely composed of small, family-managed or family-owned businesses. Italy is a center of the European fashion industry, enjoys the second-largest position in Europe as a machine tool producer and is a large exporter of such advanced capital goods as shoemaking equipment and industrial robots. Yet, Italy's manufacturing and export firms operate on a small scale and have a tendency to cluster together into a few industrial districts where they can find skills, knowledge, and a reliable workforce.

The Italian networks appear to be highly effective at creating considerable economies of scale and integrating vertically, while simultaneously retaining much of the flexibility inherent in small, owner-managed businesses. These establishments remain mainly family-based and seldom expand geographically beyond a certain point, despite overwhelming economic success. These facts indicate that the trust needed for network expansion does not extend to other parts of the country, nor does it transcend beyond the family ties that still provide the social glue for a typical business organization.[17]

In Italy, the networking of small firms was a deliberate organizational choice on the part of entrepreneurs, who, if they had wanted to, could have opted for larger-scale enterprises. Therefore, the smallness of these firms and their networked structure could be a result of weakness, an inability to institutionalize and develop large-scale multidivisional corporations (Fukuyama, 1995, p.102).

The effect of this growth-restraining culture is that Italian firms tend to have short life histories and often lag behind in adopting efficient managerial practices. They

[17] While there are exceptions, like Olivetti, Fiat, and Benetton, Northern Italy's small firms institutionalized their management structures and established a direct presence in foreign markets to a much lesser extent than, for example, German establishments of the same size.

fall short of replacing the closely-knit fraternal ties with formal managerial instruments. Since most family-managed firms still use personal loyalty as a warranty for desired performance, adoption of institutional measures for structuring organizational behavior has not yet gained much social acceptance in the Italian business culture.

In sum, the traditions and behaviors that prevail in the French and Italian national settings epitomize the features of *individualistic culture*, where prominent individuals stay in focus in organizational networks and steer others' behaviors through personal capability and outstanding skills. These individuals serve as models that keep the systems together and manage their performance in a desired direction.

These cultural features are in sharp contrast to Dutch and Scandinavian cultures and their organizations. The social bonds that keep North European institutions together do not rely on loyalty to *in-group* members, but on trust in the professionalism of all parties in a given trade or association, including members of external groups. Consequently, the assumption that social institutions, such as business firms, would function more efficiently if all employees, and not only those in the highest managerial positions, were treated as professionals led to the development of less formal standards of organizational management and control. Because professionals are trained to understand what is expected from them and the time they have to accomplish their tasks, professionals can be trusted to behave in a manner defined by the rules of their profession. Organizational leaders need only set a few general parameters, while the professionals enjoy substantial autonomy to organize their activities without supervision and control of work-related processes.

There is an inverse relationship between the number of rules and the level of trust: The more people rely on rules to regulate their performance and interactions, the less they trust each other. The lower the degree of trust, the lower the willingness to risk the negative consequences of delegating control and supervision, and to invest intellectual or material resources in improving the welfare of others (Fukuyama, 1995).

When the level of trust is high, willingness to take risks and make investments may be stimulated by perceptions of positive goal interdependence. Positive goal interdependence produces a culture of cooperation, equality, and inclusiveness. A considerable body of research has shown that group members under circumstances of greater positive goal interdependence take more integrative initiatives and actions (Triandis, 1989; Fukuyama, 1995). They are more open-minded regarding others' arguments and desires, more concerned about others' welfare, and more inclined to search for solutions and compromises simply because fulfilling their self-interests requires inputs from others (Triandis & Nishida, 1986).

These attitudes and behaviors bear the characteristics of *collectivistic culture*. In a collectivistic social environment, the merits of collaboration are much greater than in individualistic settings due to the fact that the proclivity for consensus is underpinned by a widespread awareness of goal inter-dependability (Hofstede, 1990).

The cooperative cultural disposition resists the differential treatment of close and distant group members. Rather, social situations are created in which individuals show willingness to allow someone else's actions to replace their own. Such an attitude encourages division of labor, role specialization, and loyalty to fulfillment of higher-order goals. Other features of cooperative culture are positive attitudes towards strangers and a readiness to extend social support and share proprietary resources (Triandis, 1989). Consequently, individuals with collaborative cultural dispositions share more responsibility, are more proficient at division of labor under joint task performance, and appreciate the use of technology for joint communal survival.

This spontaneous egalitarianism provides the ideological basis for North European organizations, which are founded on principles of accountability for goal achievement through clearly defined rights and duties. However, the emergence of modern bureaucratic organizations, which rely on individual contributions for fulfillment of collective goals, have not yet done away with the need for trust in management of social, and particularly business, relationships (Fukuyama, 1995, p.375).
In this context, the concept of professional conduct is important, as it generates a widespread expectation of generally honest and trustworthy behavior in organizational settings. It assumes that professionals, once they have obtained their functional accreditation and have been accepted to a given position, can perform under relatively light supervisory conditions. This ideology is founded on the following assumptions:

1. A high level of professionalism provides a guaranty of high-level commitment to professional (business) standards;
2. Peer control provides corrective measures that induce the desired pattern of behavior;
3. As all members of a given organization are interested in joint goal attainment and reduction of uncertainty obstructing that attainment, they will maximize their (voluntary) efforts to adhere to the rules of fair play, and urge others to do the same;
4. Individuals who have power to determine the outcomes for others and who have experienced malevolent rather than benevolent treatment from these parties will be more likely to respond benevolently (Fukuyama, 1995).

Cultural Impacts on Group Behaviors

Having discussed the differences between North and South European societal, national, and business cultures, we now focus on requisites for effective group decision-making by participants from different cultural backgrounds. Here again, the propensity of society toward self-orientation versus collective orientation, or *individualism* versus *collectivism* (Hofstede, 1990; Triandis, 1991) proved to be a useful analytical division. Empirical evidence has been provided showing that individualism–collectivism is a primary dimension, which differentiates cultural clusters and can be used to explain personal and interactional differences (Gudykunst & Nishida, 1986; Hui & Triandis, 1986).

Triandis (1990) observes that social behavior reflects the goal differences between individualists and collectivists. These differences are evident in how collectivists and individualists treat their fellow *in-group* members. For example, during times of conflict, collectivists will be non-confrontational in order to protect other members of the collectivity. In contrast, individualists will be more direct and assertive in order to achieve their personal goals.

In general, collectivists share resources with their fellow group members, feel dependent upon them, and feel more responsible for their well-being (Triandis, 1989). By contrast, individualists have a greater interest in the concept of equality than in-group membership (Triandis, 1989). In this context, individualists' social relations tend to be temporary, based on the issues at hand, and voluntary, since they are not a product of group loyalty.

The differences in behaviors between individualists (i.e. people with independent identities) and collectivists (i.e. people with interdependent images of selves) have important implications for group decision-making (Markus & Kitayama, 1991). Individualists are highly concerned with task outcomes because the quality of task outcomes is associated with personal gain. In contrast, collectivists are concerned primarily with relational outcomes because the way the group interacts takes precedence over the work accomplished. Oetzel (1995) posits that individual decision-making reflects a cultural mind-set because during decision-making, all individuals make choices among alternatives that are often determined by cultural values (p.253).

Most previous research has operationalized decision-making effectiveness in terms of utility, quality, and correctness because of the great concern with the *"bottom line"* (Hirokawa, 1985, 1988; Kirchmeyer & Cohen, 1992). Some researchers argue for evaluating effectiveness solely in terms of the quality of the decision, that is to say, the extent to which the decision resolves the problems posed and conforms to established standards of functional effectiveness (Hirokawa & Salazar, 1991).

While focusing on the quality of decisions is possible in individualistic cultures, its role in collectivistic cultures is different. It has to take into consideration that members of the latter cultures emphasize not only the quality of a decision, but also its *appropriateness*, i.e. the soundness of the process and the acceptability of a given decision to other group members. Likewise, the criteria applicable to decision-making by intercultural small groups also include *appropriateness* of the processes used to reach a given solution. Based on differences in decision-making preferences presented by Steward (1985) and Kume (1986), three criteria for evaluating the appropriateness of group decision-making can be specified:

- Consensus decision-making;
- Commitment of members in terms of supporting the final decision and its implementation; and
- Equal contributions from all members.

These criteria are necessary to a participatory style of decision-making.

The criteria for appropriateness are not only applicable to collectivistic cultures, but also have implications for all group decision-making. Hirokawa (1980) found that groups that reach consensus make better decisions than groups who use majority or compromise decision rules. Kirchmeyer & Cohen (1992) and Lieberman & Gurtov, 1994 supported this conjecture by showing that commitment to the group, manifested in support for the final decision and feelings of belonging, increased the level of contribution from minority factions, and improved the quality of the decisions. This finding is especially relevant for predicting the conditions that foster cohesiveness among alliance partners whom may vary in terms of cultural mores, power, and the desire for integration.

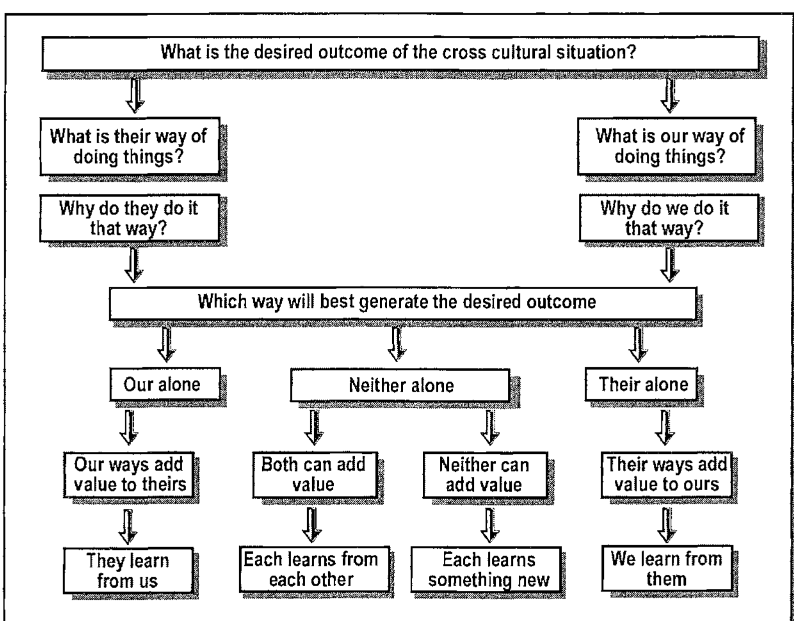
The fact that the criteria of appropriateness are applicable to all group decision-making, coupled with the fact that they should also help individualists make *"good"* decisions, provides a strong rationale for conceptualizing decision-making effectiveness for intercultural groups in terms of both quality and appropriateness. Hence, in small groups, effectiveness, i.e. quality plus appropriateness, refers to the ability of a group to make a *"good"* decision (Triandis, et al. 1988).

Cross-cultural Fertilization

In the preceding section we focused on cross-cultural differences in decision-making in small groups made up of members from different cultures. Cultural diversity in small groups can increase creative potential, that is, the ability to develop unique choices for solving a problem or making decisions, if all members of the group contribute to the decision (Shaw, 1981; Kirchmeyer & Cohen, 1992). This, however, is not so easy to accomplish.

Differences in goal orientation of individualists and collectivists and the impact of diverse identities on individual contributions to collective goals clearly necessitate relational reconciliation to boost potential benefits and deal with the potential problems that cultural disparity may create.

An important vehicle for enhancing the creation of a competitive synergy by blending different cultural elements and developing strategies for managing across cultures is provided by the model of cultural learning (Hoecklin, 1995). This model envisions how intercultural learning can happen at both operational and strategic levels in organizations that consist of social agents with diverse cultural orientations.



(Source: Adopted from Hoecklin, 1995, p.81)

Figure 2.4.1: A Model of Cultural Learning

When groups are formed including both individualists and collectivists that espouse two opposite cultural ideologies, an intercultural communication situation arises, which provides a strong case for anticipating the possible impact of cultural variability on group interactions and decision-making effectiveness.

In these circumstances, the adoption of *multi-domestic* rather than one *global* approach to management of alliance work processes may realize the potential benefits inherent in cross-cultural resourcefulness. This strategy is founded on a *"soft"* orientation towards people of different cultural identities (Hoeklin, 1995). It also reflects the low power distance in organizational settings by presupposing that no organizational unit (within the alliance system) should have a dominant power position, as long as the system, which is based on volitional contributions of all partners, delivers the collaborative and financial results.

Management across cultures within such a system happens through the gradual development of guidelines and norms that are agreed upon jointly and provide the framework for collective actions. These norms are devised in close collaboration with the involved parties and implemented in such a way that they do not thwart the entrepreneurial spirit and the individual responsibilities of the member companies. This method of managing an international alliance leaves each partner enough decision-making leeway and operational discretion to retain its locally-sanctioned idiosyncrasy, while at the same time imposing the jointly agreed upon performance standards on activities that fall under alliance regulations.

However, development and implementation of a strategy that recognizes the impacts of cultural and operational heterogeneity on alliance management may be more complicated and may take a much longer time to succeed as compared to an approach that assumes that homogeneity of technology and operations should provide the platform for managing in an international context (Hoeklin, 1995).

In summary, our review of the different cultural aspects of the alliance partners and their possible bearings on the alliance's decision-making during the venture's formation points out that culturally disparate values, business standards, managerial behaviors, and operational technology may impede work processes and affect alliance performance even at the outset. When people interact with those from other cultures, they are likely to use their own culture as a reference point, which may lead to cross-cultural misunderstandings or even confrontations (Wiseman et al. 1995). Therefore, cross-cultural learning is required to teach the alliance managers to develop sensitivity to the specifics of the multi-cultural environment and to manage their own cultural biases when interacting with other alliance members.[18]

Therefore, it is also our presumption that the partners of the international alliance that is the focus of this study will, in the long term, succeed in utilizing their cultural diversity to create cross-cultural synergies by combining their individual capabilities in an innovative manner. Such a development assumes that partners will learn from each other and, over time, develop a common approach to alliance management that will respect their cultural and operational heterogeneity, while at the same time establishing a common playing ground for alliance func-

[18] Killing (1983) and Mills (1983) defined cultural self-management as an awareness-enhancing program, which seeks to control the self-reference criteria in decision-making and the performance of managerial functions in cross-cultural settings.

tioning. How such a process will evolve and how long it will take to reap the synergistic benefits from alliance collaboration are matters for empirical analyses.

2.5 Individual Expectations of Alliance Benefits

Because of different preferences, there is, at least in the short-term, increased potential for conflict in multi-cultural small groups. Any time a group of people from different backgrounds gets together to solve a problem, there can be disagreements about the best way to make a decision, what is at issue in the decision, the people, the outcome, and the outcome distribution. Thus, conflict is an important consideration for small task-oriented groups.

Conflict in this context is traditionally conceptualized as a disagreement among individuals in task-oriented small groups. From an individualistic viewpoint, conflict is one of the interaction processes that helps a group be vigilant in the evaluation of its problems and the development of solutions (Parkhe, 1993). Conflict is viewed as a part of the process that helps group members to evaluate ideas critically (Janis, 1982).

However, small group researchers in the US point out that in order for conflict to make a group more efficient in decision-making, the conflict must be about the *content* of the task and/or *action outcomes*. That is, the conflict must be substantive in nature, and not about relational or socio-emotional issues. Because decision-making requires the presentation and testing of ideas, substantive conflict is viewed as having a beneficial impact on decision quality (Wilson & Hanna, 1990).

On the other hand, affective conflict is considered to be disruptive to decision-making and consensus-building (Falck, 1982). This is because affective conflict detracts from efforts toward the task at hand and focuses members' attention on relationships rather than on decision issues.

The idea that substantive conflict is beneficial for group performance is supported in the USA, where individualistic cultural values are emphasized over collectivistic mores (Wilson & Hanna, 1990; Fukuyama, 1995).[19]

In multi-cultural settings, differences in values and social behaviors may cause problems for group members in separating the content from the relational issues. Such is the case with collectivists who tend not to separate the person from the conflict because face or relational issues are involved in conflict (Ting-Toomey, 1988). Thus, the type of conflict alone cannot be used to predict collaborative effectiveness in multi-cultural small groups.

Rather, the key to making effective decisions when conflict arises in multi-cultural small groups lies in the *style of handling conflict*. There are three distinct ways conflict can be managed in small groups: By *avoiding, cooperating, or competing* (Putman, 1986). The research on this issue focuses primarily on the effect of conflict

[19] How different types of conflict are perceived and treated in Northern European cultures remains un-researched, except for anecdotal evidence suggesting a broad predisposition for consensus and aversion towards all types of conflict.

resolution styles on the quality of group decision-making, and group satisfaction with benefit distribution.

Several researchers offer empirical support for the positive relationship between the style of conflict resolution and group performance. Deutsch (1969) reviewed the impacts of competitive and cooperative work milieus. He postulates that a competitive style only seeks to defeat the other members in order to win an argument, acquire a larger share of resources, and preserve individual power. It generates suspicious and hostile attitudes among group members that impoverish group communication and impair the quality of collaboration. Thus, the competitive climate is seen as detrimental to quality decision-making and consensus. In contrast, a cooperative style is beneficial because it encourages recognition of the other member's opinions and needs, leads to larger contributions to collective outcomes, and promotes trusting and friendly expectations (Putman, 1986).

On the other hand conflict avoidance may be rooted in collectivistic disposition which discourages articulation of divergent opinions for the fear of exposing of social tensions and the lack of group harmony. This type of behavior may thus conserve the in-group disparities because open airing of disagreements could be associated with lack of group loyalty (Triandis et al.1988).

Application of different styles of conflict handling may differ thus across individualistic and collectivistic cultures. It is important to understand the motivation for choosing among the different conflict-handling strategies.

Ting-Tommey's (1985, 1988) research on face-negotiation shows that cultural differences in the approach to conflict can be examined from the perspective of face needs and individualism–collectivism. Her hypothesis states that *"conflict is a face-negotiation process in which the "faces" or the situational identities of the conflict parties are highly threatened and called into question"* (Ting-Toomey, 1988, p.214). Ting-Toomey explains that cultural variability affects face needs and the strategies for conflict handling. Specifically, her hypothesis posits that members of individualistic cultures have greater needs for self-face maintenance, that is, the disposition to protect one's own identity, and therefore they employ more direct face-negotiation strategies, which involve a dominating and assertive style to secure resource appropriation.

On the other hand, members of collectivistic cultures have greater needs for mutual face-maintenance, and thus employ more indirect face and conflict negotiation strategies, like avoidance, mutual obliging, and compromising, but also integrative tactics. In a test of her face-negotiation thesis, Ting-Toomey et al. (1990) found support for the hypothesis of face-negotiation needs. They determined that self-face maintenance was manifested by mobilization of dominating strategies, while mutual-face maintenance was manifested by an integrative conflict strategy.

Understanding of culture-structured behaviors in conflict-laden situations is important because it indicates that individuals with interdependent concepts of self value collaboration (Markus & Kitayama, 1991). When a conflict arises in a group interaction, these individuals try to manage the conflict without competition. In contrast, individuals with independent self-identities value competition (Markus & Kitayama, 1991). When a conflict arises in a group interaction, these individuals try to gain concessions by becoming assertive and/or non-collaborative.

These behaviors affect the group's decision-making processes and decision outcomes. Collectively disposed group members may increase the group's functional effectiveness, in contrast to the behavior of their individualistically-oriented peers.

In addition, heterogeneous groups may be characterized more by competition than cooperation because individuals with independent identities tend to introduce competition into the group. Such individuals believe that expressing themselves and striving for individual stakes is necessary and desirable (Markus & Kitayama, 1991). Thus, a group made up mostly of individuals with predominantly independent self-concepts is more likely to be confrontational in stating demands for distribution of collective benefits.

On the other hand, individuals with interdependent self-images are more likely to be motivated to agree with others and to make greater efforts to fulfill common expectations, because such individuals believe in acting appropriately to accommodate collective goals (Markus & Kitayama, 1991). Thus, a group dominated by such individuals is more likely to be indirect and non-assertive in stating demands and adopting positions on benefit distribution.

It may also be expected that groups with equal numbers of individuals with individualistic and collectivistic dispositions may break into coalitions that may unite the proponents of the two ideologies. This suggestion is derived from the balance theory (Heider, 1958), which posits that relationships among different value holders in a given group may become confrontational because adherents of the same values may merge in order to oppose jointly the followers of the competing ideology. This situation may magnify the level of intra-group conflict unless the group members do not put collective group goals ahead of personal interests and reconcile their divergent standpoints.

In sum, groups that use a cooperative style of conflict management will make higher-quality decisions than groups that use either a competitive or avoiding style. This is because groups that cooperate can compile a wider range of contributions, critically evaluate inputs, and develop creative solutions for benefit distribution. On the other hand, members of groups that compete feel defensive, do not contribute, and/or concentrate on extracting concessions from other members. Groups that avoid conflict may fall into *"groupthink"* or excessive cohesion, and end up making low-quality decisions (Janis, 1982).

In addition, group members with collectivistic value orientation are more prone to consider the group's goals ahead of personal goals. If this happens, a cooperative working atmosphere will prevail. Because it results in quality and appropriateness, a cooperative style of conflict resolution is the most effective strategy for resolving conflict arising from divergent benefits expectations and/or disparate views on fair individual shares in collective outcomes (Deutsch, 1966; Putmann, 1986).

3 Conclusions

In the preceding section, a conceptual framework with three classes of determinants of an alliance's integration process was presented. More specifically, the analytical spotlight focused on the contents of five antecedent factors, which constitute the first group of dimensions in our conceptual framework. The conclusion drawn from this survey is that the process of partners' strategic and operational convergence is multidimensional. It may protract over time and be affected by at least five background factors, which reflect the various areas of partner diversity. The nature and pace of individual partner adjustments is difficult to envision both in terms of enumeration of the domains included in the adaptation process, and in terms of how the re-configuration of one domain will affect other areas of the partners' business. An assessment of the scope of final adjustment is further complicated by the subsequent interactions with the adjustments made by other partners.

The pace of adjustment differs across domains and time, and in relation to other adjustments. Partners may not fully adjust to every demand imposed by the alliance mission. Demands that diverge less from the current pattern of operations are easier to accommodate than demands that require dramatic interventions into present performance models, and are difficult and costly to accommodate in the short term. The pace of mutual adaptation may, however, increase after the partners have gained some working experience from the implementation of several re-alignments.

Another proposition we want to advance here is that the partners' adjustment is crisis-related in apperception. An individual partner's propensity to adjust and accommodate other partners' demands is affected by the experience of great stress arising from abandoning domains that were acquired at great cost in the past, or by direct interconnectedness to the sphere of personal and organizational identity, or to operational technology.

Partners' mutual adjustments will be weighted differently. An individual partner's perception of the salience of particular domains will also differ. Partners attach different importance to their own and others' domains and adjustments, which may lead to conflict regarding the scope and need for adjustments and re-alignment.

Taken together, the above propositions suggest that partners in an international alliance adapt gradually and haphazardly during the process of alliance formation. This process is evident in the behavioral patterns, which represent different adjustment paths. The adjustment process may be characterized by several intersecting change trajectories, which would map the scope and magnitude of the partners' temporal convergence towards a more integrated pattern of operations.

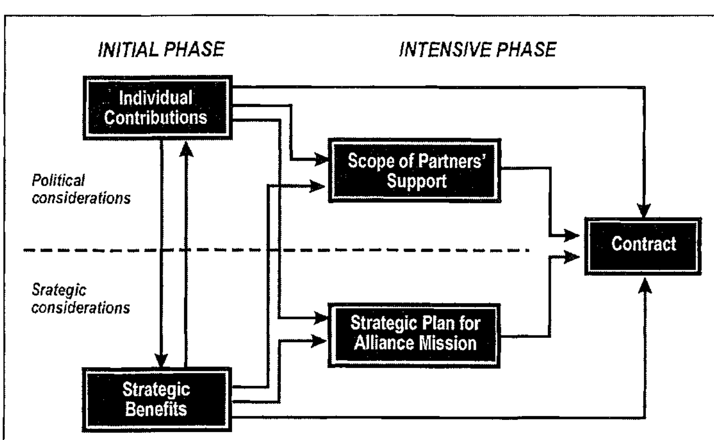
Hence, in the process alliance's formation, partners gradually become attuned to the degree to which they will be in position to define clearly the strategic intent for their collaboration. Almost by definition, each party will harbor a different strategic intent based on its initial business position, cultural values, operational capabilities, and strategic domain, seeking different benefits from alliance membership. Each partner's strategic intent affects its negotiating behavior, the scope of concessions it will make, and the pace of adjustment implementation. So, converging of partners' strategic intentions may lead to signing of a contractual agreement regarding the alliance mission.

A consensus on *"strategic intent"* is an important achievement because it:

- Establishes criteria for the later attainment of operational fit that will chart the scope of individual re-structuring and disarray removal; and
- Defines leadership duties, such as regulation of interorganizational dealings, motivates members to value collaboration and teamwork within alliance, inspires to strengthen alliance's competitiveness by inter-linking individual operational networks, regulates proprietary contributions, legitimates alliance's strategic targets, and encourages personal commitment and group loyalty.

The establishment of strategic intent requires a sense of stability, which is essential for future implementation of the alliance's goals and attainment of a discernible competitive position. Partners need to adopt a relatively long-term perspective on alliance collaboration (Lorange & Roos, 1992). If there is a party with predominantly short-term intentions, while the remaining ones adopt the opposite approach, the partners may have difficulty matching their strategic intents. Another issue is whether each party shows its true strategic intent, or has a hidden agenda. This is a delicate matter of individual ethics, which cannot be judged absolutely or in any way other than by assessing the long-term consistency (or lack thereof) between a partner's intentions and actions.

The model below has partly illustrative and partly analytical purpose. As regards the illustrative function it lists the critical inputs necessary to achieve consensus on the alliance mission through contractual agreement. As regards its analytical value, the model underscores that both the consensus-building process during the preparatory stage and the outcome of negotiations on the alliance's competitive strategy are vital for the venture's ultimate success. Together, the model illustrates how the formation of an international alliance happens through a mixture of complex, culturally heterogeneous and politically sensitive procedures that can be quite lengthy and affect its future prosperity.



Source: Adapted from Lorange & Roos: " Strategic Alliances" (1992, p.29)

Figure 3.1: An Analytical Model of the Alliance Formation Process

4 Mediating Factors

The second element in our conceptual framework, labeled *"implementation"*, comprises six factor categories related to the implementation of the alliance agreement. These constructs outline the unifying effect of partner interactions and indicate how the partners' individual traits and the nature of the collective tasks performed under the alliance mandate help to consolidate the alliance. A new business system of interdependent partners is eventually established, and their working relationships produce the collective benefits. Attainment of collective benefits through collaboration may strengthen a partner's confidence in the longevity of other partners' commitments and in the fulfillment of strategic and operational requirements of the venture's mission. The six factors that influence the effectiveness and duration of implementation of the alliance mission include:

1. The types of tasks performed in concert.
2. The working relationships established.
3. The individual propensity to trust and commit resources.
4. The degree of interpartner consensus.
5. The willingness to comply with unpopular decisions.
6. The degree of relational control.

4.1 Types of Tasks Performed in Concert

Despite the myriad of differences, which divide the members of a multi-cultural alliance with regard to preferred modes of functioning and decision-making, partners must eventually devise some form of communication, which will contribute to mutual understanding and functional consensus. After that initial stage is passed and an alliance mission has been determined, the next step in the alliance work process is to prepare the groundwork for its implementation. The major practical tasks include the development of an operational plan for the alliance, that is, what the alliance is intended to become and how it is supposed to function, based on the combined and continued contributions of its partners.

Such joint efforts should consider the following issues: How do the partners view market potential? Whom do they see as key competitors? How do the alliance partners want to compete? What is the worst case scenario for achieving the planned operational scale and revenue levels? What competitive advantages will the alliance create for the partners and what should be done to make this happen? In short, how viable is the alliance strategic idea when translated into an applied business plan?

At this stage the partners should assess what strategic effect the combining of their individual capabilities and operational bases will have on each of them and on the alliance undertaking. The partners will see the alliance as a viable strategic opportunity only if it produces benefits for each of them.

By plotting the different logistics capabilities of six alliance partners, the figure below shows how, by combining its different partners' strengths, an alliance can consolidate itself, thereby enhancing the competitive advantage for each partner and the competitive standing of the entire venture.

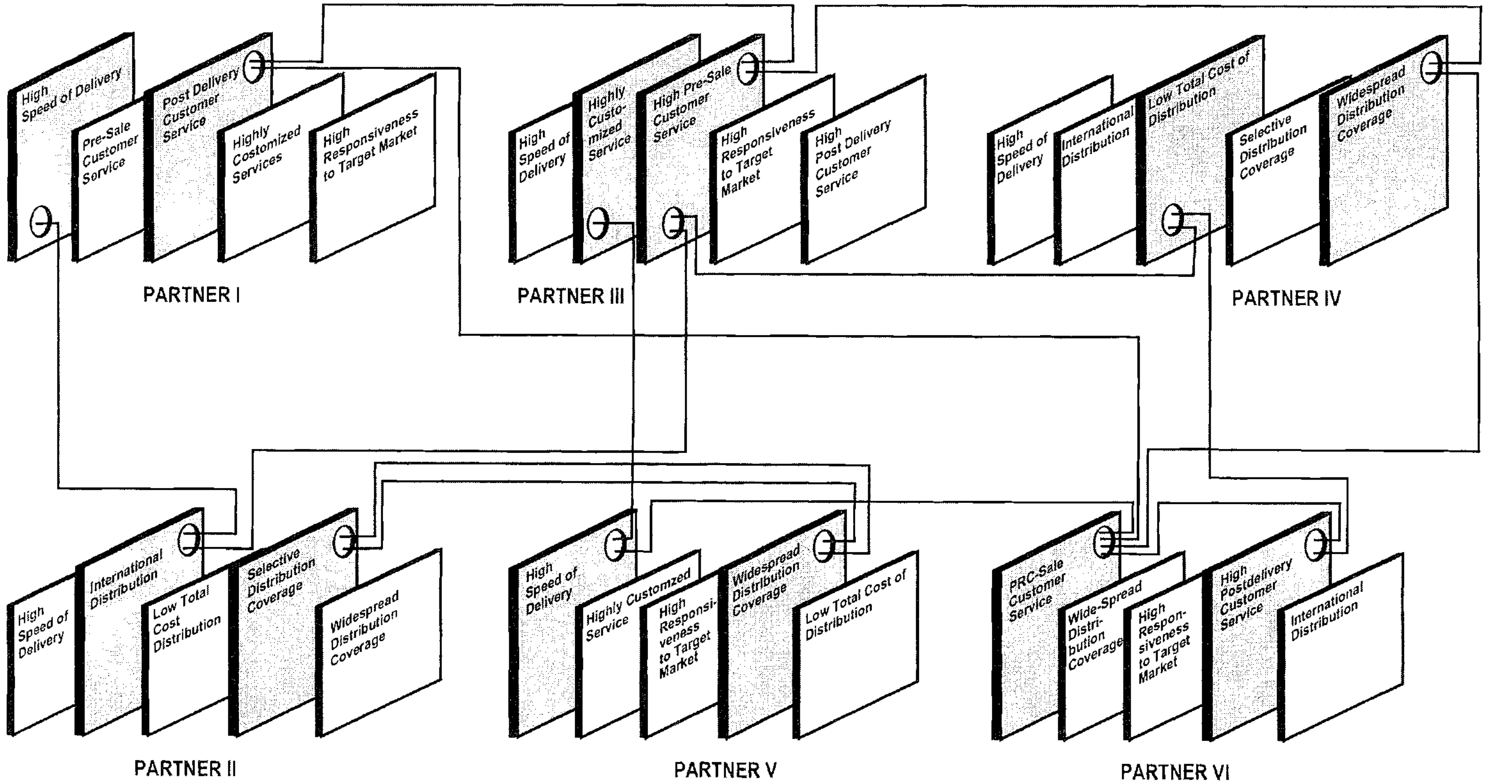


Figure 4.1.1: An Analytical Model of Alliance's Competitive Synergy Produced from Linking-up Partner's Individual Capabilities.

As indicated above, two or more partners can combine their capabilities to produce economies of scope, scale, and density by integrating different elements of their operative strengths. For example, by jointly providing a larger distribution network with high-speed service, partners may gain a considerable competitive advantage, and distance themselves from competitors operating in a similar manner, but on a smaller scale. In addition, critical human resources may be better utilized by serving a larger market with broader scale of operations and good knowledge of multiple customer segments.

Benefits also come to partners who combine highly customized services with low total cost of distribution. Operationally, gains can be realized by sharing the fixed investment, overhead costs, and production facilities among various service lines, which are complementary and do not compete with each other. For those service lines and territories that overlap or run in parallel, market re-alignment and/or re-configuration of the network design may produce the scale advantage. The latter may lead to a more specific focus on segmentation of a larger market and the supply of a highly cost-effective, comprehensive range of services, with the different offerings of each of the alliance partners complementing each other. Most important, however, combining each partner's strengths *vis-à-vis* the customers results in a stronger ability to fully serve Pan-European customers in multiple market segments (Bowersox, 1990).

Other benefits come to partners with international operational skills and bases who collaborate with those who offer a low total cost of distribution and high speed of delivery. For example, if one company that controls access to global sourcing, which is necessary for feeding the regional distribution network that serves several national markets, wants to expand its service coverage in international terms, it can do so by investing in its own distribution network in each targeted country. Since doing so might outstrip the firm's resources, the firm forges a strategic alliance with partners who already serve the national markets in a given region. The mutual gains of this type of strategic partnering stem from the geographical complementarity between the service providers and the standardization of service quality in a large market. The latter might become an attractive competitive feature for manufacturers or marketers of global products, who might be seeking a suitable third party to outsource the international distribution in a given geographical region (Bowersox et al.1989).

Another gain accruing from collaboration is securing of steady sourcing. This is based on the fact that partners in different markets might have a large distribution infrastructure in place before they enter an alliance, but because of limited freight volumes within their national networks, they cannot effectively utilize the assets. If the partners are not direct competitors, access to a larger freight repository could afford them greater utilization of their logistics investment, and broaden their customer appeal by allowing them to offer a wider range of services. Collaboration with other alliance members increases the minimum level of freight to be distributed by each individual partner, and by doing so produces economies of scale for their venture.

Different configurations of collaborative venturing may produce different types of benefits to alliance members, which are realized through increases in scale, scope, and/or density, and their combination. Gains can accumulate because of access to new markets, other operational networks, and the fact that partners are now sharing the risk, saving on costs, sharing investments, saving time, and expanding market coverage.

Each party should assess how these prospective benefits fit into its own competitive posture and satisfy its strategic goals. Thus, it is necessary at the early phase of alliance implementation to establish a clear and open vision of the prospective strategic match, which the partners seek to achieve. This involves determining the various measures for how each partner's strategic intent can be realized and reconciled with those of others through the assessment of the scope, scale, and time in which the expected gains should materialize. The competitive advantage of the alliance must also be understood from a unified point of view, so that each partner can estimate the scope of its inputs and their timing for attainment of collective goals (Lorange & Roos, 1992).

In short, to achieve a strategic and operational match in order to reap benefits for alliance members, parties have to agree on coordination modes for their actions, which will guide the implementation of a collaborative strategy. Only a specifically laid out business plan can enable the strategic alliance to become competitive and operationally efficient. Whatever the subject of the collaboration, the management representing each member firm must ensure that operational integration takes place within the area where partners collaborate. This must be manifested in a joint plan, which should be put into practice by the partners involved (Lorange & Roos, 1992).

If one partner's service supply operations in one part of the market are to be combined with service provision by other partners in other territories, then it is necessary for all parties to be certain of the intersect points where one party's function ends and the other's begins. Here the business plan should specify precisely the types of tasks, operations, and roles to be performed individually, as distinct from those performed in concert. The strategic points at which individual providers' services are joined and the scope of joint performance must be clearly defined and the inputs carefully measured.

Consequently, partners involved in the process of planning their collaboration within an alliance venture must ask themselves the following questions: What resources contributed by each partner are relevant and available over the short and long terms? What are each partner's attitudes toward long-term collaboration? How might this collaboration evolve over time without conflicting too much with the strategic concerns of either party? These considerations also involve operational and tactical issues, and the assessment of individual sacrifices and rules for benefit distribution. In addition, partners must work out clearly delineated ground rules not only for carrying out standard tasks, but also for handling unusual or emergency situations.

Issues, which require jointly agreed solutions, may include damage, returns, complaints, and the terms of record keeping. In addition, partners should reach a basic consensus on how to tackle situations when a common contract guarantees a service level to another partner's customers which is beyond the quality standard provided by the first partner(s). Consensus should also be reached on how to handle orders for customers' continued replenishment and how to reimburse costs incurred by serving a distribution channel that cuts across several partners' service provision territories.

By agreeing on the content of joint tasks and the procedures for their performance, partners lay down the foundation for a relationship, which is different from a typical transaction-based business-to-business encounter. Alliance collaboration should be based on awareness that partnership-style relationships involve mutual tolerance, long-term vision, sharing of benefits and burdens, joint operational and strategic planning, and exchange of detailed operational information. Thus, partners must be able to access each other's internal boundaries and use each other's proprietary assets for collective benefit creation.

However, achieving consensus on task involvement may be hampered or at least delayed by the diversity of the partners' operational models and their incongruent expectations of future gains. Realistic planning of alliance work cannot be completed without assessing the others' contributions and gains; during this assessment process, overestimation of sacrifices and over-blown expectations of alliance benefits may generate resentment on the part of the members and reluctance to sacrifice autonomy. Consequently, inconsistent assessments of individual inputs and outputs may thwart the implementation process or even generate relational conflict. Such conflict may arise from disparate expectations of other partners' conduct, the anticipations of what the others should contribute, how they should behave in performance of joint tasks and to what benefits they are entitled.

4.2 Types of Working Relationships Established

The gradual integration of the alliance partners' performance and service supply facilities creates a new structure within an alliance system. Structure, defined as an arrangement of components and sub-systems within a larger system, is a property of a system. One function of a structure is to provide stability and predictability to the system (Rogers, 1976, p.80). Structure is reflected by the patterns of behaviors in a system, which is relatively stable and changes only slowly. One particular type of structure is collaborative, that is, made up of different cooperating elements (Rogers, 1983).

A volitional collaborative arrangement has been conceived here as a network structure where the actors' working relationships, capabilities and expectations influence the network's modes of governance and performance (Mattsson, 1998; Gomes-Casseres, 1996).

Below we discuss how the implementation of an alliance mission may solidify the interpartner relationships and create a new business provision system. In so doing we identify several factors which, over time, may contribute to establishment of a new managerial structure and strengthen the partners' competitive positions.

Measures must be taken to effect the network members' convergence in order to attain the desired level of integration. A fundamental step in this process is the development of sub-groups that perform network-vital roles. A network's collaborative evolution depends on the proximity of and interdependency among its members, and how they work together on common tasks in dyads, triads, and other constellations (Rogers, 1983; Gulati, 1998).

The exchange structure and contents in a given system constitute its collaborative network. The essence of human collaboration is the interaction through which the individuals exchange tangible and intangible resources such as money, products, services, or information among themselves (Thibaut & Kelley, 1967; Rogers, 1983). As these interpersonal exchanges become patterned over time, an *"exchange pattern"* emerges which is relatively stable and predictive of future collaborative behavior. Therefore, we can define a collaborative network as a number of units linked together by the patterned flows of resources, which they exchange. The aim of a collaborative network analysis is to assess the component links and the patterns of interpersonal and/or interorganizational exchanges (Thorelli, 1986; Mattsson, 1979, 1988; Håkansson, 1989).

Collaborative network analysis is one of several research approaches to studying the dynamics of interpersonal and/or interorganizational *convergence* and *integration* (Gulati, 1998). The units of analysis utilized here comprise both the task-oriented ties and the social links among the network agents. Time-based collaborative network analysis allows the determination of how the multiple dimensions of a network's collaboration, such as the dispersal of collaborative inputs and outputs among its members, the sequence of mutual re-arrangements and individual adjustments may affect a network's structure and the strength of its hold (Gulati, 1998).

As Gulati (1998) observed, interorganizational alliance networks are dynamic social structures, which evolve by establishing the new, dissolving the old, and/or reconfiguring the present links through collaborative interactions. This process leads to endogenous dynamics, in which the present network ties are influenced by prior ones. Over time, *"the endogenous network dynamics between the embedded organizational action and the network structure guides, but also transforms this action"* (p.306). The actions of the network members determine the network's internal architecture, what types of ties evolve among them, and how their individual positions stabilize.

Each network functions through a system of *higher-* and *lower-order* links. The higher-order links outline the network boundaries by interconnecting all network units and establishing the network hierarchy. The lower-order links connect the network's sub-systems and function as conduits for collateral exchanges (Thorelli, 1986).[20]

The group interaction theory (Thibaut & Kelley, 1969; Thorelli, 1986) postulates that stable intra-group relations within an alliance system do not develop through *ad hoc* encounters, but through repeated patterns of exchanges. Thus, the stability and contents of inter-unit transactions are two conceptual criteria for distinguishing between the early stage in a given network's lifecycle and a more-mature functional format. During the latter period, the interaction among network sub-units may become standardized and thus, more predictable.

As intra-network transactions are repeated over time, they form a stable pattern of inter-unit bonds. As a consequence, parties to a given partnership may become less dependent on exogenous resources, and instead become tied to a network in which they are embedded because it is a source of important inputs (Gomes-Casseres, 1996; Gulati, 1998). Recurring transactional cycles eventually result in interdependency among the network units, which stabilizes the relationships among them. A long-lasting pattern of mutual dependency reinforces the intra-network bonds.

Operational manifestations of growing partner interdependency include escalation of mutual business dealings, joint performance of more complex tasks, and realization of larger-scale collaborative benefits.

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[20] A sub-system involves a sample of network units that interact more frequently with each other than with the rest of the network participants, such as a factional coalition between a dyad or among a triad of network units.

Intra-network exchanges may be organized and managed through different governance modes. The first is *centrality,* which suggests that a firm which is centrally positioned *vis-à-vis* other firms in a given network may become a natural center of gravitation and, hence, a coordinator of network operations. Centrality may be based on the size of a given company's domain, its role in the division of labor, and its power status relative to other participants in the constellation (Arndt, 1984; Thorelli, 1986).

A participant's power status in a logistics network is manifested by its positive advantage, whether short-term, long-term, perceived, or real, in one or more of the following areas:

- Control over a large service supply network;
- A geographically advantageous location, with access to important freight repositories; and
- The ability of a given logistics service supplier to impose its own standards of operations on other network members.

Two other criteria through which modes of network governance can be assessed are the degree of *formalization* and *differentiation* of its management. *Formalization* implies that intra-network exchanges are governed through a formal power hierarchy or a legal contract. *Differentiation,* on the other hand, is manifested by the simultaneous use of written contracts and informal commitments, or even by an *ad hoc,* implicit collaborative agreement (Arndt, 1984). It may be expected that, as the patterns of intra-network exchanges become more stable over time, the governance modes will be more uniform, be it in the formal or informal way (Arndt, 1984; Gulati, 1998).

The ties among alliance members can also define the nature, purpose, and scope of network relationships. They can, for instance, be solely technical, implying reliance on physical facilities for joint service provision and relationship maintenance.[21] Alternatively, ties may be social and/or functional in substance.

Social ties involve exchanges of information and ideas. They may instigate cognitive and affective bonds by creating emotive involvement in the tasks performed, interpersonal friendship, joint acquisition of new expertise, trust in mutual commitment, and adoption of a long-term business outlook (Arndt, 1984). Functional relationships may involve economic exchanges, which may result in interparty liability due to joint supply of customer-specific services, investments in provision of customized service lines and supply facilities, and mutual dependency on revenues from such projects. The nature and strength of links within a given network determine its composition, management, longevity and *collective* competitive power (Gomes-Casseres, 1996).

Yet, as suggested before, the manifold network transactions and the disparity of members' positions may make network management and attainment of competitive effectiveness quite complex. An effective coordination of partner variability may require considerable cognitive energy, and a good number of sacrifices. It follows, then, that resources spent on all aspects of *"networking"* should be regarded as a social investment in network development (Arndt, 1984).

[21] An example of a technical link with a highly specialized purpose is an electronic data interchange system (EDI).

Because the *raison d'être* of non-equity alliances derives from the volitional commitments of their partners, such constructions are often prone to premature dissolution. To prevent a given network from falling apart, a good deal of coordination is necessary. Coordination efforts may shift from company-specific to person-specific, as it becomes apparent that intra-network cohesion is affected by the qualities of the people involved in its operations and management. The strength of the intra-network bonds may thus be dependent on the social ties among its members and the quality of these agents' functional and social interactions.

Arndt (1984) coined the term *"software investment"* to describe the efforts to structure interpersonal bonds among network members that in the long run may be very important to operational, economic, and financial success.

4.3 Individual Propensities to Trust and Commit Resources

Due to its lack of a formal managerial structure, the functionality and longevity of a voluntary international alliance may hinge on the degree of trust and understanding among its partners. However, developing a level of trust that makes the alliance work requires time and effort. Without access to complete information, partners will not become integrated to the extent that they can develop common goals, reap benefits, and take on contingent responsibilities (Casson 1990; Gombetta, 1988; Hofstede, 1980).

Trust is antecedent to self-disclosure. However, the degree of openness in professional relations can vary, not only across firms, but also across groups and cultures (Bowersox et al. 1989; Bowersox, 1990). For instance, highly affiliated members of a collectivistic culture may be more prone to self-disclosure toward their in-group members than highly affiliated members of individualistic cultures. A culture that focuses on individualistic values may expect its self-disclosure to elicit an immediate reciprocal self-disclosure. This might not hold for high-context culture, which promotes individual loyalty towards an in-group. The members of an in-group may therefore be expected to make concessions or self-disclosures to their peers without expectations of *quid pro quo* (Lustig & Spitzberg, 1995).

One aspect of the self-disclosure dilemma, which poses a serious challenge for alliance functional effectiveness, and therefore, is viewed as a source of risk, is that partners are expected to give up some autonomy over their own strategic resources, and are no longer free to decide how to use them (Lorange & Roos, 1992). As a consequence of the alliance-imposed regime, other partners may gain joint access to, and control over, strategic resources which otherwise might have been individually owned. There is always a threat that other partners may subsequently use the inside knowledge to advance their partisan goals at the expense of other system members.

Moreover, since the strategic resources generated through an alliance may not belong solely to one partner, they cannot be exclusively used by any of them for furthering their individual strategic positions. Limitations of strategic resources may become a serious problem when they include core know-how, core markets, and vital production assets. The result may be that an alliance, which a firm forged with other partners, will give the partners access to that firm's former markets. In other words, within a traditional type of venturing, where one partner's up-stream strengths are combined with others' down-stream capabilities, the latter may take away from the former access to, and control over, its previously autonomously served market areas.

A possible reaction of a firm, which has given up part of its market domain under the alliance-mandated realignment, might be: *"Now, 'our' customers, with our help, are being exposed to our partner's service. It would probably have taken the partner a long time to achieve it alone".*

What this statement connotes is that this firm is frustrated over the situation. First, it may not be sure whether its old customers are being served properly, that is, whether the service quality provided by its partner at least matches that provided by itself. Second, the firm is in doubt about whether giving up its market share was such a good idea, thereby implying that this concession has not been reciprocated, and that it might have even conceded too much. If the concession has been reciprocated by providing this firm with access to other partners' service provision networks, such as terminal facilities and freight repositories, this firm grossly overestimates the scope of its sacrifice, underestimates the magnitude of its potential reward, and disregards the fact that it would likely have taken much longer to achieve these benefits on its own.

However, it may also be the case that due to delays in rectifying misalignments resulting from the alliance, the firm's concessions have not yet been matched, and it is anxious as to whether and when they will be.

This example is instructive, because it illustrates the type of reaction market relocation may invoke in alliance partners. Cognitive tensions arise from the risk related to giving up something owned and valued for something new and unproved, and therefore less valued. Firms might be intimidated by the idea of making their performance dependent on others to a degree not previously experienced, before they become confident that their counterparts are worthy to be trusted (Tushman & Romanelli, 1985).

It takes time to reconcile the contrasting forces of stability and change. Time is required for alliance partners to develop confidence that their venture will be successful. As new strategies and operational patterns are replaced and modified, and new relationships established, partners are exposed to a number of disadvantages and *liabilities of newness*. Given the preference for stability and the *status quo*, the alliance-mandated re-alignments may result in considerable frustration and behavioral resistance resulting from a lack of trust in the new system. Resistance can be reinforced by the disruption of old patterns of working technology, performance quality, and result measurement. Disruption of stable processes and activities, even in the name of legitimate objectives, such as larger prospective rewards, produces inconsistencies in operative schemes, which damage the quality of performance and output (Tushman & Romanelli, 1985; Mattsson, 1988).

A disruption of working patterns is difficult to adjust to for the operational subsystems within a partner's organization. This situation may lead to a *"standard vacuum"*, where the various sub-units lack a common benchmark for how to act. Likewise, imposition of new or higher operational standards may cause turbulence, as some units may lack the skills and resources to meet new requirements.

Paradoxically, resistance at the lower levels of an organization will be more intense the longer the periods of prosperity were preceding the alliance-imposed convergence, and the higher the functionality and efficiency was of old operations patterns, market structures, and decision-making rules. It may be thus hypothesized that alliance partners that were performing well before the alliance formation will experience a more painful adaptation process, which may take a longer time to complete than for partners with prior poor performance and low results. The latter may actually push for quick implementation of alliance-mandated interventions because they may be seen as a way to get out of an economic predicament.

However, if a strategic alliance is to gain from an increase in scale and scope and enhance its operational and strategic effectiveness it must consciously and meticulously build interdependencies and consensus among its partners. Only by bringing together individual expertise, facilities, and managerial skills, and arranging them in new and unique patterns, can it reap benefits, achieve a higher competitive status, and deliver the rewards promised. This presupposes that all parties are irrevocably committed to contribute the best of what they have, now and in the future. In this context, commitment refers to public behavior on behalf of the alliance, making it more or less irrevocable because withdrawal is costly, managerially unpredictable, and damaging to personal reputation (Casson 1995).

Obviously, these issues cannot be appropriately resolved without direct consideration of the realities of the situation. The purpose of quoting them here is to underscore the simple fact that the building of an alliance is a complex task, and that even after certain initial internal problems and obstacles are successfully overcome, the challenges are ubiquitous. One must also remember that the purpose of an alliance is a means to an end, and not the end in itself. Its existence and ultimate longevity are dependent on value-adding transactions with customers and the ability to compete with other formal and informal organizations in international markets. Therefore, as soon as possible, an alliance should put itself into a position that allows it to function in an international business environment.

4.4 Degree of Interpartner Consensus

Earlier we referred to research findings showing that the quality of group decisions made by consensus is much higher than those made through compromise, in terms of appropriateness and implementation. In this context, two questions can be posed: *What are the mechanisms of reaching consensus, and how is it possible for a multi-cultural group to reach a consensus?*

To highlight these issues we draw on the research work of Moscovici & Doise (1994) on making collective decisions. According to these authors, *"acts of decision, as well as acts of consenting, are above all acts of participation. For various reasons their value springs out of the bond they create between individuals and from the impression each of them receives that s/he counts in the eyes of everybody as soon as s/he begins to participate"* (Moscovici & Doise, 1994, p.47).

Links among alliance managers as individuals are prerequisite to the attainment of the alliance's goals and the fulfillment of its economic mission. A link can be based on the belief that these individuals are taking part in a project that depends on their skills and resources. In this way they acquire a feeling that their inputs are necessary and that their presence is needed. In social terms, there may be development of an awareness of *"belonging"* as contrasted with an awareness of *"not belonging"* (Moscovici & Doise, 1994).

Being a part of a group is a preliminary condition for exercising individual choice, obtaining understanding, and participating in exchanges which are important for an individual manager. By making participation possible, a group appears no longer as a mere association but rather as a means through which the individuals, as a collectivity, can accomplish something together for themselves. This is exactly what produces the links which draw the managers together and make them feel that whatever they do together represents a gain for each of them.

What can participation in a group mean for an individual? It provides an opportunity to mobilize several forms of relational behaviors, such as taking initiative and making choices and contributing resources to collective goals such as higher level of collective competitiveness. Participation, however, can be much more. It can be a means of establishing personal relationships between people who think, decide and act in the name of their collectivity, and for the sake of it.

Participation creates a forum in which strong bonds are developed among members of a group, as their exchanges become more frequent and relationships more intense. Consequently, an arena is created where arguments appear more fair, attitudes and values can be revealed without apprehension, and the participants learn how to arrive at common judgments after lively discussions, where each of them is given an opportunity to present and defend individual standpoints.

The more numerous the modes of thinking, the more they enlarge the range of notions, the scale of ideas, and the knowledge of each individual. Group members are more likely to develop the need to defend and improve themselves on several fronts. The positive experience of defending one's own views and seeing them accepted draws the members closer to each other because they know that together they compose something larger than a sum of constituent parts.

A collectivity must, however, resist the desire for domineering and imposing uniformity upon individuals. Instead, it should rather encourage them to follow their individual inclinations. It is true that by making participants abandon their personal arguments and interests, the collectivity ensures, for its own benefit, that decisions are made more easily and quickly. This is, however, at the price of passivity, which discourages participants from submitting new initiatives (Moscovici & Doise, 1994).

Participation has meaning only when the plurality of group members is respected, and freedom of action and speech guaranteed. Their group behavior is an indication of the need to participate. Whatever may be their individual tendencies and separate interests, participation, in the final analysis, aims at satisfying in individuals the need to decide and act in concert.

Another motive for participation is the need to invest the individual economic and psychological resources in order to associate them with those of others and achieve something bigger than individually possible through a common action. Group membership and participation in joint action will be more precious and will bring more satisfaction, if all participants see that these resources produce collective gains. The individuals who have joined the group will think of themselves as being even more a part of it the more the group expects from them. Members who begin to *"invest"* even small amounts of time and resources will increase their stakes. The reason is not only a wish not to lose what has already been committed but also a desire that by increasing one's own inputs, each participant may improve his/her image based on past contributions to collective good.

Hence, it may be conjectured, that participation will increase in proportion to the solicitations made by the collectivity and the investments made by the individuals, provided their relational involvement is sufficiently strong to deliver satisfaction to both. The input-output relationship will depend on the attachment to the ideas which both the group and its members espouse, and on the cultural traditions of their social environments. It will also depend on the rewards expected. In the case of an international alliance, rewards will be calibrated in terms of profits, market extension, and enhanced competitive standing, but not exclusively. Participation by the members to an international alliance may serve as a means of gaining social and the peer recognition.

Nothing is more appropriate for understanding consensus building than social polemics. Participation, which allows for expression of conflicting viewpoints at the same time, solidifies existent ties. Thus, throughout controversies and counter-arguments, the members of a group exert upon each other an influence, which makes them even closer.

Therefore, when the subject on whom a decision is to be taken is novel or important enough to afford a lengthy discussion, the group will engage in vigorous discourse. However, as Thibaut & Kelley (1967) observed *"much of the unclarity that members have about prospective goals may be reduced by group discussion, with the maximum participation throughout the group"*(p.261). Discussion can thus be viewed as a popular ritual, which has been devised to cope with disparate views and opinions. *"If discussion did not occur, it would be useless to propose problems and suggest solution. Discussions can be seen as a form of exchange where information is bartered"* (Moscovici & Doise, 1994, p.57).

Equality provides an opportunity for different types of conflict, while distinctiveness opens the way to mutual influences and persuasions with the aim of uniting. How then can the various alternatives, which arise from disagreement be limited, or prevented from proliferating and forestalling the final consent?

Certain rules can diminish conflict by imposing procedures, which introduce distance in relation to the subject of discussion. They can provide a means, which allows reflected judgment and an avoidance of bad temper. However, rules direct the participants' attention to their respective positions and divert their attention away from the matters discussed. Rules can make the group members more sensitive towards how they observe the correct procedures of the discussion, than towards the content of information exchanged and how alternative solutions could be devised.

Therefore, it may be that *"decisions leading to consensus are more subjective when the rules are strictly obeyed"*. "On the contrary, the more the decisions are free *a priori* from rules, the more chances that these decisions may become objective" (Moscovici & Doise, 1994, p.142).

In light of the aforesaid, it may be seen that decisions leading to consensus are obtained differently, depending on the form the participation takes. The consensual form, in which no individual has an advantage in comparison to others, offers participants the opportunity to confront each other and state their views without time constraints or a priori imposed restrictions. The agreement, at which they arrive resolves conflict because it is preceded by a gradual convergence of standpoints on solutions adopted.

Against this backdrop a participation, which is normalized by *a priori* rules changes the relationships among the individuals by imposing certain procedures. The first model defines intra-group conflict as tolerable and allows group decisions to follow the hierarchy of opinions as expressed by the group members. In the second model, the quantum of submitted propositions and counter-propositions is limited by the rules regulating the group's polemics process.

However, the choice between the consensual and normalized form of decision-making may not be a matter of preferences but an outcome of circumstances such as power positions of the group members and differences in cultural values regarding emphasis on attainment of individual versus collective goals (Hofstede, 1990).

By synthesizing these two perspectives we may say that an active involvement, or commitment, is a psychological force, which moves an individual closer to the others in any decision and may lead to a consensus. Such a consensus may have a committing outcome on group members since it was preceded by a substantial number of exchanges between them and a conscious choice of options that go well together.

Therefore, by talking together, the group members reveal their values, and through interactive exchanges, they give them shapes and appearance. Thus, a forum of actors who after several disagreements arrived at a join solution may be strongly committed to this solution and its implementation because of feelings of group-belonging (Moscovici & Doise, 1994).

4.5 Willingness to Comply with Unpopular Decisions

The willingness to comply with unpopular decisions may refer to a situation in which one particular alliance partner is under pressure of persuasion from other partners to accept a strategic plan, which compels his/her firm to:

1. Give up something already achieved, i.e. sacrifice the grounds already occupied by abandoning a market segment which his/her firm accomplished after long time efforts and an investment of considerable resources.
2. Refrain from doing something that already has been commenced and which incurred some expenses which will leave the partner firm worse off, at least in the short run.
3. Preclude from doing something, which is suitable, profitable, and advantageous for the partner's business and its competitive position in order to accommodate other alliance partners and contribute to fulfillment of the alliance goals.

Since the partner's firm will be exposed to risk by each of the proposed changes, the target partner will be highly involved in the issue and committed to defend his/her present position by adopting a firm stance which will conflict with those of others. It might be expected that this partner will be predisposed to withstand persuasion and anything that might cause a change of mind or a change in the firm's behavior. It might also be expected that this partner would rate negatively any new inducement, which expounds others' viewpoints or their justification, and reject most of the persuasions communicated or interventions proposed.

A conclusion which could be drawn at this juncture is that the more a given manager is involved in defending a particular stance, the less likely that person will become willing to change and act in concert with others. This would be tantamount to saying that opposition from one partner could put the future of an entire alliance in jeopardy. So, by making majority values explicit, alliance partners may collide with strong minority values, which could prevent them from reaching consensus.

Such situations fall into the areas covered by the classical studies of Sherif and Hovland (1961) and Kiesler (1969). These researchers formulated hypotheses that *deviant individuals*, who are often more committed and more sure of their opinions, tend to stand firm on their positions. Moderate individuals, who are usually less involved and more uncertain of their viewpoints, modify their opinions in order to draw closer to one another and reach a consensus. This moderate group is often comprised of alliance partners with a lower exposure to risk. In short, those individuals holding deviant opinions often resist and those holding average opinions change.

In order to make the situation more concrete, let's suppose that the alliance's partners are divided into three factions: Partners who moderately support a strategic plan concerning adoption of common standard for automated information system, those who strongly oppose it, and those who remain neutral. The group is expected to convene to reach an agreement about adjustments needed to implement the strategic plan, which would affect the alliance's operations technology. Following the research work quoted, the first trial at reaching a consensus results in only the neutrals being willing to shift as a consequence of the discussion. Those who were deeply entrenched in their divergent positions did not succeed in reconciling their viewpoints. So, the first attempt at agreement fails. Let us now assume that at the time when a second meeting occurs, all alliance members develop a somehow favorite attitude towards one particular type of strategic solution. If the members of a group have *collective involvement,* then the discussion will result in that those who were the strongest opponents may have to change most (as compared to the proponents of the investment), in order to find a common ground for an agreement (Zaleska, 1982).

The occurrence and the amount of change will depend on whether the individuals are nearer or further away from *the dominant value pole* of the group. When being nearer to it, the deviants maintain their position, shifting less than the moderates do. This happens because the deviants would have to move in a direction counter to the norms. In order to continue to behave in a collective manner, they can not do this. As regards those who are further apart from the dominant value pole, it is the deviants who change more than the moderates. The latter have to shift closer to the dominant value position in order to continue to act in a collective way. Therefore, the deviants change their position more than the moderates do. The cases where deviants changed more than the moderates in order to match the predominant norm in the population have been observed in comparatively more numerous situations, and with regard to various types of issues (Moscovici & Doise, 1994).

Therefore, the results of the research reviewed could be summarized in three propositions. First, there exists a positive correlation between the positions originally adopted by members of the group and those on which the group reaches agreement, but the groups tend to consent on more extreme solutions. Next, the direction in which these positions concur is determined by the dominant values in the group population. Finally, during the discussion, the group members become involved collectively and change the way in which, they judge, perceive and choose, depending on whether they are close to the dominant or the subordinate pole on the scale of values. This indicates that the solution at which the alliance partners arrive will converge toward the dominant common value pole or the norms they implicitly share (Zaleska, 1982).

Referring this to the factions dividing the alliance members on the issue of acceptance of new information system, the proponents of the system may become prepared for the possibility that the opponents may dislike the proposal. In preparation for making concessions in order to reach an agreement, they may relax their position. On the other hand, the resisting partners, anticipating the pressure for change from the remaining partners, may try to show understanding for the alliance cause, fearing an open conflict with the group majority. For that reason, they may adopt a more flexible standpoint. These two factions may meet along opposing paths. The first preparing itself for a confrontation, may become more relaxed, while the other, afraid of open dissent or even exclusion, may be prone to abandon the initial grounds and adopt an evolving norm. As a result, the group will slowly concur during the discussion, towards reaching a consensus (Moscovici & Doise, 1995).

Yet, the research cited referred to mono-cultural groups with no culturally rooted differences among its participants. In the context of an international alliance, the cultural variability in values attached to achieving consensus regarding the subject of collaboration and the degree of collective involvement in fulfilling alliance goals, may affect not only the magnitude of the value pole. It may also affect the perceptions of relationships with other alliance members, and hence, the modes of reaction to group mandated requirements (Triandis et al. 1988).

An important issue that may arise in this situation and divide the members of an intercultural group is that individuals with different cultural orientations may not necessarily share the same assumptions about the appropriateness of the strategies for achieving consensus by abiding by common values. Here again, the concepts of *individualism* and *collectivism* proved useful in regards to differences in emphases between individual and collective interests. One can, indeed, expect a good deal of incongruity regarding how people with one or another cultural identity will approach the need for consensus in a situation when one party has to sacrifice something valuable for the sake of collectivity (Hofstede, 1990).

Research by Triandis, Bontempo, Villareal, Asai and Lucca (1988) posits that collectivist cultures emphasize relations between *people*, whereas individualistic cultures emphasize *task*. Specifically, these authors have defined collectivism as putting a great emphasis on:

(a) the views, needs and goals of the in-group rather than on oneself, and

(b) greater readiness to cooperate with in-group members.

Individualism on the other hand, is reflected in:

(1) self-reliance, and

(2) low concern for group welfare.

In other words, individualism is seen as a tendency to be more concerned about one's behavior for one's own needs, interests and goals. Collectivism, on the other hand, refers to the tendency to be more concerned about the consequences of one's behavior for in-group members, and a willingness to sacrifice personal interests for the attainment of collective goals and collective welfare (Leung, 1987; Triandis et al. 1986).

Schwartz and Bilsky (1987,1990) confirmed through their research in multiple cultural settings, that the distinction between values serving an individual's own interests and those of collectivity is universally meaningful. They also found that individual task-achievement and self-direction values were serving individualistic interests while pro-social tendencies were serving collective interests. Based on the research reviewed, it might be anticipated that, depending on whether the alliance population is composed of partners with individualistic or collectivistic traits, it would adopt a corresponding strategy in a conflict-laden situation.

Since collectivism is associated with a strong emphasis on interpersonal harmony, at least within the in-group and preferences for affiliation, it will articulate the need for protecting one's face vis-à-vis other in-group members and maintaining good face-to-face relationships (Ting-Toomey, 1988). Therefore, alliance partners with collectivistic identity will mobilize accommodative behavior towards their in-group members even at the expense of individual disadvantage.

Thus, deep-rooted emphasis on collective values may invoke group involvement and group obligation in order to preserve a positive image within the reference group which the collectivists feel are more associated with, than with the issue at stake. Hence, it can be hypothesized, that when a deviant alliance partner adheres to collective values, this person will be prone to make quicker or more extensive individual adjustments when confronted with the group requirements, and the group as a whole will experience less friction (Ting-Toomey, 1987).

The situation may look quite different when the resisting partner espouses individualistic concerns for self-interests and ranks the task of defending one's own company's business higher than complying with demands of alliance's welfare. This partner may expect that the remaining alliance partners should rather subordinate their goals for the sake of his or her own business (Triandis et al. 1986). The main concerns of this partner may be his own firm's autonomy, self-fulfillment and achievement of certain outcomes even at the expense of others.

Summarizing, we may say that when an alliance partner is confronted with demands to comply with an unpopular decision such as highly disruptive interventions in its own operational system and/or abandonment of market domain for the benefit of other partners, this partner may overcome the initial resistance and acquiesce to the group decision. Such a consensus will be achieved when the group members concur in the direction of the emerging values and collegially choose more extreme solutions as compared to their individual stances. However, this may not hold for an international alliance because in multi-cultural groups, commonality of norms and values may be absent. A prediction thus could be made that alliance partners with different cultural orientations may disregard the values and norms of one another. Attitudes and perceptions among the people with individualistic value orientations are often dominated by the instrumental importance of one's own goal achievement with preference for minimizing individual inputs and winning on access to others' resources. On the other hand, the behavior enacted by alliance members with collectivistic ideology will be more accommodative because it will be driven by desire to preserve group harmony.

4.6 Degree of Relational Control

The choice of governance structures for alliance management will be a kind of decision that the network participants will inevitably face within the course of time, and need to deal with in order to effectively coordinate their actions. The above would comprise resolutions pertaining to the scope of individual realignments and how to approach the important operational disparities such as technology variance in service provision, which would require agreed-upon, firm procedures for managing collective actions.

Responding to the constraints of time, the partners will want their union to become functionally fit, capable of performing highly demanding tasks and delivering synergistic gains. This implies that they presumably may be prone to *standardize* certain modes of behavior by introducing some procedural rules and appoint (implicitly or explicitly) some partners to the regulatory functions who might oversee the interpartner coordination and implementation of important decisions. Yet, the introduction of a leadership structure to alliance management may not only derive from the need for integration but also from the desire to reduce uncertainty generated by international diversity, as the rules framing relational control make the future more predictable and familiar.

However, for a volitional geographical alliance with a permanent purpose of existence, where partners do not control stakes in each other's interests, a decision on the form and level of relational control, and by implication, on organization of venture's governance, might become quite a challenging task.

Although motives behind formation of European logistical alliances may vary broadly among their participants, it can be assumed that logistical firms that will form such constellations may involve both, partly complementary and partly competing partners. Such units may represent distinctive functional systems with different forms and degrees of organizational centralization and formalization. As a consequence, these establishments may hold different strategic orientations, operate in different market segments and handle their relationships with customers and third parties in different ways. Also, they may have different relationships with channel associates in other countries, compete through different means, and apply different quality standards for service provision.

As these organizations may serve markets with different service requirements and expectations of functional effectiveness, achieving a consensus on the alliance organizational blueprint that would guide its international operations may be ridden with several problems. One might derive from a high level of professional expertise on the part of each partner that may shape the partners' mutual perceptions and make them reluctant to accept the external standards. Moreover, the partners' functional and social behavior may be shaped by differences in culturally, nationally, and organizationally developed norms.

Therefore, how an alliance is organized and managed may have a profound impact on whether the partners will accept each other's idiosyncrasies, the alliance-imposed constraints on individual autonomy, and contribute to alliance welfare voluntarily and beyond the call of duty (Doz & Hamel, 1998; Kim & Mauborgne, 1996).

It could be thus expected that whatever the script for the alliance's governance, it would pose a difficult dilemma. One contingency might emerge from too much rigidity. A bureaucratic design may become a straightjacket and hinder ability to change, learn, innovate, and foster spontaneous creativity that go beyond the roles prescribed by the formal control instruments and decision-making hierarchy. The other type of downside may arise from too much flexibility, which might lead to managerial vacuum, lack of strategic direction, inability to attain the changing goals, coordinate the joint task performance and failure to extract network benefits from the geographical enlargement (Kim & Mouborgne, 1996).

Yet, without flexibility, a multi-firm volitional constellation may not reach the goal of *"consummate cooperation"* (Williamson, 1975) where the partners harbor the attitudes of commitment and strong network belonging, and support the alliance-mandated decisions even when these decisions collide with their short-term self-interests.

So, the degree of interconnectivity and loyalty among the alliance members may depend on the behavioral style mobilized by the alliance leadership. Consequently, this issue begs a question of how the leadership style may affect the performance of the group members, the quality and the pace of integration, and the scope of competitive advantage attained by the network.

The research performed by Lewin, Lippit & White (1938), Ziller (1957), Flowers (1977), Wehman et al., (1977) and Jesuino (1986) indicates that the conduct of leadership function increases or decreases the level and quality of members' participation in group-decision-making, thus affecting the odds for consensus. These studies showed that the social environment and the performance of groups varied according to the behavioral style of the leaders. Specifically, when the leader was authoritarian, the group worked harder, but its members were more aggressive and the attitude they adopted toward the task at hand reflected latent resistance.

When the leader was democratic, the groups were more creative, scored higher on the originality of solutions invented, sought information more diligently, put forward a greater variety of solutions, and were more inclined to work spontaneously. When the leader was of *"laissez-faire"* type, the group worked less, and its work was of uneven quality. Moreover, the leader who took part in the group activity was more effective in reconciling the group members' views than the one who limited one's own involvement to supervision.

The conclusion is that an *"open"* style of leadership which did not restrain arguments and confrontations, and allowed the alternatives proposed to be considered with roughly equal attention, discouraged the group from moving toward the conformity of *"groupthink"*. By encouraging dissent and/or innovative ideas, this leadership form enhanced the chances of consensus on difficult or controversial issues, to which the minority and the majority could subscribe (Janis, 1982).

According to Lippit and White (1960) a democratic leadership is characterized by an ability to create a social climate involving a respect for the choice of certain procedures and an ability to organize relationships among group members in a manner that includes contribution from dissenting minorities. In contrast, an authoritarian style of management impedes discussions or confrontations arising from the disparate viewpoints held by the group members.

In the case of a volitional alliance whose functional existence and an ultimate success depend on commitment of its partner, the positive psychological feelings toward the alliance organization may precondition that partners perform their tasks no only according to the written norms (which may be lacking at the early stage in alliance life course or differ in interpretation across partners), but in devoted and innovative manner which goes beyond the call of duty (Kim & Mauborgne, 1996).

That would require high level of organizational allegiance on the part of the alliance members, trust in merits of collaboration and ability to produce benefits through collective actions that go beyond the *"instrumental"* or *"calculative"* compliance. Thus, the alliance governance structures should combine a sound regulatory effect with promotion of individual obligation, outcome satisfaction and irrevocable commitment.

The literature on the blueprints for alliances' management is equivocal as regards how the above qualities of individual behavior can be achieved through governance structures, and what leadership style can secure the long-term alliance dedication on the part of its partners.

In this context, the criticism that several authors (Zajac & Olsen, 1993; Gulati & Singh, 1997; Khanna, 1997; Gulati, 1998) leveled against the preoccupation with transaction costs as a basic priority for alliance management is highly justified. This criticism was based on empirical findings which showed that considerations regarding the choice of alliance structure at the time when an alliance was formed were not dominated by the concerns over minimization of transaction costs and appropriation of alliance benefits. Rather, they were driven by considerations of joint value-maximization trough attainment of synergistic gains and lowering the costs of production by an ongoing coordination (Gulati & Singh, 1997).

Yet, these research findings pertained predominantly to dyadic alliances. One can expect that in the case of a multi-firm alliance with international participants, the issue of coordination costs and coordination measures becomes even more pronounced. As the number of participants grows, so does the interpartner diversity, and consequently, the scope for internal friction, communication and decision-making problems, and probability for conflict of interest (Tinsley, 1998), but also the chances of larger synergies.

Gulati (1998) suggests that *"social structures of trusting relationships are distinctive in addressing both coordination costs and appropriation concerns, and this is reflected in the nature of contracts when firms are embedded in social networks"* (p.304). The author further maintains that the presence of interfirm trust can function as *"an extraordinary lubricant for alliances"* which may reduce the costs of safeguards against opportunism and formal coordination, and increase the network members' mutual allegiance.

Yet, trust building and trust attainment could be a lengthy process and difficult to accomplish among partners to a cross-cultural alliance. In this context, the issue of managerial measure that can lead to consensus building rises in prominence. Based on these observations, the insights from the research which explored the relationship between the behavioral style of leadership in the group setting, and the degree to which the group's decisions polarized or concurred after the discussion may be pertinent (Lippit & White, 1960).

These results reveal that groups managed by authoritarian or democratic leadership made decisions, which were relatively prudent. These decisions fostered acceptance of obligation and helped to bring the individual behavior in line with the authority. The *"laissez-faire"* style of leadership behavior allowed groups to make a greater number of risky decisions. Thus, an authoritarian style showed not to be fitted to circumstances where innovation matters, while the democratic style was more suitable for preserving the attitudes and judgments of the group. The *"laissez-fair"* style or a situation with no leader became conducive for rapid change or the adoption of a risky course of action. It generated thus *"bolder"* attitudes and inspired the members to exert extra energy and efforts, and channel these resources to the group welfare (Jesuino, 1986; Kim & Mauborgne, 1996).

The conclusions from these studies are quite instructive. Depending on the nature of the task a group or an alliance is to accomplish, the different behavioral leadership styles will either be conducive or obstructive for its attainment. If we agree, however, that the main task of the alliance leadership would be to organize and manage the venture in a manner that would facilitate consensus, outcome satisfaction and partners' commitment, then to do so, the leadership's first task would be to develop a common value platform, and to lead the group members to make and implement the decisions taken.

The leadership should have a fairly clear view of what kinds of tasks need to be accomplished by the alliance and vary the use of coordinative measures accordingly. In this context, the leader should be aware that the style of the behavior adopted under the process of decision-making will affect the rules of the game and determine the probability of consensus, and the ultimate alliance performance.

Essentially, this would refer to the extent that a formal power hierarchy is used versus other *"socially embedded"* networking measures, and the extent to which conflict is tolerated and compromise considered as functional, and what kind of formal organizational infrastructure has been established within the alliance system. When a bare minimum of organizational structure existed (such as project management), whether with leader or not, the group decisions leading to achieving consensus may tend to be more extreme as compared to individual member's positions. With a higher degree of organizational structure (exemplified by a hierarchical decision-making body), a clear propensity of groups to become moderate may be observed (Lippit & White, 1960).

While drawing to the end, we may say that a high level of interpartner consensus will be needed for coordinating individual procedures, standardization of performance, and development of compatible production apparatus that will create an alliance-wide system capable of supplying European-scale services and creating discernible competitive advantage. This will require that alliance members reach consensus on decisions related to those issues, because consensus decisions may presuppose relational confidence and alliance loyalty. Consensus will enhance the organizational commitment and facilitate the earmarking of means and procedures to introduce the alliance-endorsed changes into individual partner's organizations. This indicates that the role of a leader in managing the group decision-making should be more of a coordinator and less of a supervisor.

5 Conclusions

In the preceding sections, six constructs mediating the effects of contextual determinants on an alliance's integration and its empirical manifestations have been reviewed and discussed. These six constructs referred to:

- Types of tasks performed in concert.
- Types of working relationships established.
- Propensity to trust and commit resources.
- Degree of interpartner consensus.
- Willingness to comply with unpopular decisions.
- Degree of relational control.

All constructs pertained to the second phase in the alliance life cycle, which was related to implementation of the contractual agreement. In this survey, four levels of analysis have been applied. We focused on partners as individuals, as a group of individuals, as a group of firms, and on an alliance as a network of companies. This means that we applied two conceptualizations of the partner construct, first as an individual decision-maker and second as an organizational unit. We also applied two conceptualizations of an alliance, the first as a group of the individual partner's firms and the second as a multi-organizational entity composed of autonomous units.

One conclusion which, can be drawn is that a minimum common set of operational goals and a high level of mutual understanding are needed for a partnership to work. This assumes that relatively early in the process of collaboration, the purposes of the partners, at least in some restricted areas of common actions, should converge. Even though different parties may have divergent expectations of alliance benefits and its operational model, those expectations should be sufficiently compatible on specific issues to allow for common operational goals and an agreement on the course of strategic action. The convergence of purpose within an international alliance may lead to the achievement of strategic and operational synchrony only after the partners learned how to manage and overcome a number of obstacles:

1. They must overcome the genuine divergence in operations management and performance of collaborative tasks arising from variant cultural and organizational mores. Some shared standards as a basis for initial collaboration and building the subsequent consensus must be developed. Cultural divergence may make these tasks difficult, so the process of trust building may become long lasting.

2. A convergence of purpose must survive imperfect information, environmental uncertainty, incompatible assessments, plus individual and cultural variability. As the success of the logistics business is highly dependent on competitive level of service production, it requires interpartner disclosure of operational and financial aspects of their operations. Inter-linking will not happen until partners developed a rock-solid trust in the paramount value attached to the commonality of their venture.
3. Trust between individuals and firms develop over time through interaction. It takes time to build functioning relationships. Partners have to learn each other's modes of operation, judging things together, and how to manage the joint actions. Relations are built gradually through social exchanges, through which partners may come to trust each other. As a consequence of interaction, bonds with larger contents of social exchanges may be established between the partners. These bonds are components of lasting relationships and a prerequisite of trust and self-disclosure.
4. Less than full disclosure makes consensus impossible as it may encourage partners to pursue hidden agendas, conceal information, engage in misrepresentations and be tempted by opportunistic gains. Disclosure, commitment and the sense of belonging will enhance the quality of partners' decision-making by moving them towards consensus. Consensus will facilitate partners' willingness to comply with controversial and unpopular decisions and implement the alliance-endorsed demands. To secure consensus, a leader should refrain from using power to speed up decision-making by compromise. A group of partners with divergent views will unify by opting for more extreme solutions if not deterred by the leader's intervention.
5. Alliance among partners with distinctive and multiple operational capabilities will produce a number of tangible synergies for each of them and their venture. A discord may, however, antagonize the partners on the mode of benefit creation. Partners should refrain from pushing for individual benefit appropriation during the alliance formation. In the long-run, however, partners may achieve higher benefit level than their counterparts, depending on their individual status in the venture and the scope of contribution to benefit creation.

6 Outcome Factor

The last outcome factor in our conceptual framework is integration. Integration is a multifaceted construct, which takes on multiple manifestations and displays different levels and scope. Before we proceed with various conceptualizations of the integration notion, we need to reflect on the limitations of generalizability among different levels of analyses. We cannot assume that theories, concepts and their empirical manifestations generated at one level of analysis will apply with equal validity to different levels.

However, that may not be a valid obstacle, and indeed even an acceptable working approach for explorative types of studies. By taking insights assessed at one level, for example an individual partner, and applying them across different levels, by viewing the organization as population of social actors who bear the traits of individual partners, one can analyze how a set of change-invoking stimuli becomes transferred throughout different levels within a network system (Gomes-Casseres, 1996; Lyles, 1988).

The issue of integration is approached below from three conceptual perspectives. The first involves an interorganizational level and pertains to relationships between the alliance members and their markets defined in terms of customers served and degree of homogeneity of customers' demand. The basic idea behind this discussion is that the scope of partners' integration and standardization of their output will be affected by demand characteristics. Hence, standardization of service provision across many operators becomes a viable market strategy only under conditions of considerable demand homogeneity.

The second approach to integration involves a fit-building process between the alliance members. This form of integration derives from a need to jointly supply logistical services to international customers who require stable service quality level across the entire Pan-European market.

Finally, the third concept of integration envisions adoption a managerial superstructure that might coordinate the alliance firms' operations and decision-making, and by so doing, facilitate interactive learning and development of collective competitive advantage.

Integration at Interorganizational Level

A central factor impacting on the extent and level of intra-firm change for attaining the network integration would be the scope to which the customers' needs are homogeneous across national markets, and to what degree the alliance service provision can be standardized. Therefore the decision to standardize the alliance operations will have a profound bearing on the degree to which the allied firms might need to re-arrange their modes of supply in order to effectively coordinate freight movement between the geographically dispersed European locations (Bartlett, 1982; Ghoshal, 1987; Prahalad & Doz, 1987).

The degree to which the service provision is standardized would influence the member firms and consequently the entire alliance's ability to unlock the competitive advantage that derives from co-ordination of Pan-European operations. That means that the alliance firms' performance would be influenced by the *match* between the degree of standardization of services offered and markets served, and by the *match* between the degree of standardization of service provision and integration of partners' activities across international markets (Carpano & Chrisman, 1995).

The term *"international markets"* describes a set of markets that consists of customers from two or more nations and where opportunities exist for cross border trade which generates demand for freight shipments between distant origins and destinations. These customers may have very similar or very different needs. The characteristics of these needs and the extent to which national markets are similar in structure (such as demand composition) would affect the degree of alliance integration, the scope of interpartner realignments, and eventually the degree of individual firm's change.

According to Carpano and Chrisman (1995), a key strategic decision that partners need to take in this context would be whether the alliance should compete in the same fashion in each market it serves, or whether its competitive weapons should be crafted to suit the different markets. Therefore, for the purpose of integration, decisions about the extent to which the service provision is standardized across national markets would be vitally important for the scope and the measures of integration. Integration is defined as the extent to which the activities and procedures of the network units are coordinated so that they can be performed in an uniformed manner at border-crossing scale.

Logistical firms providing services in countries that may be both economically diverse and geographically distant face the need to design freight supply operations along supply channels that cut across multiple country territories and differ as regards service level requirements. The necessity to deal with complex demand composition in international markets generated a debate whether marketing and/or service provision should be standardized across countries or adapted to diverse customers' needs (Takuechi & Porter, 1986). Buzell (1968), one of the first to recognize the importance of this issue, argued that the more homogeneous international markets are, the more standardized the international operations should be, and vice versa.

A homogeneous international market makes it possible to supply standardized output. The ability to develop economies of scale is a key advantage of standardization. Economies of scale occur when the unit costs decline as volume increases (Porter, 1980). A large base of international customers with homogeneous needs provides the firms with the opportunity to supply large amount of standardized services. The ability to sell standardized services unlocks competitive advantage in line-haul, warehousing, drayage, inter-docking and inventory management which constitute the basic activities of a logistical value chain (Porter, 1989) and the benefits of network enlargement (Powel, 1990). Similar customer needs and market structures may also make it possible to standardize production facilities for freight handling, the rolling stock and the types of load carrying units rather than go through an expensive and time consuming process of testing the degree of diversity and designing solutions that would match the variable demand composition.

On the other hand, when an international market is heterogeneous, a country-centered strategy where services are tailored to the diverse needs of customers in different national markets is called for (Porter, 1986; Prahalad & Doz, 1987). Service standardization should be avoided because ability to satisfy customers should take precedence, even though the ability to reduce costs may be lost. It is of little value for an alliance to keep costs low by providing standardized services if they do not fit customers' needs and perceptions.

The above considerations make that irrespective of whether the managers of a given firm want to merely integrate one or two sub-systems with the alliance operations or redesign the entire operation model when faced with demands for standardization or differentiation in alliance-served countries, they would have to accept the risk of status-quo disruption and introduction of new procedures. The above is necessary if they are to function successfully in a coordinated manner. Therefore, they must embark on changes in management, processes, portfolio of customers, and acquire new execution skills. All these may require painful interventions into existing solutions, result in a new pattern of service provision, and (possibly) in *"interorganizational learning"* (Lyles, 1988).

Moreover, as over time the allied firms may collaborate more tightly by serving different parts of international supply channels, they will cross the individual boundaries in order to establish new kinds of linkages and create an integrated service provision scheme. Therefore, they must acquire knowledge from other organizations regarding new technologies, how to add value by collectively managing operations and deal with new and different markets. In this context, integration may motivate to learning, although the acquisition of learning effect at the network level may take long time.

Still, another obstacle to individual change and creation of a coherent alliance system may result from existing collaborative linkages with third parties and the scope of the focal firm's dependence on their functions and durability. If those relationships provide inputs, generate outputs, and regulate activities which may conflict with those which are alliance-mandated, the partner's firm may be pressured to disrupt these links and exposed to risk of loosing business.

Since all firms have external networks in which they are embedded, disrupting of relationships with third parties may lead to braking of external *"operations and knowledge networks"*, that is, the links with organizational clusters with whom the alliance firms used to collaborate in order to establish closer working ties with the alliance partners (Gulati, 1998; Mattsson, 1995).

So, in order to handle the restructuring and disarray removing process, the allied firms might need to establish a new *management system* that would serve their coordination needs. Such a system may consist in a body that would draft the policies, restructuring schedules and prescribe how the allied organizations should act in alliance-related business situations. Yet, one can expect that it may be quite traumatic for alliance firms to restructure for the need of serving international markets and subjugate to an external managerial system that may differ from their own administrative structures.

Integration at Intra-network Level

Thus, the scope of interpartner integration will be affected by the structure of demand in markets of their operations. Yet, the requirement of an effective service provision to international distributors with supply webs covering several country territories will generate strong functional interdependencies between the network's units. Consequently, the units who collectively move freight through border-crossing logistical chains and work in concert to secure a coherent service level throughout the entire distribution system may need to embark on a series of restructuring and re-alignments in order to attain a functional match that will allow them to operate as one taskforce.

At the core of international strategy of standardization is the ability to maximize the efficiencies and learning (Bartlett & Ghoshal, 1987; Ghoshal, 1987). The efficiency advantages of standardization were discussed above. Learning, on the other hand, occurs when knowledge acquired in a broad range of markets and organizational situations is used by the entire alliance to improve operations such as the design of distribution networks, the freight supply and freight handling skills and/or the marketing of the venture's services. The efficiency and the ability to learn by the alliance partners would depend on the alliance's ability to integrate activities that are geographically dispersed. Consequently, a proper degree of integration for service provision activities is necessary to effectively standardize the operations of all alliance partners. Standardized management systems and uniformed working performance may be the mechanisms of this strategy implementation.

While close integration facilitates service standardization across national markets, an alliance of firms who operate in highly heterogeneous markets will not benefit from tight integration (Bartlett & Ghoshal, 1987; Porter, 1986). When markets differ widely across nations, the expertise required to identify, adapt and respond to local needs is located within each country (Doz, 1986). The result is that knowledge that one partner acquires in one national market has limited utility in another. Furthermore, the integration incurs costs as well as benefits. Just as the benefits of tight integration are lower for an alliance with country-specific demand composition, the cost will usually be higher. In this context the interpartner adjustments may be more difficult to implement and take time away from other important pursuits. Tight integration may even preclude the local adjustments, or make them more difficult.

Thus, the service provision by an alliance operating within an environment with country-differentiated service demand should be loosely integrated in order to allow taking advantage of idiosyncratic market knowledge without incurring excess costs of standardization that will not add to competitive advantage (Carpano & Chrisman, 1995).

Because alliance managers may control strategy, but not the environment, market structures should be considered as an appropriate referent by which to decide on the scope of interfirm integration and standardization of alliance operations.

Integration at Superstructure Level

Still, the interpartner integration can be halted not only by the contextual diversity of international markets, but also by the firms' demographics and administrative models. Factors such as differences in size, decision-making style and the degree of hierarchical control among the alliance firms may slow down the intranetwork fit, even if the external market conditions may favor a tight integration. When considered together, these peculiarities may hamper the process of integrative convergence, and delay the transfer of knowledge.

However, one must not forget that the forces, which pushed the individual partners towards collaboration may be strong enough to countervail resistance to concede on individual autonomy. So, partners may overcome the divergence of individual organizations by gradually devising the coping strategies for implementing relational adjustments. This will cause functional integration to take a longer time, but an incremental progress may be the only viable mode of alliance integration.

Since a strategic alliance is frequently under pressure to adapt to new environmental opportunities and respond to environmental threats in its competitive arena, learning typically takes place where unique traits or the capabilities of individual partners become picked up by other partners and internalized within their strategic venture (Lyles, 1988). Thus the interunit learning and cross-fertilization may occur out of the need for new organizational identity, in order to attract new clients, new partners, and acquire a discernible competitive position.

An evolutionary process leading to development of a specialized managerial infrastructure for coordination of alliance's operations and strategy-making may consist of three phases, each presupposing different levels of relational control and institutional advancement (Lorange and Roos, 1992).

During the first stage in an alliance's life, the roles of the individual partners may be complementary and the collaboration based on bilateral or trilateral contributions, where one or two partners provide different types of services and operational skills, while the third partner contacts the customer (Hertz, 1993). At this stage, one may think of an alliance as a strategic program executed by different departments and divisions within a corporation.

After some time, however, one partner may become increasingly focused on the execution of coordination tasks. For instance, the partner who provides sourcing may gradually increase the scope of coordination activities. Such a development will mark the transition toward phase two, where one of the parties concentrates on the extended coordination of sourcing activities for all remaining partners. Such a relational change in the division of labor will be both, evolutionary and pragmatic (Lorange and Roos, 1992).

In the same vein, the development of a more advanced organization, where one party centralizes managerial functions through introduction of governance structure, does not necessarily bring about an asymmetric power distribution, as long as other partners do not develop a unilateral dependence on the services rendered by the coordinator. However, this may also depend on the way the coordinator performs. If the coordinator manages the business by aggregating control over more and more functions, thereby signifying its own position within the alliance network, the power distribution may shift from a relatively balanced to more concentrated pattern. It may also be true, that the remaining partners will react negatively and try to *"extricate"* themselves from such a situation by not transferring more functions to the dominant party.

At this stage, the alliance may encounter a managerial dilemma, as some of its partners may find it difficult to accept an emerging power asymmetry and wish that managerial and operational functions were organized in a different manner. Development of such attitudes may lead to a split of coordination tasks between the more active partners, and an alliance may acquire a more advanced organizational form with multiple partners performing specialized managerial roles. This may signal a transition towards the third phase in the alliance integration where multiple partners perform different managerial functions and contribute to development of a strategic portfolio, extension of the range of the markets served, services offered, and a development of more sophisticated coordination tools. Phase three can be considered a mature stage in the alliance's life cycle where it adopts a specialized organizational structure to manage its competitive behavior, and secure satisfactory payoffs from its business. The course of evolution from a bare minimum to a more advanced organizational structure may also be evident in the subsequent adoption of more bureaucratic governance modes for managing the alliance's business and integration between its partners (Lorange & Roos, 1992).

Irrespective of whether the international market structure is homogeneous or heterogeneous, it may be expected that a full-fledged integration of an alliance with perpetual goal of existence, will not happen through short-term synchronization of individual actions, but rather through long-term strategic convergence on the fulfillment of alliance's mission.

In summary, integration among the alliance partners may be hampered by heterogeneity of international markets, interfirm diversity of managerial styles and organizational systems, and cultural backgrounds of managers. However, given that the alliance partners tackle these hindrances, their integration may evolve through three subsequent phases, each of them displaying a higher organizational order and a more advanced form of coordination.

Integration may start at a dyadic or triadic level where partners establish multiple working links by performing highly coordinated tasks. For this stage, a project-related management and planning mode may be recommended. As the alliance moves toward a more advanced stage of development, a more explicit dichotomy arises between the coordinating and operating partners. The use of a project management and control mode may still be applicable here, although a formal strategic planning apparatus should be established to standardize the partners' financial and operative performance.

Finally, during the third stage of an alliance evolution, a formal governance structure may be introduced and a managerial superstructure established in order to reconcile the partner's individual networks and make an alliance capable to participate in international rivalry though joint competitive tactics.

7 Conclusions

Above, different manifestations and levels of integration process have been reviewed and discussed. The general conclusion to be drawn from this work is that integration is a dynamic phenomenon apparent in evolutionary, multiple sequences of transformations occurring at different levels in the alliance member's organizations which brings about the variable substantial outcomes. It seems impossible to produce a unitary objective measure of integration for an alliance as a whole because the individual partner companies play different roles in this process, display different needs for integration, and use different evaluation criteria.

In our review, we focused on three integration levels:

- As the development of interorganizational match among the alliance partners and their markets, and
- Between the individual partner's organizations who operate as one alliance network.
- As an organizational superstructure established in order to unite the partners' performance and strategic visions into one collective alliance system.

These three levels are considered complementary for assessing the scope and the pace of the integration progress. For an in-depth understanding of the integration phenomenon, empirical process-oriented research is needed to show how the integration actually evolves once it has started. It is our conjecture that integration will proceed through several and various spells of developments that will form a magnitude of parallel processes.

The first process, operating at the group level, comes to the fore through an effect of group coherence and a gradual development by the members of loyalty towards the alliance-induced standards of performance and managerial decisions. The second process, operating in organizational and interorganizational contexts, may be facilitated by the experiential learning, but hampered by heterogeneity of international markets, diversity of partners' organizational systems and variable levels of sub-units' alliance commitment. As a result, different types of working linkages may evolve under the process of task performance, which may bind the alliance members into different constellations.

These two processes will be paralleled by an emergence of a formal managerial superstructure for labor division and decision-making where some partners may assume managerial functions, while others adhere to operational tasks.

Integration will be evident in the gradual introduction of more advanced governance modes for the coordination and planning of alliance's long-term performance. Such managerial tools may evolve from simple project management tools to a full-blown bureaucracy incorporating measures of strategy development. This implies that an alliance integration may progress from a loosely coupled contractual association of collaborating partners which handled *ad hoc* projects to a formal multi-firm organization with hierarchical power structure and a continuous purpose of existence.

Part III

Methodology

1 Introduction

Part III of this study substantiates the choice of methodology that was used to assess how the focal alliance of seven European logistical firms changed its mode of operation and organizational format, and became a full-fledged player in the Pan-European market. The methodology applied served to explore the contents and the sequence of alliance transformation, and the nature of strategic and operational fit between its members.

This part of the study is a discussion of the strategy that guided the choice of research design and techniques for data collection and data analysis. The measures employed were devised in accord with the ontological perspective and the body of relevant theories and served to assess the degree of convergence between the *a priori* conceptual vision and results from empirical exploration.

The topics covered in this chapter are presented in the following order. First, the research design is reviewed, with a specific thrust on the longitudinal multivariate method used to analyze the case of the focal alliance. Next, the field procedures for collection and registration of longitudinal multi-level data are described. Third, the details of data analyses are explained. Finally, a series of measures employed to enhance the validity of these research findings is outlined.

2 Research Design

In exploring the temporal transformation of the organizational structure and inter-partner relations of an alliance, this study sought to answer: *How* did the change in the focal alliance's design and behavior of its partners occur over time? More specifically, *what kinds* of change measures have been used to transform the alliance from a loose working coalition to a formal consortium organization, and *what* outcomes did these efforts produce?

These two components of inquiry were conceptually and analytically interwoven: The *"what"* question pertained to the *content* of change, while the *"how"* query focused on the *process of change,* and its occurrence. We hypothesized that *how* the change process was managed would affect *what* has happened, and *what* has been achieved. Specifically, by *what* we meant the patterns and the pace of alliance evolution.

These issues were central to understanding the strategic purpose of the alliance's undertaking, and for judging whether this enterprise was a collective success or a failure.

In explaining the above issues, we employed a comparative longitudinal case study method suitable for tracing and identifying, in retrospect, the patterns of integration which took place among the partner firms. This exploration therefore focuses on mechanisms which the alliance's partners used to modify their individual operations and orchestrate them into one service provision system. The purpose of such a system was to achieve, over time, an operational and strategic fit in order to be able to perform as one interorganizational system. This fit was a prerequisite to serving the international distribution system that covered a fifteen country market through horizontally coordinated individual service supply networks.

Our conceptual framework presupposed that, over time, an alliance would evolve towards a more advanced managerial model with a higher level of operational responsiveness and functional efficiency. Therefore, this inquiry probed into the process of organizational change that was sequenced through several stages in interpartner adjustments and re-alignments. It adopted a dynamic perspective which explicitly incorporated the timing and sequencing of the life-course events within its research design.

Of course, a life-course cycle is not solely composed of a series of events distributed over time. It also contains many occurrences, both actual and perceived, that are temporally interwoven and affect the causal evolution of one's life process. Hence, this inquiry did not focus solely on tangible actions and/or the desired or imputed outcomes of such efforts. It was also concerned with the evolution of managerial awareness for joint strategic action, adoption of formal organizational structure and joint performance standards.

The above did not mean, however, that the move from the state of strategic awareness to strategy implementation was disregarded. On the contrary, the investigation into *how* the alliance's partners handled the change process by reconfiguring their organizations towards establishing a new business system remained in focus. In other words, we attempted to tie the *what* and the *how* issues to the management of change process, thereby matching the *content* with the *process* approach. Process was broadly defined as any sequence of changes occurring *over time*, and affecting the organizational variables. Thus, following Kimberly (1976, p. 329), our research design involved *"the techniques, methodologies, and activities which permit the observation, description, classification, and explanation of organizational phenomena in such a way that process can be identified and empirically documented"*.

Yin (1989, p. 23) maintains that a case study method is an appropriate form of empirical inquiry, as opposed to a partly controlled field experiment, when the investigation is related to:

- Contemporary phenomena within the real-life context
- When the boundaries between phenomena and context are not clearly defined
- When multiple sources of evidence are used
- When the researcher cannot manipulate the variables studied.

Yin (1989) posits that the case study strategy is most likely to be effective in answering "*how*" and "*what*" types of questions are asked about a contemporary set of events over which the investigator has little or no control (p. 29).

Such a task generated needs for high-quality information about many activities, events, and happenings that occurred during a decade-long alliance's life cycle. The above required coverage of a prolonged period of time and access to data material that captured many levels and areas of happenings, and the direct and distant causes and effects of these occurrences.

Therefore, this case study employed a comparative longitudinal design with a multi-layer format of analysis. The aim was to identify, explain and align, over time, the patterns of external and internal change, which transformed a loosely coupled working association into a formal organizational system. In analytical terms, these tasks required assessment of the different types of stimuli that triggered the change process, the mechanisms through which the changes occurred or have been enacted, plus the perceived and real outcomes of change factors. Therefore, several levels and foci for analyses have been applied with the research agenda incorporating exploratory and intertemporal design, and multiple data sources.

This research employs an *embedded* form of a case study method (Yin, 1989, p. 49), with a focus on one case analyzed at five levels of analysis and from several conceptual angles. These include: The individual decision-makers within the partner firms, the individual partner firms, the interorganizational relations between the triple and quadruplet constellations of partner firms, and the two regional networks created by the alliance link-up. The first supplies distribution services to the Nordic region, the other to Continental Europe. Finally, the analytical spotlight turned to an interorganizational superstructure created from the combination of these two networks into one Pan-European service provision system. These five levels have been considered as different loci where the phenomenon explored has occurred and where it had to be studied.

The rationale for this epistemological approach and the key concept definitions are discussed in Part II of this study presenting the conceptual framework. Together, they delineate the theoretical constructs operationalized at three levels of measurement (categorical, ordinal and interval).

The analytical technique used here presupposed that collection and examination of the data followed an extended triangulation principle involving the following steps:

1. A pilot study with a survey of the individual partner's rationale behind membership of the alliance: Assessments of current gains and sacrifices, and future benefit expectations.
2. An assessment of the major shifts in the institutional and competitive environment in the European transportation and logistics market, and the effects that such changes had on the formation of strategic alliances.
3. An assessment of the domestic and international market positions of the four Nordic firms that forged a regional *"Inter-Nordic Alliance"*, and how such a network expanded into the European Continent.
4. A review of the important circumstances that paved the way towards formation of the "E-1 Alliance" and equalization of the power distribution between its partners.
5. An assessment of the formalization of interpartner dealings through adoption of the European Economic Interest Grouping as a legal blueprint for consortium formation.

6. An assessment of the interfirm re-alignment processes that transformed the structure of the alliance market coverage and the relationships between its partners.
7. A generalization of results from the individual firm to the level of alliance considered as a multi-firm network.
8. An assessment of the intra-alliance fit in the light of demand heterogeneity in international markets, and the impacts of demand variance on the scope of operational standardization.
9. An assessment of the alliance's strategic advantage in the European market resulting from establishment of a private consortium supplying logistical services to fifteen national markets.

The table below lists the compositional variables at five levels of measurement which bridge the macro and micro perspectives examined in this study.[22]

[22] Exploration of the alliance integration process were guided by an assumption that such a phenomenon will be composed of several layers and streams of sub-processes which will run in parallel and/or countervail each other during the period of analysis. Each of these sequences would in turn be driven by compositional rather than by simple variables, which produced a series of mini-cases constituting the different phases and elements of these sub-processes. This exploratory qualitative technique bears a certain resemblance to Factor Analysis, where each factor represents a compositional variable made up of a combination of closely correlated elements.

Table 2.1: Specification of Compositional Variables and Levels of Analyses

Units Analyzed	**System Level**	**Network Level**	**Inter-Organizational Level**	**Individual Organization Level**	**Individual Manager Level**
Levels of Analysis →	**Multi-firm Consortium**	**Regional Networks**	**Interpartner Relations**	**Individual Partner Firm**	**Individual Decision-maker**
Alliance as meta-organization **Layers of Analysis ↓**	Adoption of EEIG legal scheme for creation of formal "E1-Alliance" consortium. Adoption of EEIG system for regulation of : - decision-making , - strategies for market expansion, - managerial power hierarchy, - interpartner conflict resolution, - application of relational fairness.	Establishment of "Inter-Nordic Alliance". Operational and managerial link-up between the continental and the Nordic network . Interpartner commitment and involvement in network management. Licensing of new franchisees in new/ additional markets.	Establishment of electronic information system for joint service management. Strategic and operational realignments for coherent market coverage. Contribution of proprietary resources to realignment process. Establishment of alliance's leadership team. Establishment of joint task forces and expert groups for design of joint standards. Emergence of two coalitions within alliance.	Change of strategic preferences and orientations. Adjustment and modification of individual firms' operational bases. Shutdown of subsidiaries in other partners' core market areas. Changes in individual partner's service provision technology and investments in new pattern of market service. Internalization of common standards.	Dominant values, interests, and managerial skills of alliance leaders. Individual power basis within the alliance's context. Alliance loyalty as a decision- making factor for individual managers. Professional involvement in management of alliance's business. Development of inter-personal ties with fellow managers in partner firms. Devotion of professional skills and physical assets to alliance cause.
Two Networks within Alliance Organization	Integration between continental and Nordic networks.	Founders' Meeting and Founders' Contract for interpartner dealings.	Adoption of joint service provision technology.	Adherence to EEIG power structures and Board's decisions.	Adherence to alliance governance rules.
Quadruplet and trilateral constellations of alliance partners	Power asymmetry and market disparities between continental partners.	Formalization of operational, financial and legal dealings.	Joint service provision to domestic and regional customers.	Service provision to other partners' customers.	Development of formal governance for management of alliance's business & expansion.
Dyadic constellations of alliance partners	Transition from pair-wise collaboration to serving of multiple corporate customers with Pan-European distribution needs.	Increased operational and financial dependence on fellow-partners.	Joint market coverage; joint foreign investments.	Power relations and economic ties.	Accommodation of other partners' interests.

2.1 Collection and Recording of Longitudinal Data

In exploring *how* the change in organizational design and behavior occurred over time, and *what* the content of the change process was, our exploration centered on the *time-paced transition* from a loosely coupled coalition to a formal organizational system. To achieve this goal, we needed information about how the different elements of this development have been sequenced over time, and this in turn required data that would reveal a script of the alliance's life history and its timing. Such information would then reflect the various functional domains within which change has happened and allow assessment of the change mechanisms, the change agents, and the change outcomes.

For this purpose we applied an adapted version of the Life History Calendar (LHC) (Freedman, Thornton, Cumburn, Alwin, and Young-De Marco, 1988). The LHC served as a data collection measure and as a technique for data analysis. During data collection, questions regarding the timing and sequencing of life-course events were interwoven into the interviews. During the data analysis, the LHC was used for identifying the time units, assigning them into stages, and aligning the stages across the entire time period studied. These stages were then assigned to the time covering the space between the alliance's formation and the end of our analysis.

The time units were then aligned chronologically for disclosing the temporal interrelations of events and their impacts. In order to record the events that occurred fairly frequently and/or quite close together, the time periods were divided into small intervals. In this manner, the calendar records identified the short and prolonged sequences of occurrences as well as a considerable number of overlapping events.

The clusters of these events with assigned time units were classified as different domains in the alliance life cycle, and the domains and their various categories were related to the various stages in the alliance's development. In that way we could define a set of factors that determined the unfolding of the alliance life course, its timing and contents.

The definitions of substantive domains were based on a set of experiences that the alliance's partners encountered and the tasks that they accomplished. Such elements had discernible strategic or functional content and purpose. However, the purpose statements could not always be clearly deduced from the narrative of informants. Therefore, the aims were often retrospectively assigned after the different domains of the alliance evolution had been identified in terms of timing and strategic intent. Assessment of the aims for the various events and strategic initiatives was very complex, however, as different partners articulated different aims with regard to actions taken and outcomes obtained. The solution adopted for dealing with these disparities is discussed in Chapter 6, where the validity enhancing measures are presented.

On compiling a series of activities, events and/or incidents reported by respondents under particular intentional headlines, several substantive domains were identified and classified according to the thematic purposes of their undertakings. These were then assigned to different stages in the alliance's life sequence.

One example of a substantive domain was illustrated by a set of strategic endeavors made by the managers of the four Nordic companies to create a region-wide Nordic transportation network. This strategic effort started in 1989 and required integration of the service provision across the four national markets, i.e. by gradually channeling all international freight flows to the partner firms for consolidation, terminal handling and distribution. Subsequently, this strategic domain was further divided into several categories representing different problem areas and/or specific tasks related to this project.

Another example of a subject which received category status was the issue of transfer pricing. Transfer pricing is reimbursement of partners who provide services in their operation's areas to freight shipments which originate in other partners' market territories. However, the adoption of a uniform system for transfer pricing that was acceptable to all partners serving the entire supply channel was imbued with problems arising from differences in operations efficiency, service quality and price levels. Therefore, resolution of this problem was difficult and lingered over time. All the problems that the partners encountered with regard to this issue, all events and meetings organized to resolve this matter, all actions mobilized and proposals submitted to make a new transfer pricing working, plus the timing of such endeavors, have been recorded under a *"transfer pricing"* category. Such a category has later been assigned to the *"implementation"* stage in the alliance's life cycle that was identified as a substantial domain.

This method allowed hierarchical classification of the various domains and their constituent tasks, problem areas and strategic objectives in accordance with their significance to the alliance evolution. It also proved helpful in recording when a given course of action was mobilized, who it involved, when it ended and what outcomes it produced. These elements were later pieced together, assigned to the time units, became stages in the alliance's life cycle, and provided information on each stage's mission and duration.

The categories were not mutually exclusive, since the alliance members could be engaged in several projects simultaneously, and/or form various constellations for resolving various problems.

The LHC enabled recording and classification of a large amount of information about the timing of various activities and transitions among several time intervals. The latter permitted the different stages in the alliance life cycle to be bridged analytically and a gradual understanding for its evolution to be developed over a ten-year period of alliance history.

Temporal alignment of the stages and domains that drove the alliance transformation revealed that it did not progress in a linear fashion, but rather in layers and spells. The notion of layer implied that the transformation process happened through a series of parallel interpenetrating change trajectories which encompassed various levels and spheres of partners in collaboration and involved different combinations of participants. These trajectories, taken together, mapped the scope and the magnitude of the partners' temporal convergence towards one strategic system. Layers were thus produced by the strings of events, happenings, actions, initiatives and external shocks that provided the basis for several sub-cases examined at different levels of analysis. Spells, on the other hand, were manifested in active and dormant states that advanced and reversed the alliance's development. The dynamics of the alliance's temporal evolution was thus manifested in the shifts from one spell to the next and occurred through several layers of change sequences.

These developments have been captured by our data-collection procedure. This study used the time-lagged panel data to expose the process of alliance enfolding and the causal forces that drove this evolution. Three waves of personal interviews, field visits and document gathering were conducted to measure the constructs at three points in time and to assess the transition from one state to another.

T_1 was in 1995 when the alliance was still at the stage of formation. T_2 was in 1996 after the partners adopted the Founders' Contract as a basis for alliance governance. T_3 was in 1997 and covered the process of institutional consolidation. The dynamic panel of data was created from interviewing and re-interviewing a group of managers at three echelons in the alliance firms and their most direct competitors, and by matching the interview contents with information from unobtrusive sources. The panel data unearthed the track of the alliance development by revealing the trajectory of causal effects that structured the relations among the variables and spared us from several recall problems arising from the fading memory. How we dealt with an overall threat to validity arising from the fading recall of the alliance's participants over a ten-year-long history of the venture is discussed in Chapter 6, where the measures used to enhance the trustworthiness of these research results are reviewed.

3 Object of Analysis

The object of analysis examined throughout this case study is a strategic alliance forged by the following transportation and logistics firms:

> *Toll Post Globe (Norway), Fraktarna AB (Sweden), Dan Transport (Denmark), Huolintakeskus* [23] *(Finland), DBS (Finland), the Nedlloyd Road Cargo as the land transportation division of the Royal Nedlloyd N.V. (The Netherlands), Edouar Dubois et Fils (France) and Saima-Avandero S.p.A (Italy).*

This choice of strategic alliance was based on the scale and scope of its operations. The alliance created a service provision system that covers fifteen European countries, which emerged from the logistical linking of the operations of seven firms. The alliance core market area consists of the following countries: Germany, Holland, Belgium, Luxembourg, Austria, Switzerland, Italy, France, Spain, Portugal, Denmark, Sweden, Norway, Finland and United Kingdom. Through secondary alliances and/or subsidiary connections it also provides an indirect access to markets in Ireland, Turkey, Greece, southwestern Russia, the USA and Southeastern Asia. Its effective service supply system covers the entire European mainland and the Nordic region. This demonstrates that the alliance's scale of service provision is global in nature. The alliance's firms are intermodal operators supplying intermodal transportation and running a vast network of facilities for third party logistics services.

The majority of the alliance firms are medium-sized logistics operators in their national markets. An exception is Nedlloyd, which is a world-class ocean shipping and logistics company, and a supplier of multimodal, inter-continental transportation. Nedlloyd has an extensive European and overseas network. Its European mainland operations are managed by a group of subsidiaries and alliance partners in sixteen European countries. Nedlloyd merged with P&O in 1996, thereby extending the geographical territory for its maritime business. Nedlloyd now has direct ship calls in twelve countries in Asia (representing 16 major ports), seven countries in Europe (with ten large ports served), and three countries in the Americas, namely the USA, Canada and Panama (with a total of 10

[23] Huolintakseskus left the alliance after a rival Swedish transportation-cum-logistics supplier BTL-Scansped acquired it in April 1996.

ports in this region). However, the scope of the Nedlloyd operations analyzed in this study covers only intermodal transportation and logistics.

The accompanying table provides a descriptive summary of the extended sample of the companies in this study.

Table 3.1: Operational Characteristics of Sample Firms in the Case Study and Some Important Competitors

	Operation Features							Network Characteristics 1996/1997			
	Transport Modes Used				Service Provision			Number of Vehicles in Operation	Amount of Ton/Km Produced	Amount of Ton Carried	Number of
Company's Name	Sea	Truck	Rail	Air	Parcel	LTL**	FL/CL**	1,000	Million	Million	Terminals
DanTransport	X	X	x	x	x	X	x	2.2	20.0	0.9	6
Fraktrana AB	X	X	x	x	x	X	x	1.5	12.0	0.5	4
TollPost Globe	X	X	x	x	x	X	x	1.2	17.0	0.8	5
Huolintakeskus OY	X	X	x	x	x	X	x	1.0	15.8	1.1	4
E.Dubois et Fils	X	X	x	x	x	X	x	2.4	20.1	3.2	6
Saima Avandero	X	X	x	x	x	X	x	2.8	10.5	3.8	6
Nedlloyd Road Transport	X	X	x	x	x	X	X	4.6	64.9	9.7	28
BTL Scansped*	X	X	x	x	x	X	X	5.1	25.7	6.4	18
ASG- European Road Cargo*	X	X	x	x	x	X	X	3.8	32.7	5.2	16
DFDS Transport*	X	X	x	x	x	X	X	2.7	62.9	10.4	17

Source: Company statistics

*) These companies represent the most important competitors of the alliance's firms.

**) LTL pertains to Less-than-Truckload shipments, while FL/CL denotes Full-load and Carload shipments.

4 Field Procedures

As already mentioned, data for the alliance case study was collected in a time-lagged manner. The first exploratory wave was carried out in May and June 1995, and included field visits and in-depth interviews of managers and executives from the four alliance firms: Toll Post Globe, DanTransport, Fraktarna and Huolitantakeskus. This pilot fieldwork provided input for the conceptual framework, and preceded a full-blown study in terms of scale, process and scope. The second phase was conducted in November-December 1996 and included in-depth interviews with managers and executives from Toll Post Globe and DanTransport. Finally, the third and main phase of data collection took place between January and June 1997 and involved personal and telephone interviews with executives and managers of Edouard Dubois et Fils, Saima-Avandero SpA, Nedlloyd European Road Cargo and DanTransport, plus site visits to production facilities such as terminals, shipping docks and load-handling centers.

Apart from senior executives, the interviewees included the medium and line-level managers responsible for terminal operations, traffic management, IT, product development and quality control. Each personal interview lasted between

2 and 4 hours and several of these were followed-up either through another personal meeting or telephone contact. In sum, eleven top executives and twenty-two line and operational managers in the alliance's partner firms were interviewed.

In order to register the attitudes and perceptions of the third parties and validate the objectivity of reporting delivered by the alliance members, five executives from three major competitors to the alliance companies: Bilspedition Scansped (Sweden), ASG European Road Cargo (Sweden) and DFDS Transport, the Danish steamship line-cum-logistics supplier in Norway and Denmark were interviewed.

The majority of respondents exhibited a positive attitude towards the study, and provided all types of information requested.

Along with the primary data collection, a parallel compilation of secondary information, such as documents, memos, contracts, agreement protocols, business correspondence, annual reports and private and public statistics, was carried out. In addition, field observations from facility visits were recorded in written form. The purpose was to collect a large amount of impartial material related to the alliance's operations, development of strategic posture, changes in market coverage and operational standards, and adoption of institutional format.

The figure below illustrates the interview structure at the individual partner and interpartner levels.

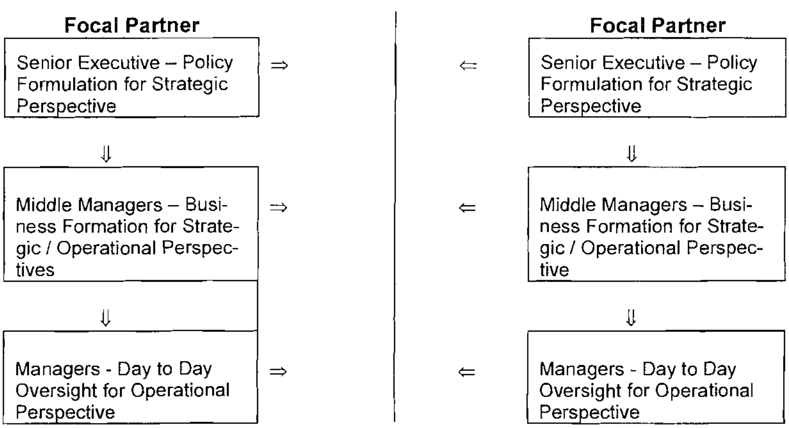

Figure 4.1: The Interview Structure

In accordance with Yin's (1989, p. 70) recommendations for scientifically sound field work procedures for case studies, the collection of data and the organization of the field study followed the *case study guide,* and all data collected through personal interviews and site visits have been stored in *the case study protocol.*

The case study guide was drafted prior to the main study, and was subsequently modified as a consequence of the feedback from informants and growth in insights into the subject studied. The guide designed several interview programs that served the gathering of different types of information at different points in time. A trial version of the interview guide was first sent to each informant prior to the personal interview with a request to review it and supplement with subjects that were important, but missing.

Two types of data collection instrument were used during the interview sessions: Semi-structured and structured interview guides. The former included open-ended questions and was designed as a series of low-level queries. It aimed at establishing the temporal chronology of events that illustrated how the alliance project started and evolved over time. The respondents were asked to report the history of the alliance evolution. During this phase, several probing questions were asked to establish when the particular events occurred, who the initiator of specific actions was, who the participants were, how the perceived aims and outcomes of such undertakings could be defined, and how significant they were for the progress in alliance evolution.

The second part of the low-level interview framework explored three areas: The first a probing into the respondent's background and features of the competitive environment in which it operated; the second an inquiry about the major strategic issues faced by the individual companies, and the assumed linkages between the individual partner's strategic goals and the alliance mission; the third information seeking about changes in structure, governance modes, development of interfirm control system and, generally, on the measures related to development of the formal consortium organization.

The structured interview guide was designed as a high-level interview framework containing questions regarding the contents of events and actions that took place within particular time intervals. Subject matter covered by the high-level interview scheme included:

1. The contents of inter-personal and working relations among the alliance's founders.
2. The patterns of working linkages between the alliance's founders and associated members.
3. The technology and other formal management instruments used for standardization of alliance operations.
4. The patterns and contents of working relationships between the alliance members and their individual and common customers.
5. The structure of demand for freight supply solutions in international markets served by the alliance.

The information gathered has been entered into the case study protocol, which comprised four sections with the following raw data material:

1. A general overview of the research project, its objectives and issues explored.
2. Field procedures for access to important informants at three levels within the alliance's organizations. An overview over the target organizations' operational facilities and sites, the locations of headquarters, terminals, networks and fleet, the names of some important corporate clients and the industry sectors they belonged to, plus the partners' shares of market coverage in their own countries.

3. The case study questions and sources which provided information and answers.
4. Basic principles for classifying the information gathered during interviews, field visits and site inspections, plus the drafts of summary reports and notes made by the investigator from the site observations.

5 Data Analyses

The data base for this case study was created from the transcripts of the narratives of the informants recorded during the interviews, the text of business documents and the content of other written information, such as field notes and business statistics. These data from different sources were then reviewed, examined, classified, coded and analyzed using the content analysis procedure (Diesing, 1972; Guba & Lincoln, 1994; Strauss, 1987), which was conducted in a sequential manner.

First, the entire data material was examined for the presence of themes and constructs which could be linked to the conceptual definitions. Several dictionaries of thematic categories were developed and data classified by grouping into semantically homogeneous clusters. Each cluster outlined several distinct types of events and/or critical incidents and assigned them into time intervals. They were later patterned as various strategic measures mobilized by the alliance's members, labeled according to their strategic intent and classified as various components of interpartner interaction and/or change drivers.

Construction of a category system for analyzing the data involved a multi-step procedure. First, an entry list was devised on which all relevant variables were specified and grouped under conceptual tags from the theories applied. The list was then divided into dictionaries with semantically homogeneous themes reflecting the connotative meaning of the theoretical concepts. Subsequently, each category dictionary was broken down into a typology of four semantical differentials, so dividing the dictionary's entire semantical region into four connotative clusters. Each cluster contained a semantical space for placement of categories with static, dynamic and descriptive meanings, and their temporal occurrences. Descriptive and dynamic categories have been related to different classes of *"critical events"* reported by informants.

"Critical events" were the distinct acts of behavior which the respondents defined as either effective or ineffective in attaining the aims sought. Identification of such incidents, and their assignment to dynamic and descriptive categories, was checked across several informants to ensure that:

- The actual modality of behaviors and/or contents of actions were reconstructed precisely.
- The timing of the behaviors/actions reported was correct.
- All relevant factors of a given situation were reported.

- The reporter made it clear *why* he did, or did not judge a given event as critically important for accomplishment of a given aim.
- Other reporters also made it clear *why* they did or did not judge a given behavior or happening as critical for the aim(s) pursued.

Next, each semantical category was broken down into three sub-categories distinguishing between three types of concepts: Conjunctive, disjunctive and relational. Conjunctive concepts pertained to the joint presence of different values or levels of the same attributes in various contexts. These included statements regarding locations, persons, timings, states and conditions.

Disjunctive concepts denoted the joint presence of contrasting attributes, or different combinations of their occurrence. These included statements reporting general types of activities and specific forms of behavior. Relational concepts delineated the occurrence of linkages between the defining concepts and involved, for example, the criteria for defining the alliance's general aims, the criteria of importance for the general mission, such as critical strategies that required coordination of the efforts of all partners and the modes of how such strategies were implemented.

Data sorting and classification into conceptual themes, categories and attributes identified verbally and in the text of documents examined was conducted through multiple scanning. The purpose was to establish a semantical connection between the content of informants' expressions and the thematic headings and theoretical constructs from the conceptual framework. For example, one form of data examination was carried out with the purpose of establishing the frequency of occurrence of descriptive and abstraction categories. The occurrence of abstractions was expected to be greater than descriptions when the subject matter of informant narrative was the working linkages, the exchange and sharing of information and the development of respect and friendships with other alliance managers, as well as general perceptions of environmental and market conditions. The same was anticipated would occur when informants described long-term strategies and their assumed bearings on alliance development. Alternatively, the number of phrases, expressions and attributes which pertained to factual observations and actual events was expected to be greater in speech related to operations, financial results, productivity and computer-based information systems.

Indeed, the above was confirmed when it was found that the number of descriptive categories was higher in the narrative referring to functional behaviors compared with the narrative reporting perceptual and/or emotive experience. The above procedure provided documentation for the process through which the commonality ideology has slowly emerged and through which different types of functional and social bonds became established between the alliance partners.

The last phase in our analyses involved the synthesis of findings, which was undertaken in order to develop an empirically validated model embodying a set of variables which actually structured the alliance fit. For this purpose we compared the conceptual vision with empirical manifestations of alliance evolution and integrated them within one outcome model epitomizing a set of transformation motors that structured the nature of the systemic fit and offered new insights into causes of the network dynamics.

6 Procedures Enhancing Validity of the Case Study Findings

The most prevalent criticism leveled at the case study method is in the area of validity. It is often asserted that these types of studies are biased and score poorly on objectivity because they are based on subjective interpretations of the facts and relationships. Furthermore, it is often alleged that case studies do not allow for replicability of findings and are unfitted to objectively establishing the accuracy of causal inferences or the strength of causal linkages. This is because the causal relationships in case studies are defined and inferred conceptually, and not confirmed by statistical testing. Another common type of concern is that case study research provides no foundation for scientific generalization because it is not based on representative sampling, and as such is unsuitable for securing external validity for its findings.

To control for these methodological flaws, and at least partly avoid the short-comings impairing the scientific trustworthiness of this study's outcomes, we applied several techniques recommended by the qualitative methodology specialists for enhancing the validity of results from case studies (Denzin & Lincoln, 1994).

The latest advances in methodological research advocate triangulation of sources, methods and theories to improve the scientific rigor of case research procedures. Triangulation is a well-known method which improves the probability of securing the construct, the internal and the external validity of findings and the reliability of measurement (Brown & Eisenhardt, 1997; Diesing, 1972; Uzzi, 1997; Yin, 1984).

The table below lists the triangulation measures that have been used in this study to enhance the validity of its outcomes.

Table 6.1: Measures Used to Enhance the Validity of Research Findings.

Type of Test	Case Study Measures	Phase of Research Project
Construct validity	Multiple sources of evidence	Data collection
	Establishment of evidence chain	Data collection
	Roster technique for cross-validation of data among informants	Data collection/data analysis
	Broad theoretical framework	Multiple theoretical definitions
	Analytical induction method	Measurement of constructs
Internal Validity	Pattern matching	Data analysis
	Explanation-building	Data analysis
	Time-sequence analysis	Data analysis
	Life History Calendar	Data collection/data analysis
External validity	Generalization to theoretical concepts	Conceptual framework/data analysis
	Realism of responses and settings	Data collection/data analysis
Reliability	Case study protocol	Data collection
	Interview guide	Data collection
	Case study date base	Data collection
	Internal consistency check	Data analysis/inference process
	Inter-judge test	Data analysis/inference process

Source: Adapted from Yin, *Case Study Research, Design and Methods* (1989, p. 41); Mentzer and Flint, Validity in Logistics Research, *Journal of Business Logistics*, Vol. 18, No. 1, 1997; Flanagan, The Critical Incident Technique, *Psychological Bulletin*, Vol. 4, July 1954, and from Freedman, Thorton, Camburn, Alwi and Young-De Marco, The Life History Calendar: A Technique for Collecting Retrospective Data, in C.G. Glogg (ed.), *Sociological Methodology*, Vol. 18, 1988, pp. 37-67.

In the following, we explain how we sought the construct, the internal and the external types of validity and the reliability for our findings through fieldwork, data collection and analytical procedures.

6.1 Construct Validity

Construct validity requires that operational measurements are sound empirical representations of the constructs studied.

In order to establish valid links between the constructs studied and their empirical manifestations, we combined the inductive and deductive approaches by developing a theoretical framework and checking its empirical soundness. The review of the existing literature on strategic alliances, network theory, business internationalization and international management in sociology, psychology and organizational studies was used to ground our deductive approach. The inductive approach was based on analyzing the qualitative data gathered from the managers involved in the development and operations of the focal alliance over the period 1988-1997.

We used the analytical induction method for developing the measuring procedures and relating the theoretical definitions to empirical manifestations (Glaser & Strauss, 1967; Znaniecki, 1934). Analytical induction is recommended when there is a need for more in-depth conceptual understanding of the phenomenon studied, or when the existing theories do not provide the adequate explanatory insights.

Analytical induction involves the following steps: *"First, a rough definition of the phenomenon to be explained is formulated. Second, a hypothetical explanation of the phenomenon is prepared. Third, one case is studied with the object of determining whether the hypotheses fit the facts in the case. Fourth, if the hypotheses do not fit the facts, either the hypotheses are reformulated or the conceptualization of the phenomenon studied is re-defined. Through this process an explanation is sequentially built-up and refined"* (Cressey, 1953, p. 16).

Following these instructions, we started with a rough definition of the strategic alliance which emerged from the pilot study. We then reviewed the relevant theories and developed a conceptual framework with a model containing three classes of explanatory factors and the relationships between them. Subsequently, several mini-case studies were constructed with a focus on each alliance firm and its individual leaders. The analytical notches were moved up from pairs of firms of the alliance and their relationships to various constellations and the entire network. During the entire exploration, the empirical findings were compared with the conceptual model.

We did this by searching for similarities and differences in critical occurrences, events, incidents and patterns of behavior in each organizational unit and interactions between these units, and for co-occurrence between these events across several levels of analysis in the data covering different time periods. Once the individual case studies were completed, we used cross-case analysis for relating the variable streams to other cases with different participants but similar contents. By shifting to a cross-case level we matched the patterns established between the pairs of mini-cases by comparing the content of change mechanisms that, at the next stage, composed the elements of causal streams. Iterations of this procedure across various cases permitted assessing the features of interorganizational re-alignments, the operational re-engineering, the participants who participated in these projects, the timing and the outcomes of such actions. This procedure gradually revealed the *black box* contents, which included the several layers of sub-processes composed of mini-cases and events with varying causal bearing.

During this work we followed the methodology instructions developed by Miles & Huberman (1984) and Mohr (1982) for sound process assessment. As proposed by Mohr (1982), with a process approach no attempt is made to explain the variance. Rather, by lumping together "*discrete events and states*" it seeks to show how a phenomenon or "*history*" unfolds. By sequencing the various states and events over time we gradually built up an understanding of *how* certain outcomes have occurred, and *what* measures have been mobilized in the course of this evolution. We created a process model from a chain of events, a set of steps and stages, with each stage serving as a necessary precursor to the next one, which together provided context-embedded explanations for the emergent developments.

The events in our process model dealt with *how* at different points in time the actor's understanding of the situation changed in response to actions, and how the content of actions changed in response to the definition of situations. In other words, we tried to unearth how the changes in external conditions led to enhanced awareness for change, and then how this awareness generated chains of actions, and *what* outcomes emerged from the actions taken. The above provided the basis for analytical generalization to higher levels of analysis, and enhanced our insights of antecedent and mediating sequences of alliance progression.

We started with actors' cognitive interpretation of the working environment as a critical determinant of alliance formation and its subsequent transformation. Our process model built on the basic premises of interaction. Such a model posits that individuals and/or social actors *"have to cope with the situations in which they are called on to act, ascertaining the meaning of actions to others and mapping their own line of action in the light of such interpretation "* (Blumer, 1969, p. 15).

We used the process analytical approach to explicate the way in which the organizational structures at operational and technical levels were initially disrupted by volitional interventions. Subsequently, we explored how a newly integrated alliance was established, how it attained new organizational cast and evolved into institutional format. To explicate the modes through which the organizational actors realigned their means and ends in response to environmental pressures, and as an effect of voluntary commitment, the process model was constructed around the chain of actor-defined situations and the actors' diverse responses to them.

When the patterns of empirical occurrences did not fit the theoretical elements of the model, the model was modified. This comparative procedure was repeated for different cases, case-pairs and for various constellations of alliance firms until a recursive pattern of relationships between concepts and these concepts' empirical manifestations was inferred from the data. With each spell of iteration, we used new permutations of analytical foci to refine the conceptual insights. As the analysis evolved, we raised the level of abstraction and could match the empirical findings with a group of constructs extracted from the relevant theories.

In addition, we searched for *stable* patterns of relationships between the theoretical concepts and empirical manifestations by looking for the occurrence frequency of the concepts studied at various levels of analysis. Only after the occurrences of different concepts and their empirical indicators has been established in the data material referring to each individual firm, to the interorganizational relations, and then to interfirm constellations and networks, can the inferences regarding the transformation of alliance organizational structure be elevated to the level of system.

Moreover, in order to reduce the caveats emerging from single operationalization of the constructs measured, two types of *contextual validation* were applied. The first involved looking for multiple empirical indicators of the constructs based on the assumption that *"no report was considered credible unless it could be verified by another person or another source of information"* (Guba & Lincoln, 1994).

This meant that the validity of each piece of empirical manifestation of a given phenomenon was sought to be assessed by fitting it into the context of multiple theoretical definitions, and then by searching for multiple sources of evidence on the same event, subject or particular sub-process. In practical terms it required that the questions regarding the targets for change in alliance firms introduced in response to partners' re-alignments be administered not only to the top executives, but also to respondents at lower administrative levels, such as terminal, operations and traffic managers.

The content of information obtained from different levels of managerial hierarchy revealed that perceptions and interpretations of alliance-mandated integration varied across different organizational agents. Inclusion of views held by operational managers with a working knowledge of traffic flows and market structure broadened the perspective on the alliance integration. Besides, it refined our operational definitions by supplementing abstract, strategic visions of top executives with factual knowledge of operational experts.

Whenever discrepant opinions between different agents within the same organization were discovered, a follow-up procedure was applied in order to collect more information and establish whether the direction of deviation was shared by any other informants in the same organization and/or in like positions. Similarly, when a discrepancy of opinions between informants from different alliance's organizations was established, the same procedure was employed.

Application of the *"roster technique"* for cross-validating data among different groups of informants revealed several sources and degrees of interpersonal relativism with regard to the issues studied. It allowed assessing whether any systematic pattern of deviation occurred between informants at different levels in organizations. When any discrepant information was encountered at one level of analysis, a follow-up procedure was used to clarify the reasons for the discrepancy. Usually, an additional source of information on a given issue was obtained, and the reasons for divergent perceptions and views were discussed with additional informants until the premises underlying the difference became clear. Additional informants were added in specific categories for individual partner firms until we began to hear the same information repeated again and again, suggesting that we had reached what Glaser and Strauss (1967) referred to as *"theoretical saturation"*.

The second type of *contextual validation* involved comparing the different sources of evidence by collecting additional information about each source. Generally, attempts were made to collect data from multiple sources and to verify these across different sources with regard to content. This was done by means of obtrusive and unobtrusive methods. Collection of both obtrusive (interviews) and unobtrusive types of information on the constructs measured, such as archival documents, memos, business correspondence, public and private statistics, observations made by the third parties (such as competitors), and reports from the site visits allowed assessing whether data on the same subject obtained in reactive and non-reactive manners remained consistent. In the case of divergence, more information was sought and the reasons for gaps between different sources of information were analyzed and explained.

Because multiple sources of evidence provided multiple operationalizations of the same phenomena and information on different contexts of their empirical manifestations, this procedure helped us to eliminate some threats to construct validity. Once a conclusion was confirmed by two or more sources of information and/or proximity between separate empirical indicators, the uncertainty regarding construct validity became greatly reduced and trustworthiness of the inferences made was enhanced (Guba & Lincoln, 1994).

6.2 Internal Validity

Internal validity for the case study research could be viewed as a relentless striving to ensure that inferences about the cause-effect relationships of the phenomena studied were accurate. The latest advances in research methodology corroborate that case studies contribute more to establishing internal validity than other research methods (Guba & Lincoln, 1994; Mentzer & Flint, 1997).

Whereas surveys with statistical tests help in assessing the validity of the statistical conclusion from the strength of relationship between the variables measured, case studies gather large bodies of evidence that allow for critical assessment whether, indeed, the relationship between the phenomena studied is causal in nature, i.e. X really causes Y (Mentzer & Flint, 1997). Internal validity amounts to seeking a reasonable level of certainty that rival explanations for the same cause and outcome have been considered and excluded.

The first problem we encountered in this respect emerged from the time lag between the events on which we collected information and the timing of our investigation. This meant that the series of critical incidents in the alliance's life cycle which we tried to reconstruct and align in time started in early 1980s, and had to be reported predominantly from memory. We could expect that only a small part of the alliance's unfolding history would be documented through written evidence, such as business correspondence, memos, contracts and/or statistics. Our concerns arose from whether the incidents reported were representative of the actual happenings, and whether the actual happenings really had the causal impacts on the sequence of the alliance evolution that the respondents suggested.

The memory problem was partly resolved by assuming that the accuracy of reporting is usually contingent on the significance of the incident reported. Vague reports suggest that the incidents were not well remembered, because they simply were not important enough, and therefore certain bits of information might have been forgotten. Another assumption was that negative, unpleasant or embarrassing incidents would score lower on recollection, may not be reported, or indeed reported but in an interpreted form.

In this connection, we conjectured that the extent to which the reported event can be accepted as a fact depends primarily on the objectivity of its observation. By objectivity we meant the tendency of a number of independent observers/judges to make the same report. The accuracy and therefore the objectivity of the judgments depended on the precision with which the various characteristics and details have been recalled, and on the competence of the observers or participants to make judgments with respect to some defined purposes or goals. This led to creating an informant panel where the individual managers functioned as critical referees for each other. Indeed, the content validation across multiple sources did establish that events with dramatic and distinct impacts, which contributed to important outcomes, were not remembered by all parties. However, such events were remembered by the involved parties (i.e. parties that either directly participated in a given process or were affected by its outcomes), and sometimes even by bystanders, such as competitors.

Another substantial issue of relevance for internal validity was in assessing whether the links between the reported behavioral acts and their assumed results were causal in nature, and how we could corroborate the plausibility of such judgments.

In conceptual terms this amounted to a reasonable degree of confidence that certain types of judgment are necessary when assessing the relevance of various conditions and actions for the observed success or failure of attaining the defined goal(s). The relationship between the actions and their results can then be established based on the known background factors and conditions operating in the specific situations. The issue that then had to be resolved was *how* to discern and identify the specific factors and procedures, which either effectively facilitated or effectively obstructed the attainment of the aims sought.

A basic condition necessary when formulating a function of any activity is that the aims of this activity are defined. No planning or evaluation of any specific behavior is possible without a general statement of objectives. It is clearly impossible to report that a person or an organization has been either effective or ineffective in a particular activity, or in performance of specific acts, unless we know what was expected to be accomplished. This could be done by describing activities or functions in terms of acts or operations performed, materials acted on, resources used, the situations created, or the relative importance of various acts and inputs for the outcomes achieved.

In the case of a strategic alliance the activities and relational actions undertaken by the alliance's partners lead to changes in their individual business operations and functioning of the entire venture. This presupposes that the objectives of each partner have to be determined and that assessment has to be made as to how important an observed action or incident is for the attainment of a given aim for a given party, and subsequently for the entire alliance.

The above presupposes that the level of *importance* is measured by two dichotomous categories: (1) the level of *positive* contributions to a given aim in specific terms, including concrete, empirical examples of such impacts and (2) the corresponding level of *negative* effects on a given aim expressed in similar terms.

The approach we used was that an incident or action was defined as critical when it made a *"significant"* contribution, either positive or negative, to the general aim of a given activity undertaken by the parties involved. The definition of *"significance"* depended on the nature of activity, and the magnitude of its impacts.

For instance, an activity such as one alliance partner closing down its subsidiary located in another partner's core market area was defined as *"significant"* because it affected several parties, and caused visible changes in the structure of market coverage and patterns of service supply. The significance of the above realignment consisted in strategic repercussions which affected not only the working situation of the alliance partners, but also their customers and competitors. However, constructing the alliance's general aim from the individual aims of its partners was inadequate for assessing causality in the process of alliance evolution.

The reason was that in the case of multi-firm volitional alliance there was no precisely stated aim universally correct for all its member parties. Consequently, a view held by the management of one member-company did not constitute an absolute and authoritative definition of the alliance's aim as accepted by the remaining partners. Hence, such individual views could not be used to evaluate the efficiency and purposefulness of all partners' actions.

This derived from two reasons. One was the fact that partners were divided with regard to the scope of benefit expectations, willingness to compromise on individual interests, and to abide by common rules in attaining the alliance collective goals. Such differences were embedded in the disparate business situations of each partner firm and in the divergent opinions held by members of the managerial hierarchy in regard to fulfilling the purpose of alliance membership.

Another reason emerged from cultural disparities in the degree of partner awareness of alliance expectations. As Gudykuns and Kim (1992) posited, and observed by us, members of individualistic and collectivistic cultures varied depending on how loosely or clearly defined their expectations were. The North European managers with their collectivistic cultural identity demonstrated a far more rational and calculated approach to alliance benefits and strategies for benefit attainment than did their South European colleagues.

Therefore, we could not plausibly conclude that one partner knew exactly what the correct aim for the entire alliance was and how it should be attained, while the others were wrong.

So, in order to assess the true version of the alliance's mission we could not assume that one party's general aim was as good as that of another and that it was unimportant how the different partners defined the purpose of their venture. Rather, we realized that it was impossible, in the first place, to assess an objective and generally acceptable aim for the alliance, and to evaluate the effectiveness of its performance using a single partner perspective.

In these circumstances, we used the *process* of aim formulation to assess the content of an alliance's mission, which was established using a sequential and functional approach. First, we recorded a large number of activities, which led to the development of a shared understanding of the alliance's mission. Second, we analyzed the content of verbal expressions, which each partner used to describe the alliance's aim. Third, we compiled the different partners' versions and used them as inputs in composing a common aim summary to which all partners could agree.

It was observed during the pilot study that the partners gave fairly lengthy, detailed and disparate answers when asked about the primary purpose of their alliance. So, in order to create a background for the analytical generalization, and to minimize distortions caused by language differences, the respondents were asked during the second phase of the study to express the aim of the alliance using only a few simple terms and keywords. Respondents' answers were subsequently examined for the presence of words like *"important", "appreciated", "efficient", "development", "service", "volumes", "costs", "international", "domestic", "collaboration", "increase", "decrease", "market", "integration", "customers", and "profit".*

These descriptors assigned valence to implicit preferences by ranking their connotative import, and in turn provided indications of the aims sought and benefits expected, and minimized the possibility of faulty inferences and interpretation failures.

The keywords, along with contextual phrases, were summarized into several brief and condensed statements. These were then pooled and a trial version containing the most often-verbalized aim formulations was developed. The alliance's aim, constructed in this way, was then presented to the managements of the firms party to the alliance and received uniform approval.

Another challenge to internal validity arose from the habit of informants to obfuscate strategic visions and preferred solutions with actual states and outcomes from concrete actions. In order to deal with this threat we had to analytically establish a connection between the beliefs and values that informants designated as *"should be"* and practices which the informants meant *"had been"* enacted and led to specific outcomes. In this context we built on Hofstede's (1980) insights. Hofstede encountered the same problem and resolved it when discovering that empirical measurements of valued desires and beliefs tended to correlate with practices over a long course of time (p. 20). Corroboration of such a linkage may be demanding, however, and require collection of data covering a long period of time.

In this respect we applied a time-lagged check to identify the temporal and factual connection between the *"ideas as desired"* or the *"desirable states"*, *"behaviors as enacted"* and *"outcomes as attained"*. One case in point pertained to establishing the trustworthiness of the strategic vision of DanTransport leaders who early in 1995 expressed a desire to extend the Scandinavian network of service providers and improve the technical quality of production facilities in order to consolidate all international traffic at Taulov terminal and benefit from the forthcoming fast link connections with the European mainland. Indeed, our data have confirmed that in 1996 DanTransport acquired two companies, Swedex and Fillip Lorenzen Logistikk AB, and over the period 1995-1997 spent 80 million Ecu on upgrading and enlarging the terminal facilities. The above showed that the *"ideas of strategic desirability"* would later be backed by two types of focused action and corresponding resource deployment. These actions produced the outcomes sought in the form of a larger and technically more advanced Scandinavian network.

A similar procedure helped us to establish the time-lagged linkages between other types of *"espoused strategic desires"*, the resources employed and the actions mobilized, and the outcomes attained. Also it contributed to identifying several situations where *"the states as desired "* did lead to enactment of specific behavior, but where these actions did not bring about the results sought, not at least within the time period covered by this study.[24]

In addition, we used an analytical pattern-matching check to strengthen the internal validity of this study. Pattern-matching is an analytical comparison technique through which the empirically derived patterns of dependent and independent variables are juxtaposed and contrasted with those predicted by theoretical propositions or with several levels or types of such predictions.

In order to illustrate how this check was implemented in practice, we refer to the main outcome variable, namely, operational and strategic fit between the alliance partners. Our conceptualization of strategic fit predicted that it would be manifested by several types of re-structuring and adjustments occurring at the interorganizational level, at single organization level, and at the network of firms level. All three levels were anticipated would be complementary in assessing the degree and scope of effective integration at different points in time.

[24] Which does not exclude that actions taken within the time span of this study may deliver the outcomes desired during the time not covered by this study. Certainly, we have also identified a group of "strategic desires" which were neither translated into any actions nor backed by resource mobilization, and thus could not be related to achievement of the results sought.

The implication is that this causal relationship was operating through three levels of the outcome variable. All three levels were conceptually *parallel*, but analytically *sequential*. Data on empirical manifestations of different aspects of the outcome variable were matched, checked and verified several times with the conceptualizations of antecedent and mediating factors until it became established that a satisfactory degree of equivalence existed between the conceptual and empirical levels for the entire period of the examination.

Another type of pattern matching was conducted with regard to the independent or explanatory factors, the purpose being to check whether the relationships between different sets of theoretical constructs could lead to the same empirical outcomes. This check was conducted to assess whether our conceptual model could generate plausible rival explanations. The rationale behind this control procedure was an assumption that if the same outcome could be obtained by a different combination or a lower number of antecedent or mediating factors, then a rival causal relationship existed which equally plausibly explained the changes in the phenomenon studied. In this case, our causal model should be modified or refuted.

The practical test involved a partial break of the evidence chain by a step-wise exclusion of the subsequent antecedent and mediating factors from the analysis, and by examining whether the same type and magnitude of change in the three levels of outcome variable could still be inferred. We concluded that this was not feasible. Nonetheless, the possibility of an alternative explanation was next discussed with the informants. We applied a "*devil's advocate technique*" by which informants participated in a simulated trial where several facts they had reported had been removed from the evidence chain. The question which they answered was whether the same outcomes were still attainable without the occurrence of a series of preceding events and actions. The informants unanimously answered that the present stage in their alliance development would have been unthinkable without the whole series of joint actions, interventions and resources they employed for this very purpose. These statements corroborated our line of reasoning.

Only then was our re-construction of past developments in the life cycle of the alliance, and inferences with regard to the purposefulness of such developments and aim effectiveness, considered as sufficiently substantiated and valid.

6.3 External Validity

As already mentioned, another common concern about case studies is that they provide very little basis for scientific generalization. However, as Mentzner and Flint (1997) observed: *".... no single study can ensure external validity for its results unless these are not corroborated by other studies"* (p. 211). The latest advances in research on the methodology of the internationalization process suggest, however, that in studies conducted under varying conditions of time, place, people and cultural settings, which demonstrate empirical support for several theories, the external validity of findings is usually enhanced.

External validity involves a methodological consideration of whether there are many differences between those who participate in a given study (e.g. a case study research or a survey), and the rest of the population, regardless of whether they were asked to participate in the study or not.

One manifestation of such a problem may be the non-response bias that arises when those included in the sample refuse to participate in the study. Non-response bias limits the generalizability of results from a given study because there may be important differences between, say, the logistics managers who responded and those who did not. Moreover, the generalizability requirement is based on anticipation that all logistics managers who did not respond are expected to behave in the same manner as those who participated in a given research study.

The strength of the case study method lies in its elimination of response bias. Cases choose *"all parties concerned"* who are included in the analysis, or all respondents representative of the actual population of interest, such as all partners in a given alliance. We agree that the small sample size of case studied limits the generalizability of its results to members of other alliances. However, in relation to the expectation that *"all logistics managers should respond in a manner similar to those who participated in the study"* (Mentzner & Flint, 1997), we find it unrealistic. Our knowledge of strategic alliances and the behavior of their managers under different environmental conditions and in various cultural settings is simply insufficient at the present stage to justify such a stringent generalization requirement.

However, the strength of the case study lies in the third form of external validity: Case study research is usually conducted in *realistic settings* with investigators having the opportunity to observe whether the respondents behave and respond in a genuine manner. This is the area of external validity where research methods such as surveys and modeling studies score particularly weakly. It is well established that background and situational factors influence the strength of causal impacts of the variables investigated. Therefore, adequate capturing of contextual factors may enhance the trustworthiness of the investigation, and, consequently, the generalizability of results.

In order to enhance the contextual reality of our findings, we conducted several site visits where we could observe the alliance managers in work situations and alliance-related actions. We verified the contents of secondary, non-responsive data material such as business documents, press reports and statistics with a high level of objectivity with those derived from the interview transcripts. Furthermore, we interviewed the managers in three important competitor firms, the aim being to verify the observations and statements of the alliance partners with perceptions of third parties regarding the alliance purposefulness and assessment of international market conditions.

In addition, case studies score well on conceptual replicability, as they usually build on several complementary theories highlighting different elements of the behaviors studied. In this respect, our theoretical framework built on a range of theories spanning the network organization, the international business management, the sociology and psychology of power and decision-making by culturally mixed groups plus the field of international logistics.

Bearing the above in mind, we found it reasonable to invoke Yin's (1989) statement that *"case studies, like experiments, are generalizable to theoretical propositions and not to physical populations or universes"* (p. 21). Thus, case studies in which several levels and foci for analysis function as a series of independent experiments confirming or disconfirming emerging insights provide the basis for multiple contexts of logical *"replications"* (Brown & Eisenhardt, 1997).

Still another issue, which affected the external validity of our findings, arose from the variation in the cultural backgrounds of the alliance members. Since this research involved data from informants with different values and perceptual mindsets for defining the same phenomenon, the translation of individual, culturally laden meanings into a universally valid language became an important task for securing the cross-cultural validity of the findings. Following Triandis & Berry's (1980) suggestions on the choice of strategies for circumventing the language barriers and cross-cultural cognitive variability, we applied a *language-invariant* method for constructing the category system. Such a method recommends the use of one language for data collection in multi-cultural settings in order to tap the data for the universals. These universals represent the objectively observed constructs, which are then used to identify the most common factors across several national data sets without seeking to establish the conceptual equivalents among their culturally specific connotations and denotations.

The language-invariant methodologically applied for data collection and data analyses was based on the instrumental relevance of communication theory. It also reflected an important tenet of cross-cultural research that seeking cross-cultural equivalence in translation and meaning is a goal which should be pursued but never really achieved (Triandis & Berry, 1980). The gist of communication theorem is that verbal and written language represents communicative behavior, which provides means of message conveyance and message comprehension contingent on socially pre-established semantical and syntactical norms.

While recognizing the cross-cultural variability of semantical and syntactical norms, we sought, nevertheless, to secure the scientific rigor through procedural standardization. Standardization is a method that renders the data from different informants comparable. Without standardization our exploration would not have arrived at commonality providing substance for the alliance's organizational evolution, or have revealed that certain patterns of partner behavior become universal across different national settings.

However, to prevent the causal impact of cultural variability from being ignored, and not to commit a *"universality fallacy"*, we remained sensitive to the different signals of cultural variety. We therefore scanned the data for *congruent patterns of differences* which could be attributed to cultural idiosyncrasies recorded under the data collection. Whenever these were encountered, we related them to other studies of cross-cultural behavior that contained more knowledge on the culture in question in order to secure a meaningful cultural interpretation.

6.4 Reliability

None of the validity checks discussed above means much without reliability, and reliability pertains to the consistency with which the measures applied yield the same results through multiple application. In fact, it is accurate to say that reliability is not sufficient to establish validity, but none of the above-mentioned validity criteria could be satisfied without reliable measures. Reliability is a necessary, though not sufficient, condition for validity.

The most common measure of reliability used in case study research is inter-judge validation. The assumption is that all researchers bring their own perceptions and biases to any study. So, it can be useful to record the impressions from the data gathered to measure the co-occurrence and consistency of impressions and inferences between several investigators.

To secure the reliability of this research, an external researcher was deliberately involved in the classification procedure, which applied to assigning the interview data to analytical categories. The detail description of all sequences in this method's development along with full documentation of disparities recorded under the inter-judge category assignment is stored in the database. Inter-judge agreement in the category classification amounted to 70 percent of categories processed.

7 Summary

The methodology applied reflects the network conceptualization of the focal alliance and the ontological view that emphasizes the voluntaristic nature of this undertaking.

The five levels of analysis employed to explore the process of alliance transformation, and how the above modified the behaviors of its members, bridged the micro and macro perspectives. Besides, in order to capture and align the multiple streams of alliance evolution that represented *the black box* of alliance transition, this study applied a layering approach – an approach exposing several combinations of variables that drove the change process and causally confirmed the sequential nature of alliance evolution.

The formal research design for assessing *how* change in the alliance organization occurred over time, and the outcomes it produced involved a comparative longitudinal case study covering a ten-year history of the life course of the alliance.

These analytical measures captured the effects of two important sources of alliance transition: The market-induced exigencies and the internally generated stimuli which brought about the interpartner re-alignments and contributed to a new business system.

Data were analyzed through a set of qualitative methods. A Life History Calendar was used to register the plethora of occurrences and actions shaping the alliance transition from a loose association to a formal business consortium. This technique was later combined with content analysis and analytical induction, which were used to examine the data collected for the longitudinal case study, and to compare the empirical outcomes with *a priori* conceptual expectations.

Along with the primary data, this methodology also included analyses of secondary material, such as business documents, statistics, site visit reports, and press articles on the research topics. The above procedure was deliberately used to enhance the objectivity of primary information through evidence from independent sources.

Both the primary and the secondary data collected for this study had a wide international coverage and involved informants from seven European countries. These procedures involved conscious efforts to secure the analytical rigor and the validity of findings. Multiple measures were used to deal with the problems arising from varying data quality and threats that endangered the construct, the internal and external validity. The study was conducted under varying conditions of time, place, people and cultural contexts. Therefore, the methodology employed embraced a broad range of measures chosen with the explicit purpose of exploring the complex nature of the phenomenon studied.

Part IV

Empirical Results

1 Introduction

Part IV of this report highlights the determinants of alliance evolution. The period analyzed covers the years 1987–1997, although several references to earlier occurrences are also made.

The presentation is in five substantial chapters, the first, a synopsis of the alliance development process, outlines the mechanisms that drove its progression towards a more formal organization. The next three chapters probe the nature of the interventions that brought about the re-structuring of the individual business models and rendered the partners to the alliance more in tune with one another. We explore in-depth the content of three stages of alliance evolution, formation, implementation and institutionalization – and identify the key factors that both facilitate and hamper its advancement.

Finally, the fifth chapter subsumes the various streams of interorganizational realignment and reveals how integration occurs at various levels in the alliance system. It also provides the background to several conclusions regarding the chances of alliance enduring. In seeking to provide the most sincere empirical accounts of various aspects of alliance transformation, we practiced the epistemological stance from the methodology chapter; namely, that qualitative in-depth exploration is well suited for identifying the nature of causal relationships and the direction of causal impacts.

We examine, directly and longitudinally, several of the local processes reflecting the temporal series of events, states and actions that structure alliance evolution. Then, we show how these processes lead to the specific outcomes, and how these in turn affect alliance advancement. We can thus say that in approaching alliance evolution from multiple perspectives, we opened the *black box* and reconstructed the intervening processes. This procedure unearthed the alliance's *"change scenario"* composed of various preconditions, processes and outcomes, all aligned in temporal order.

The effect we sought and hopefully achieved is that not only did we register a series of particular occurrences and their empirical effects, but, more importantly, we acquired an understanding of the process causality, and can explain, in a systematic fashion, *how* and *why* the changes identified occurred. Our efforts to assess causality were based on bringing into the analysis the issue of time as an important aspect of explanation.

The causal logic that we applied held that prior events had connections with later events, both functional and substantial in nature, and that the chains of events composed the strings of variables that affected alliance evolution. Temporality was crucial for this line of reasoning. We used the time-oriented viewpoints to loop back the assorted effects into the causes that, in turn, produced the new effects and created a pattern of *"followability"*.

This allowed us to re-construct the events, happenings and actions, and to align them in several accounts of alliance progression divided into thematic blocks and then linked in order to present the whole change *"story"*.

In sum, Part IV of the report reviews the empirical evidence on how the change process unfolded through a series of internal actions and external shocks. However, we are aware that the different streams of evolution reported do not reveal a neat picture of linear progression, and that the impacts exerted by several determinants countervailed each other.

Nonetheless, this exploration produced a necessary input to the synthesis of findings. The synthesis, presented in Part V, confronts the empirical findings from the various areas of investigation with structural dimensions of our conceptual model. In this sequential and comparative manner a series of major findings gradually emerged.

2 Synopsis of Alliance Development

The high-impact events that composed the "E-1 Alliance's" life history are presented in Appendix 2 in a time/event matrix.

Figure 2.1 depicts three stages of the alliance development cycle: Formation, implementation and institutionalization. Figure 2.2 supplements this schematic overview with concrete events and actions that both, facilitated and impeded the alliance progression. Each point on the scale denotes one positive or negative occurrence and displays the temporal distribution of these occurrences within the period 1988–1997. The positive happenings are placed in the upper space of the scale. The crisis line marshals the incidences with negative causal outcomes which generated interpartner tensions and reversed the course of alliance evolution. The space below the crisis line assembles the occurrences to which the partners assigned negative perceptual valences and defined them as those that threatened the success of alliance-building project.

The apparent asymmetry between the positive and negative impacts assigned to occurrences located below the crisis line underscores the observation that events with negative outcomes invoked more dramatic reactions and have therefore been perceived and treated as more dangerous and/or risky to alliance's unity than events or actions which brought about positive consequences. [25]

Figure 2.2 reveals a non-linear pattern of alliance evolution. It shows that the periods of progression were interspersed with downward slides. This ten-year alignment corroborates an earlier conjecture that the focal alliance was not developed in a straightforward fashion. However, the diagram also suggests that in reversing the advancement these negative events released new streams of initiatives, which stopped backtracking and bolstered long-term alliance advancement.

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[25] These results are in line with results from psychological studies analyzing the perceptual impacts generated by negative and positive types of feedback, which have shown that impacts generated by negative feedback are generally perceived by the targets as much more dramatic and threatening than positive feedback. See for example L. M. Coleman, Jussim, L. and Abraham, J. (1987): "Student's Reactions to Teachers' Evaluations: The Unique Impact of Negative Feedback" Journal of Applied Social Psychology, Vol. 17, No 12, pp 1051-1071

The Patterns of Temporal Evolution in Development of " E 1 Alliance" (1988 - 1997)

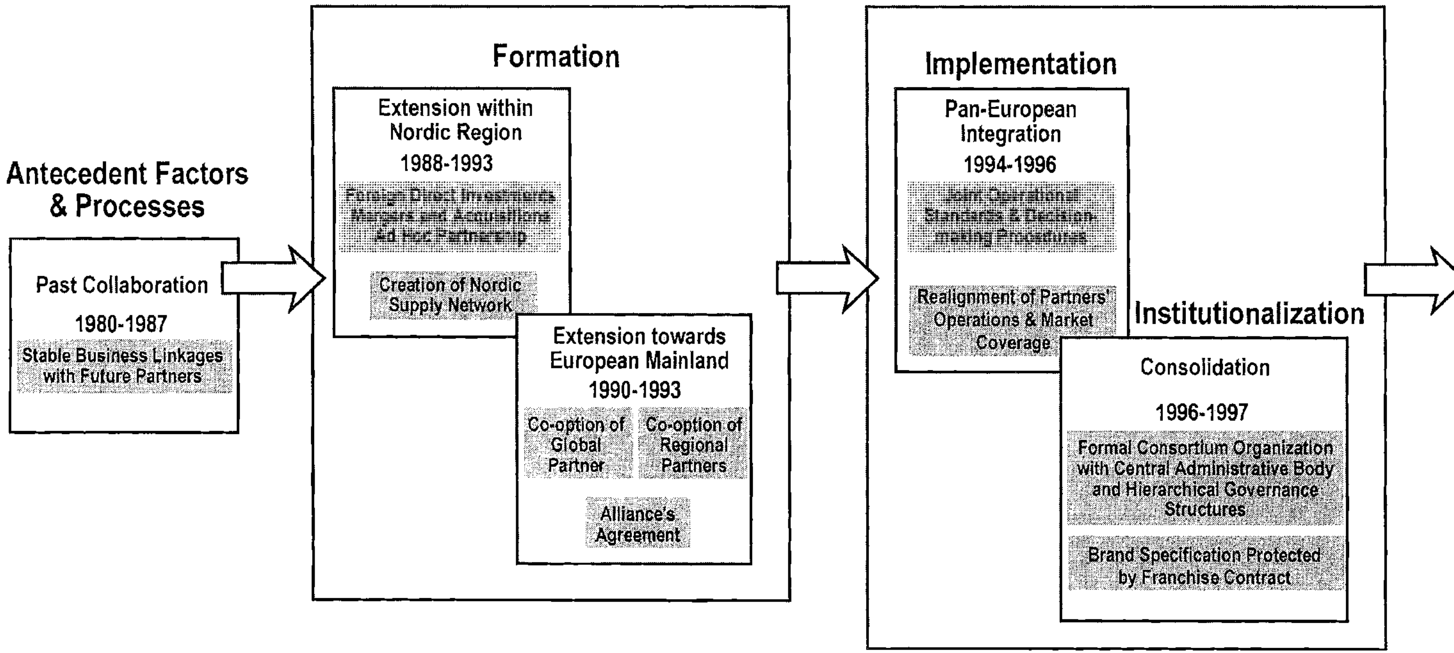

Figure 2.1: Pattern of Temporal Evolution of the "E-1 Alliance" (1988-1997)

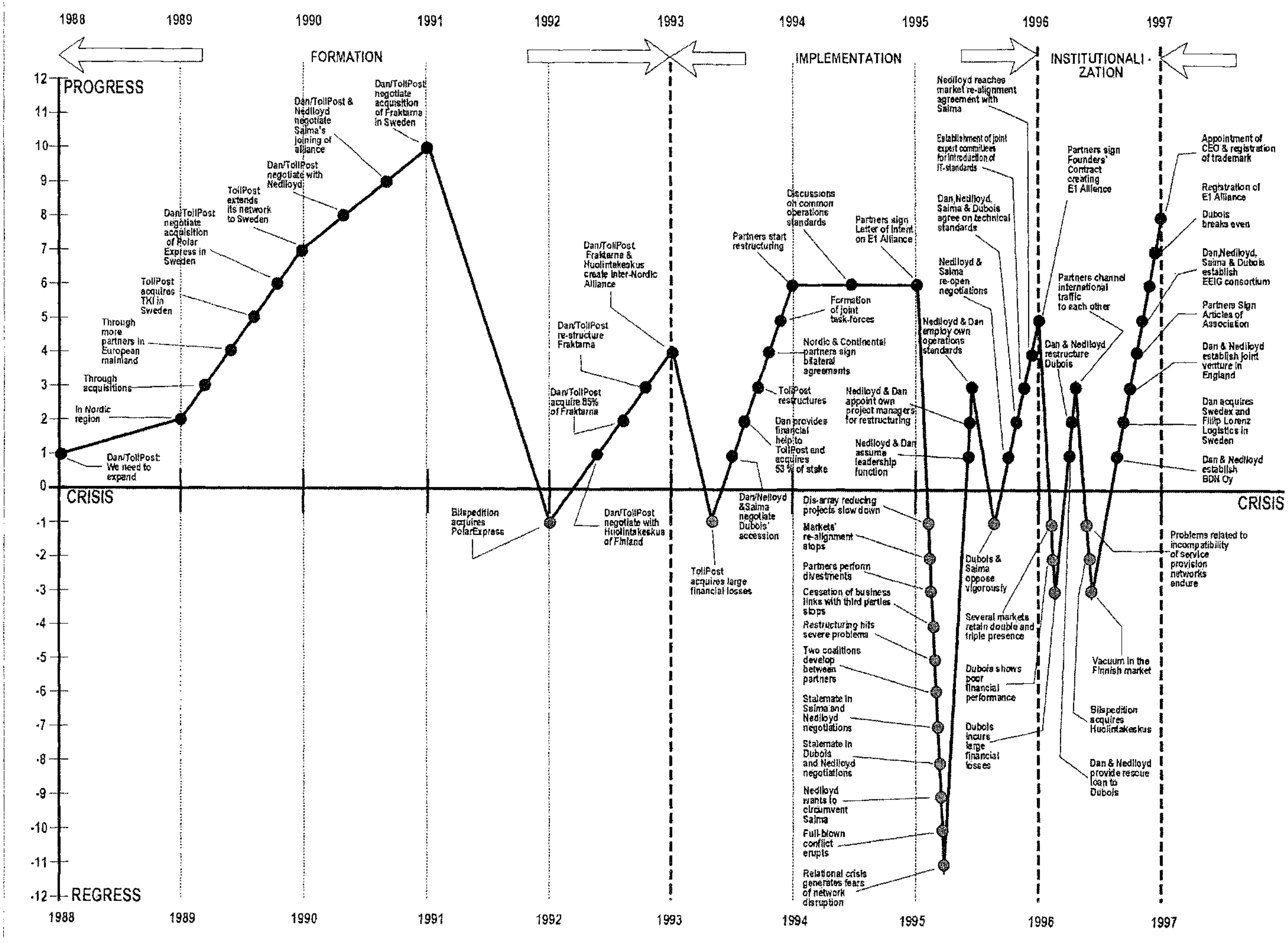

Figure 2.2:The Dynamics of Alliance Intertemporal Evolution

Table 2.1 indicates the size of operations of alliance firms, and serves as a proxy for assessing the volume of venture business and its competitive standing.

Table 2.1: Scope of Operations of the "E-1 Alliance"

Partner/Countries	Net Sales 1995	Number of employees	M^2 Terminal	Shipments/Year Domestic/International	
Dan Transport Group Denmark, Sweden; Norway and Finland	DKK 4,1 bill.	2,500	183,000	4,700,000	1,000,000
Dubois Group France	FFR 2,5 bill.	2,700	800,000	8,000,000	406,000
Nedlloyd/Uniontrans Germany, Benelux, Spain, Portugal, Austria, Switzerland, England and Ireland	DEM 1,2 bill.	7,000	320,000	27,400,000	1,100,000
Saima Avandero Group Italy	ITL 911 bill.	1,850	381,000	3,400,000	763,000

Source: The Companies' Statistics

Figure 2.3 overleaf maps the system of hubs and gateways that constitute the service provision apparatus for the E-1 European distribution system.

This section does not discuss all sources of the dynamics that drove alliance transformation at the micro and macro levels. This is done in forthcoming chapters addressing each individual stage in the life course of the alliance.

Reviewed here are several exogenous and endogenous factors and their interrelated effects on formation of the focal alliance and modification of its organizational setup. Also presented is a chronology of partners' accession to the alliance and geographical expansion is linked to its operational evolution.

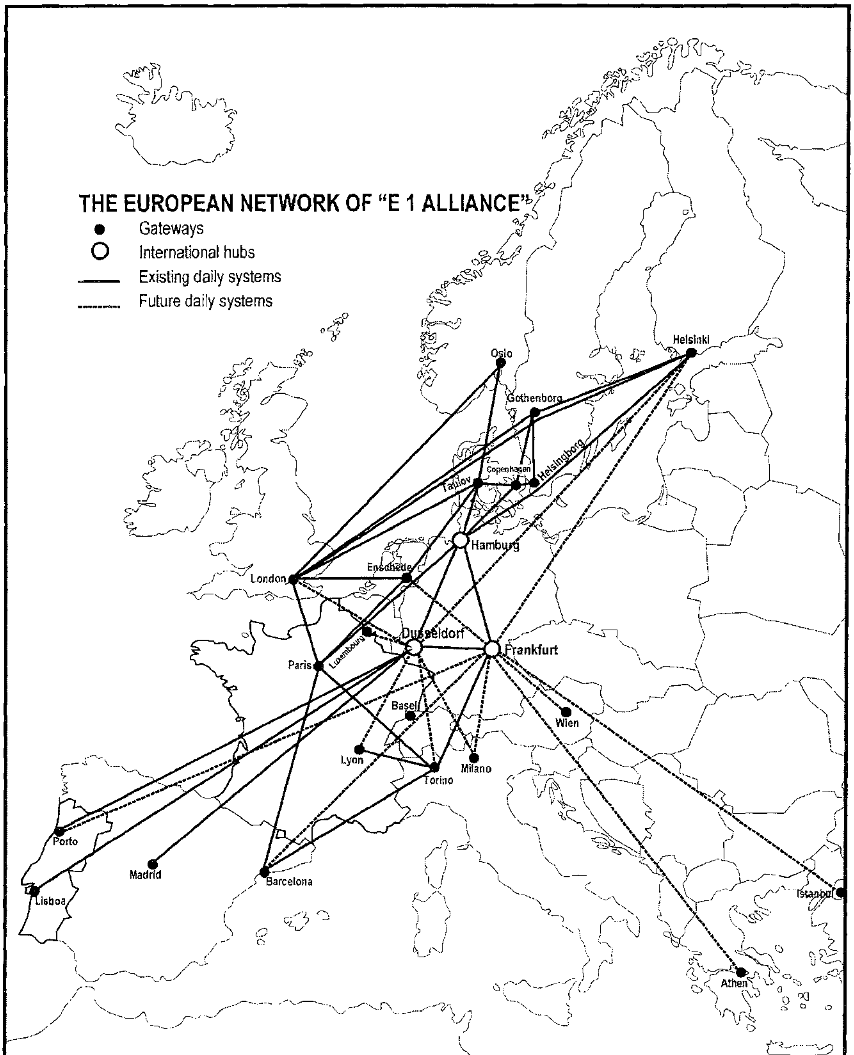

Figure 2.3: Geographical Coverage of the "E1 Alliance" and its European System for Freight Traffic Management

2.1 Stages in "E-1 Alliance" Evolution

Both the classification scheme and the time/event matrix array the time-paced organizational development and the mechanisms that transformed the focal alliance from a loose association to a formal multi-firm consortium.

This organizational evolution was not driven solely by a stream of successful accomplishments. The alliance was transformed through a series of improvisations, failures, *ad hoc* initiatives and external shocks. The fact that the partners had to deal with disparate operations models, financial losses, strategic inconsistency and defection on the part of an important partner generated a great deal of frustration that delayed systemic integration. Besides, the process of alliance-building also involved the use of power and the transfer of tangible and intangible resources between the collaborating parties. Finally, it was facilitated by intense cross-cultural learning aided by bilateral and multilateral communication, which helped to overcome the challenges generated by the lack of common operational standards, administrative leadership and environmental volatility.

The process of alliance transformation was divided into four time intervals, i.e. in a logical stepwise progression which took place during the period 1980-1987 from relatively stable business transactions between pairs of European companies towards a voluntary multi-firm venture defined as a strategic alliance. The venture was established in two waves of initiatives implemented during two time intervals: 1988-1993 and 1994-1996.

In 1997 the alliance became institutionalized and acquired the legal status of multi-firm consortium. Institutionalization was for the purpose of jointly managing the Pan-European distribution system and for developing a uniform strategy for geographical expansion. However, this formalization was not seen by its founders as how the venture would ultimately evolve.

Examination of the life-event history of the alliance reveals that it was composed of at least three sub-processes: Formation, implementation, and institutionalization, processes, which produced three discernible semi-structures in the network design. These semi-structures emerged from a gradual consolidation of the linkages among partners and from experience gained through common responses to external threats and opportunities.

The process of transformation was not rhythmically choreographed through the passage of time, nor was it a pre-programmed linear progression. Rather, it was a product of collective action, external shocks and managerial determination to create frequent, relentless and endemic change conceived of as the only condition for survival in a high-velocity, international environment. Still, the timing of the changes, and their sequence, reveals that the transition was somehow synchronized when aligned in a long-term perspective.

The first phase in this process, labeled *"Formation"*, was instigated by the strategic awareness of the group of Scandinavian managers who realized that in order to remain competitive they had to reap scale and scope benefits and that this meant the creation of a large, region-wide service supply system.

These managers were confronted with environmental challenges arising from deregulation and liberalization of the European transportation market, and formation of a common EU market for products, people and capital. They recognized that both threats and opportunities were inherent in contextual change. Threats anticipated unrestrained expansion of large continental operators, such as Kühne-Nagel, Schenker-Rhenius, Danzas, and Panalpina, into the Scandinavian market and a possible market loss for the incumbent firms.

Opportunities were possibilities to form a large-scale service supply network by operationally linking the Nordic region to Continental Europe. This strategy presupposed use of a voluntary collaborative venture for creating a Pan-European logistics service supply system. Perceptions of threats and opportunities generated the impetus for action.

In order to fulfill these objectives, the first task of the partners was to integrate a number of national networks within one service supply system covering the Nordic region. This plan was envisaged as a linking of national supply operations hitherto controlled by four autonomous partners into one jointly managed Nordic service provision system. Foreign direct investments and partnership agreements were mobilized over the period 1988-1993 to attain this goal. The speed with which these plans were realized was disappointing as a result of several complications. Nonetheless, in 1993 a Nordic-wide network was finally created, albeit not in line with the *a priori* plan.

One important strategic benefit achieved by this consolidation was enhancement of the strategic position of the Scandinavian grouping in relation to Royal Nedlloyd N.V. of The Netherlands. Royal Nedlloyd was a large transcontinental operator with a global market span and intermodal service provision system. At that time, Nedlloyd lacked a market service apparatus in the northernmost European region. Nedlloyd's interest in accessing the Nordic market initiated connection between the Nordic region and the European mainland, and resulted in managerial consensus on later network extension. The subsequent co-option of two domestic satellites, which brought in the French and Italian markets, enlarged the network territory and affected the content, pace, and scope of partner integration.

During the period 1992-1993 a leading power constellation began to crystallize within the alliance system. It emerged from the strategic coalition between DanTransport and Nedlloyd. DanTransport was a Danish forwarding company which, over the period 1990-1996, acquired three partly owned subsidiaries in Sweden, Norway and Finland. Royal Nedlloyd N.V. was a market player with a service provision apparatus in eleven European countries, and as a result of an operational venture with P&O strengthened its market position as a worldwide shipping operator. The managers of these two mighty organizations reached strategic consensus on how an international system for the Pan-European supply of logistical services should be organized and managed. In the course of time, these partners performed as alliance designers influencing the content and pace of network transformation.

The second phase in the transition of the alliance was called *"implementation"* and involved restructuring the individual operations and market domains of partners. The goal sought was to establish a coherent business structure with a single market presence within the geographical domain of the alliance. The content of these processes was twofold. The first was driven by the need to acquire a joint competitive posture; the second by a need to become capable to offer a set of standardized service qualities to customers throughout Europe, from Finland to Portugal. Implementation of this strategy mandated standardization of partner operations and a restraint on managerial variability.

This strategic plan was implemented by means of task forces and working committees manned by functional experts from the partner firms. These bodies assessed the status quo and devised schemes for the gradual synchronization of partner businesses through common operational technology and new standards for customer service and service quality.

It is interesting to observe that one task assigned to these bodies was to develop the strategies for external marketing of alliance services, which at that point in time did not perform under one trademark. The mandate of these bodies, however, was strictly advisory, and so the solutions designed had to be accepted by the management of the individual firms before being implemented. Still, these bodies did contribute to development of the alliance's first administrative structure, which later provided the basis for three echelons of hierarchical governance.

The second track in intra-alliance integration was directed towards solving another complex problem, i.e. competitive business relations between the alliance partners and third parties operating in their core market areas. This required re-alignment of individual service coverage systems according to the principle of one market, one partner.

Implementation of this project proved both lengthy and painful. Partners had to shut down foreign profit-making subsidiaries and cease long-established business relationships with agents and customers. To reduce the costs of restructuring, some partners swapped personnel, while others bought out each other's production facilities and rolling stock. In addition, the departing partners transferred their proprietary knowledge of standards for serving the market and of the quality required by their *"old"* customers to those taking over the responsibility for service provision.

The outcome was that most border-crossing traffic shipped by the partners had to be re-routed and channeled to other partners for line-haul, consolidation, value-adding, and local distribution. This achievement has cemented interpartner relationships and made individual partners more dependent on business with each other. However, it also produced an urgent need for standardizing the modes of operations and the pricing of services rendered to freight in transit.

The introduction of a standardized program and re-alignment of market coverage generated frustration and conflict. Tensions arose because DanTransport and Nedlloyd actively used their power dominance to compel the smaller French and Italian partners into accepting the transformation rules. DanTransport and Nedlloyd first utilized their strategic supremacy and operational expertise to design the re-structuring measures and then proceeded to perform as change masters supervising the re-structuring process.

However, it is also important to emphasize that these changes would never have been implemented had the partners lacked a rock-solid commitment to the virtues of collaboration and trust in mutual integrity. They were well aware that they were exposing their companies to considerable risk of market relocation and business losses. It was their trust in each other's expertise and effectiveness and the lack of a hidden agenda that brought them to believe that the *"newly established"* system with *"new"* operators would prove strategically more beneficial in the future.

Although the effective market re-alignment had not yet been completed in such important markets as Germany and England at the time period of this exploration, the bilateral agreements had been signed, the concerted actions designed, and the entrepreneurial solutions devised to keep the re-structuring on course. Bearing in mind the scope and scale of difficulties obstructing the re-alignment process the outcomes achieved in Belgium, Holland, France, Italy, Portugal, Sweden and Finland were pronounced satisfactory.

This was recognized by the Founders at their meeting in 1996, when the principles behind the founding of the "E-1 Alliance" were tabled. According to this agreement, the "E-1 Alliance" became a voluntary collaborative venture based on a contractual commitment between four founding partners: DanTransport, Royal Nedlloyd N.V., Saima-Avandero S.p.A and E. Dubois et Fils, and three associate partners: Toll Post Globe, Fraktarna and DBN. The purpose of the constellation was to handle LTL shipments and provide logistics services to customers in fifteen European countries. The small parcel services and full-load traffic (CL/TL) were excluded from the service-provision profile of the venture.

Finally, the third stage in the transformation process of the alliance was defined as *"institutionalization"*. The status of the alliance was formalized through the creation of a multi-firm consortium and so was rendered capable of competing with formal corporate systems. Formalization of the alliance re-defined the roles of the participants and created a new organizational system which could draw upon the network units' service provision apparatus, operational capabilities and managerial skills.

The interfirm consortium was designed as the European Economic Interest Grouping. One purpose of the EEIG legal blueprint was to foster cross-border collaboration between the European firms and to protect their interests in voluntary collaborative associations. The primary purpose, however, was to regulate interpartner dealings and alliance decision-making. The consortium therefore adopted a three-level governance hierarchy: the General Assembly, the Board of Directors and the position of the CEO. The strategic objectives of the alliance consortium, much broader than those of the loose association, included the design of new service lines, the development of new service provision technology and geographical expansion. In addition, the consortium adopted a franchise contract to legally protect its know-how of service provision and as a measure regulating the transfer of brand technology to external parties.

However, according to the members of the Board of Directors, the present size of domain of the alliance and its organizational model were not yet final. The interviewees emphasized that both the alliance's operational technology and its organizational design could be re-arranged in a new and more advanced format pursuant to developments in business options and the competitive environment.

2.2 The Chronology of Partners' Alliance Accession

The pace of development of the alliance, the geographical scope of its operations, the structure of the freight handled, and the overall quality of service supplied were all affected by the sequence in which the partners joined the alliance. The composition of the network influenced the structure of the functional expertise of the alliance and the nature of its competitive advantage. Detailed accounts of individual partner interests and of the motives that brought them to join the alliance are discussed in forthcoming chapters. Here, we outline only the timing of entry of partners to the alliance.

The alliance was founded by two Scandinavian companies: Toll Post Globe of Norway and DanTransport of Denmark. As a result of acquisition and voluntary partnering this constellation was enlarged with the inclusion of Fraktarna AB of Sweden and Hulintakeskus of Finland. In 1991, these four Nordic firms forged a regional pact entitled the *"Inter-Nordic Alliance"*, thereby creating the basis for a later expansion to Continental Europe and foundation of the "E-1 Alliance".

Royal Nedlloyd N.V. of The Netherlands joined the alliance in 1991, i.e. the same year the members of the *"Inter-Nordic Alliance"* embarked on creating an integrated service provision system within the Nordic region.

During the years 1992-1993, initially DanTransport alone and then in collaboration with Nedlloyd negotiated the conditions for entry of Saima-Avandero SpA to the alliance. In 1993, these discussions materialized in co-option of the Italian partner. Also in 1992, on the recommendation of Saima-Avandero SpA, negotiations were conducted between DanTransport and Nedlloyd on the one side and Edouard Dubois et Fils of France on the other. The French company subsequently accessed the alliance (end of 1993).

By 1994 the alliance comprised four founding and three associated partners whose joint operations covered the entire European Continent.

2.3 Summary

This chapter has presented a concise version of the high-impact occurrences structuring the focal alliance's life cycle, and has also provided an introduction to the following chapters, which address the multiple processes behind the evolution of the alliance.

The gradual increase in co-dependence of the partners produced three stages in the organizational life of the alliance. The process-based intertemporal development was driven by needs to expand the alliance geographically and to integrate the individual business models.

A decade-long history of the life of the alliance comprises three organizational semi-structures: Formation, implementation and institutionalization. Each of these stages represented a different organizational format and different scope of commitment between the partners, and occurred in response to different types of external pressures and internal needs.

The alliance partners utilized external and internal opportunities to achieve a more manageable organization, establish a lasting presence in the European market, and respond to challenges created by market liberalization.

3 The Formation Phase of the "E1 Alliance" Life Cycle

This chapter is a review of a series of initiatives and outcomes mobilized over the period 1988-1993 and that led to the creation of Pan-European market coverage.

More specifically, and in terms of research tasks assigned for the study, this survey explores the process of spatio-temporal expansion and the interpartner re-alignments sought to utilize the opportunities created by the European liberalization. The current chapter focuses on the integration between the four Nordic firms that materialized during the formation of a Nordic-wide system of service provision, and the circumstances behind its expansion into the European mainland.

The point of departure is Norway, but the investigation extends to seven European countries. This choice of starting point may seem arbitrary, but given the nature of the project, which began in Norway, it does not necessarily imply any lack of objectivity in presenting the facts and their impacts. It means, however, that the viewpoints presented here also reflect the opinions of Norwegian managerial sources.

The purpose of this examination is systematically to array events that both facilitated and impeded the attainment of the European reach, with a special focus on gradual changes of interpartner linkages.

The chapter covers three substantial issues. First, the process of internationalization of the Norwegian logistics industry is explored in a review of the modes and the sequence of foreign entries. We then discuss the establishment by the four Nordic companies of a service-provision venture called the "*Inter-Nordic Alliance*". Finally, we review the strategic actions which connected the Nordic venture to the Continental markets in terms of functional co-option.

In analytical terms, this chapter operates at three levels of inquiry: The individual unit firm, dyadic and triadic firm constellations and a network of six companies.

3.1 Internationalization of the Norwegian Logistics Market

The internationalization of the Norwegian land transport and logistics market sheds some light on two important issues with reference to the Scandinavian consolidation: (1) The reason why so many Norwegian operators became objects of foreign takeovers and (2) the contextual determinants that justified this strategy. Further, this review provides also a factual explanation as to why Norwegian logistics operators adopted predominantly two types of internationalization strategy: The joint stock company and a mixture of modest-scale acquisitions and voluntary partnering.

3.1.1 Foreign Acquisitions and Green-field Investments

In the late 1980s the changes that re-configured the European freight transport industry reached Scandinavia and, ultimately, Norway. Despite the fact that the Norwegian market for intermodal transport and forwarding was small compared with the Swedish one, it became strategically important for the large Swedish operators such as Bilspedition and ASG, and a Danish shipping line, DFD. These companies sought to cover the entire Nordic region and in this way would have reaped scale and scope benefits and become viable business partners for global manufacturers with Pan-European distribution needs. Over the last decade, BTL, ASG and DFD have therefore entrenched their operational presence in the Norwegian LTL market.

In 1989, Bilspedition acquired three forwarding-cum-land transport suppliers: Fallenius, Skandia Transport and Auto Transit, which were merged into one wholly owned subsidiary, Scansped Norway AS. Subsequently, in 1992, BTL acquired Polar Gods AS, a small pure-play transport operator, and Air Contact Cargo, which enhanced Scansped's capacity to offer combined overland and airborne solutions. In addition, in 1984 Scansped acquired the sea and air branch of Wilson International, a medium-sized firm specializing in sea forwarding and airfreight operations, and which continues to function under the old name.

Moreover, BTL strengthened its competitive position in the Norwegian market by acquiring a majority stake in Linjegods AS, through a takeover of the share post controlled by the Norwegian State Railways. With access to a dense web of Linjegods' national terminals, BTL included the Norwegian domestic network within Scansped's service provision system for international traffic.

In 1993, apart from establishing a wholly owned subsidiary in Oslo and opening several sea connections between Norway, Denmark and England, DFDS also acquired a small-sized forwarder, Transportservice AS in Arendal, in order to expand its network of motor carriers. In 1995, in a next step, DFDS established a new subsidiary in Trondheim for the export of fish and fish-related products to the European mainland.

ASG expanded into the Norwegian market in the late 1980s by establishing a wholly owned transport subsidiary ASG Norway AS with service points in ten locations. Subsequently, it extended its capacity for airfreight service. Despite many efforts to consolidate its market position, however, the company failed to extract the scale and scope benefits from the larger network and suffered prolonged financial losses until 1998. ASG's 1996 acquisitions of NorDan, a motor carrier specializing in the distribution of fresh fish and temperature-sensitive goods, plus a warehousing company Scandia AS, marked its diversification into the fresh food market.

In 1993, Kühne-Nagel, a global German forwarding firm with a world-wide web of subsidiaries in land transport, ocean shipping and air freight acquired Flydistributsjon AS, a small airfreight forwarder and incorporated it within its system of European subsidiaries under the trademark Kühne-Nagel Flydistribusjon Norway AS.

In addition, DHL, UPS and TNT, all global-scale operators in the market for small parcels and courier services, in the early 1990s extended their web of European service provision by forging collaborative partnerships with local operators who had acquired franchise rights.

These accounts evidence gradual internationalization of the Nordic region by two types of operators: The large Scandinavian firms with Pan-European strategic aspirations and global operators who needed access to small domestic markets to secure international sourcing. The first group of players sought to cover the entire Nordic region in order to reap the benefits of market liberalization and become viable working partners for Pan-European and global operators. The second group expanded into small specialty segments in order to increase the scope of international service provision.

3.1.2 Re-structuring of the Norwegian Logistical Market

According to managerial sources within the Norwegian logistics industry, during the two last decades several strategic changes have profoundly modified the working relations between Norwegian operators and their foreign business partners. Hitherto, working agreements such as loose accords with unspecified validity have been replaced by formal terms defining the scope of working relationships and the quality of partner performance. Rigorous regulation of commitments to third parties, such as shippers, consignees and end-users, have introduced new standards to interfirm collaboration. Five structural tendencies underlay these developments.

First, the intensity of competition generated needs for a more stable and predictable business conduct. Second, the operators had to adapt to performance standards practiced by international service provision firms. Third, the more rigorous regulation could also be seen as an outcome of macro economic transformation. The new business environment where subcontracting and external sourcing became increasingly commonplace among manufacturers and merchandisers created a genuinely new market potentials for LTL and logistics service providers.

These changes reflect a growing market power of large multinational suppliers applying worldwide standards to product manufacturing, distribution and retailing. In the same vein, the growing hegemony of large discounting retailers changed the pattern of logistics operations by introducing hub and spoke systems. The above led to development of new delivery technology and a new class of service providers specialized in third party logistics. These operators functioned through contractual agreements that regulated the level of service supply and the quality of overall performance.

Forth, consolidation among shippers and merchandisers created one large Nordic regional market. The above, together with deregulation of market access, contributed to a fundamental shift in supply chain management, making reliance on partners in distant geographical locations a matter of joint business survival. Competitive survival of many operators thus hinged on adherence to operational codes that standardized the performance of multiple participants in a given channel.

Last, but not least, formalization also sprang out of the increased value of time. Time became an important competitive weapon and a leading parameter in the design of supply operations. The high value of time generated pressures for cutting down the temporal lag between production and market reach and the turnover ratio. This, in turn, reduced the entire manufacturing and distribution cycle, the lead-time for stock replenishment, and the cost of inventory and goods in transit.

The time-based competition lowered the import of geographical distance and produced new types of contractors, who measured distance to customers in terms of lead-times rather than in kilometers and managed supply operations through on-line communication. By concentrating production and warehousing in a few central depots and outsourcing the service provision to third parties, these operators fundamentally restructured the distribution technology.

Two forms of strategic initiative were mobilized to meet the requirements of higher service quality. The first was financial integration between service providers with various geographical markets who established joint-stock companies for serving large spatial areas. The second materialized in the acquisition of a few foreign companies and strategic partnering between fellow Nordic operators who also sought to expand their market coverage.

The joint stock companies saw their daylight thanks to the entrepreneurial initiatives of relatively small operators pooling their resources and channeling them to joint undertakings. Such joint ventures might include equity contributions from 20-30 investors functioning as working partners and performing as franchisees vis-à-vis global manufacturers.

A business undertaking where investors were involved in the management of daily operations resembled a syndicated takeover financed by a leveraged buy-out. It differed, however, from the latter in that the equity injection came from the investors and not from a bank or collateral in a company's assets. These joint stock logistical ventures worked efficiently by serving entire industry sectors, such as the Swedish auto manufacturers and the Asian and European clothing merchandisers who granted franchise rights to national subcontractors.

Another form of strategic behavior mobilized by the Norwegian logistics suppliers was pooling of capital assets in order to acquire operating units in countries of interest, and/or forge strategic partnerships with other Nordic firms. Voluntary working associations between several domestic freight distributors enhanced the chances of third party contracts with global shippers and merchandisers. These two strategies were rooted in relative resource poverty and a shortage of managerial skills for managing the large-scale international service operations.

In sum, the five transformation forces that modified Norwegian logistics suppliers' operations and business relationships with external parties, and imposed new operational standards on the entire industry, could be outlined as:

1. Increased role of international suppliers and global manufacturers in setting norms of professional performance
2. Increased reliance on strategic alliances for serving the region-wide distribution channels
3. Increased emphasis on formal performance metrics for control of service quality
4. Development of time-based competition for managing production and distribution

5. Development of market demand for third party services and operational diversification into markets with high volumes of logistics supply.

The following case illustrates the development of an *"Inter-Nordic Alliance"* which emerged from collaboration between Toll Post Globe of Norway, Huolinakeskus of Finland, DanTransport of Denmark and Fraktarna of Sweden. These parties combined the acquisition strategy with voluntary partnering in order to establish a region-wide service provision system. How this venture was initiated and progressed through several stages of market expansion is discussed below.

3.2 Development of the "Inter-Nordic Alliance"

As we have seen, the emergence of one logistics Nordic market propelled Nordic managers to increase the scale of operations and extract large-scale network economies. Such a strategy was expected to lighten rivalry pressures and help survival in the highly volatile free market environment.

3.2.1 The Toll Post Globe - DanTransport – Fraktarna - Axis

The owners of Toll Post Globe, which in the mid-1980s was still a private company and the third largest forwarder-cum-transport-operator in Norway, acknowledged the threats created by the foreign inroads and potentials of liberalization. Consequently, they started looking for ways to seize these opportunities and mitigate the threats. The firm's predominantly domestic market coverage and its large distribution apparatus represented an opportunity, but also a barrier to international expansion.

A large web of inland terminals harbored the potential for scale economies provided that the network was fed with large enough freight volumes. On the other hand, two factors impeded expansion: The resource scarcity hindered investment in new facilities for service of international traffic and the lack of expertise for managing international operations hindered the green-field establishment.

Two solutions were adopted to deal with these barriers. First, a decision was taken to seek an investment loan to build a fully automated terminal for less-than-truckloads and small packages in domestic and international traffic. The second involved acquisition of a Swedish firm to gradually increase geographical market coverage. The latter led in 1989 to a takeover of a relatively small Swedish distributor Transportkonsult International A B (*TKI*) with operational bases in Stockholm, Gothenburg and Malmö.

Several considerations underpinned this move. First, the Swedish market was much larger and more sophisticated than the Norwegian one owing to a higher share of industrial, high-value products in outbound traffic. This created an opportunity for larger freight volumes, a higher level of value-added and higher economic yield.

Second, a large part of the outbound and inbound freight to/from Norway flew over Gothenburg, Malmö and Trelleborg on the way to/from the Continental Europe and overseas destinations. So, it was operationally expedient to possess service provision stations in these locations.

The scale of this internationalization proved insufficient, however, due to the low volumes handled by the Swedish subsidiary. So, in order to increase volume potentials and operationally link-up the Swedish and Norwegian networks, the Toll Post Globe management searched for stronger connections to the Swedish market.

One opportunity was developed in collaboration with DanTransport of Denmark, an old business partner. The relationship with DanTransport was based on personal friendship between the firms' managers and professional confidence developed through long-term business dealings. One important aspect of this working accord was that DanTransport's leaders harbored far-reaching plans for internationalization and searched for partners and/or acquisition objects with well-developed Scandinavian networks. These strategic aspirations were facilitated by access to large financial resources, which the DanTransport parent FLS, an industrial engineering conglomerate, made available for the purpose of regional expansion.

DanTransport was an international forwarder specializing in the transit of Scandinavian traffic to and from Norway and Sweden. Because of the low level of Danish freight volumes it capitalized on Denmark's position as a gateway for trade between Scandinavia and mainland Europe.

DanTransport sought to expand the proprietary network to Norway and Sweden in order to increase the load factor for its terminals at Brønby and Taulov, where it intended to create service centers for Pan-European traffic. These aspirations were highly congruent with Toll Post Globe's objectives, whose managers also sought a suitable partner with which to expand in the market for international traffic. A good knowledge of each other allowed these partners to properly assess their capabilities and assets. The latter was pivotal in the development of a common plan for how these strategies should be enacted.

Shared strategic visions, similarities of technology, and service profiles facilitated the DanTransport/Toll Post Globe coalition that propelled these firms' managers to engage in joint acquisition.

With this project it was envisaged that network synergy would be enhanced with the procurement of Fraktarna AB, the third largest transport operator in Sweden. The target was a specialist in domestic service of full-loads and part-loads and would-be acquirers assumed that by linking Fraktarna's operations with Norwegian and Danish flows, a large service provision web could be created. Therefore, in 1989, the partners started negotiations with the Bonnér family, who acted as seller of Fraktarna AB.

In 1990, after several spells of negotiations, a deal was cut by which Toll Post Globe and DanTransport acquired control of 85 percent of Fraktarna's equity. This shareholding was equally divided between the two investors.

The acquisition laid the foundation for a Scandinavian network of three forwarder companies specializing in less-than-truck shipments, logistics, and service of small parcels.

3.2.2 The Re-engineering of Fraktarna

After the acquisition, Toll Post Globe and DanTransport jointly embarked on the re-engineering of Fraktarna's business profile and operations. The goal was to re-model the company away from a full-load operator and into LTL and logistics service supplier with a greater share of international business.

Moreover, the project envisaged considerable improvement of service quality through the introduction of precise time windows for the service of general cargo and upper margins for freight damage. These aims required that patterns of operations were reconfigured and technology of service provision re-arranged so that they could work with the new types of input, data, applications, and new style of decision-making.

A new operational model with new pattern of workforce deployment and administrative control was designed to manage a set of new processes composed of workflow related to the provision of more sophisticated services.

The layout of a new distribution system and implementation of a re-structuring program were performed by the mixed teams of specialists under the professional supervision of the Toll Post Globe systems managers. Responsibility for this strategically important assignment was divided between Toll Post Globe and DanTransport, with Toll-Post functioning as a facilitator of the re-structuring project.

The re-engineering project went through five phases:

(1) Assessment of current service-supply-system
(2) Re-engineering
(3) Development of strategies for managing change
(4) Construction of new service provision system
(5) Implementation

The work content was matched with the experience of the team members in order to develop a project schedule and the work breakdown structure. In order to design the re-engineering project, the principle data were collected from the shippers and consignees on service quality requirements and direction for freight shipments.

The above provided input to several classes of parameters which the new service provision system had to meet in order to gain market approval. In the next stage, these parameters were translated into new technology and used for developing design principles for different aspects of core processes and the remodeling of production facilities. Based on these, an initial set of process flow diagrams for the core processes was developed and given to the interviewees and production staff for revision and comment. Core processes involved interdocking, break-bulk, distribution, line-haul and value-adding operations. A pilot project was then developed to test the trial service provision on a sample of customers prior to introduction of the new production system and system organization.

Next, the members of designer groups from all functional and support departments were given tasks related to removal of constraints hampering coordination across functional teams, the fulfillment of performance standards, the sequencing of process flow and its management, and the development of new architecture for information flow.

In the third phase, the new process design had to identify the organizational *"enablers"* and *"barriers"* for delivering superior customer service, and techniques and strategies for overcoming impediments. This work resulted in proposals for a new mode of human resource deployment and new design of service delivery systems based on new quality norms and patterns of support operations formulated as recommendations to the executive management. The guiding principles for these actions stemmed from the particular projects' missions and objectives relating to the various customer needs.

In developing the implementation strategy, a qualitative assessment was made, based on the project mission and strategic priorities. The assessment pertained to whether re-engineering should be pursued via a *"staged implementation"* with initial testing at a few customer sites and followed by a stepwise introduction, or through a *"full implementation"* of all new service categories. The latter meant that provision of the re-engineered service lines would be initiated simultaneously in a full-blown manner.

Dissemination of the re-engineering design involved a gradual introduction in order to secure the *"buy-ins"* from the stakeholder whose interests were most affected. In the final stage of the implementation process, new procedures and managerial rules have been adopted to support the re-engineering design. This included re-assignment of the workforce to new tasks and managing the new service provision operations in a manner that assured technological continuity and process standardization.

As a consequence, the traffic flows were re-designed and divided between three national hubs in Jönköping, Örebro and Sundsvall for interterminal shuttles, freight collection and local distribution.

Implementation of the project was postponed until 1992 (instead of 1991) because some main customers initially opposed the re-engineering plan. Despite this, Toll Post's managers pronounced the turn-around operation as completed at the beginning of 1993.

However, several problems continued to linger. Re-design of the main business processes impinged on key interfaces with other operations and reduced the company's ability to serve the full-load customers. In addition, Toll Post Globe sold its stake in *TKI* to Fraktarna in order to incorporate this unit within a larger service provision system. However, this produced additional pressures on the new system which impaired the overall quality of service. These two networks proved to be difficult to integrate due to diverse value chains and problems with functional match.

The restructuring involved such status-quo-destroying measures as lay-off of line managers and a large part of the workforce plus the breach of service provision contracts with truckers and other carriers.[26] Small wonder, then, that the per-

[26] It can be observed, however, that large-scale lay-offs in the highly collectivistic Swedish business culture would not be easy to implement for the local leadership. This gives some clue as to why supervision of the re-engineering operation has been delegated to Toll Post Globe. To this end, it has to be added that, despite the lay-offs, the top executives at Fraktarna remained intact and helped the staff to find new jobs after rationalization.

formance of those who remained was impaired by the fear of job loss. As re-engineering affected all elements of the firm's organizational architecture, the integration of these elements in a re-designed fashion was difficult and lasting.

In 1995, despite the espoused completion of the project, the company was still making a loss. The problems with new business systems were being felt by Fraktarna's working partners. During the interview with the Huolintakeskus management, who served the Swedish–Finnish logistics channel, the firm's leadership expressed dissatisfaction with the low quality of Fraktarna's performance and collaboration. The process of transformation became protracted.

Several managerial sources at the Finnish company maintained that the future of their working relationships with the Swedish partner was contingent on whether the latter would quickly improve its performance. The problems mentioned most often were failures in the execution of transactions, lack of feedback after dispatch completion, and the high turnover of staff. These failures affected the stability of Huolintakeskus's service quality and relationships with its own clients.

According to the Hulintakeskus management, the reason for its sustaining working relationships with Fraktarna was loyalty to DanTransport and Toll Post Globe. The above indicates that collaboration with an unsatisfactorily functioning partner was facilitated by trust in the professional quality of other partners to resolve Fraktarna's problems, plus expectations of the future growth of Swedish volumes.

Moreover, Huolintakeskus's managers were sympathetic to the problems experienced during Fraktarna's re-engineering. They observed that their judgement might be biased by the more authoritarian Finnish approach to changing management compared to the Swedish practice, which required consensus between functional staff and the leadership.

It became apparent that Huolintakeskus was prepared to accept the unsatisfactory quality of Fraktarna's performance due its allegiance to the other partners who functioned satisfactorily and delivered the expected values. The above shows that Huolintakeskus's decision to cooperate was one of trust, which despite the current negative outcomes signaled a willingness to collaborate in the future.

3.2.3 Linking of DanTransport, Toll Post Globe and Fraktarna within One Scandinavian Network

In 1991, Toll Post Globe's NOK 250 million investment in a new terminal and upgraded technology proved difficult to recoup. Two reasons underlay this predicament. The first was the cyclical downturn in the Norwegian economy and the consequent slump in volumes of freight shipped that undercut the cash flows. The second arose from a prolonged strike, which disrupted operations.

These two circumstances caused large financial losses and severance of business relationships with important users, so damaging the company's solidity. The combined effect was the loss of equity. So, after two consecutive years, 1992 and 1993, of heavy financial losses, Toll Post Globe found itself on the edge of technical bankruptcy, with financial institutions refusing to issue any new securities and/or to underwrite any new equity loan.

The situation called for immediate action. Toll Post Globe offered DanTransport, its coalition partner, a thirty-percent stake in the company's assets. [27] DanTransport obliged, and a deal was cut, through which DanTransport injected equity by means of the following financial engineering:

- Focused Toll Post Globe flotation with share offering to DanTransport
- Sale to DanTransport of Toll Post Globe's stake in Fraktarna
- Extension by DanTransport of a dedicated loan to Toll Post Globe that provided the latter with working capital.

As a result, Toll Post Globe became a DanTransport subsidiary in Norway, in line with Fraktarna International AB in Sweden.

This reshuffling had several consequences. One was the establishment of DanTransport Holding to manage DanTransport and Fraktarna operations. Second, in 1993 three members of DanTransport's senior management assumed positions on Toll Post Globe's board in order to supervise the company's restructuring. Finally, and most importantly, was the solution of Toll Post Globe's financial problems, which gave the management breathing space to recoup the losses.

The power balance between these three players was transformed, with DanTransport being made the strongest party and the link pin within the Scandinavian network. The latter strengthened DanTransport's position in negotiations with Huolintakeskus and other business partners on the European mainland.

These events led to the development of a new plan for consolidating traffic flows between Sweden and Norway, and establishing a Pan-Scandinavian hub at DanTransport's terminals in Brønby and Taulov.

Later, these events contributed to recognition of a need for functional connection between the North European network and the Continental partners for coverage of the entire Pan-European market, and laid the groundwork for the formation of a Pan-European business coalition that acquired the trademark *"E-1 Alliance"*.

3.2.4 Linking of the "Inter-Nordic Alliance" to Continental Operators

Before Toll Post Globe and DanTransport completed the acquisition of Fraktarna, they opened negotiations with Polar Express AB, Fraktarna AB in Sweden and Huolintakeskus in Finland on establishing a working arrangement to manage joint capacity utilization.

Gradually, the plans have crystallized where Polar Express and Fraktarna, the working partners, became the targets of the DanTransport and Toll Post Globe acquisition. In 1990, however, before the above was realized, Polar Express, a medium-size operator in the segment for temperature-sensitive goods, was acquired by Bilspedition.

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[27] At the same time two investors from Germany showed an interest in acquiring the stake in Toll Post Globe. This deal never materialized due to a swift reaction on the part of DanTransport.

This occurrence made the remaining three parties, DanTransport, Toll Post Globe and Huolintakeskus, highly aware of the need to join forces. As a consequence, the three forged an informal pact in which they committed themselves to collaborate on services rendered to intra-Nordic traffic. This pact expanded the previous coalition between Toll Post Globe, DanTransport and Fraktarna by including in 1991 a Finnish ally. This union was called the *"Inter-Nordic Alliance"*.

The strategic situation, with the four medium-sized Nordic companies forming an alliance whose purpose was to integrate their domestic networks, changed the competitive environment within the Nordic market. The relatively large scale of service operations that these companies covered made the *"Inter-Nordic Alliance"* an attractive partner for large continental operators.

So, the next strategic objective was to find a business partner on the European mainland who could secure access to important freight service markets, particularly in Germany, which remained an important sourcing and destination market for the Nordic flows, and a transit land for trade with other European markets.

On the other hand, the gradual globalization of business outlook on the European Continent caused the large European logistics operators like Schenker-Rhenius, Kühne-Nagel and Nedlloyd, and global manufacturers like Siemens, to consider Scandinavia as one regional market. Basing on the above perspective, these operators were also looking for a party that could offer a region-wide service supply system. So, a partnership between the North European and continental operators was based on a regional scale of service provision and access to national distribution systems. The service provision system represented by *"Inter-Nordic Alliance"* fulfilled these requirements.

DanTransport in collaboration with Toll Post Globe took the initiative to approach Royal Nedlloyd N.V. of the Netherlands. Both firms had prior business relations with Nedlloyd through purchases of services at the firm's international terminal in Hamburg.

Royal Nedlloyd N.V. was at this point in time expanding its service provision through diversification into overland transportation and logistics from its core maritime business. In a search for synergistic gains between its global ocean shipping and land-based feeder operations, the company completed several acquisitions in Germany and Belgium. However, it experienced a series of setbacks as a result of integration of the newly acquired units and high financial losses.

The Nedlloyd-controlled service provision companies in Germany, which operated under the trademark *"Uniontrans"*, provided excellent market coverage for domestic and international freight movements, coverage that matched the operating systems managed by other German operators, such as Schenker-Rhenius and Kühne-Nagel. This strategic advantage was important for the Nordic suppliers, the bulk of whose most important customers were in Germany.

The leadership of Nedlloyd was positive to a working union with Nordic partners. This strategic solution did not put many demands as regards FDI, and was therefore far less risky. Moreover, Nedlloyd at this point in time lacked a systemic solution for service provision to the northernmost European region, and therefore welcomed a collaborative pact with *Inter-Nordic Alliance*.

The atmosphere proved conducive to forming a working association between these two constellations: The Nedlloyd-controlled group of companies in ten European countries and the Nordic block of service providers under the leadership of DanTransport.

At the same time, a parallel stream of negotiations started between DanTransport and Saima SpA of Italy regarding collaboration on service provision to the Italian market. Both DanTransport and Saima had a long history of successful working relationships, and the management of the Italian firm welcomed the collaboration with other Nordic operators. At Saima's recommendation, a subsequent wave of talks started with Dubois of France that materialized in co-option of a French partner.

In 1993, these negotiations brought about a common understanding of general working conditions for interpartner dealings and mutual trade. These agreements recommended a gradual switch to business relations with the members of *"Inter-Nordic Alliance"* as far as was feasible within the existing business links. This strategic intent presupposed a gradual increase in business between the alliance's partners by a stepwise phasing out of third parties.

However, as this accord was only informal, the potential for efficient implementation was fairly limited. Yet, the strategic import of this agreement was actually much greater than its formulation. The pact in question laid the foundation for the later implementation of an important restructuring process. It materialized in the re-configuration of national supply networks and integration between the three Scandinavian firms. The second, and equally important effect, was the recognition of incongruent business patterns and the need to deal with these problems.

So, in order to reduce operational variability, the members of the working association began looking for partial solutions that would enhance the scope of business with each other. They launched several projects and appointed several working committees to assess the scope of divergence in information technology, operations models and market coverage.

Moreover, they also identified the areas of business operations with compatible and consistent goals and separated these from the areas where integration was neither feasible nor desired. Identification of these two spheres of operations and how they could be integrated were instrumental for designing the first blueprint of the Pan-European supply chain. The latter created the groundwork for a more coordinated Trans-Continental service-provision system.

The solutions that were operationally compatible and lent themselves to integration created the basis for restructuring partners' networks, and led to the creation of a new system for international freight supply. The above contributed to the first competitive advantage achieved through Pan-European collaboration.

3.3 Summary

The review of the internal processes and environmental conditions that led to establishment of the *"Inter-Nordic Alliance"* revealed that development of this working constellation was facilitated by a mixed motive game in which the partner characteristics and the scope of their resources functioned as powerful stimuli for interfirm networking.

The access to resources critical for the firms' survival and/or prosperity under new environmental conditions was facilitated by interpersonal proximity between the functioning mangers, i.e. the social content of business transactions was pivotal for the network relationships and for the nature of business undertakings.

The above analysis has shown that a prior history of business relationships contributed to interpersonal and professional trust. Trust, in turn, functioned as a stimulus that facilitated undertaking of common actions in response to external threads and opportunities.

This relational structuring materialized in new business options that led to a series of risky projects. These undertakings sought to establish a new market solution based on collaboration between the trusted partners. Thus, mutual loyalty and confidence in professional and financial support served as a basis for operational expansion. It was evident that the partners gradually became confident of benefits appropriation through repeated games with mutual inputs.

In this context, the integration of economic motives to profit from resource maximization was functionally enriched by a socialization perspective, which confirmed the significance of socially strong ties for development of an efficient business constellation.

These actions involved several forms of internationalization, ranging from friendly acquisitions to voluntary partnering. International expansion was to an equally great extent driven by interpersonal trust and environmentally engineered growth potentials.

4 The "Implementation" Phase of the "E1 Alliance" Life Cycle

In assessing the measures used to manage the process of alliance integration, this chapter focuses on implementation of the alliance accord that preceded adoption of the formal organizational blueprint. To fulfill these tasks we analyze the period 1994–1996 and probe into instances of relational power usage, the motives behind such measures and the social legitimacy of power tactics.

In terms of alliance evolution, this interval covers a period preceding the Founders' Contract, adoption of the Articles of Association and the EEIG framework. The period in question was an important preparatory phase during which the alliance's formal posture became crystallized. This part of the study explores the basic ingredients of the power relationships between two coalitions formed by the alliance members, how these resources have been used to attain the shifts in partners' behaviors, and how a formal leadership mandate was gradually acquired by the dominant players.

Furthermore, our investigation probes into the contents of relational dynamics that affected the partners' dealings in order to explicate what considerations drove the intra-alliance re-locations. In this context, we also examine how the features of national cultures balanced the initial power asymmetry between the North and South European firms.

This chapter operates at three levels of analysis. The first represents the dyadic and triadic constellations of the members of the alliance. The second comprises the relationships between the three types of network that emerged between DanTransport and its group of subsidiaries and Nedlloyd N.V. The third consists of a web of relationships between Nedlloyd, Saima Avandero and Dubois on the European Continental level.

4.1 Emergence of a Leading Coalition

Over the period 1991-1993 a leading power constellation began to crystallize within the alliance system, emerging from the strategic and operative coalition between DanTransport and Nedlloyd. These two powerful actors achieved strategic consensus on how an international alliance should be managed, and became the architects of alliance integration.

The dominant power position enjoyed by these players hinged on a combination of geo-economic and operational advantage. This advantage derived from the fact that a united Germany still remains the European powerhouse when it comes to the scale and scope of European industrial and commercial activity. The German market therefore represents both the source and the destination for large freight volumes. The German market hinterland of Germany, Austria and Switzerland, plus the three Benelux countries, spans the most densely populated European heartland harboring several metropolitan areas with large-scale industrial manufacturing and consumption. This cartographic concentration generates large freight volumes directed to other European regions. I also attracts large volumes of freight coming from other parts of the European mainland and the Nordic region.

Thus, this part of the European mainland functions as a center of gravitation for the entire European Continent, and a gigantic hub through which huge freight volumes are channeled in northbound, southbound, westward and eastward directions. It goes without saying that a company with large production apparatus and a fine-mesh net of service provision in this very region enjoys a dominant power position. This dominant status arises from an opportunity to access the large freight repositories and channel freight flows through Pan-European distribution centers, which serve high-density, high turnover and logistically the most sophisticated market.

Such a company is Nedlloyd. The Nedlloyd subsidiary Uniontrans is composed of several forwarding and logistics companies operating a dense web of terminals and specializing in flow management and flow service for domestic and export-oriented German manufacturers. Nedlloyd's second subsidiary, Van Gend & Loos B.V., provides a range of fine-meshed transportation and logistics services to users in Holland, Belgium and Luxembourg. Finally, Nedlloyd's third subsidiary, Nedlloyd Road Cargo, provides LTL and logistics services to customers in Austria, Switzerland, Spain and Portugal.

These land-based operations are managed through a system that is interlocked with Nedlloyd's ocean shipping activities. This means that the land-based distribution is linked to North Atlantic and Asian container traffic which flows through the European container ports of Antwerp, Rotterdam and Hamburg. Undoubtedly, the extended multi-modal network operated by Nedlloyd is one of the largest and most efficiently driven transportation and logistics service supply systems of Europe.

The power position of DanTransport derives from a similar geo-economic centrality and superior operational expertise. The impact of these factors remains limited to a regional scale, however. DanTransport is the third largest forwarder-cum-logistics supplier in Denmark and its strategic importance is based on Denmark's role as a gateway for Nordic traffic. Analysis of Denmark's inbound and outbound freight flows reveals that 70 percent of freight transiting over the country is either destined to other Nordic countries or originates there, but is scheduled for European mainland or overseas destinations. Moreover, DanTransport's strategic strength is its network of three partly-owned subsidiaries in Sweden, Norway and Finland, which together have created an integrated operational hub-and-spoke system channeling international traffic through DanTransport's gateways at Taulov and Brønby.

DanTransport's operations system is connected with the Nedlloyd system through the intermodal terminal at Hamburg, which bridges the proprietary networks controlled by both partners. The Hamburg hub links the two regional networks within the alliance's territory, the Nordic and the Continental, and serves as a conduit for freight flowing in southbound and northbound directions.

As indicated above, in addition to operational linkages created through combining the Nordic and Trans-Continental networks, the managers of these two companies achieved consensus on the strategic development of a Pan-European venture.

It may be thus deduced that the centrality of positions enjoyed by these actors due to the bridging of two regional networks contributed to perceptions of power supremacy on the part of themselves and two more peripheral partners. Such perceptions may have been reinforced by the higher external status that the members of larger partners acquired in relation to the two smaller South European firms.[28]

One set of advantages of network centrality is related to situational opportunities and constraints, another is related to attitudes and perceptions. The structural content of network relationships, i.e. to whom one is connected to via direct and indirect links, determines access to valued resources. Actors who are centrally located within an interorganizational web of resource flows have greater control over such resources and may attain a broader array of benefits and opportunities unavailable to others less advantageously situated.

[28] Although it might be argued that conceptual rigor of an explanation may be impaired by interspersing the descriptive part of analysis with analytical deduction, it can also be postulated that descriptive mode *per se* without analytical reference is inadequate for scientific insight-building. In our study of the focal alliance's development process we followed Guba & Lincoln's (1994) stance on the value of descriptive cases stating that scientific value of these studies depends on their ability and power to provide analytical input and basis for conceptual generalization (Guba & Lincoln, 1994)

Thus, central actors' views of their general position may be more favorable of themselves than those of more peripheral actors because their situation is objectively more beneficial. The power supremacy that emerges from such a systemic placement is based on resource and operations control, informal hierarchy and status difference. Favorable perceptions of self are further reinforced through interactions with others who might also have developed more favorable views of themselves. Thus, the greater a given party's centrality within a given system, the more likely this party is to seek contacts with others who perceive their situational position in the same favorable terms. These mechanisms could explain the interpersonal and professional closeness between the DanTransport and Nedlloyd's leaders which led to such highly congruous performance.

This coalition-forming behavior was undoubtedly facilitated by perceptions of individual strength and favorable positions in relation to others, coupled with motives to capitalize on these contents. This explains the active roles that these actors assumed in the search for a legal formula for alliance institutionalization, and the use of informal power that facilitated the adoption of hierarchical managerial structures.

On the other hand, however, evidence of a reverse power relationship, where both Nedlloyd and DanTransport lacked the resources to maintain a permanent presence in the Italian, French and Finnish markets, and made themselves dependent on Saima, Dubois and Huolintakeskus, could also be deduced from the situation at hand. However, there is an inverse relational dependence between these two constellations. The scope of power wielded by Nedlloyd and DanTransport exceeded the power magnitude controlled by the smaller partners, because they simply enjoyed a greater scope of influence (by virtue of the large scale of their operations) and commanded a larger share of tangible and intangible resources.

When asked whether the alliance would survive after any withdrawal of Italian and/or French partners, both the Nedlloyd and DanTransport's executives answered positively. Both maintained that alternative solutions could be devised and financed in these two geographical markets, although it could take a long time to reach satisfactory functionality. It thus seems reasonable that these players' perceptions of the alliance core market areas were framed by an awareness of superiority of their own proprietary networks, and the need to integrate these domains by linking them up for the sake of scale, scope and density economies. These two alliance members enjoyed more decision-making latitude as a result of the application of more advanced technology, larger scale of operations and larger number of bargaining options.

The above indicates that the systemic centrality and interactive proximity arising from joint perceptions of advantageous positions and higher status within the alliance informal hierarchy might have contributed to the mobilization of power dominance. Such actions were targeted at the less powerful actors in order to make them comply with the wishes of the two more central actors. Although these desires may not be outrightly disadvantageous in terms of the targets, they might have required re-location of scarce resources, such as managerial attention, which at a given point in time was devoted to other tasks. Indeed, empirical evidence demonstrates that divergent perceptions of exigencies and the modes of response to external contingencies underlie the use of power advantage.

How this strategy was operationally mobilized to accommodate the more powerful partners is exemplified by the following statement recorded during the personal interview with one of the Nedlloyd's executives: *"You have to take a pragmatic approach. If you are trying to get a consensus up here [pointing at the Founders' Meeting] where everybody has one vote, [it] is very difficult. So, I take a Machiavellian approach. If I have to reach somewhere I build a powerhouse by organizing my lobby in the direction of the two strongest partners who have a common vision and common understanding... and who see the world in the same way. And then we have these two [Saima and Dubois] who have to be converted to 80 percent of decisions we make within the alliance...".*

The above reveals that power inequality and not the terms of collaborative contract affected the modes of the alliance's management and the venture's development.

On the other hand, those on the periphery of a given system felt removed from any social or normative influence. They had similar views that reflected their lower status and low amount of power vis-à-vis partners with dominant standing, and these two kinds of perceptions structured their resistance.

Saima-Avandero and Dubois had a long history of successful collaboration and shared opinions on strategies appropriate for alliance coordination. Together, they embraced individualistic cultural values, which contrasted with the North European collectivistic ideology.[29] At the same time, it was also apparent that these two firms also differed in respect of certain strategic standpoints. The nature of these differences was not adversary, and derived from different operations profiles and market foci.

Saima represented an international forwarder specializing in Italian export brokerage. Dubois, on the other hand, was a predominantly domestic transport and logistics operator with a broad service provision to local customers.

As far as cultural commonalities were concerned, both Saima and Dubois managers saw Nedlloyd and DanTransport as *out-group* members, and were therefore less willing at this point in time (compared to the North European members) to sacrifice personal interests and market positions for the sake of an uncertain future of alliance collectivity.

4.1.1 Power Exploitation by the Leading Coalition

Both the differences and the similarities between the smaller partners have been perceived, considered and exploited by the leading partners and used for steering the alliance development. The strategies employed have involved the use of different kinds and sources of power, ranging from overt interventions into flow management to more subtle dominance tactics, such as the use of superior professional expertise and more advanced technology in selecting the intervention areas in the smaller partners' operations models.

One form of power exploitation has been the use of working groups and task forces manned by experts from the member firms. These interorganizational subunits had different mandates and objectives, one of which was to work out

[29] It has to be observed that when interviewed at the beginning of 1997, both the Dubois and Saima executives expressed a pretty vague notion concerning the alliance's formal stature. It is therefore doubtful whether during the period 1995-1996 these executives harbored more specific knowledge of the alliance's institutional pattern.

measures for harmonizing partners' operations by designing new networks for systematized traffic. Another was to design ad hoc strategies for implementing the changes needed. The idea was that consolidation of freight volumes in selected hubs and gateways prior to international shipments would enable partners to cut their operations costs due to the higher volumes of goods handled. The role of these task forces was to standardize the out-of-specification cases and/or design new systems for supply operations based on common quality standards for serving the international traffic.

Owing to a higher level of professional expertise, operational efficiency and technological advancement compared to the French and Italian partners, many experts who served on those committees were recruited from DanTransport and/or Nedlloyd's subsidiaries. This maneuver conferred greater decision-making leeway on the North European players by allowing them to choose the standardization metrics and areas for the most urgent interventions.

These tactics capitalized on dominant power status. Acceptance for the proposed restructuring was either elicited by presenting ready-made solutions for immediate implementation and/or by seeking approval for operationally pretested blueprints.

Such was the case with the unitary tariff system, common pricing of services rendered to freight in transit, with elaboration of the Alliance's Mission Statement, and, finally, with design of the Articles of Association. The two leading partners initiated all these important projects. These matters were processed by the various layers in their corporate systems and/or operationally tested through in-house experiments. The proposals were then submitted as proof-tested solutions for acceptance by the smaller partners.

The following statement by one of the Nedlloyd executives describes the mechanism used to induce the smaller partners to accept solutions proposed by the dominant coalition. *"If you have two [partners] behind an issue already.... the other two may disagree, but they will not jointly disagree. They will disagree differently. So, you will have such a powerful base behind you which you can use to push the issues through..."*

Although the contractual conditions did not specify the mode of collective decision-making, the above tactics fit badly with the Dubois and Saima expectations of sound venture management. The smaller partners wanted a more lenient but time-consuming approach, and expected that decision-making would follow a two-step track. Agreement was to be reached and a resolution taken with regard to which partners would implement any intervention before consensus was forged with regard to the area of change and/or the mode of change implementation. Small wonder that persistent power use irritated and frustrated the smaller firm managers.

Frustration bred resistance to moving from individually held positions and resistance was used to counter the external pressures for interventions with a high risk of status quo disruption. The tension between pressures and resistance generated relational conflict that blocked the implementation of change, and eventually the entire re-structuring process.

The wish to steer the alliance in a desired direction caused DanTransport and Nedlloyd managers to reject consensus for securing the target's voluntary commitment to change. Nedlloyd executives shrugged off the idea of dealing with interpartner disparities by consensus, which was considered risky and excessively time-consuming. The following opinion on consensus was recorded during the personal interview with one of Nedlloyd's top officers: *"Consensus is dangerous, and you will always finish with the lowest common denominator, which is the worst case left from zero...".* This standpoint was also representative of the attitudes harbored by DanTransport management.

It appears that rejection of consensus as a means of decision-making derived from the assumed necessity for *"fast track"* policy, which was seen as a way of keeping the restructuring project on track. However, in the pursuit thereof, the leading coalition underestimated two prerequisites of relational loyalty.

The first pertained to the time needed for targets to adjust to a new situation. Time was needed so that partners with individualistic cultural orientation could accept the need to contribute to alliance collectivity if they were to attain their individual goals. The second derived from the social necessity to concede on important issues in order to boost the smaller partners' confidence in equality of relational standings. It required that the leading coalition protected the professional face of the smaller firm managers by giving them a greater say in decisions regarding their own re-structuring.

4.1.2 The Social Legitimacy of "Fast-Track" Policy

In 1996, when asked about the time needed to achieve one coherent alliance system, both DanTransport and Nedlloyd's executives gave similar answers. They invoked competition as the major reason behind the push for *"fast-track"* policy. Answering the above question, one of the Nedlloyd executives said: *"I don't know, the question is how much time the competition will allow us?..".*

This answer suggests that the time exigency created by the aggressive behavior of competitors and pressures from global customers who demanded homogeneous standards compelled DanTransport and Nedlloyd's managers to tightly schedule the re-structuring. Both external signals have been perceived as demands for a more integrated style of operations.

The above statement suggests that environmental pressures and not the desire for self-enhancement and/or capitalization on power advantage lay behind power mobilization. This observation is important in assessing the social legitimacy of the dominance strategy that the stronger coalition used in relation to its South European colleagues and in justifying the purposefulness of such tactics.

To assess the social legitimacy of unilateral power usage we marshal a set of conditions under which the use of social power becomes an oppressive and exploitative phenomenon. Review of such circumstances may distinguish between the socially harmful instances of power usage and the socially justified exploitation of situational hegemony.

Power applied to coerce others to do something that is directly harmful to themselves and/or in order to exploit somebody's disadvantage for the sake of self-enhancement is undeniably a socially malevolent phenomenon. With reference to the latter we can talk of power abuse with a socially damaging effect.

However, the power wielding by Nedlloyd and DanTransport cannot be defined as unabated coercion. Rather, power was used to influence the smaller partners to embark on a re-structuring project aimed at accelerating the achievement of a common goal, or, more to the point, a higher-order goal of alliance fit.

Achievement of a higher-order goal would confer larger benefits on the entire alliance, not merely the power wielders. As such, the behavior described resembled more an advanced form of leadership than intimidation tactics. This mode of behavior conformed to the functional definition of power that is widely accepted in managerial literature. It holds that leadership as a social control function is equipped with legitimate power, and that power available to leadership should be actively used to facilitate attainment of organizational objectives (Fiedler, 1995).

What we have identified here is a transformational form of leadership, i.e. leadership capable of managing change for the sake of broader organizational goals. Of course, interpartner differences regarding how such goals should be defined and attained will always persist. In the case at hand, however, these doubts were irrelevant because the *"fast track"* policy was induced by environment. So, the ultimate goal for power mobilization was to accelerate interpartner re-alignment and the acquisition of a stronger competitive posture by the entire venture.

Further, the measures applied towards achieving these outcomes indicate that the two leading players assumed the role of *"problem owners"* who voluntarily accepted the difficult task of alliance conversion and resolution of substantial problems that antagonized the partners. In this respect, it was a courageous move that revealed a high level of commitment to the welfare of the venture. Willingness to use individual skills and resources in service of the alliance mission demonstrated a high level of alliance *"belonging"*.

Power mobilization thus sought to enhance the effectiveness of the performance of partners and the quality of services provided by the entire group. These actions were motivated by desires to boost the partners' mutual business involvement, enhance alliance fidelity and formalize the status of the venture.

Moreover, the amount of tangible and intellectual resources that the leading partners spent on designing the formal blueprint for alliance architecture supports conjecture that an important motive behind the power mobilization was the group's welfare, although the wish for self-enhancement cannot be totally excluded.

Insofar as the power use was rooted in the DanTransport and Nedlloyd managers' conviction about the rightness of solutions proposed for the targets' problems, one can talk of ethnocentric motives. The decisive factor in this respect is the degree to which these two types of driver, the ethnocentric and the group wellbeing, contributed to self-enhancement and to alliance strengthening. The data do not support a contention that power wielding had any exploitative intent. Rather, power was used to facilitate the fit building that in the long term could also benefit the power wielders, but not at the expense of the smaller allies.

The solutions imposed on the smaller partners were pre-tested in the backyards of the larger players in order to secure technical functionality. They therefore possessed well-documented outcome effectiveness and sought to create a stronger competitive basis for the entire venture.

The following excerpt from the interview with one of the Nedlloyd managers describes the mode in which the technical solutions to serious operational problems were devised and adopted for common use: *"Important technical issues I tackle down at the operational level... We develop a system and we present it. A system which works.... And ... we go back [to Saima and Dubois] and say... look we have checked it. It works. And if you have one guy down here who doesn't like it... you kick him simply out because it's not really worthy [to quarrel]... You can do the same at the operational level... Yes?.. And.... after some time they come back to us and say it's validated... it works!.."*

In this context, the self-enhancement argument seems not to carry much weight. Rather, here we can talk of an expert power, a type of power rooted in superior knowledge and visionary skills, greater ability for problem resolution and design of new options, and a talent for disseminating high-level technical and functional innovations across new application fields. These features do not square well with the notion of coercive inducement.

Of course, timing and the enforcement methods could have been less obtrusive and better attuned to the conditions of the smaller partners. On the other hand, however, competition and the need to serve customers globally forced the leading coalition to utilize quickly the benefits of network enlargement.

Provision of services at a Pan-European level had to be standardized in order to confer competitive identity on the alliance system and secure a uniform level of service quality, i.e. that time was scarce and pressures great to implement the re-alignment by skipping on multi-party consensus.

This is not to say that all solutions proposed by Nedlloyd and DanTransport were flawless and that it was safe for the targets to accept all these proposals without hesitation. However, the friction that was caused by the diversity of operational standards and market service models was also magnified by incongruent cultural values. In particular, the divergent worth placed by both South and North European partners (with individualistic and collectivist identities) on serving individual interests, as opposed to collectively valid interests, became manifest in this context.

In the long term, competition and customers would undoubtedly force the partners to re-structure. Yet, as shown in forthcoming sections of this work, defiance on the part of the smaller partners has also been rooted in several other sources of interpartner disparity. Thus, to properly assess the social legitimacy of power wielding we explore the structural disparities that for years antagonized the partners. These disparities reduced the ability of the partners to act in concert and serve the large-scale network.

Thus, to objectively evaluate the utility of relational dominance in the attainment of alliance fit, the forthcoming paragraphs probe into the nature of interpartner incongruency. We explore several of the themes related to market re-configuration and operational re-alignments that involved the partners with operational bases on the European mainland and in the Nordic region. In so doing we apply the triadic and dyadic levels of analysis.

4.2 Integration at Pan-European Level

In 1993, and despite many problems, collaboration between the four founders of the alliance and associated firms[30] reached a stage where all parties agreed to re-align their markets. This intervention preconditioned utilization of scale benefits arising from the large scale of the European network and committed the partners to increasing the business transacted with each other.

A plan devised by the allied firms for re-designing their core business operations envisaged diverting freight shipped and/or received from third parties and re-directing it to alliance partners for consolidation, distribution and value adding. Moreover, this strategy was also seen as a deterrent against opportunistic withdrawals.

The benefits sought involved higher freight volumes for each partner and stronger competitive advantages achieved from the lower cost of service and broader range of service offered. Moreover, freight consolidation had another important effect: It balanced inbound and outbound shipments, thereby contributing to better utilization of freight carrying units and lower costs of round-trips.

Implementation of this strategy proved both difficult and lengthy, however, bearing in mind the existence of competing business relationships with third parties, wholly-owned subsidiaries in other partners' markets and investments made in establishing the existing domain system.

The problems encountered had different origins and dimensions. One difficulty arose from the incompatible business profiles of alliance partners in different market segments. Another was related to incongruent management models and operations standards.

Whereas one type of business relationship with a given partner might be adequate in one type of market, this did not hold in another market structure with different customers, distribution patterns and demands for service quality. The introduction of new functional standards that altered operations patterns was both difficult and risky. Still another type of problem arose from needs for a seamless bridging of interpartner operations in creating efficient freight flow pipelines with international scale of coverage.

The case of bridging of the Nordic and Continental networks managed individually by DanTransport and Nedlloyd illustrates the strategic and operational hurdles the partners had to overcome in order to integrate their operations and create a Trans-Continental conduit for European freight movement.

4.2.1 Bridging of Nordic and Continental Networks

Freight volumes shipped in a northward direction from the European mainland differ in magnitude and commodity structure from southbound flows. The figures below are 1996 estimates of Pan-European flows with national origins and destinations.[31] Over 75 percent of northbound flows consist of highly processed, high-

[30] This pertained in particular to Toll Post Globe, whose management participated in the alliance's formation in 1993.

[31] Crude oil, iron ore and other high-volume/low-value minerals have been excluded from the data on flow volumes.

value industrial and consumer items shipped as LTL consignments. The structure of the southbound flows is different and reflects the industrial differentiation of the Nordic countries.

Norway and Finland are exporters of raw materials and semi-processed products with low unit value and high unit weight. Commodity categories such as petrochemicals, fertilizers, crude minerals, timber, wood, paper pulp and paper, plywood, metals and processed metals, constitute over 60 percent of export flows from these countries. Shipments of the above commodities are carried out in bulk or in unitized form, but in both cases are effectuated as full-loads without the need for pre-shipment collection or post-carriage distribution.

Sweden and Denmark are exporters of agriculture products (in processed and unprocessed forms), machinery, and other manufactured articles with high unit values and low unit weights. These goods are despatched as typical LTL shipments with a high input of logistics services at the collection and delivery stages. Still, the share of bulk materials such as chemicals, crude minerals and cement shipped as full-loads to continental destinations is also relatively high.

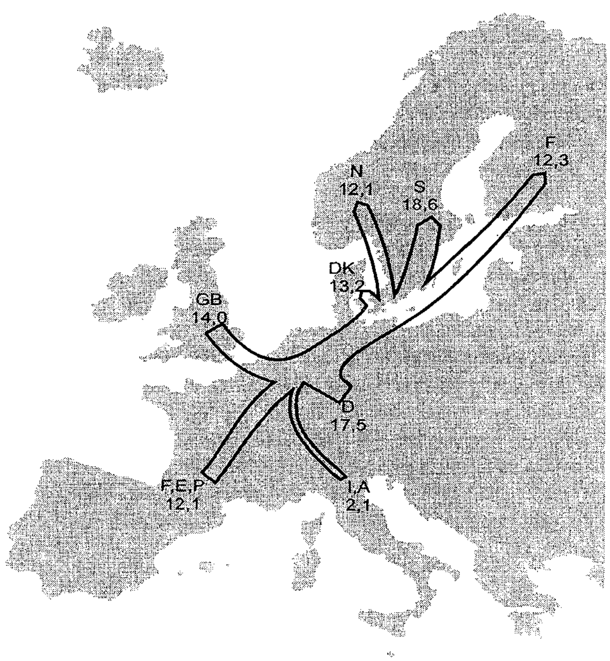

Figure 4.2.1.1: Northbound Freight Flows from the European Continent to the Nordic Countries. Million Tons, 1996

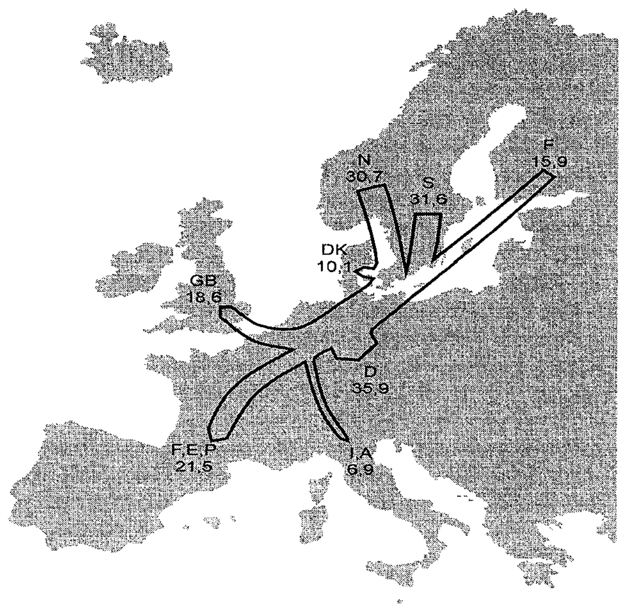

Figure 4.2.1.2: Southbound Freight Flows from the Nordic Countries to the European Continent. Million Tons, 1996.

As can be seen from the figure, the volume of trade southbound is clearly greater than that shipped northbound. The imbalance between inbound and outbound flows is caused by the different composition of commodities and their varying physical features. Two implications arise from this disparity.

As trade goods shipped southbound and northbound differ, so also does the quality of transportation and logistics services required from the operators. Besides, companies that specialize in shipping high-value, low-unit weight goods from Continental Europe to the Nordic region face difficulty balancing traffic flows because of a relative scarcity of LTL shipments in southbound trade. The lower tonnage of southbound goods leads to higher service costs and makes extraction of scope, scale and density economies difficult.

So, the design of service supply operations and distribution of northbound shipments cannot follow the origin–destination pattern or point-to-point system, which applies to lanes with balanced traffic. Rather, a hub-and-spoke network with multiple centers (nodes) for freight consolidation and transfer of consolidated traffic must be used in order to generate the scale gains.

A hub-and-spoke network comprises a number of mutually connected links, also called guide-ways. Links represent lanes for freight movement, such as single-modal routes or intermodal chains. Intermodal transit chains align several operators who secure uninterrupted transfer of freight-carrying units across the geographical zones connecting the origins and destinations of shipments. Guideways consist of roads or rail tracks, which provide infrastructure for movement of rolling stock. Nodes represent cities, rail yards, warehouses, but also different logistical facilities for cargo consolidation, trans-loading, trans-shipment and distribution operations.

So the nodes in a logistical service provision network can represent intermodal freight-transfer points, border crossings and logistics service stations. The latter are often located at intersections of production systems and urban agglomerations, which function as freight repositories for inbound or outbound flows. They represent consolidation points which feed the freight into transfer corridors at the beginning of the journey and then deliver the cargo in containers, swap bodies or semi-trailers to load-service centers for breakdown and final delivery.

The map (figure 4.2.1.3) pictures the flow of freight across Europe. It also displays the main corridors for freight movement between the Nordic region and Continental Europe. The northbound and southbound flows are consolidated at two Pan-European gateways – Copenhagen and Hamburg – which represent the nodes linking the Nordic and continental networks.

Freight shipped through intermodal land-sea solutions to/from the Nordic countries transit over Copenhagen/Brønby. Some seaborne flows from Sweden and Norway shipped through three Swedish ports – Helsingborg, Malmö and Trelleborg – pass through the Hamburg hub. On entering the Hamburg intermodal axis these flows are distributed to several smaller European hubs. The map also portrays the geo-economic position of two of the second-largest hubs on the European Continent with Pan-Continental service coverage. The first is located in the port of Rotterdam, which is the major European container-handling center for the North Atlantic and Asian traffic. The second lies in the hinterland of Munich, which is a large urban agglomeration with a high concentration of manufacturing and service provision industries.[32]

Finally, it also displays a grid of smaller regional and national hubs on the European mainland and shows that the freight flowing between Rotterdam-Zeebrugge-Antwerp and Basel-Karlsruhe-Milan[33] creates the high-density shipping lanes that cut across the European Continent.

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[32] Nedlloyd's subsidiary Union-trans operates two regional hubs, one at Karlsruhe the other at Munich for overland transportation, while Nedlloyd N.V., the maritime division of Royal Nedlloyd N.V. operates a container hub in Rotterdam harbor.

[33] Saima-Avandero operates a large terminal hub in Milan.

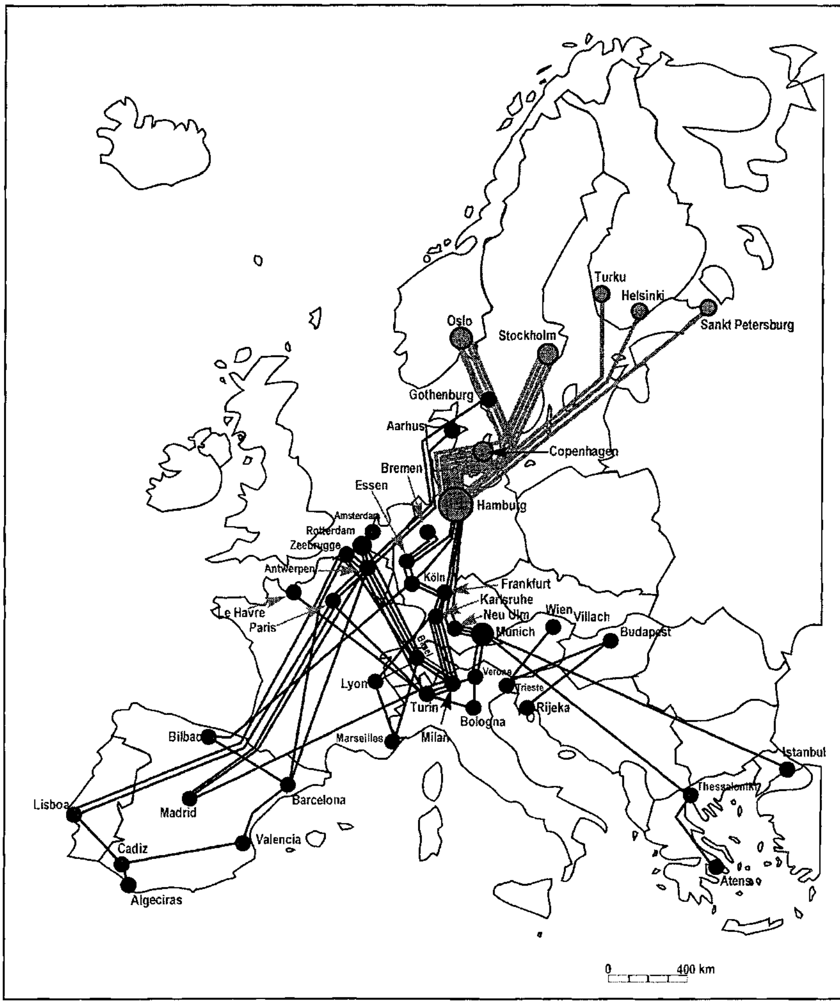


Figure 4.2.1.3: Distribution of Freight Flows across Europe

The distribution of European freight flows reveals that access to Copenhagen and Hamburg, i.e. two European hubs for freight transfer, is pivotal for linking the traffic between the Nordic and continental networks. It also provides the operational base for scale, scope and density economies, which stem from large freight consolidation areas. Moreover, consolidation of numerous commodity categories broadens the scope of services offered, calling for higher labor input, and consequently higher profitability.

Generally speaking, the more logistically demanding a given commodity, the more profitable its service. Finally, access to large freight repositories like Hamburg and Copenhagen provides an opportunity for full-load shipments between Pan-European gateways and southern hubs on the European mainland or between there and the Nordic hubs in Oslo, Stockholm and Helsinki.

These operations are managed by DanTransport and Nedlloyd, as shown in figure 4.2.1.4 displaying the Nordic network composed of DanTransport's hubs at Taulov and Brønby, and two national networks operated by its subsidiaries: Toll Post Globe of Norway and Fraktarna of Sweden. In addition, the map shows the bridging of three Nordic networks (with the ancillary Swedish-Finnish links) with Nedlloyds' gateway at Hamburg. From there, the freight is distributed to fifteen terminals in Germany (operated by Nedlloyd-Uniontrans), and/or shipped to other regional hubs for subsequent processing and/or delivery. The throughput traffic directed to, for instance, Spain and Portugal or overseas destinations, is also shipped via Hamburg and forwarded therefrom by a network of Nedlloyd's European subsidiaries and/or overseas shipping connections.

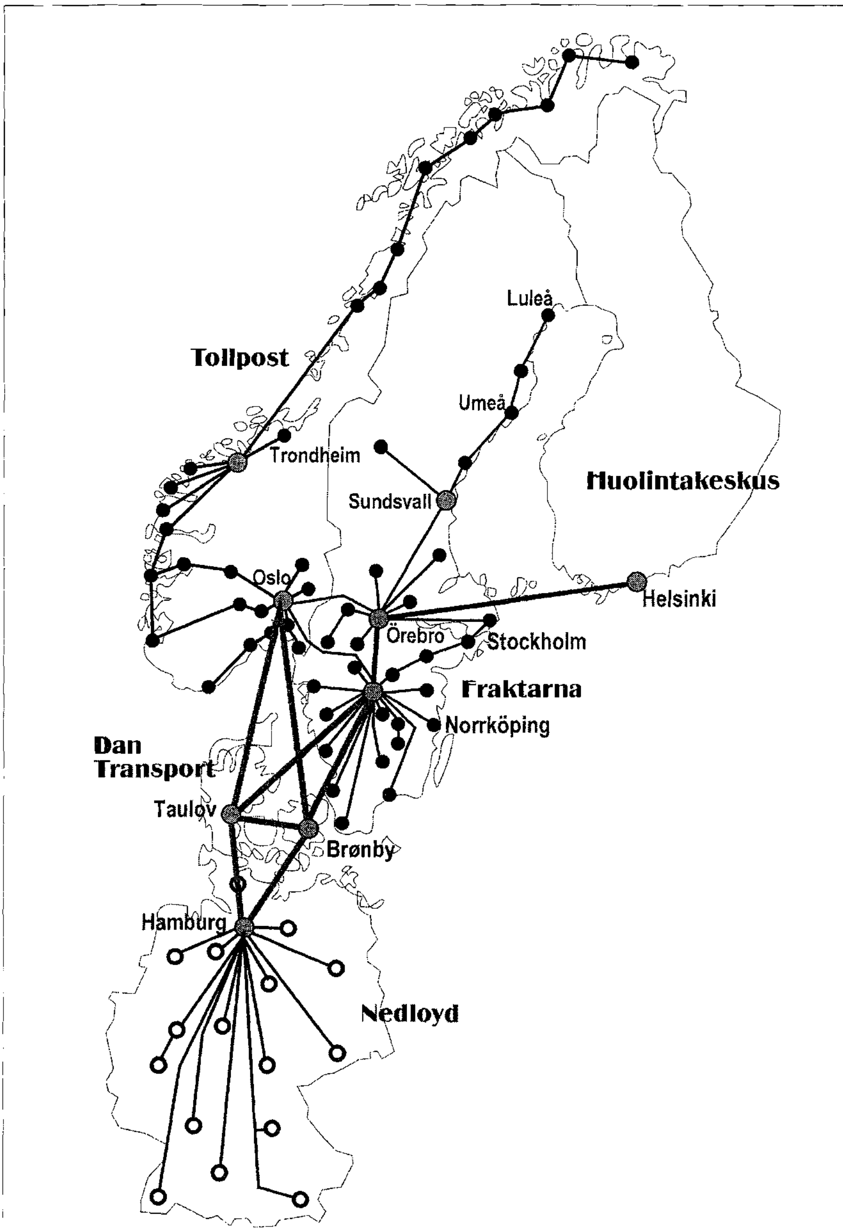
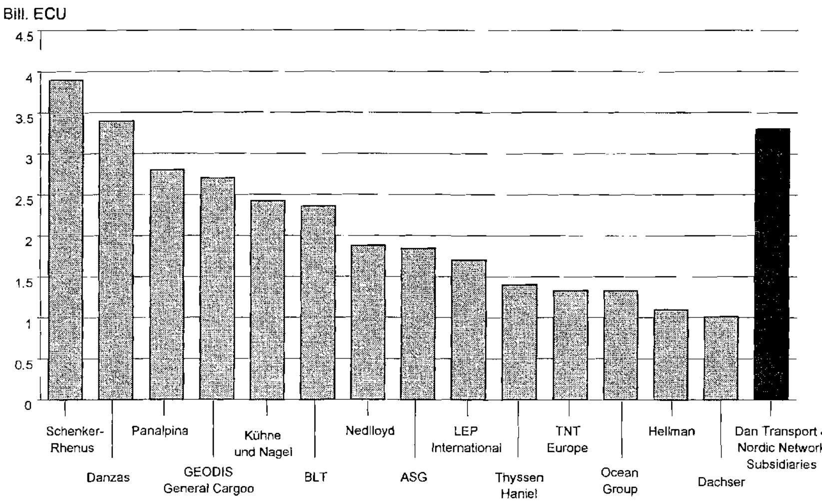


Figure 4.2.1.4: Bridging Nordic and Continental Networks by DanTransport and Nedlloyd Operations

The diagram below displays the financial outcomes for DanTransport's network of companies and compares these with the major European logistics service providers. The data show that revenue generated by the net sales of the Nordic constellation was roughly the same as that achieved by the second largest European multinational, the Swiss-registered Danzas, and exceeded that achieved by Nedlloyd's European LTL operations. The DanTransport network is therefore a large regional player controlling considerable feeder traffic flowing through the Pan-European supply channel.



Source: Companies' Statistics

Figure 4.2.1.5: Net Sales for Major European Freight Forwarders and Logistics Service Suppliers. Billion ECU. 1996.

As indicated, the DanTransport network is composed of four national distribution systems, i.e. those of Sweden, Finland, Norway and Denmark. The Norwegian network consists of two regional hubs in Oslo and Trondheim and a web of 29 terminals for local freight consolidation and distribution. In 1994 the Swedish network, operated by Fraktarna AB, consisted of three hubs (Jonköping, Örebro and Sundsvall) and 30 terminals funneling inbound and outbound flows for regional consolidation.

The scope of this network was extended in 1996 with DanTransport's acquisition of two mid-size service suppliers, Swedex and Fillip Loranzen Logistikk AB, with operational bases in Norrköping. The purpose of this extension was to increase scope economies by supplementing Fraktarna's network with LTL services.

According to DanTransport's executives, re-design of the Swedish network involved, apart from an extension of the service range, the construction of distribution terminals in Gothenburg and Stockholm, the installation of an EDI automated information system and interlinking of new distribution terminals with remaining facilities. Moreover, DanTransport extended the capacity of its own terminal at Taulov by enlarging the storage and freight-handling potential from 15,000 square meters in 1996 to 40,000 in 1997, and upgraded the shipping docks for intermodal land-sea bridging.

In 1994, DanTransport's executives forecast that the financial investments in new terminal facilities and on the installation of electronic information systems for the on-line linking of four Nordic companies would approximate 80 million Ecu. This amount was actually spent in the period 1995-1997.

These investments were strategically important for two reasons. The first, because of competitive pressures to heighten service quality and reduce the time window for LTL shipments to 24 hours within the Nordic region. Attainment of this goal would require that all feeder traffic to/from Sweden and Norway that today flows over Taulov and Brønby or directly to Norwegian and Swedish destinations via Hamburg is diverted and shipped in more consolidated fashion over Taulov.

The reason is that Denmark has two axles serving as conduits for freight flows. One connects east and west through Copenhagen and Esbjerg, and is a major corridor for throughput-traffic to/from other Nordic countries. The other axis connects north with south through the cities of Aalborg and Padborg. Both axes meet at Taulov, which is the transit point for domestic and international traffic.

However, while the share of traffic transiting over Taulov in 1997 was about 30 percent, the remaining 70 percent of Swedish and Norwegian volumes was shipped via Hamburg or directly northbound, or via Brønby. The Taulov volumes were much too small to allow for full load shuttles between the German locations. Still another problem arising from this traffic pattern was that terminal capacity at Hamburg was not enough for all non-unitized Scandinavian traffic to be processed during daytime. Nedlloyd-Uniontrans began to charge peak-load prices, making freight handling more costly for Scandinavian shippers.

In this context, investments in the terminal at Taulov were justified by the need to consolidate the large proportion of Nordic traffic, unitize it, and ship ULDs and HGVs via Hamburg to other destinations in Germany, or route them directly to third European countries.

The idea was that by circumventing Hamburg the Scandinavian operators gained time and reduced service costs. Deliveries of full loads to distant locations would increase the catchment area, lengthen the distance for line-haul (with highly distance-digressive variable costs), improve vehicle utilization, and save the operator large handling and transshipment outlays (through by-passing the smaller terminals). The economic calculation behind this operations pattern was pretty straightforward: The closer goods are brought to the consignee or end customer, the less the distributor has to concede in margins to other intermediaries, and the quicker he gets paid for services provided.

The second reason for the investments at Taulov derived from pressures to meet the distribution needs of customers in southern Sweden and southeastern Norway after the two fast-link connections over the Great Belt and Öresund-bridge are in operation. These two projects are expected to cut down the transit time from mainland Europe to southern Scandinavia by connecting directly Copenhagen with Malmö. This in turn will move the distribution terminals from mainland Europe northwards toward Malmö, which could become a large regional hub for the Nordic traffic. Such repositioning will increase the radius for 24 hours stock availability throughout the entire southeastern Scandinavia.

Time-saving will reduce holding costs for manufacturers and merchandisers in this region by shortening the delivery cycle and lowering the inventories of goods in process and ready-made stocks. As a result, these end-users will be more likely to outsource stock replenishment to DanTransport and Fraktarna, whose distribution network is located on the isle of Sjelland and/or in southern Sweden. This solution could increase the competitive attraction of the DanTransport / Fraktarna network over other local operators, such as BTL and ASG, whose grid of terminals and gateways lacks the location advantage that provides a shorter delivery cycle.

The map in figure 4.2.1.4 also shows the two Nordic Triangles that represent the two important corridors for intra-Scandinavian freight movement. The first links Stockholm with Brønby and Taulov, the second Oslo with the above hubs. Finally, there is the Danish-German Triangle, which constitutes part of a larger grid for freight movement between Denmark and the European mainland. These triangles represent an interlocking system for freight flows between Scandinavia and Continental Europe that bridge the two regional networks controlled by DanTransport and Nedlloyd.

Transfer of the main Scandinavian shipping route to Taulov will make the Brønby terminal a supporting hub for services offered to customers in southern Sweden and Norway. The DanTransport operations system will therefore consist of two building blocks. The first, at Taulov, will handle full-load traffic. The second, the south Swedish web of distribution centers, will render logistics services to a large market hinterland covering northeastern Denmark, southern Sweden and southeastern Norway. According to DanTransport's systems' managers the full-blown network reconfiguration was scheduled for 1998. The new pattern of connection between the Nordic and German networks is outlined in the map below.

In sum, the tight integration of DanTransport's operations network in the four Nordic countries will allow the company to reap efficiency gains accruing from the forthcoming fast-link connections. The expected growth in freight shipped in south and north European traffic and attributed to these two fast-link projects may enhance the strategic import of the Nordic constellation in relation to its continental counterparts, putting it on a par with Nedlloyd's continental position.

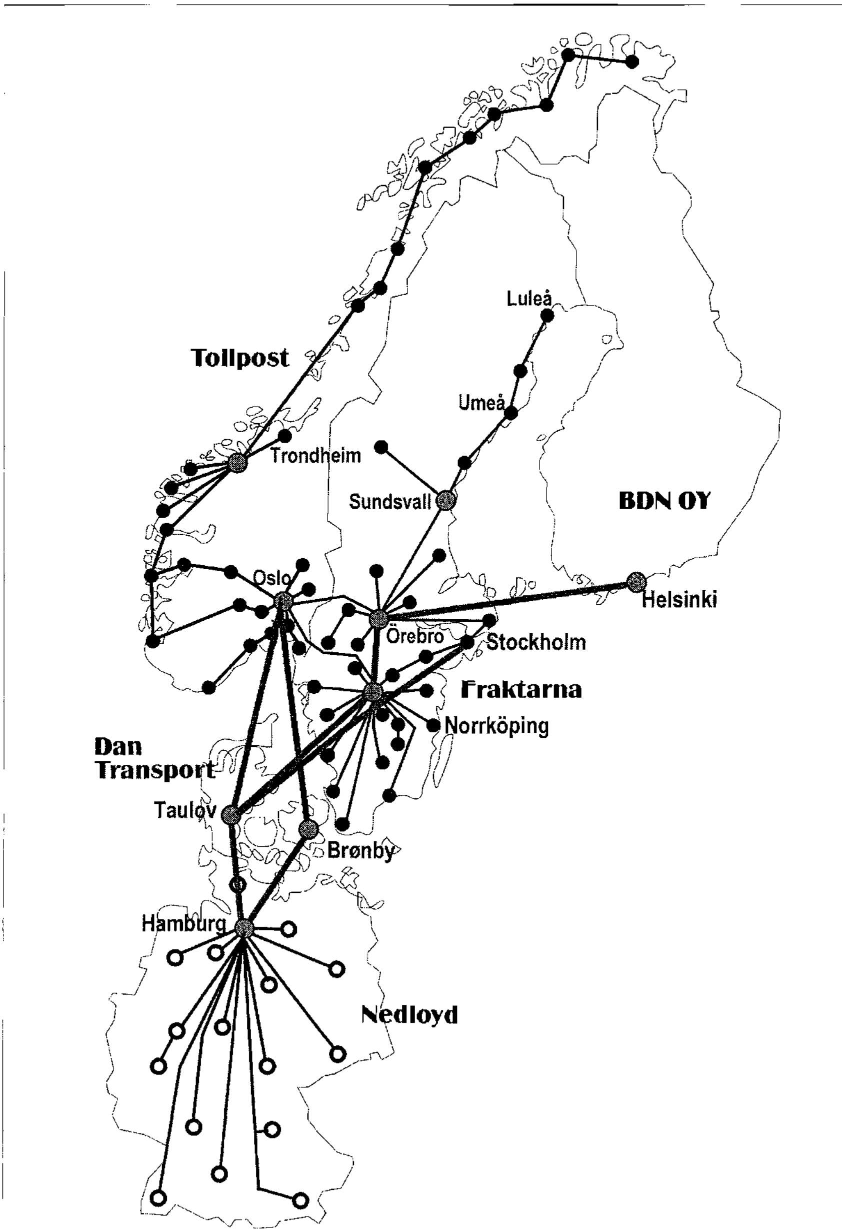


Figure 4.2.1.6: The New Pattern of Network Bridging for Scandinavian and European Freight Flows

4.3 Regional Integration among Nordic Firms

The circumstances bringing about regional integration of the four Nordic firms have been reviewed in the foregoing. Here, we focus on the actions that Dan-Transport, Fraktarna, Toll Post Globe and Huolintakeskus mobilized over the period 1994-1997 in creating an integrated Nordic service provision system. This section also examines contextual factors, such as the economic trends and the disparate managerial cultures that affected the above process.

The analysis applies a network perspective by focusing on a fourfold relationship between these Nordic firms. This perspective is subsequently broken down to triadic, dyadic and single firm levels in order to explore the various aspects that characterized the interactions between the different working constellations.

4.3.1 Network Economies in Production of Transportation and Logistics

One of the essential features of transportation services is that they take place within geographically defined networks. Another is that there is a certain flexibility in the size of the equipment and production facilities that can be used in the short-run to extract *network economies*. These operational features cause all modes of transportation to apply the principle of shared facilities to lower the unit cost of service. Facility sharing is the main source of difficulty in analyzing transportation costs, but can create scope economies if network operations are organized in a hub-and-spoke system rather than a point-to-point service design.

Management of the hub-and-spoke system, however, requires a hierarchical design of network operations and a large catchment area if efficiency gains from several network functions are to be extracted. The first requires consolidation of traffic volumes in few gateways before distribution and/or bulk breaking. Consolidated traffic volumes require large vehicles for interhub shuttles. With larger freight volumes, larger vehicles can be better utilized, so reducing the unit cost ton/kilometer of freight moved. Second, matching vehicle size with traffic volumes and number of customers in a given lane, combined with the use of digital maps for vehicle routing, may also reduce the unit cost of freight pick-up and delivery. In this way, efficiency gains produced by the higher freight volumes and larger vehicle capacity spill over to savings in routing and scheduling, and may additionally compress the ton/kilometer unit cost.

Within a fixed-size production network the advantages of traffic growth can be relatively easily utilized by increasing the number of vehicle movements between gateways and vehicle trips in interdocking and drayage. Thus, additional efficiencies may accrue from serving a higher traffic level with the higher quality of service that is produced without facility enlargement through *economies of density*, i.e. the additional output that can be produced within a given network, through more effective utilization of existing assets, without the need for additional investment.

In addition, freight consolidation allows a parallel service of different types of consignment – full-loads, part-loads, less-than-truck loads, and small parcels – to be transacted within the same facility. Consolidation of various consignment categories under one roof allows the following functions to be performed in the hub-and-spoke system:

1. Interdocking and bulk-breaking
2. Gateway services such as storage, loading and unloading.
3. Value-adding third-party logistics and stock management.

These types of service, inevitably produced in fixed proportions by the same type of equipment and/or within the same facility, are called *joint services*, and evoke *joint* *costs*. The effect of *joint costs* of hub-and-spoke operations is to produce an uneven, but usually downward-sloping, relationship between the total output/ton/kilometer and the average cost/ton/kilometer.

In addition, a large hub-and-spoke system can also produce several *common services*, e.g. from an increase in marginal haul length and compression of the marginal costs of vehicle movement through increased load-carrying mileage and/or vehicle operation hours. A higher level of vehicle utilization can also be achieved by towing an additional freight-carrying unit, such as a trailer or a swap-body. In the latter case, the cost of running a trailer alone represents a *common cost* of hauling the entire road train (composed of a truck and a trailer). Thus, a *common cost* in this situation comes as additional outlay, however small, arising from hauling two freight-carrying units as compared to one only, but is counteracted by movement of higher freight volume.

A management system where efficiency gains are achieved by concentrating service production functions at one larger facility instead of spreading them between several geographical locations, and by using larger vehicles instead of several smaller load-carrying units, represents an organizational model that generates *economies of scope*.

Counteracting these benefits are the higher costs of hub operations and longer line-haul. However, extending hub operations to the entire Nordic region and reducing the number of service points may render positive scale, density and scale benefits that outweigh the costs of re-location and additional outlays generated by the larger scale of hub operations.

While the higher cost of haulage did not invoke any concerns on the part of the Nordic partners, who were used to long distances for freight movement, the establishment of a new gateway system that required re-configuring of existing networks posed a significant problem. The network re-design meant re-location of several national hubs and geographically further to travel between central storage facilities and distribution centers. These problems were gradually resolved by acquisitions of firms with service points in desired geographical locations,[34] by upgrading the web of existing terminals and by closing-down and transferring old sites to new operations zones. Over the five-year period, these concerted efforts gradually created one integrated Nordic service provision system, although this has not been achieved easily.

4.3.2 The Re-structuring Process among the Nordic Firms

A large-scale project designed to reap the efficiencies of Nordic-wide distribution started in 1993. The re-design of physical networks and service provision systems, which initially served the national markets, required painstaking intervention. And re-configuring of point-to-point operations into a hub-and-spoke system with a regional market range required a geographically well-positioned and functionally compatible hub arrangement. Such a grid would consolidate international traffic within just a few gateways, these service points then linked with national distribution centers.

The following measures were employed by the partners to reach these goals:

[34] E. g. DanTransport's acquisitions of Swedex and Fillip Lorentzen Logistic AB in Sweden.

- The national hubs in Oslo and Trondheim (Norway), Jönkjöping, Örebro, Sundsvall and Stockholm (Sweden), Taulov and Brønby (Denmark), and Helsinki and Turku (Finland) were interconnected in a region-wide hub-and-spoke system serving the intra-Nordic traffic. The operators agreed to gradually phase-out and/or close down the service provision stations that did not fit the new system.
- Two types of fleet were scheduled for routing: Large-capacity vehicles for shuttling between hubs and gateways, and low-capacity vehicles (up to 30 tons) for drayage and local distribution. Restructuring of the vehicle fleet was difficult, however, because of the great variety of commodities shipped, the usage of different types of load-carrying units and intermodal freight supply solutions. This area of integration therefore remained practically beyond the purview of the *Inter-Nordic Alliance.*
- An EDI-based information system was taken into use for on-line coordination of all regional hub operations, vehicle movements and in-house processing of various shipment categories.
- Pan-European traffic was consolidated at Taulov, which was capable of 24-hour service delivery to customers in southeastern Norway and southern Sweden.
- A Great Belt tunnel was utilized to cut down the transit time for freight destined to the most densely populated parts of Scandinavia.[35]
- Proprietary knowledge of national demand structures was used to develop a region-wide distribution system with three layers of service provision facilities – regional, national and local.
- A reimbursement scheme was adopted for sharing the revenues from international service supply.
- Technical and financial risk was reduced through higher capacity utilization.
- Global customers who required a Nordic–wide supply channel (created from integration of national networks) were acquired.

Given the disparate features of the customers served by the four Nordic firms and topographical differences of the Nordic countries, fulfillment of the above tasks was demanding. Small wonder then that this structural re-alignment did not occur in one bout of action, but in several waves with uneven temporal distribution which took place over the period 1993–1997.

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[35] Both the Great Belt and the Öresund fixed-link connections are built as a combined rail/road system. The road part has been designed as a four-lane highway, allowing a maximum speed of 120 km/h for private cars and 70 km/h for trucks. The rail connection is designed as ordinary double track allowing a maximum operating speed of 120 k/h for freight trains. Both connections are constructed for freight trains of maximum total weight up to 2,000 tons. With the opening of the Great Belt fixed link travel time within Denmark has already been reduced the by at least two hours. But this is only part of the story. For international freight flows passing Malmö on the way to Hamburg, the time saving will be between six and seven hours, because freight trains will be rerouted away from the Rødby-Puttgarden ferry crossing and on to the main line in Denmark, before crossing overland through Southern Jutland. Even though this rerouting adds 130 km to the train journey, removal of the ferry crossing, and especially the train shunting on the Danish as well as the German sides of the border produces a time saving of at least six hours. The fixed link is bound to generate some additional advantages when it comes to the quality of service on top of shorter travel time. Improved frequency and better regularity of rail and truck connections, combined with the possibility to carry larger amounts of freight on each border crossing, will considerably cut the costs of service for transport operators, shippers and consignees.

4.3.3 Hurdles to Cross with Realignment of the Nordic Network

DanTransport in collaboration with Toll Post Globe jointly took charge of the restructuring project. Several reasons justified this decision, one of them was DanTransport's majority stakeholding in Toll Post Globe and Fraktarna. Moreover, the company commanded the financial resources necessary for completion of the project. These two factors alone meant that DanTransport was the unchallenged leader of the Nordic network. On the other hand, the restructuring of Fraktarna, which was handled by Toll Post Globe, has shown that the Norwegian systems specialists are skillful network designers whose technical performance cannot be questioned. Moreover, the management of Toll Post Globe reengineered its own operations system and considerably improved the company's balance sheet.

These factors consolidated the professional and personal trust between the Toll Post Globe and DanTransport managers, and underlay an intimate consensus on Scandinavian consolidation. While Toll Post Globe managers earned a reputation for skillful re-design of their own and Fraktarna's operations, DanTransport supported the integration financially and functioned as the architect of its strategic advantage. These skills rendered DanTransport a powerful player and a strategic heavyweight compared with Huolintakeskus.

Yet, the integration of Huolintakeskus's business within a network controlled by three Scandinavian partners was imbued with severe difficulties, eclipsing even the problems faced during the restructuring of Fraktarna and Toll Post Globe. These arose partly from the strategic disposition of the Huolintakeskus management, who were only moderately committed to the Scandinavian project, and partly from the failure of its Scandinavian partners to secure the required quality standards.

The strategic stance assumed by Huolintakeskus could be described as *"flexible engagement"*, an arrangement manifested by the company's retention of business links with third parties operating in markets served by its Scandinavian partners and by consciously weighing up its partnership engagement against the needs for operational autonomy.

This was in Sweden, which Huolintakeskus considered an important market due to large export/import volumes, and where its subsidiary FinTransport collaborated interchangeably with Fraktarna in intra-regional flows and with N.T.S. in the field of international transit. This duality was justified by the low quality of Fraktarna's skills in handling LTL shipments and low expertise in managing international traffic. In similar vein, Huolintakeskus retained business relationships with multiple partners on the European Continent. In Germany, Huolintakeskus had a two-way collaboration with Schenker-Rhenius and Nedlloyd, and in Belgium, Holland and Portugal partly with Nedlloyd and partly with several local operators. This was unacceptable to the Scandinavian partners, who were losing business owing to division of the Finnish freight flows among too many operators.

The management of Huolintakeskus maintained that this business strategy was justified by the fact that Nedlloyd's German operations were under protracted consolidation, and hence that the quality of service did not satisfy the requirements of Huolintakeskus customers.

The task of conversion of Huolintakeskus business to three Scandinavian partners and Nedlloyd, who by then had become a leading partner for Trans-Continental traffic, turned on a point of contention that poisoned the alliance's working relationships. The situation was serious because the Scandinavian partners lacked the power to implement the formal enforcement measures needed to induce Huolintakeskus to change its standpoint. Moreover, the negotiations with Huolintakeskus on the gradual re-alignment of its business model were of limited help, as Huolintakeskus claims about the unsatisfactory quality of service of Fraktarna and Nedlloyd had some merit. Both companies remained under great pressure to re-engineer their operations, while the management at DanTransport and Toll Post Globe remained fully aware of the quality problems.

When analyzed from the perspective of short-term interests, the stance adopted by Huolintakeskus was rational and justified by several contextual factors. One was the increasing competitive strength of two Swedish internationals, BTL-Scansped and ASG, who had established a strong operational presence in Finland and had become serious competition for Huolintakeskus in its home market. Operating within the Nordic countries through wholly owned subsidiaries, both these firms guaranteed a wider, higher, and better standardized level of service quality for international traffic. In this situation Huolintakeskus felt vulnerable and sought membership in the *Inter-Nordic Alliance* to protect its market position. At the same time, however, the firm's dissatisfaction with its allies caused Huolintakeskus to retain its business links with third parties.[36] Needless to say, the latter introduced a wedge in the relationship between Huolintakeskus and its alliance partners.

Another factor which retarded the Nordic integration was the economic slump that afflicted the region during 1993-1995. In assessing the nature and scope of the difficulties hampering the Nordic consolidation, the efforts of the alliance actors have to be seen in the context of the cyclical reversal that, in 1993, hit the manufacturing and export industries of Norway, Finland, Sweden, and Denmark. This coincided with the consolidation of the Nordic distribution system.

The economic downturn severely affected Fraktarna, whose market position remained fragile due to re-engineering and protracted problems with service quality. The drop in freight volumes in the Swedish market seriously reduced the magnitude of business for Fraktarna. The position of Toll Post Globe was less precarious, as the firm regained its profit-making ability after vigorous restructuring. But it still had to deal with a considerable fall in volumes and compressed freight rates. The situation in Finland became quite dramatic due to a full-blown depression caused by the net fall in industrial output and freight market contraction. The effects of market reversal have been partly compensated by the efforts of the Finnish logistical suppliers in providing distribution services to Russia and the Baltic States.

The recession in the Nordic countries greatly reduced the amount of freight in transit and as a consequence, heavily depressed, freight rates. These outcomes reduced the scope of collaboration between the allied firms and the gravity of market conditions forced the managers to adopt a more conservative stance. The focus was on regaining the short-term profits by serving the existing markets in a manner that preserved current operations. Moreover, efforts to limit the ef-

[36] The latter may also provide some clue as to why Huolintakeskus fell prey to Bilspedition-Scansped's acquisition in April 1996.

fects of downsizing, rationalization and cost-cutting distracted the attention of managers from the Nordic project.

The consequence was that instead of taking a long-term perspective on creating a region-wide supply system, and re-structuring the individual networks in line with this objective, the managers involved placed all strategic emphasis on preserving the status quo. Managerial action that lost the regional perspective and focused instead on microeconomic measures to cope with diminished and diminishing freight volumes dominated attempts to resist the consequences of economic crisis.

In this context, the creation of one coherent regional service supply system was delayed. Only DanTransport managers, despite external pressures, completed the network-upgrading plan and remained steadfast in their strategic pursuit. The company refurbished its terminal system, increased its service provision capacity and acquired two middle-sized operators, Swedex and Fillip Lorentzen Logistics AB, so extending the Swedish network. The effect of this strategy, however, was facilitated by the relative soft landing of the Danish economy after a short-term slowdown and abundance of financial resources that these actors accessed.

When the downward trend reversed, and the economies of the four Nordic countries entered a cyclical upswing in 1995, freight volumes and operations profits did not improve immediately due to the derived nature of demand for transportation and logistics. The time-lag caused by the upswing in manufacturing and merchandising and growth in the logistics business created a spillover effect that eventually increased transportation and logistics demand. The first country to come out of the downturn was Denmark, followed by Norway, Sweden, and Finland. It has to be observed though, that the pace of recovery was uneven across the four countries.

Business conditions between the partners of the *Inter-Nordic Alliance* were therefore affected by asymmetric shocks generated by the variable pace of the economic slowdown and recovery. The asymmetric impacts of economic crisis strained interpartner relationships and spawned interpersonal and professional friction that arose from disparate managerial cultures and varying business conditions.

4.3.4 Cultural Disparities among Nordic Managers

Incongruent short-term interests, business losses and external pressures from an economically hostile environment exposed several culturally rooted disparities among alliance members. These contentions arose from divergent business ideologies pertaining to organization of business systems and use of executive power for controlling the firms' operations.

It has to be observed though that such disparities are seldom explicitly verbalized in the Scandinavian context. The reason lies in the collectivist mindset of Scandinavian managers, which discourages articulation of divergent opinions out of fear of exposing social tensions and the lack of collective harmony. Thus, in order to project an image of Nordic unity and a mutual face outside, Nordic managers systematically suppress in-group/out-group disparities.

Direct verbalization of substantial differences between group members is thus avoided because it may expose the participants to situations to which they do not have immediate answers. Therefore, in order to project a collective spirit, managers operating in the collectivistic value environment articulate sentiments of ethnic and cultural commonality and project an ideologically correct image of Nordic *communitarianism*. This type of behavior seeks to support a convention that the Nordic region should be perceived as culturally homogeneous, and that from a business point of view this part of Europe is free of cross-national idiosyncrasy.

Although political systems and social institutions of the Nordic countries display a certain degree of similarity and value convergence, culturally embedded idiosyncrasies are quite apparent and abound. These disparities surfaced with the pressures of external contingencies that partners had to tackle under the restructuring process. Managers criticizing the professional behavior of fellow managers was elicited under conditions of severe environmental hostility and the need for re-alignment of individual business models toward attaining the regional fit. The severe nature of external contingencies reduced the amount of freight in transit and the levels of freight rates, and gave rise to interpartner contention regarding the pace and the mode of network re-configuration. This contention encouraged the focal managers to denounce the working co-cultures of fellow partners, which according to the judgements registered obstructed the attainment of systemic fit and benefits deriving from a large-scale logistical network.

This criticism arose out of indignation and indignation from critical evaluation of the actions of fellow allies and the perceived futility of these actions. Perceptions of futility were, in turn, grounded in professional disappointment with alliance partners defaulting on the implementation of agreed-upon interventions.
These perceptions were crucial because they evolved into antagonism, which split the alliance participants on several issues important for the performance of the venture. This in turn obstructed the relational consensus that would take into account the different levels of collectivistic identity, the cultural variability in emphasis on group loyalty and differences in operating conditions.

The disparate managerial attitudes had basically two root causes. The first emerged from the magnified perceptions of individual sacrifices reducing the level of satisfaction with alliance membership and hampering the restructuring of individual operations. The second sprang from culturally colored opinions on the quality of managerial performance by other alliance's partners. These reflected the observer's sincere concerns over the consequences invoked by differences in functional practice and decision-making styles on their venture's operations.

It has to be noted, though, that the managers of all four firms demonstrated astute observer skills concerning the organizational problems that their peers encountered. If appropriately communicated, these assessments would have provided valuable guidance for the concerned parties on how to resolve the important issues of mutual concern. Such a self-help workshop might have removed some of the social barriers that obstructed functional and cognitive integration. However, the evidence collected suggests that the collectivistic ideology, which emphasizes a strong commitment to mutual-face protection, discouraged these actors from open communication. In addition, the fear of relational conflict and exposure of individual failures hindered a more in-depth debate on the benefits and downsides inherent in various managerial models.

However, when exploring the content of these disparities, the following has to be kept in mind: Although Scandinavian managers work and function within the collectivistic culture, there are subtle differences in the degree of collectivity between the three Scandinavian countries. Careful ranking of the focal managers on the collectivity values showed that the Swedish managers scored slightly higher on collectivistic identity than their Norwegian colleagues, but far more than their Danish counterparts.

The cultural ethos of the Finnish alliance partner was difficult to define in this context, as Huolentakeskus managers did not identify with the basic Scandinavian values. Rather, they emphasized the culturally distant perspective and used it as a point of departure to criticize the Scandinavian managerial model.

According to the Finnish judgment, the Scandinavian management style was excessively lenient in imposing leadership authority on the organizational actors and in being excessively democratic in decision-making. These features rendered the Scandinavian model ineffective, even dysfunctional in the alliance context. Instead of firmly imposing a certain type of strategy and tightly controlling its implementation, the alliance's leaders stumbled in trying to build multiparty consensus.

This criticism concurred to a certain degree with the standpoints of the Danish leaders. Both groups of managers revealed the most individualistic approach toward power distance between top leadership and other organizational echelons, and the powers of executive authority available to senior management.

According to Finnish and Danish opinion, collectivistic culture harbors an explicit group welfare orientation. It generates egalitarian sentiments that restrain the scope of acceptable instruments for business management. Within a collectivist operational setting, the activation of managerial power in the form of business restructuring and lay-off is associated with broad social disapproval and sometimes even with social stigma. Socially damning attitudes limit the degree to which organizational power can be wielded by top managers compared to the superior organizational status enjoyed by French, Italian, not to mention North American, leaders and managers.

The subtle differences between the ways managerial power should be exercised in the pursuit of organizational objectives lay at the heart of the discord that arose between managers of the partner firms.

The basic criticism that the Danish managers raised of the Swedish and Norwegian leadership models emphasized the temporal inefficiency of the decision-making process which was committed to the attainment of group consensus and to a *"disproportionately"* high level of organizational egalitarianism.

The egalitarian managerial style manifested in a prevalence of teamwork in Swedish business life obstructs, according to this view, the speed, the timing and the effectiveness of decision-making. Moreover, it requires an unreasonably long time for decision acceptance and implementation. Danish opinion claimed that the lengthy and formal decision-making process practiced by Swedish companies and institutions delays resolution of the problem, the settling of urgent affairs and the implementation of strategic decisions.

An implicit message this view espoused was that the decisions of senior executives should be considered indisputable and, as such, implemented by the lower organizational ranks without hesitation.

According to the Danish view, the same type of organizational weakness pertains in the Norwegian style of management and decision-making. Norwegian leaders do not utilize the formal authority that is available to senior management, and so many important decisions – such as organizational downsizing, restructuring, lay-offs and business process re-design – are often taken by trade unions rather than senior executives. The presence of workers on the managerial boards of companies confers excessively large decision-making latitude on organizational actors, who, according to these opinion holders, are assigned basically to operational tasks and duties.

In general, the Danish leaders considered organizational democracy and empowerment of stakeholders at lower echelons as a weakness, a weakness responsible for the slow progress in re-molding individual service provision networks and poor progress in interpartner integration.

The following excerpt from the interview with the Danish senior manager reveals the individualistic predilection in Danish managerial ideology: *"The people in Scandinavian companies are far more democratic than people [in companies] on the European mainland. That makes them less respectful of the function and decisions of top management. The only way to deal with this [problem] is through constant dialog with all parties, both internal associates and external partners. The problem with this solution, however, is that it takes a long time to attain results, and outcomes are never predictable."*

Against this backdrop, the standpoint adopted by the Swedish managers revealed a much more collectivistic approach, one emphasizing the need to balance power asymmetry through organizational empowerment. The Swedish perspective stressed the importance of consensus among top management and between top management and all organizational members. Swedish opinion holds that intra-organizational consensus preconditions the design of proper strategy and the allegiance of all involved parties to the company's strategic vision.

The immersion of multiple actors in strategy formulation warranted, according to this view, a high level of loyalty to strategy implementation and a high quality of performance in an increasingly competitive business environment. Moreover, the Swedish managers emphasized the need for tolerance and flexibility toward disparate views held by other alliance partners, including the Danish owners.

One Swedish top manager emphasized the need for a flexible cultural mindset and tolerance for cultural diversity in the following manner: *"If you work in the international forwarding industry, you don't have any choice but to accept that your partners and clients will have different views and opinions. So, you should always do your best to listen to these views and analyze them in order to learn new ideas and incorporate them in your business. However, when this is not possible, you should work hard to develop the best possible arguments in order to convince your partners of the merit of your own standpoint or solution".*

Confronted with the Danish criticism regarding alleged managerial ineffectiveness, the Swedish informants explained that the traditions prevailing within the Swedish managerial culture originate from the work organization methods developed by Swedish industry. Such methods, molded by an early export orientation of the engineering sector, have gradually spread to other domains of business life.

Contrary to the Swedish industrial basis, Danish managerial culture is based on commercial traditions developed by Danish merchandising entrepreneurs. Trading business differs considerably from organization of industrial systems and therefore lacks understanding for industrial managerial practice.

The importance of human resources conceived in terms of technology, product and market developers is a centerpiece of the Swedish managerial model. It holds that the best way to control people is to give them the ability to control themselves. In such an environment the role of leadership amounts to skillful facilitation and pedagogical influence. This ideology is reflected in the way Swedish executives manage their time budget. Swedish leaders traditionally allocate one third of their work time to operational matters, while the remaining two thirds are devoted to long-term development of new ideas, concepts, solutions and designs. This means that Swedish leaders spend a large share of their time in meetings with professional units and person-to-person discussions. In this context an effective intra-organizational communication and empowerment of all organizational members enhance the level of professional trust, foster development of new ideas and screening of marketable solutions.

According to the Swedish leaders, the Danish preoccupation with short-term profit is simplistic and misses the point. In an organization endowed with highly motivated and skillful associates capable of developing new solutions and feeling free to take initiatives, quality of performance will not be a problem, nor will profit-making.

Defending the pragmatism of the Swedish style of decision-making, the Swedish managers contrasted its apparent rigidity with the Danish form of autocracy, which is handicapped by informal and haphazard decision-making, and scores low on social inclusions and transparency. Yet, the Swedish mode of decision-making is as formal as it needs to be. The above is a consequence of consensus-building where adoption of important solutions is preceded by structured negotiations with concerned stakeholders. The apparent formality of this procedure is necessary for a meaningful task division and management of decision implementation across multiple organizational echelons. The leadership has the duty to get people to understand who has responsibility for what and how the chain of command works across multiple functional layers.

This operational procedure has been influenced by technology standards and the need for precision in manufacturing systems. The Swedish managers stressed that the liberty granted to all organizational agents to voice opinions on strategic issues, combined with a clear-cut assignment of responsibilities and duties, warrants high organizational efficiency and enhances the likelihood that strategies will converge with actions, and that both will deliver the outcomes desired.
One subject of contention that divided the Danish and Swedish managers pertained to the relationship between quality and profit. The supply of high quality output enjoys high priority among Swedish industrial operators. Pursuant to the Swedish view, the high quality of products and services preconditions profit earnings and is an important market retention factor securing the necessary base of domestic and international clients. Persistent quality improvement and high valence assigned to quality enhancement programs are two measures that render both high profits and satisfied customers. This approach downplays implicitly the importance of cost control in production and skillful marketing. According to this argument, the issues of profitability and market share could be solved in the long term through constant improvement in quality.

This standpoint diverged from the view held by the Danish leaders, who emphasized the importance of cost-cutting in operations and customer service for profit-making and did not share the Swedish emphasis on long-term quality improvement. Given the owner-subsidiary relationship between DanTransport and Fraktarna, these disparities gave rise to a relational tangle that provoked the Danish and Swedish business officers into determining how best to utilize Fraktarna's resources in order to quickly improve the Swedish operator's profitability. These problems were not trivial. Discontented by Fraktarna's dismal profit performance, DanTransport executives adopted an interventionist approach. They encroached on the Swedish managers' decision-making purview by ordering several cost-cutting measures. The row that ensued from this encroachment has further deteriorated the working climate between the Danish and Swedish firms.

When it was asked during the interview what type of problem-solving techniques the Swedish managers applied in dealing with the Danish owner, the Fraktarna leaders answered that the best way to tackle this managerial difficulty was through high quality of argument. By advancing coherent, highly substantiated standpoints and technically tested solutions supporting the Swedish managers' views and merits, the friction in working relationships with DanTransport was partly contained.

Culturally laden disparities were therefore tractable. By sticking to technical solutions that increased the efficiency of performance, the parties managed to find a way out of this relational deadlock. The above signifies the pragmatism of collectivistic orientation. The actors involved decided to oversee relational disparities for the sake of group interests. By switching the focus from partisan values to technically workable solutions, the parties controlled the conflict and got the best out of the circumstances.

However, it could be argued that by devoting more time to discussing the merits of each other's managerial cultures, the partners could have achieved an even better understanding of individually-held positions, come up with better or more versatile solutions, and eventually reduced the level of stress that bedeviled their collaboration.

The bitterness over the unsatisfactory work situation on the part of the Swedish managers came to the surface in the following statement expressed by one line manager: *"They [the Danish] have tactics, while we, Swedes, have strategies. And that's what makes the difference".*

To counteract these setbacks, the Swedish managers tried to improve their working relationship with Huolintakeskus. Highly aware of the quality problems in domestic and international service provision, they went to great trouble to improve performance and quality of output. By the end of 1995 it looked as if the major hurdles in business relationships with the Finnish firm had been removed. In persisting on the quality issue the Swedes earned a good deal of respect on the part of the remaining partners.

One Swedish manager summarized his personal experience working with the Finnish partner by saying: *"It takes quite a long time to develop a friendship with a Finn, but once you do it, you have a friend for life".* The business relationships of Swedish and Finnish firms may have evolved into a phase of long-term collaboration.

The views harbored by Toll Post Globe's managers were less culturally explicit and conciliatory in style. The Norwegian executives tried to navigate between the disparate standpoints by keeping close personal links with all partners. They worked closely with DanTransport and Fraktarna executives, and in the words of their colleagues, earned a good deal of recognition for visionary strategy, skillful operations management, and effective mediation. They also served as a liaison connection in a series of difficult negotiations between DanTransport and Fraktarna. This excellent mediator performance was praised by all partners.

Positive as this assessment is, it pertained only to the professional conduct of the top management. Professional opinion regarding the performance of the line managers and functionaries responsible for daily operations was less positive; there was criticism because of a lack of feedback and of the low level of competence in the contribution to joint service provision.

4.3.5 Managerial Performance of the Leadership Team

Several strategic flaws in performance of the leadership team can be identified under implementation of the Nordic integration project. Despite acknowledging that culturally disparate praxis of alliance managers impeded the re-structuring process, the project leadership neither tried to eliminate the self-reliance bias, nor elaborate a consistent strategy on how to combat the culture-related prejudice. Nor were any explicit attempts made to develop the alliance-specific *espirit de corps*. Attributing the slow pace of operational transformation to systemic and cultural differences in partners' business models revealed a judgement that was accompanied by a lack of expertise on how to deal with managerial variability. The absence of cultural sensitivity in dealing with context-specific solutions contributed to disregard of local validity of business performance skills, and the lack of understanding for a working climate that would draw respect for currently used procedures and practice.

Worse still, the belief that these difficulties could be resolved by technically effective solutions was an incompetent assessment reflecting a gross underestimation of the impact of cultural diversity. With this approach the controversy between participatory and authoritarian styles of leadership and the different emphases put on output quality and process management have been overlooked, or at least have not been given enough attention. The self-reference bias in performance of leadership function is therefore revealed.

Intervening in matters under the purview of Fraktarna managers impaired the resourcefulness of local leadership and de-motivated the firm's employees from voluntarily accepting the prescribed course of restructuring. Instead of fostering collaboration, and reducing the cultural conflict, these tactics aggravated the working situation by imposing externally developed solutions. Invocation of ownership-based power enhanced resistance to the targets and brought about employees rejecting the imposed solutions on the grounds that they were unsuitable in a local context.

This behavior also revealed a good dose of ignorance for the basic tenet of decision-making within the collectivistic culture. It is widely established that members of collectivistic cultures pay just as much attention to the quality of decisions as well as to the process. The former is an ability to attain the goals sought and/or resolve the problems encountered, while the latter requires that the decision-making process includes all stakeholders and provides the ability to review the opinions held by all involved parties. Only after this condition is satisfied is the process viewed as *appropriate* and the necessary groundwork for reaching consensus established.

No wonder then that the targets perceived DanTransport's interference as highly unfair, culturally ethnocentric and power-driven. As a result, the players involved shifted their cognitive attention from the substantive matters of performance improvement to management of relational conflict and coping with a highly unsatisfactory work situation. Needless to say, this prolonged resolution of the conflict, and hampered cognitive integration.

It has to be observed, though, that the behavior of Fraktarna's management, who demonstrated a high level of relational flexibility and professional acumen by putting group interests above individual goals, created a passage that eventually removed these impediments. However, such "*decision-making prudence*", i.e. a typical form of reaction towards an authoritarian style of management, might not fit the circumstances where innovation and creativity mattered much more in changing the unsatisfactory situation than simply perpetuation of a given relationship.

The complexity of the implementation process revealed a serious flaw in the alliance's organization. It arose from the lack of a formal leadership structure equipped with the mandate to regulate individual interventions. Such an institution would need to recognize the diversity of styles and procedures and reconcile the existence of partisan views by reliance on procedural justice. The principle of relational fairness would warrant cultural parity to different managerial models and seek to build the interpartner trust through consensus on the scope of standardization. Adherence to stable rules of decision-making and modes of restructuring would infuse economies of time into interpartner dealings.

Yet, several lessons have been learned as a result of this experience. A need for formal decision-making authority was gradually and firmly recognized by DanTransport's leaders, and as a consequence these managers started looking for the governance modes that would formally regulate the alliance collaboration.

Moreover, when reflecting on the management of Fraktarna's re-engineering and problems encountered with Huolintakeskus, the DanTransport executives admitted they had shown poor cultural sensitivity in both cases. These reflections caused the players to admit to self-reference bias and to revise their approach. That, in turn, contributed to knowledge in hindsight. So, the tension experienced during the formation of the Nordic alliance has done the participants a favor. It spawned respect for cultural plurality and contributed to the adoption of procedural justice principles for dealing with local disparities at later stages in the alliance life course.[37]

[37] While dealing with the problems of interpartner integration, we encountered, and had to resolve, an important methodological dilemma that derived from the analytical difficulty in causally discriminating between two types of outcome: An actual ineffectiveness of the focal firm's management and the culturally perceived ineffectiveness of various managerial models. To discern between these two causal attributions we used the metaphors of *appropriateness and effectiveness*. An appropriate managerial action was therefore viewed as the one that prevented violation of extant valued rules or expectations prevalent in a given context. Effective management was conceived of as a kind of interaction that produced not only universally but also context-valued objectives. The criticism leveled against the leadership team of *Inter- Nordic Alliance* thus derived from the observation that several managerial actions mobilized by its members violated the extant values of the context of the targets. Because such actions postponed attainment of the goals pursued, impaired the quality of interpartner interaction and acceptability of decisions taken concerning the involved parties, these methods have been deemed ineffective.

4.3.6 Establishment of the Intra-Nordic Network

These problems notwithstanding, a partly coordinated Nordic service provision system composed of the four-firm networks was finally established by the end of 1995. This goal was accomplished through wiring the alliance firms into one information system, improving traffic density on international lanes, and cutting down decisively on the unit costs of operations. The concentration of operations at fewer and larger hubs also produced the benefits of a new network design that rendered a higher utilization of production assets and a broader range of services offered. All these measures allowed the alliance partners to reap the network economies created by geographical enlargement.

These endeavors created several competitive benefits. Consolidation of freight-handling operations and redesign of distribution systems produced 30 percent cuts in handling costs and supply of less-than-truck-load shipments. In addition, the productivity of employees in the alliance firms has increased fourfold over the period 1995–1996. Furthermore, technical preparations were made and funds assigned to install tracing and tracking and bar coding systems for monitoring the real time of delivery within the Nordic region. These investments were expected to reduce dramatically the operating costs, which by the year 2000 were envisaged would be 60 percent below the 1996 threshold, and would increase workforce productivity eightfold. The downward trend in sales of pure-play transportation and forwarding services was offset by a healthy increase in the supply of consolidated logistics that kept growing at an annual rate of 20-30 percent, depending on the country of operations.

Moreover, in 1996 the three Scandinavian firms standardized their service provision quality in accordance with ISO 9000 requirements. Certification of service provision technology and quality standard created a distinctive competitive advantage that put the operators in a position to offer Nordic-wide distribution to global customers.

Improved operations efficiency and ability to supply region-wide distribution facilitated service provision to large clients who distributed their products through Pan-European channels. Regional distribution contracts were signed with Electrolux, Hennes & Mauritz, Rank Xerox, Asea Brown Bovery, to name just a few large corporations that outsourced the logistics service provision to the alliance venture.

Figures 4.3.6.1 and 4.3.6.2 illustrate the operational subsystems within the alliance's network that secured a 24 hours delivery service for freight moved within the three-country territory.

Unfortunately, this progress ceased abruptly due to the unexpected withdrawal of Huolintakeskus. In 1996 the Finnish partner was acquired by BTL-Scansped, and left the group. The operational and strategic repercussions that this fall-out invoked on the market positions of the remaining partners and the measures that the partners mobilized to deal with the disruption of service provision in the Finnish market are explored in forthcoming chapters.

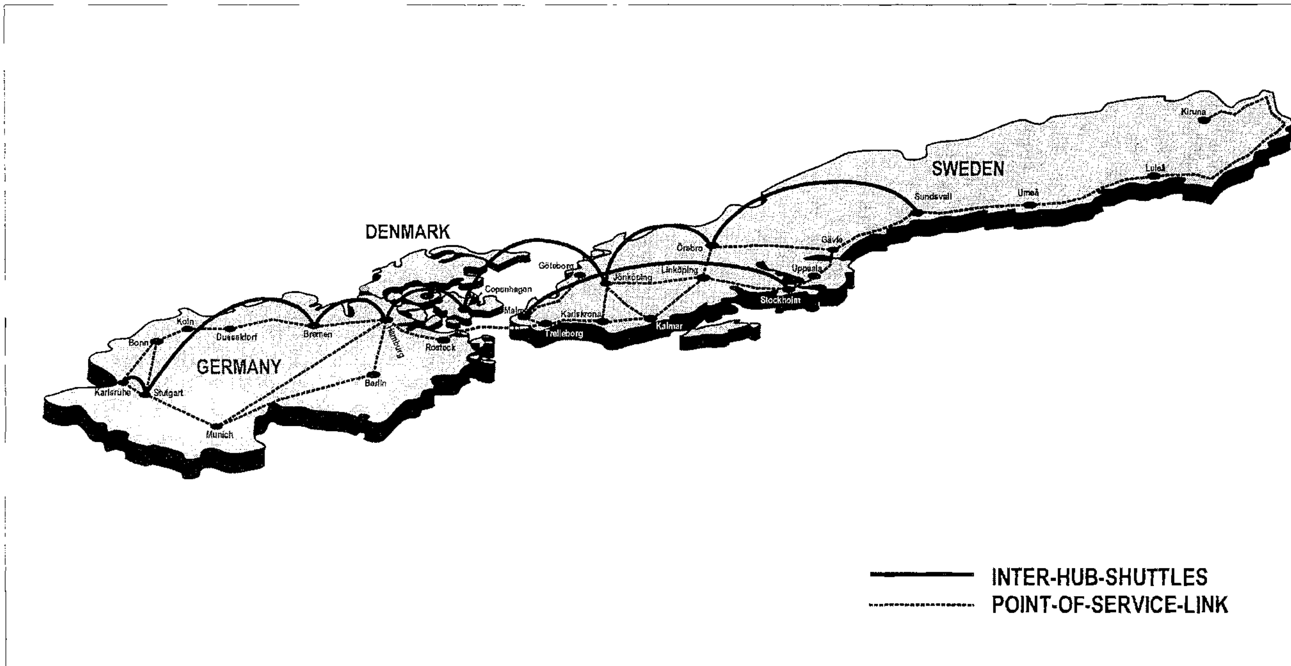

Figure 4.3.6.1: Bridging of Nedlloyd, DanTransport and Fraktama's Operations in a Three-land-network

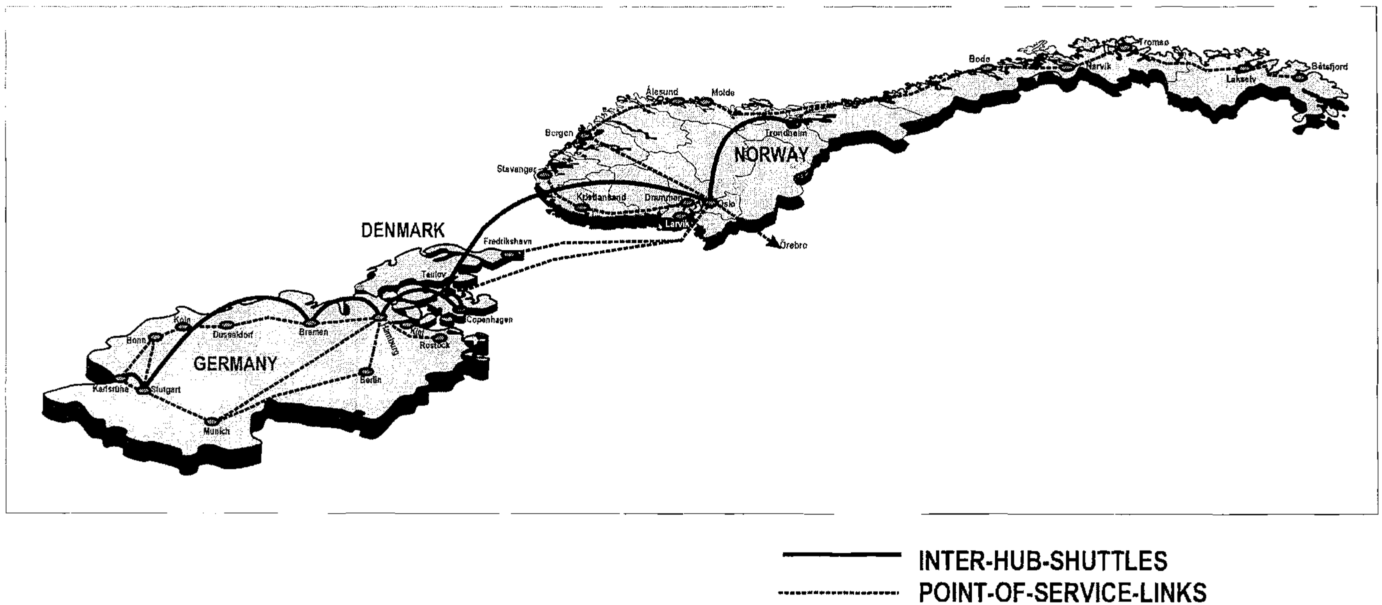

Figure 4.3.6.2: Bridging of Nedlloyd, DanTransport and Toll-Post-Globe's Operations in a Three-land-network.

4.4 Integration of the European Continent

This section addresses the re-alignment processes that took place between the continental partners during the period 1994 -1996. The purpose of the scheme was to create a more transparent market structure and generate scale, scope and density benefits by re-structuring the mutual business dealings and market coverage. In the pursuit thereof, partners drafted and agreed upon a transition plan which specified:

- the chain of command in partner organizations responsible for implementation of important interventions
- the assets to be employed and working areas to be re-modeled
- the timing of change-over events; and
- the procedure for handling common tasks and problems not specified in the transition plan.

The re-design of partner operations on the European Continent was hampered by difficulties emerging from past business relationships with agents and/or other business partners who provided specialty services to various categories of freight handled. Still another type of difficulty emerged from incompatible specialization between the alliance's firms in various national markets with regard to quality of service provided for different types of merchandise.

Still another hurdle arose from the existence of subsidiaries and/or proprietary service provision arrangements in other partners' core markets, and the resultant double and triple presence in several territories. The above obscured the transparency of business relations and divided up the freight traffic among unnecessarily many operators. This impeded extraction of scope and density economies, delayed flow consolidation and, eventually, European integration.

The subject matters explored below include the pace of market re-alignments and relational attunements. The levels of analysis cover the four actor configurations, their mutual relationships and positions:

- A triad composed of Saima Avandero-Nedlloyd-DanTransport
- A triad composed of Saima Avandero-Dubois-Nedloyd,
- A dyad composed of DanTransport and Nedlloyd,
- A network composed of two coalitions, Saima Avandero and Dubois, on the one hand, and DanTransport and Nedlloyd, on the other.

4.4.1 Business Relations between Saima and Nedlloyd, and between Dubois, DanTransport and Nedlloyd

All three types of difficulties are exemplified by the case of Saima-Avandero and its relationships with the other alliance partners. Saima Avandero, an Italian logistics service supplier who also performed export brokerage and controlled a large domestic network of Italian distribution, encountered several problems meeting the requirements of alliance fit.

Saima, apart from serving the LTL traffic of general cargo, was also specialized in export distribution of consumer durables such as home appliances and Italian shoes and apparel.

Even after entering the alliance in 1993, the company collaborated with about 40 firms in the five main markets: Germany, the UK, Belgium, Sweden and Denmark. In 1996, in Germany alone, it maintained business relationships with about 30 agents who served different regions and/or geographical locations. This service provision structure reflected the delayed stage of liberalization of the German transportation market compared to the North European countries.

Although Germany started to deregulate its transportation market in the mid-1990s, the enforcement of this policy varied across regions. Therefore, the service provision to certain segments of customers and regions remained regulated by a system of quotas and local operation permits.

Instantaneous termination of 30 working relations in Germany and the transfer of all business to Nedlloyd Uniontrans, the major operator in the German market, was not feasible for Saima for a variety of reasons. One arose from the division of costs of distribution between the shippers and consignees in export shipments from Italy. Another was related to an apparent lack of adequate expertise on the part of Nedlloyd Uniontrans for serving Saima's customers. The third was connected with Nedlloyd's lack of accessibility to small customer segments served by the forwarders dealing with high-value consumer items.

The main principle behind the division of costs of distribution is clear: The shipper has to pay the costs necessary for the goods to reach the agreed point of delivery, and the consignee has to pay any further costs after that point. The points of delivery in contracts are usually defined by reference to specific *Incoterms* clauses. Most outbound trade from Italy, and hence most of the export transactions between Italian sellers and foreign buyers is based on *"Ex works"* and/or *"DAF" ("Delivered at Frontier")* agreements. Both terms represent a minimum obligation that a seller or a shipper performs under consignment effectuation. Under both legal formulations, the seller is committed to making the goods available at the seller's premises *(Ex works)*, or to delivering and clearing the goods for export at the named point at the frontier *(DAF)* located ahead of the customs border with the adjacent country.

These contractual conditions stipulate that freight transfer and other costs of dispatch, such as warehousing, storage and handling, related to cargo movement from the country of exportation to the country of destination, hire of transport equipment and the main international carriage are organized and paid for by the buyer, who also has the power to choose the operator. This implies that, in most cases, freight delivery from Italy to Germany would be executed by German transport companies that would pick up the cargo at the (Italian) sellers' premises, and/or at the Italian-Swiss or Italian-Austrian border, and then supply it to the German consignees.

However, not all operators in Germany have sufficient freight-carrying capacity and/or or the expertise to organize the entire dispatch. Therefore, some German transport and logistics operators outsourced the freight shipments in Italian territory to Italian firms, and/or even subcontracted the supply services for the entire group of merchandise shipped from Italy to Germany. This type of agreement constituted the core business arrangement that Saima Avandero had with numerous agents in Germany. These firms outsourced the dispatch operations to Saima using the pre-arranged cost distribution system, where Saima gained compensation for collection, handling and dispatch of freight on behalf of the German forwarders and freight buyers. Thanks to its collaborative relations with German parties, Saima gained access to large volumes of highly profitable business that otherwise would have gone to German firms.

Under these circumstances it was understandable that Saima was reluctant to disrupt its business links with German firms and switch to Nedlloyd Uniontrans. Another problem arose from the service provision profile of Nedlloyd Uniontrans, basically a general cargo mover and a specialist in German export brokerage. This meant that Nedlloyd's expertise with regard to distribution of Italian consumer goods of high quality and value was of limited scope, and did not guarantee the required level of service. So, from the point of view of Saima's core business interests, a change of business partner would imply considerable losses, current or future, due to the lack of specialist knowledge and business experience on the part of the new partner.

In 1996, Saima's working partner in Sweden was not Fraktarna AB, but N.T.S, a company much more specialized in handling high-value items. Likewise, Saima's working arrangements in Spain and Portugal were not with Nedlloyd Road Cargo, but with Spaintir and T.P.T, respectively. These two firms represented specialty forwarders with a service profile that was more appropriate for Saima's range of goods. There was a similar situation in Belgium, where Saima's working partner was H. Essers & Co. and not Van Gend & Loos, another subsidiary of Royal Nedlloyd N.V.

The problem was that all these business connections were very profitable and provided Saima with access to large volumes of freight that otherwise would have gone to foreign forwarders operating on behalf of local freight buyers. Moreover, in the UK and Ireland, apart from possessing its own subsidiary, Saima maintained trading relations with four agents located in London, Manchester, Birmingham and Hull.

The only existing and well-functioning business relations with alliance's partners were those with DanTransport in Denmark and Toll Post Globe in Norway. Indeed, the history of long and fruitful business relationship with DanTransport motivated Saima to join the alliance. Yet, the firm's management knew that its business profile and working arrangements on the European mainland overtly collided with an important alliance objective: One market - one partner.

The consequence was that in several large and important markets, such as Germany, Spain, and Sweden, Saima's interests clashed directly with those of Nedlloyd and DanTransport. This state of affairs led to a situation where the North European partners considered Saima as a strategic outlier. So, when in 1996 the negotiations between Nedlloyd and Saima on gradual withdrawal from the markets with double and triple presence came to a standstill, the case seemed so complex that both DanTransport and Nedlloyd seriously considered sidestepping their Italian partner.

Plans were drafted where the capacity of Nedlloyd's Italian subsidiary was to be enhanced to put the company in a position to serve Italian domestic and international traffic. These plans were discussed with associated partners who agreed to re-direct their traffic from Saima to Nedlloyd Italy.

For several reasons, however, the plans never materialized. One reason was the poor profitability of Nedlloyd's German operations and difficulties with integrating the newly acquired units within one coherent service provision network. Another derived from the loss of critical mass in the ocean container market and a merger of the company's shipping division with the English shipping line P&O. As a consequence, Nedlloyd laid off 800 employees and several top executives, including the director of its European LTL operations. This caused a managerial vacuum that reduced the company's ability to re-structure its European logistical market. The ensuing inertia hindered Nedlloyd from solving the above problems.

Still another reason arose from the interlocking character of the business relationship between Saima-Avandero and the French partner, Edouar Dubois et Fils. Saima acquired a unique power position in relation to DanTransport and Nedlloyd as a result of its long-standing trade with Dubois. Saima's contacts with Dubois started in the 1970s, when Saima awarded Dubois an agency agreement for serving the French traffic. These circumstances made Saima a link pin between Dubois and other partners. In 1993 the strong relationship between Saima and Dubois led to negotiations between DanTransport and Nedlloyd on conditions for Dubois' alliance accession. This resulted in Dubois participation in the Founder's Meeting and subsequent position as a founding partner.

Dubois' position as the third largest French logistics supplier with a web of wholly owned terminals, plus access to a vast French LTL market, was of great strategic value to DanTransport and Nedlloyd. The reason was that neither of them had any alternative and functioning working relationship in the French market, not at least with such a big partner.

In view of the above, both DanTransport and Nedlloyd re-defined the utility of business relations with Saima, and adopted a wait-and-see stance. This reassessment was caused by the strategic importance of Dubois operations for maintaining the French connection. Access to the French market was also significant for linking the vast French network of systemized traffic to the northbound and southbound flows that could increase the feeder traffic for DanTransport and Nedloyd's.

Moreover, Saima and Dubois succeeded in re-aligning their markets for Italian and French traffic. Both firms shut down wholly owned subsidiaries and abandoned each other's territories. Subsequently, they swapped personnel, paid each other for facilities exchanged and re-designed the freight shipment patterns by consolidating traffic in two hubs for west-south and north-south movements. The effect was immediate scale benefits generated by Saima's handling of all northbound traffic at one end of the pipeline and Dubois at the other. The emergence of a well-functioning Italian-French axis persuaded DanTransport and Nedlloyd managers not to exclude Saima from the alliance. It also provided real-facts evidence that the redesign of market coverage was a *doable* task.

In 1997, when a former Danzas executive who was much more experienced in managing strategic alliances assumed the leadership position over Nedlloyd's LTL European operations, the situation changed dramatically. Honing his mediating skills he dealt with Danzas's withdrawal from a highly unsuccessful alliance with another large Scandinavian operator.[38]

[38] Here we allude to the Danzas–ASG strategic alliance, which in 1996 was abruptly and unilaterally terminated by ASG. This matter later became a subject of legal contention with Danzas filing a lawsuit against its former partner for breach of contractual commitment.

The following excerpt from a personal interview with this executive reveals the nature of his business philosophy: *"In making an alliance, patience may be more than a virtue: It is vital. Some of the mishaps in the past were due to over-eagerness to get this [problem] resolved quickly. My approach is that one should show respect for the problem and take time to deal with it".*

The mediation spirit of this executive brought results. First, it facilitated a new perspective on the subject. Second, it led to development of a business plan that resolved the Nedlloyd-Saima gridlock. After several spells of negotiations, these efforts materialized in 1997 in the adoption of a market re-alignment scheme. This agreement committed Saima to discontinue business connections with parties in Germany, Belgium, Switzerland and Austria, and gradually start channeling its freight traffic to Nedlloyd Road Cargo for delivery service. In return, Nedlloyd was committed to close its subsidiary in Italy, redirect all flows from the other national markets to Saima's service points in Italy, and improve the level of service quality for German and Belgian customers.

Patience and small-step diplomacy proved effective in managing this conflict-ridden matter. Breaking of the deadlock and partial resolution of the dispute between Saima and Nedlloyd blew new life into the alliance venture.

The breakthrough was important as it re-established trust in alliance collaboration, long-termed working intentions, and in the power of negotiation. As a matter of fact, it forestalled a looming alliance's implosion. Moreover, the breakthrough created an opportunity for piggyback settlement of Saima's business arrangement in Sweden, where Saima decided to terminate its business contacts with N.T.S. and deal exclusively with Fraktarna and Fillip Lorenzen Logistics AB. This solution brought to an end the long-lasting apprehension in relations with Dan-Transport.

Breaking the deadlock and redesigning partner operations improved the relational atmosphere, which had suffered from prolonged tension and functional paralysis. Moreover, awareness of the root causes of conflicts of interest and the need to act in concert strengthened the feelings of commonality among the partners. In the long term, it also helped to strike a sensitive balance between cooperation and coercion that contributed to formalization of the venture.

At the same time, however, the partners realized that the next phase in their collaboration was to be much more demanding, because it included implementation of the re-alignment.

4.4.2 Business Re-alignment between Saima and Nedlloyd

For the Saima-Nedloyd re-alignment plan to reach fruition, several actions remained pending. The first involved dissolution of old business links; the second the design of new service schemes; the third the transfer of information and professional knowledge between new partners in order to minimize start-up costs; and the fourth the trial tests of the new system.

Implementation of these tasks was not easy; it could not be done in sequential manner. A gradual discontinuation of Saima's business relations with German agents would make these actors both *nervous* and suspicious. The consequence might be that the German parties would start searching for substitutes and reduce the trade with Saima. This would depress the volume of Saima traffic, damage the firm's financial performance and push it into a dead-end position where it would suffer from the vanishing German business and at the same time see its new partner, Nedlloyd Uniontrans, not in a position to effectively serve the German market.

The same pertained to Nedlloyd's subsidiary in Italy. Any suggestion of imminent closure would bring volumes down, as customers would start looking for alternative business solutions. Moreover, the looming dissolution could also lead to the exit of key employees, thereby jeopardizing operations and the quality of service and profits. So, the switch-over had to be elaborately choreographed and enacted in concert. Indeed, both Saima and Nedlloyd managers evaluated the possibility of integrating the Nedlloyd personnel into Saima's staff after withdrawal from the Italian market. However, because of the time needed to implement this strategy and to the visibility of such an operation, this idea was dropped.

One of the Nedlloyd's executives described the perils of stepwise conversion and needs for an abrupt convergence in the following manner: *"It's a great risk, but once you start transferring country by country, the risk might become even larger because you could lose control of the process and costs would start to mount. So, we have concluded that we have no option but to do a "Big Bang". [We will] change on a certain day throughout Europe. We will design and prepare mailing and the whole operation... and then on Friday night we will pull out the carpet and switch over on Monday morning. And from then on we start working together..."*

However, although well conceived, these tactics have actually backfired. The rapid change scenario did not work because outsourcing customers did not accept the new working arrangement. The customers had doubts about whether a new supplier constellation would guarantee the required level of service quality and/or whether the new design of service supply would increase other distribution outlays. Assurance on the part of the service providers was not feasible (and the customers knew it) before the collaboration between Nedlloyd and Saima had been established and the new network operations had passed the efficiency tests.

Indeed, several major customers rejected the service re-alignment. Firms reassessed their strategy and despite severe backslides arising from the time-stretched restructuring, both companies agreed on a three-year transition for phasing out the present system and developing a new design for service provision.

The issue of Saima's business relations with Spaintir and conversion to Nedlloyd Road Cargo in Spain was left unresolved. At the end of 1997 the parties still had not agreed on the new pattern of market coverage. One of the reasons for this stalemate was that the Nedlloyd Road Cargo division in Spain was not in a position to quickly re-engineer itself and develop a new line of service because its major bulk of operations was in different market segments. The same pertained to the situation in the UK, which looked locked-up.

The result was that both Saima and Nedloyd decided to wait, and in the meantime focus on more compelling matters such as institutionalization of the alliance organization, standardization of the EDI system and settlement of the price system for freight in transit services.

4.4.3. Power Relations between Saima, DanTransport and Nedlloyd

Despite arriving at this amicable solution, the Saima managers bitterly admitted that it was Saima who was the immediate loser. The current and future losses in Germany and other markets anticipated during the transition period were described by the Saima leadership as a sunk-cost and a long-term contribution to fulfillment of the alliance mission. These attitudes revealed a cognitive dissonance on the part of the Saima managers who experienced professional distress caused by giving up something valued (the long-lasting profitable business relations in Germany) in return for something new, unproven and attributed with low functional valence.

However, these explanations did not look plausible as Saima's managers were aware that Nedlloyd Uniontrans' system with over thirty service points in Germany would provide much denser service coverage than the hitherto patchwork of agents and subsidiaries.

Besides, during 1996-1997 the German market was under large-scale restructuring with massive price slides in virtually all freight supply segments and bankruptcies of small and medium-sized operators invoked by the growing momentum of deregulation.

So, the actual risk that Saima runs was the likelihood that some of the firm's smaller agents would vanish and/or be acquired by rivals. Therefore, the real problem that Saima faced was not through fear of German, Spanish, Italian, Swiss and Austrian network re-configuration, but through the loss of business during the transition process, and, specifically, before the new service provision system was established and proof-tested.

The actual reasons for these worries lay in the vulnerability of Saima's financial position and in its high-level dependence on alliance membership. So, this expression of self-pity could have served as a face-saving tactic driven by desires to conceal the actual power asymmetry vis-à-vis Nedlloyd. On the other hand, however, it could have been a manifestation of the Saima leaders' cognitive resistance toward working with Nedlloyd, whom they did not trust, and the mental costs of coping with uncertainty and innovation.

Saima's acquiescence could be seen from two perspectives. When considered as a willingness to comply with unpopular decisions, it could be understood as a gesture of reconciliation directed at regaining a positive reputation among the alliance partners. Adoption of an enlightened self-interest ideology (or at least demonstration of such a posture) served to demonstrate that Saima was ready to abandon its *deviant* position by accepting an option that secured the collective (future) welfare at the expense of short-term (individual) sacrifices. Approached, however, from another angle, Saima assent could be seen through a prism of broader power asymmetry in relation to DanTransport-Nedlloyd coalition. Such an asymmetry compelled Saima to accept the restructuring plan designed by its major partners despite considerable problems with operational efficiency. In this context, Saima's behavior was a reflection of *self-policing*, where the firm had to accept the externally devised standards in order to improve its competitiveness and access to North European markets.

Managerial sources at DanTransport and Nedlloyd confirmed these clues. They indicated that Saima needed to improve its quality of operations in order to integrate its freight flows with the North European traffic, replace the German agents who were at the verge of bankruptcy, and resolve the financial difficulties experienced after its merger with Avandero SpA. These facts support the deduction that Saima's vulnerability caused the firm to bow to external pressure in order to improve its strategic position.

So it might have been that Saima's anticipation of imminent liabilities and a need for financial support that compelled its managers to accept the disadvantageous deal. This supposition was further supported by the fact that Saima witnessed the ongoing financial operation between DanTransport, Nedlloyd and Dubois by which Dubois received considerable financial and managerial help in return for restructuring.

Moreover, the vulnerability of Saima's financial and strategic position was not limited to market re-alignment alone. In 1996, the remaining partners, after a series of long-lasting negotiations agreed on several positive solutions in other areas of integration. With this breakthrough, Saima realized that it could not stay out purely on the grounds of working commonality. So the conclusion was that it had to abide by common standards. A desire to sustain good working relationships with other partners thus pressed Saima to accept the market realignment plan and new operations technology.

The fear of strategic isolation and the loss of growth potentials created by the alliance synergy propelled the firm's managers to express a willingness to *belong* through withdrawal from the old system. Achievement of consensus on several technical and operational issues broadened the alliance's business potentials. So it could be that Saima's anticipation of larger future gains from alliance collaboration made acceptance of an immediately disadvantageous deal more palatable.

The settlements in question concerned several issues important for operational synchrony. In 1996, Nedlloyd, DanTransport and Dubois reached a working consensus on the quality standards for services supplied to international customers. The agreement covered application of common EDI and bar-coding standards for advanced booking of shipping capacity, immediate settlements of interpartner transactions and transfer of information on real times of shipment arrivals.

In addition, at the beginning of 1997 Saima, DanTransport and Nedlloyd started negotiations on establishing a joint-stock company in England. This company was to replace each partner's individual market service arrangement and serve as a tool for consolidation of freight within one large hub-and-spoke system. Although both Nedlloyd and DanTransport's executives had (reasonable) doubts about Saima's financial capacity to shoulder the investments, they welcomed the collaborative willingness and a declaration of financial involvement from the Italian partner.

4.4.4 Re-alignment of Business Relationships between Dubois, DanTransport and Nedlloyd

Still, the market re-alignment process involved several other issues. The need to re-structure the service provision system in other national markets concerned Dubois, too. The complexity of the issue was overwhelming and took a great deal of professional attention and working capacity of Nedlloyd and DanTransport executives, plus the entire team of strategic and financial experts. It also pushed these managers into taking direct supervision of the French firm's operations. This, in turn, radically changed the pattern of business relationships between this triad of actors.

Business relationships between Dubois and Nedloyd were imbued with the same difficulties as there were with Saima, owing to the fact that in 1996 Dubois was still operating in a fashion incompatible with the alliance agreement. The firm had six business partners in Germany, one agent in Switzerland, one in Austria, one in Portugal, and one in the UK. This business structure collided with Nedlloyd's exclusive rights as a sole business partner in the above markets.

As a consequence, both parties were aware that this state could not continue, and that Dubois had to shift to Nedlloyd Uniontrans in Germany and Nedlloyd Road Cargo in Austria, Switzerland, Spain and Portugal. The question of the UK market was still unsettled because both DanTransport and Nedlloyd had their own subsidiaries there.

Business transition between Dubois and Nedlloyd was further complicated by the fact that Nedlloyd establishments in the above markets differed from the Dubois partners in Germany, Portugal and Switzerland in terms of service profile and network organization.

The power position of Dubois in relation to Nedlloyd and DanTransport, however, was much more lopsided, and therefore left little room for gradual adjustment.

By the end of 1995 Dubois had accumulated high operational losses, which resulted in the loss of equity and financial incapacity to continue operations. Local banks refused to underwrite any new securities and Dubois faced technical bankruptcy. The owner turned to DanTransport and Nedlloyd for professional assistance and financial aid.

Having assessed the state of Dubois, in 1996 both DanTransport and Nedlloyd provided a dedicated loan with collateral in the company's shares. The new credit line injected cash and equity, and put Dubois in a position to continue operations.

The formal consequence of this action was that the company was under unofficial receivership, with the two senior DanTransport and Nedlloyd's managers assuming the positions of non-executive board directors and overseeing the restructuring project. The restructuring was primarily directed at the French operations, but later also included business provision to external markets.

According to DanTransport and Nedlloyd sources, two factors underlay the Dubois predicament, and justified the financial support. The first was the general supply over-capacity in the French LTL market. This led to a surplus of operators, depressed prices and higher operations costs due to a lower utilization of service supply facilities, i.e. rolling stock, terminals and warehouses.[39] The second was related to Dubois' managerial inability to internalize the structural changes in a deregulated market and to adapt to new working conditions. The company was privately owned and lacked a professional managerial team to deal with strategic contingencies.

The restructuring plans devised by the sponsors comprised several options, depending on the goals sought. One envisaged splitting up the entire enterprise into international and domestic operations, keeping the international traffic division intact while disposing of service provision to the domestic market. This option would definitely facilitate diversion of Dubois international flows and integration with other partners' traffic. The reverse side, however, was the loss of access to large French domestic flows, which represented important freight repositories for feeding the Pan-European pipeline. Another approach anticipated keeping the company intact, while introducing two lines of management, strategic and operational, manned by external people. Eventually, the latter option was applied.

It was quite evident, however, that neither of the lenders actually wished to execute its ownership rights by acquiring the Dubois company and integrating the firm within its own service provision network as a wholly owned subsidiary. When asked what justified such self-restraint, the DanTransport and Nedlloyd executives gave different explanations but similar reasons for their apprehension. For DanTransport, the French market was too far away and did not lie within the company's geographical and cultural domain. DanTransport's core operations' area was the Nordic region and the firm's expansion plans focused on this part of Europe.

According to Nedlloyd respondents, their unwillingness to enter the demanding French market was ascribed to the *"problems in Nedlloyd's home yard that deserved an immediate priority"*, plus the lack of adequate expertise to deal with the French business culture that was *"managerially different from the North European orientation"*. In the words of one executive, the takeover of Dubois was a risky undertaking that *"could become our second Vietnam"*.

However, when asked for a more specific reason justifying the financial support and transfer of managerial expertise, the informants replied differently, although the content of their statements was again similar. Both DanTransport and Nedlloyd executives accentuated the need for a financially strong French partner with a large domestic service provision network. They emphasized that access to the French market was strategically important in the entire alliance holding a strongly competitive position. However, these general explanations were subsequently supplemented by a more practical rationale indicating the need to keep Dubois from being acquired by competitors and becoming part of a rival network.

Both sponsors believed, or at least maintained so, that the Dubois financial predicament would be short term, and that with some external help and supervision the company would have enough assets to break out of the vicious cycle it was in and regain its financial strength. Specifically, DanTransport's directors were optimistic and quoted past experience with TollPost Globe. Early in the 1990s DanTransport had provided a dedicated loan to Toll Post Globe that helped the com-

[39] According to multiple sources, French operators such as Calberson and Mory, as well as multinationals like Danzas, were also badly hit by the same grave conditions in the French transportation market.

pany to recover large financial losses. Since then, TollPost Globe has improved its financial performance and entrenched the market position as the third largest LTL and logistics service supplier in Norway. Finally, both supporters also invoked a moral obligation to help *"the friend"* in adversity.

When asked whether they were prepared to lose their companies' money as a result of moral commitment, both respondents quoted several *"safety valves"*. The contract signed with Dubois included formal provisions that enabled control of how the recipient spent the money on restructuring. Specifically, DanTransport, who contributed the principal amount of the loan, acquired powers to audit the Dubois financial performance every three months, and also the authority to apply corrective measures in the case of negative deviation.

The above indicates that the motives behind this act of *"corporate welfare"* were complex and driven by several considerations, one of which could undoubtedly have been the moral comfort derived from helping a partner in need. However, it was also equally likely that both lenders discovered, and appreciated, a unique opportunity to acquire a formal mandate allowing them to quickly and legitimately restructure the Dubois operations, the task which in any case was pending.

Both sponsors realized that a weak and financially unfit partner was a liability that impaired the strategic position of the entire venture. The important thing was therefore to acquire the executive mandate to design the restructuring process, and supervise its implementation in line with the strategic objectives endorsed by the sponsors.

Both sponsors assumed that the restructuring operation was a medium-term project that could be completed over a two-year period. Both admitted that after this operation was over they intended to withdraw from supervision, sell their shares to local investors, and leave the management to the local people. Both the DanTransport and Nedlloyd managers who worked on the Dubois restructuring believed that the local management team, more familiar with the cultural and economic idiosyncrasies of the French market, would provide a better guarantee for successful performance. For these reasons the execution of proprietary rights at this point in time was neither desired nor necessary.

One of the strategic goals was to change the Dubois business profile from domestic to international, and enhance the capacity for serving global European customers. To achieve this target the sponsors decided to elevate the firm's performance and technology standards by applying the same information system that was used by the Nordic firms. This applied to installation of EDI for on-line communication with customers and bar-coding for monitoring the real-time of freight transfer and arrivals. These two communications measures represented the external control mechanisms that secured a higher quality of service supply.

Without financial and managerial aid, the resources necessary to implement these investments would not be available, and Dubois would not have been in a position to improve its competitive standing. Moreover, by closing down several existing warehouses and introducing terminal sharing schemes with other firms in different geographical locations, the supply network was re-designed in line with the sponsors' own operations patterns.[40]

[40] Here we refer to plans drawn by Nedlloyd to reduce the cost of operations by sharing several terminal facilities with Dubois and Danzas, who were otherwise fierce competitors in the French LTL market.

The restructuring seemed to work. Rationalization of service lines and staff numbers reduced Dubois losses by 70 percent at the end of 1997. According to DanTransport's financial forecasts, the French operations were expected to break even in 1998.

When asked in 1997 about the benefits thus far attained from membership in the alliance, the Dubois managers used face-saving tactics to cover up for professional embarrassment. With reference to the "*rescue operation*", the benefits so far obtained were described as fairly "*limited*". Simultaneously, however, these officers added that the firm was progressing in the "*right*" direction. In this respect they emphasized the significance of EDI and bar-coding in the improvement of operational efficiency and cost compression. They were, however, dissatisfied with the transfer of Dubois business in Portugal to Nedlloyd Road Cargo, and critical of the quality of Nedlloyd's performance there as being below the standards required by Dubois customers.

This made them anxious they might lose their Portuguese clients. Yet they admitted that Portugal was a small market, and that the benefits created from collaboration with Nedlloyd in large markets such as Germany and Benelux would definitely outweigh this downside. Generally, however, the degree of satisfaction from collaboration with DanTransport was higher than with Nedlloyd.

The spirit of loyalty towards DanTransport was evident from the Dubois rejection to collaborate with Bilspedition after it took over Huolintakeskus. The Dubois managers proudly announced that they did not do any business with BTL and were waiting until DanTransport established a new service solution in the Finnish market. Only after the wholly owned subsidiary, along with Nedlloyd, was in operation did Dubois transfer its traffic to BDN OY.

In attempts to save face, Dubois managers staged attempts to reduce the dissonance between themselves and other partners, and to enhance a social image marred by a professionally uncomfortable situation. This embarrassment emerged from under-performance vis-à-vis other alliance firms and the need for external aid.

When interviewed they projected the image of a full-fledged partner following the same track of restructuring as all the others. They admitted, however, that they experienced several "*temporal difficulties*" which might have slowed the pace of Dubois progression. One of the Dubois executives responsible for international operations expressed the following opinion on the ongoing market realignment: "*We always make a step forward in the right direction ... all partners. It does not mean, [however], that we all run at the same speed, but that we move in the same direction. It is in our interest to switch more [market] territories to the alliance... although it means sometimes some local conflicts....*"

For post hoc evaluation of the strategic soundness of *corporate welfare policy* pursued by DanTransport and Nedloyd in relation to Dubois, a takeover perspective was adopted.

The case in question is interesting because it provides an example where the three conventional motives for takeovers were obviously not working: Poor performance of the target company, expectations of synergistic gains, and hubris on the part of the acquiring managers.

Advocates who justify takeover by alluding to poor performance of the target firm claim that inefficient incumbent managers who fail to eliminate operational inefficiencies should be forced out of office by the acquirer who is capable of extracting more values. Implicitly, the poor-management explanation suggests that takeover is necessary so that an acquirer can benefit from better management of the acquired company. Definitely, one of the motives for supporting the French partner financially was expectations of the future benefits for both DanTransport and Nedlloyd that would arise from improved Dubois performance. But, to achieve these ends, neither of the sponsors found it necessary to execute its proprietary rights.

According to the synergy perspective, commonalities and complementarities between acquirer and target enable the combined value of the firms to exceed their values as two independent entities. This is a logical extension of a diversification strategy that can generate economies of scope, scale and density. Here, the expectation of synergistic gains, which undoubtedly was a motive behind the sponsors' behavior, especially regarding the re-design of Dubois business in order to integrate the French flows with traffic served by Nedlloyd's subsidiaries, was not strong enough to justify a formal acquisition. Indeed, one of the important reasons for helping Dubois was the vision of a larger and better-integrated service supply system serving fifteen-country markets, and generating synergistic gains for both recipient and lender. However, as the case showed, this objective was obtainable without a formal takeover.

In addition to poor performance hypothesis and synergy explanations, some organizational and finance researchers consider takeovers as a domain in which individual, group and social factors, and not an efficient strategic calculation, drive the key decisions (Roll, 1986; Haunschild, 1994). After reviewing takeover evidence, Roll (1986, p. 199) concluded that economists should dismiss their assumption that *"individual decision making has little predictive content for market behavior"*. The above postulates that an acquiring manager's ego frequently outpaces the strategic and financial logic underlying the soundness of his judgment to acquire. These findings underscore the importance of individual and social factors as motives behind takeovers, and of a need to focus on a third and relatively neglected driving force, namely Hubris. *"Hubris"*, according to Webster's Dictionary means: *"Exaggerated pride or self-confidence, often resulting in retribution"*. In this perspective, hubris infects extremely confident managers who estimate highly their ability to confer large benefits on their companies through acquisitions.

The case in question, however, shows that both Nedlloyd and DanTransport executives were careful about not acquiring permanent responsibility over Dubois business, although simultaneously they were confident in the ultimate success of the restructuring project. This indicates that the propensity to credit the success of Dubois restructuring on themselves did not propel them to miss from the point of view of another important objective of their mission: The need to preserve the autonomous status of alliance partners and the voluntary nature of alliance collaboration.

It looks as if the risk lurking within the cultural distance between the North and South European managerial orientations and the lock-in hazards of foreign ownership kept these executives away from renouncing the alliance voluntary status.

The following statement recorded during the interview with one of the Nedlloyd executives sheds some light on the downsides of foreign acquisitions: *"By pur-*

chasing a freight forwarding company in a foreign country you usually lose 30–40 percent of business because this company will be trading with different partners in other countries and these partners will switch to other business relations after acquisition. This is not a viable solution for us. Therefore, we take a very pragmatic approach and stay by our partners, although for the moment it can mean double presence in some [market] territories. So, although acquisition may bring results quicker, the scope of negative side effects in the short run is much greater.... You take a dive... and then you have to build it up again.... So, changing partners is very foolish. Therefore, we recognize it as a very risky issue..."

In this context it is worth considering what consequences the Dubois takeover might have caused. First of all it would breach the Founders' Contract, which lays the foundation for a voluntary collaborative venture between the four independent firms. That would jeopardize the later adoption of Articles of Association that regulated the nature of interpartner dealings, and the EEIG's blueprint that formalized the alliance's status.[41]

Apart from these formal consequences, the major harm would be inflicted on interpersonal trust in the exclusive rights of the partners to service their core markets. The takeover of Dubois would signal to other group members that in future they too could become targets for acquisition in the event of financial hardship, and that this would jeopardize the idea of voluntary collaboration and impair the quality of the partners' performance, their willingness to overhaul commitment and/or accept temporary sacrifices for the sake of future benefits.

It remains uncertain whether Nedlloyd and DanTransport's executives thoroughly assessed the entire range of negative outcomes beforehand. In any case, from the *post hoc* perspective the decision to refrain from the Dubois takeover proved prudent when judged from the risks inherent in capitalizing on a superior power position, the need for interpartner loyalty and maintenance of individual autonomy.

4.5 Joint Crisis Management – Proof of the Alliance's Integration

Yet another crisis afflicted the alliance venture and threatened its existence, this time in 1996. This incident too showed how an external contingency mobilized the partners into taking swift counteraction and resolving the problem.

The event in question was a takeover of Hualintakeskus, the Finnish associated partner, and an important member of the Nordic network. The acquisition was staged by Bilspedition AB, and represented a further step in a series of previous BTL inroads into the Finnish market. The acquisition came as a great surprise and disturbed the alliance's integrity owing to a sudden fall-out of service supply to the northernmost market.

The strategic importance of the Finnish operations did not derive from large service potentials of the Finnish market. Rather, it resulted from Finland's central position as a distribution center and a shipping yard for freight to/from the Baltic States, northwestern Russia, and as a transit station for overland movement of

[41] Both DanTransport and Nedlloyd admitted that the work formulating the legal content of the Articles of Association started in 1996 and was carried out by the companies' lawyers during 1997 i.e. during the time of the Dubois restructuring.

trans-Siberian traffic between the ports of northeastern Asia and the European mainland.

This fall-out shocked the incumbent partners and made them realize how much they needed to act as one taskforce when faced with highly threatening circumstances. Achievement of consensus and swift implementation of a joint rescue plan required highly coordinated responses, despite the fact that some of the partners might still operate partly at cross-purposes, and suboptimized in their loyalty to the alliance. The case in point was proof that the alliance acquired the ability to adapt to, but also to withstand, severe environmental hostility.

It has to be observed that failures of coordination can readily occur when autonomous firms read and react to threat signals differently, even though their overall objective as alliance partners may be timely and compatible responses. Failure to act in a coordinated fashion might not necessarily have been caused by the desire to default, but from *"non-convergent expectations"* or incongruent assessments of hazards. Although in principle *"convergent expectations"* could be seen as an important symptom of interpartner integration, several practical problems might have deterred the partners from making congruent decisions. The sheer length of time needed for assessing negative impacts by all partners spread across a large geographical area could have distorted their responses and delayed consensus and mobilization of the resources to fight adversity.

However, this case also illustrates that the alliance's partners have correctly assessed the hazards of disintegration. Three partners, DanTransport of Denmark, Nedlloyd of The Netherlands and Toll Post Globe of Norway, whose interests were mostly endangered by the new market situation where Bilspedition acquired a stronger competitive position, responded in concerted fashion. Within a three-day window DanTransport and Nedlloyd established a wholly owned subsidiary which replaced the previous solution. The company was created from DanTransport's infusion of two-thirds of equity and by Nedlloyd the remaining allotment.

Both Dubois and Saima demonstrated a spirit of loyalty by refraining to deal with BTL and in waiting until DanTransport and Nedlloyd's joint venture was in operation.[42]

Prolongation of the *"old"* business links with customers was secured through hiring the sixty former Huolintakeskus employees who have been laid off due to takeover. The new company, BDN OY, employed the local managers with good knowledge of the Finnish market and Russian traffic needs.

It is interesting to note that within a six-month period Nedlloyd withdrew from the position of founding partner and sold its stake to DanTransport, leaving to the latter total responsibility for the company's management. Similarly, in 1997 DanTransport sold its shareholding to local investors, retaining only a 30 percent stake as a strategic *"poison pill"* against possible hostile bids. During the same period BDN joined the "E-1 Alliance", assuming the status of associated partner, along with Fraktarna International AB of Sweden and Toll Post Globe of Norway.

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[42] The latter was also confirmed by Saima's managers who have been approached by the members of "TEAM Alliance," a rival voluntary venture of several European logistics and transportation operators for possible membership. Saima rejected quoting its partnership in "E-1 Alliance" as the reason for decline.

These events corroborate the DanTransport and Nedlloyd loyalty to the original idea of an alliance based on voluntary commitment between autonomous partners.

Although the efficacy of future strategies for crisis management may still vary in the face of more frequent or severe disturbances, the fact that the alliance *"passed"* this test could be perceived as an indicator of its integration. The reason is that this type of adaptation could not have been performed unilaterally or by fiat, but would have required mutual consent. Consent, however, takes time, because it requires negotiation and unconditional devotion to implementation of agreed-upon measures. The above example also provided evidence that the alliance was a flexible arrangement not only capable of changing its format when faced with unpredictable contingency, but also of modifying the organizational structure at low transition costs without loss of original principle.

This example is also worthy attention for another reason. By compressing the damage caused by Huolentakeskus defection to the local scale, the alliance partners' saved the entire network from the so-called *"domino effect"* (Hertz, 1998). The fact that the partners succeeded in creation of a collective solution that substituted Huolintakeskus as the alliance partner in the Finnish market evidences that the hazards of chain disintegration in a tightly woven network can be controlled for, even after an initial withdrawal has already occurred. This case departs from Hertz (1998) findings that chain withdrawals from highly integrated networks with international scope of operations once they have started are difficult to control for, and therefore, the only remedy for *"the domino effects"* is to foresee and occasionally prevent their developments.

The reason why the focal network was saved from the *"domino-like disintegration"* may lay in the strong will on the part of the leading coalition to preserve the alliance and in high level of fidelity on the part of all partners to the alliance cause.

Yet, despite successfully coping with this crisis, the partners experienced a sense of betrayal and acknowledged the hazards of defection. As a result, insights were learned on how to forestall possible fall-outs by institutionalizing the alliance format. Institutionalization was seen as a measure, although not a panacea, that could forestall eventual defection.

The above did not mean, however, that termination of membership in the alliance was not allowed, or made difficult. In fact, the Founders' Contract contained a legal clause that made exit both possible and legitimate, irrespective of what strategic motives underlay such motion.

In contrast to the exit, however, defection was viewed as an unexpected and abrupt withdrawal motivated by desire to join a rival coalition. It goes without saying that the defectors severely damaged the incumbent partners' interests by disrupting group loyalty and leaking professional secrets to rival parties. Defection threatens thus the competitive position of the entire volitional enterprise.

Moreover, as defections tear down the web of social relations that keeps the network intact, they invoke a sense of betrayal on the part of the remaining parties, which is why defection is morally dammed and defectors are stigmatized and often find it difficult to join other collaborative assemblages.

The following citation, recorded during an interview with one of the executives who fought the consequences of Huolintakeskus' withdrawal illustrates the negative attitudes towards defection and those who engage in it: *"If some people want to invoke damage on others, it's OK... That's their way of doing business. But, they have to realize that the moment they desert one outfit, there is not much space around .... All other entries are closed, because everybody knows that once they did this, they can oblige any time.... And why should anybody want to pick up this trouble in the future....?"*

This statement implies that membership in a given alliance may actually be quite stable because of the social and economic pressures to stay put and the morally prohibitive costs of loss of reputation.

4.6 Interpersonal Integration among the Alliance's Leaders

In assessing how the virtual networks became established between the alliance executives during the development of the venture, and what factors affected the content of personal links between these individuals, this section probes into the personality traits of alliance managers and their personal endowments as leaders. The reason for that was that personality traits of network members both facilitated and impeded the alliance formation and attainment of a systemic fit.

Moreover, prior research (Fiedler, 1995; Gulati, 1998) has shown that interpersonal relations are important determinants of network longevity, because relations with both economic and social bonds are likely to endure and augment the level of interpersonal loyalty and voluntary contributions. Following this lead, we established that strong interpersonal affiliation facilitated consensus by creating a forum where important professional and personal matters have been presented and discussed – matters such as design of alliance management, restructuring of individual business models, and risk-taking for achievement of venture's goals. Interpersonal networks were thus pivotal in reducing the uncertainty and ambiguity arising from volitional collaboration.

Another rationale for this personality-oriented approach came from another stream of research which showed that intellectual skills, experience, expertise, ability and willingness to learn are the important assets of leaders and leadership (Nicholson, 1996). Long-lasting research on the relationship between the quality of leaders' performance and their intellectual abilities has shown that leadership experience, expertise and intellectual capability strongly influence the quality of critical tasks such as decision-making and coordination of organizational work processes.[43] Personality traits such as pervasive style of thinking, feelings and overt behavior are likely to affect professional interests and managerial styles, job satisfaction and performance effectiveness.[44]

Thus, the spotlight on leadership style provided the basis for discussing the kind of impact the alliance managers exerted on the venture's development. Further,

[43] It has to be observed that in the review of research on "Cognitive Resources and Leadership Performance" Fiedler (1995) showed that contextual variables such as the level of stress generated by the external environment and organizational context, plus the scope of personal experience, actually modified the causal relationship between the scope of intellectual endowment and the quality of leaders' performance.

[44] In our definition of personality we follow the standard definition of the literature wherein reference is made to behavioral stability and consistency across time and situations in behavioral dispositions and modes of thinking (Nicholson, 1996).

it also allowed exploration into how the idiosyncratic leadership profiles interacted with each other and into the causal links that could be established between personality features and managerial actions.

This section covers four issues. First, the personal and professional capabilities of DanTransport and Nedlloyd managers are reviewed. Next, the managerial features of two smaller partners, Saima and Dubois are discussed. The cultural factors that divided the alliance managers into two coalitions are identified, and the scope of influence that each exercised on alliance development is explored. Finally, the issue of how the different cultural backgrounds of alliance managers influenced the strategies for managing the interpartner disparities is approached.

Of course, this assessment should not be taken for a full-fledged psychological study of leaders' personality structures.[45] It is merely based on a series of interviews with executives and managers, the observations of their work style during site visits, and the content analyses of their rhetoric. As these results build on behaviors recorded during the interaction with the author, their generalizability beyond these circumstances is clearly limited.

However, a meticulous analysis of these actors' opinions and statements, and behaviors mobilized in work-related situations allowed discerning several leadership styles that could be related to personality characteristics.

4.6.1 Leadership Profile and Personality Traits of Nedlloyd Managers

Nedlloyd leaders projected a high level of influence awareness, self-esteem, and sense of control, outspokenness and social being. They showed appreciation for conceptual thinking, enjoyed the complexity of their work and were abstract in sense-making and strategy explanations. It also appeared that they were intellectually well trained, sincere and open. They made astute assessments of the state of their own business and business relations with other partners. They displayed a Machiavellian approach to power and considered power as a legitimate means to an end. They expressed willingness to win and conquer others if that preconditioned the achievement of Nedlloyd's objectives.

They did not try to cover-up for Nedlloyd's past strategic mistakes and the negative effects that such blunders incurred on their firm's financial performance, internal organizational problems, and loss of position in the global maritime market. They openly discussed the nature of their problems, listed up and reviewed an array of thinkable solutions. They admitted the fragility of Nedlloyd's strategic position in the European market and did not resort to face-saving tactics. They spoke about internal friction and their own personal stakes and challenges within the native organization.

They did not deny the complexity of the problems they dealt with. They invoked working perseverance and creativity of Nedlloyd's people as the two most important assets in the ongoing restructuring of the ocean shipping division and land-based activities. They did not put themselves on a pedestal nor were they self-centered by attributing all positive outcomes to themselves and their own professional skills. They emphasized the importance of teamwork and group pro-

[45] A psychological study of leaders' personality structures would require random sampling across various types of organizations and work-related situations, and administration of the same instrument to all informants at the same point of time.

cesses for change management. They acknowledged a dependence on others with a better knowledge of particular markets and expressed a willingness to collaborate with such partners to expand the scope of their own network and business competence.

They praised the other alliance members, but also admitted that collaboration with some of them was imbued with severe difficulties, a situation which negatively affected their own work situation and Nedlloyd's interests. They unveiled a good grasp of situations and people by discerning between situation-induced behavior and personality-driven conduct. They considered conflict as a ubiquitous element of social interaction and as a *"constituent fact of organizational life"*. They believed in negotiations as a means of conflict resolution and decision-making, and in technical excellence as a source of competitive power.

They demonstrated both innovative and practical dispositions. They admitted they liked to generate ideas, think up solutions and visions. Yet, they also maintained that their decisions were predominantly based on *"hard"* data, i.e. facts and assessments made through objective measures. They acknowledged a penchant for pragmatic solutions to complex problems where no *"first-best"* option existed. They expressed result-orientation and appreciated the importance of deadlines and fixed schedules for task accomplishment, but also a routine perseverance. On the other hand, however, they realized that time and patience was necessary for resolving complex problems. They were polyglots who communicated and performed working tasks in three languages.

Finally, they felt comfortable with a stranger, behaved in a way that put others at ease, answered all interview questions and provided internal data without reservation or recourse to business secrets. In sum, Nedlloyd managers projected self-confidence and the image of people with a good grasp of problems and situations. They did not fear disclosing personal opinions or professional judgements.

4.6.2 Leadership Profile and Personality Traits of DanTransport Leaders

The DanTransport leaders too projected an image of self-esteem, control-orientation and an awareness of access to resources that mandated high influence and likelihood of achieving the goals pursued. Their leadership profile differed, however, from the leadership style projected by the Nedlloyd officers.

DanTransport's executives admitted they liked to prepare their tasks in advance, and enjoyed target shooting and making plans for various expansion projects. Simultaneously, they pointed out they were attentive to detail and applied sophisticated control systems in supervising the work processes. They maintained that achievement of desired outcomes was impossible without control over processes.

Through their investments in Toll Post Globe and Dubois, the DanTransport managers showed consideration of others' needs and willingness to help partners in need by providing financial and managerial aid. Thanks to easy access to large financial resources that FLS, the DanTransport parent company, made available to DanTransport's managers, they staged two acts of *"corporate welfare"*, which over time proved to be highly profitable projects.

DanTransport leaders opined that empathy for the needs of others and a rock solid business calculation were compatible, thus indicating that these men harbored a high level of calculative trust in the capabilities and skills of others. They also demonstrated a risk-taking nature, imagination with regard to financial disposition, and investment dexterity. Risk-taking predilection, however, was mitigated by a habit of careful pre-planning of investment projects. They spoke openly of needs for restructuring and extension of the Scandinavian service provision network and mentioned several future acquisitions as a means for attaining these goals.

They projected an image of being calm, relaxed and of possessing an astute knowledge of their own strategic posture with regard to both strengths and weaknesses in the Nordic market. Yet they also demonstrated a propensity for self-righteousness and were higher on self-lauding than the Nedlloyd's officers. They were more explicit in articulating the advantages of their own competitive strategy over important regional contenders (BTL and ASG), and took time to analyze these parties' competitive drawbacks from the point of view of Pan-European rivalry.[46]

They were proponents of organizational democracy, sought advice from subsidiaries in Norway, Sweden and Finland and put the top executive from Toll Post Globe of Norway on the board of DanTransport's holding company.

They were deeply involved in the design of alliance's legal and financial framework, and expressed a sincere desire to protect the venture against disruption. They played an active role in alliance formalization through design of a formal authority system vested in the Board of Directors and the position of CEO. They demonstrated a high level of faith that the venture project would succeed and, if properly managed, generate many competitive benefits to all partners. They appreciated a working relationship with Nedlloyd and emphasized the importance of personal and professional ties with Nedlloyd's executives for development of the alliance project.

They also displayed empathy for the difficulties encountered by their South European partners under misalignment reducing interventions and the adoption of new operations technology. They were acutely aware that mobilization of puni-

[46] The accuracy of market reading was evident from the fact that in June 1997, while interviewed by the author, the DanTransport leaders envisaged an imminent merger between the Swedish international Bilspedition and the German global operator Schenker-Rhenius. The economic rationale for such market organization lay in the relative strength of Schenker on the European mainland and its relative weakness in the Nordic region. Bilspedition, on the other hand, was strong in the Nordic region and relatively weak on the European mainland. A merger between these two companies, the argument went, would create the largest and most dense network of service provision units on the European Continent composed of wholly owned subsidiaries. The above vision became a reality when on November 1st, 1997 Finnlines AB, the largest stakeholder in BTL announced that it had sold the BTLs equity stock to Stinnes AG, who owned Schenker-Rhenius. The sale of BTL's equity to Stinnes AG was formally approved on March 12th 1998 by both firms' corporate boards. Under the present condition Stinnes AG or Schenker-Rhenius controls 35 percent of BTL's equity, which gives the acquiring party control over 49 percent of the target's voting rights. The post-merger Pan-European integration process was instigated immediately after the BTL's Board of Directors formally approved the sale of Finnlines' stake. The above provided the basis for the largest ever European corporate system specializing in overland transportation, logistics and air freight, with 200,000 employees and annual sales approximating 5.5 billion DM. Yet, how this project will fare in the future remains to be seen. The practical implementation of the merger cannot be done without approval of DG IV, a regulatory Directorate of the European Union responsible for antitrust law, and therefore with the authority to approve, or disprove, the merger in question.

tive measures in order to induce these partners to implement the needed interventions would impair interpartner trust and decrease loyalty.

In an attempt to reconcile the interests of several partners within the alliance's framework, they offered financial and technical assistance that helped the weaker ones reduce transition pains. By so doing they demonstrated prudence and an understanding of a multiplicity of strategies that led to achieving the alliance objectives. This conferred a high level of personal credibility on DanTransport managers. Both Dubois and Saima officers opined that DanTransport behaved as a dutiful steward of alliance interests. The above was helpful during management of the crisis that followed Huolintakeskus's withdrawal.

As DanTransport's managers projected confidence in the merits of the goals pursued and strategies applied, they were not afraid to reveal details of their professional thinking. They were readily available for several rounds of lengthy interview sessions, and answered all questions. They provided access to other sources of information (both personal and documentary), and several pieces of important evidence that illuminated the alliance's development process and measures of management. Like Nedlloyd's executives, the DanTransport managers projected an image of self-confidence, professional acumen and a good grasp of people and situations. They did not experience any difficulties with self-disclosure.

4.6.3 Personality Traits and Leadership Profile of Saima and Dubois Leaders

The leadership profiles and personality traits of Saima and Dubois leaders differed from the managerial postures displayed by Nedlloyd and DanTransport executives.

Saima's business officers displayed a good deal of concern over the problems their company encountered in the context of the alliance. They took time to justify the rationale behind Saima's business behavior and strategies it followed, and explicate the complex features of the Italian market. They showed good insights as regards Saima's competitive strengths and weaknesses. They admitted to having several problems in collaboration with Nedlloyd in regard to re-alignment of the Italian and German markets. They expressed a deep concern for the disparity between the quality of service provided by Nedlloyd Road Cargo and Uniontrans in Germany and that required by Saima's clients.

Analysis of the interview narrative reveals that Saima's officers were sincerely interested in developing the alliance project. However, they were discouraged from exhibiting more proactive behavior by the relational problems with Nedlloyd for which they lacked immediate solutions. When asked about the measures they would like to apply for conflict resolution, they invoked such unspecified remedies as *"negotiations"* and *"needs for making mutual concessions "*. Yet, they did not elaborate on the subject nor outline more refined proposals for resolving the prolonged contention.

It appeared that the protracted discord with Nedlloyd impaired the Saima officers' trust in the sincerity of Nedlloyd intentions. The data revealed that working relationships with DanTransport and Saima, although not totally problem-free, were seen by Saima executives as much easier to manage. They praised the Dan-

Transport management for creating an atmosphere of solidarity and *esprit de corps*. It was painfully evident that this confidence was absent from business relations with Nedlloyd, and that this ingredient was sorely missed by Saima's officers. In sum, Saima executives exhibited good judgment capabilities and sound assessment of working conditions in the Italian market. They did not reveal, however, the ability for creative and visionary thinking that might have led to new solutions and to a break of prolonged stalemate.

It also became obvious that Saima's executives were less immersed in problems related to the alliance's management and the search for a new institutional format. Rather, they showed a disposition to follow the options laid down by others.

The non-appearance of a strong predilection for a sharp analytical outlook was also visible from the lack of explicit solutions for disparate quality standards in service provision and information technology. This exposed a reactive type of managerial disposition and a responsive strategic posture, a posture substantially different from the unconditionally proactive strategic profile projected by both DanTransport and Nedlloyd leaders.

Dubois executives, too, revealed an astute knowledge of market conditions in the French logistics industry and changes in the industry structure that followed deregulation of the European transportation market. They assessed clearly and insightfully how these environmental shifts affected their company's strategic position and created needs for close relationships with other alliance partners.

Yet, they also articulated resentment over the high costs that membership in the alliance imposed in the form of investment in electronic information systems, staff rationalization and operations' re-alignment. The above indicates that these officers lacked the grasp (or at least were unwilling to reveal it) of the benefits that the above measures brought about in the form of improved competitive standing and better strategic fit with other partners. Moreover, they resisted attributing to the alliance membership any positive outcomes that had befallen their company. They maintained that the time was not yet ripe to accurately appraise the benefits of alliance collaboration. They did not explicitly appreciate the scale and scope of the benefits that accrued from higher volumes of freight shipped and a broader range of services offered.

Dubois managers maintained that the introduction of the computer-based communication system for monitoring freight shipment, pick-up and dispatch operations was externally imposed by customer requirements and did not emerge as a necessity conceived by themselves. The latter indicated that these officers had a poor grasp of the competitive skills required for long-term survival in the market exposed to global competition.

Furthermore, several statements recorded under the interview revealed that the financial and managerial difficulties that their firm experienced had considerably impaired these managers' professional self-esteem, and made them resort to face-saving tactics to cope with professional embarrassment. In their efforts to save face, they acted uptight and tensed. It was painfully apparent that the stigma of professional under-performance had generated a high level of psychological distress that deterred these men from devoting more cognitive energy to alliance development.

Out of fear of not disclosing more embarrassing details of the firm's financial predicament and dependence on aid offered by DanTransport and Nedlloyd, the

Dubois managers refused to answer several interview questions and/or provide documentary evidence supporting their statements.

It was clear that these officers were under great stress caused by the socially noxious features of the working situation and tension produced by the ongoing restructuring. They were reserved in voicing opinions and it was evident that they experienced considerable problems being open, and desperately sought opportunities to place themselves on a reciprocal footing with other alliance partners.

Yet they articulated satisfaction with collaboration with Saima and DanTransport, and acknowledged a willingness to collaborate with the latter and its Nordic subsidiaries.

It may be surmised that the above features of managerial posture were probably affected by a socially and economically embarrassing situation. It can be posited, however, that the fact the Dubois company faced this predicament could be linked to an apparent lack of several managerial qualities that both Nedlloyd and DanTransport leaders have displayed.

The data suggest that both Saima and Dubois managers lacked an ability for systemic strategic thinking and positioning of their companies in a broader European context. They were basically centered in their own business and could not detach themselves from this level playing ground. This strategic purview was too limited for them to adequately appreciate the alliance's international position.

4.6.4 Coalition between DanTransport and Nedlloyd's Leaders

The fact that an informal coalition was established between DanTransport and Nedlloyd helped these two firms' leaders to design the alliance's integration and derived from two sets of interrelated factors. It was based on the strength of these players' business positions in two regional markets and it emerged from personal and professional similarities, tangency of business cultures, and easiness to mobilize large amounts of financial resources.

As a consequence, DanTransport and Nedlloyd took focused action to formalize the alliance status, which led to institutionalization of prior collaboration, realignment of partner operations and partial standardization of service provision.

Coalitions develop when parties believe that they can trust one another to act in the best interests of the cause they pursue. Thus, coalitions institutionalize the objectives of the aligned interest groups and provide background for more effective goal pursuance. Our data suggest that the coalition between Nedlloyd and DanTransport leaders was based on similar standards of technical and managerial expertise, congruent personal skills and complementary capabilities, plus sentiments of liking and friendship. These ingredients created trust that was large enough to unify these managers under pursuit of common goals. Trust was also conducive to development of awareness that in order to perform the alliance's leadership a vast scope of means in the form of personal capacities and tangible assets was needed. The above led to pooling of resources in order to create a team capable of designing and performing joint actions for achievement of joint objectives. Therefore, the DanTransport and Nedlloyd managers began to think of themselves as a team that progressively breached the organizational boundaries and developed skills for new system design.

The intra-team ties were based on the intertwining nature of affect, cognition and motivation. These mechanisms created conditions that allowed performance in concert. Satisfaction from actions performed in concert (such as the establishment of a joint venture in Finland) shaped cognitive and affective learning and produced important clues as to how to act in other difficult situations.

The managers from these two firms engaged in regular consultations through which they reached a functional consensus on how to tackle the disarray that divided the partners' business models. This led to pre-testing in the Nedlloyd and DanTransport home premises of several systemic solutions, which were later to be adopted as alliance standards.

Several empirical developments provided the opportunity for testing the strength of DanTransport and Nedlloyd bonds. The first occurred in 1996 under the crisis that emerged after the Huolintakeskus withdrawal. In order to reinstate a presence in the Finnish market, the partners mobilized resources that led to establishment of a joint venture. Another example was related to the founding in 1997 of a joint venture in England that resolved the long-lasting market-sharing tensions emerging from the competing service provision solutions.

Feelings of professional and psychological comfort propelled the DanTransport and Nedlloyd executives into resolving the relational conflict that emerged from the lack of coordination management within the alliance network. The congruent vision and the rock-solid trust in each other's capabilities allowed these actors to assume the role of *"problem owners"* who had to untangle the re-structuring deadlock and put the stranded alliance project back on track.

The above coalition resembled a steering committee helping other members to realize the strategic imperatives imposed by market globalization. Such forces generated competitive pressures that these players knew they had to withstand. In order to do so, they designed and launched the following set of strategies:

- Continuous improvement of performance through raising quality standards and ongoing cost-reduction
- Creation of brand image by orchestrating partner performance and promoting alliance services in multiple markets
- Protection of alliance franchise rights by registration "E-1 Alliance" as a trade mark
- Creation of scale economies through consolidation of international traffic
- Establishment of an interorganizational superstructure for managing international business and geographical expansion of market reach
- Establishment of a joint-stock company to finance alliance expansion through collection of franchise fees.

The fact that the leading coalition had some tenure before it assumed formal leadership justifies an expectation that the performance of this leader team may be effective. This assumption hinges on an observation that the experience these managers acquired in dealing with the previous tensions provided first-hand knowledge of the highly specific demands of alliance management and secured them peer approval.

4.7 Factors Explaining the Development of Two Coalitions

As indicated, interpartner trust was unevenly distributed between the alliance partners. The level of relational confidence between DanTransport and Nedlloyd was higher than that between these two and Saima and Dubois. Little wonder that two fractional coalitions emerged within the alliance system.

Emergence of the subgroup that unified the South European partners was based on strong historical bonds which Saima and Dubois had established through long-lasting collaboration and relatively less advantageous power position vis-à-vis the North European partners. As already noted, the managers at Saima and Dubois displayed less active attitudes towards alliance institutionalization and did not pretend they played any pivotal role in interpartner integration. Therefore it seems reasonable to posit that these managers performed mostly as targets for the strategies of the leading coalition, and followed the track devised by others.

In order to explicate the interpartner polarization within the alliance system, we link the modes of partner behavior to the features of Italian and French national cultures, and contrast these cultural idiosyncrasies with the North European cultural orientation. In so doing, we draw upon Fukuyama's (1995) insightful assessment of the most prominent traits of French and Italian cultures and relate them to the behavior of alliance managers.

The features of French and Italian business cultures seem to fit well with these agents' perceptions and the relational closeness between the Saima and Dubois officers. Moreover, the asymmetry of power positions that was based on the smaller size of these firms' operations, divergent performance standards and incongruent market coverage made these managers feel atomized and distrustful of more powerful players.

Both firms represented medium-sized establishments. Dubois was a private company, managed by its owner. Saima-Avandero was the result of a merger between two family-owned forwarding firms, Saima and Avandero. The first specialized in international export brokerage, and the second was a domestic operator specializing in service provision to the Italian domestic market. Despite several subsidiaries and service provision stations in foreign markets, these two companies had relatively limited international reach and served international clients through its domestic net.[47] As such, both companies represented typical business structures prevalent in French and Italian environments.

The patterns of managerial attitudes and actions reviewed above comply with several features of the Italian and French national cultures. Specifically, the occurrence of in-group/out-group thinking was observed in the narratives of both firms' managers. The out-group status in particular was attached to Nedlloyd and its group of companies, while the in-group label was visible in frequent lauding of the Saima-Dubois working relationship and successful restructuring of the Italian and French markets. Moreover, the problems with self-disclosure regarding the difficult business situation also indicate a low trust level towards outsiders.

[47] Both Saima and Dubois managers admitted that their subsidiaries in the Benelux countries and Germany lost an economic base of existence after 1993. Because the main source of revenue for these entities was import clearance and collection of customs duties for goods shipped by their parent companies, these subsidiaries became obsolete when the border control among EU countries was dismantled.

In this context, the informal coalition between the Saima and Dubois managers functioned as a forum for professional and personal consultations and mutual support. It fostered development of in-group loyalty and interpersonal proximity. These social and professional links provided strategic and practical aid for coping with re-structuring and helped in managing the stressful effects of these business events. Personal familiarity, too, bred intimacy, and intimacy provided the background for friendship and personal expression. On the negative side, however, it magnified the alliance conflict.

The role of the coalition of smaller firms as an escalator of alliance conflict was not so obvious at first sight. It was blurred by the fact that the scope of market misalignment, and consequently the level of conflict between Saima and Nedlloyd, was much higher than between Dubois and Nedlloyd. It seems, though, that the strong interpersonal links that developed between Saima and Dubois managers enhanced the salience of conflict for Dubois, even though the scope of unresolved issues between the latter and Nedlloyd was marginal compared to those dividing Saima and Nedlloyd. Thus, in order to explain the indirect and somehow out of proportion conflict that evolved between Dubois and Nedlloyd, we looked into the contents of the relationship between these three parties.

Being friends, Saima and Dubois managers saw the world in similar ways and displayed congruent attitudes. However, this similarity magnified the perceptions of in-group/out-group antagonism that was already embedded in disparate culture-rooted values. Being friends, the two South European firms' managers used their independent concepts of selves (embedded in an individualistic cultural mindset) to escalate the conflict and meet their needs for self-fulfillment.

Saima, being aware of its conflict with an *out-group* member (Nedlloyd), sought support for its negative attitudes from the *in-group* fellow (Dubois), and persuaded the latter to make similar attributions about the third party (Nedlloyd).

Thus, the cultural differences between the alliance members helped to explain the patterns of *"social geography"* within which the conflict expanded. They demonstrated that the scope of intergroup conflict (between Saima and Nedlloyd) was amplified by a *"spillover"* effect, or a *"triangulation"*, where the party with a negative relationship to another (Saima versus Nedlloyd) drew in an in-group ally (Dubois) in order to make the opponent (Nedlloyd) feel isolated and outnumbered.

As the original contender pulled in another party and created a conflict *"triangulation"* in an attempt to build a coalition that would counter the power of its adversary, the overall magnitude of conflict increased. This escalation caused a *"negative asymmetry"* that emerged from involving a third party in a conflict between the two. This move generated negative attitudes among previous non-contenders and increased the number of active opponents compared to a situation where the conflict would have been restrained to a pair of direct contestants.

Still, the spillover effect that the Dubois relationship with Saima had on the latter's conflict with Nedlloyd was difficult to understand in light of the fact that Nedlloyd was a co-lender of financial help that saved Dubois from imminent bankruptcy. Here, however, the strength of loyalty bonds established by long-lasting collaboration with Saima, the cultural proximity based on individualistic values and the perceptions of in-group/out-group antagonism may explain the intricacy of conflict escalation.

It has to be observed, though, that the relations between Dubois, Saima and DanTransport were qualitatively different, and somehow equivocal. Despite several unresolved market-coverage problems, Saima's executives were highly satisfied with working with DanTransport. Similarly, managerial sources at Dubois also praised DanTransport management for sound decisions in the alliance framework. The above indicates that development of positive ties between these three partners was not so much conditioned by cultural distance, or the scope of lateral problems that still obfuscated these firms' mutual dealings, but by the patterns of interaction that bore the marks of collaborative fellowship. These working relations were imbued with fewer head-on confrontations compared with those with Nedlloyd, and, despite several unresolved issues, contributed to an integrative working environment.

It may thus be concluded that by collectively assuming an assertive tenor for advancement of individual goals, the coalition between Dubois and Saima effectively countervailed the power dominance of the larger players. It made them realize that the South European partners resented the power asymmetry and sought more balanced working relationships. This demonstration induced the larger partners to bridge subgroups interests in order to maintain stable alliance membership and group loyalty.

The need for gap-bridging was quickly recognized by DanTransport, who functioned as an intermediary between the contending parties. DanTransport's managers therefore sought to create a joint collaborative arena despite many relational problems. The measures used to improve working relations involved financial and managerial assistance that helped Dubois come out of a crisis and establishment of joint taskforces that designed new standards of performance for the smaller firms. The aim of these actions was to boost the feelings of alliance commonality by providing support for smaller partners in combating adversity.

As the frequency of interpersonal interactions increased, so did the rate of consensual decisions. An increase in smaller partner alliance involvement also reduced the relational conflict. The following measures have jointly contributed to these outcomes:

- More positive interpartner sentiments reduced intra-group animosity and facilitated the work of cross-functional teams that regulated interpartner dealings
- Mixed taskforces served as conduits of information that helped share technical knowledge and spread technically superior solutions
- Adoption of a conciliatory approach by Nedlloyd re-opened negotiations with Saima and facilitated re-alignment of the German and Italian markets.

Thus, the acts of *"corporate welfare"* performed by DanTransport and Nedlloyd manifested communal solidarity and enhanced interpartner confidence. It epitomized the spontaneous egalitarianism that represents a constituent element of North European societal and business culture.

It can thus be inferred that the willingness on the part of DanTransport and Nedlloyd to extend technical and financial help to South European colleagues was in part based on trust in the professionalism of these firms' managers and in part on perceptions of the sponsors' own dependency. Professionalism was in this case defined as an ability to understand and fulfill the idiosyncratic service requirements of native customers in the Italian and French markets more adeptly than that offered by the North European firms. Professionalism was thus rooted in the superiority of the South European partners in servicing their national markets and derived from possession of context-specific knowledge and culturally framed business experience.

Just how dependent the larger partners were on the alliance was perceived in their admittance that having strong Italian and French partners was to their advantage because they enhanced the competitive standing of the entire venture. The North European partners were therefore eager to downplay their individual interests and make greater efforts to support the common goals. All this suggests that these partners acted on the premises of interdependency, considering themselves as connected with and dependent on others. They therefore adopted a collective welfare approach and pursued higher-order goals benefiting all partners.

The perception of goal interdependency conditioned the reconciliation that the North European partners practiced within the alliance system. As a partial solution, they decided to institutionalize the status of the alliance and formally regulate interpartner dealings. The adoption of hierarchical governance structures endowed the loosely coupled alliance with a higher level of predictability and reduced the risk arising from an incomplete contract that until then had bedeviled transactions between them.[48]

In this context, institutionalization of the alliance solved several problems that had unsettled relations between its members:

1. It approved a new system of service provision that emerged after market realignments.
2. It bridged two alliance coalitions by regulating interpartner dealings.
3. By acknowledging dependence on the smaller partners for achievement of alliance goals, the leading coalition laid the groundwork for procedural justice. Introduction of the relational fairness principle gave the smaller partner a greater say in alliance decision-making, and enhanced the likelihood of decision implementation, especially when such decisions were unfavorable for the smaller partners. This enhanced overall trust in protecting the interests of all partners.

In the light of the above it seems plausible to conclude that it was the smaller partners, Saima and Dubois, who acquired the largest slice of alliance benefits. They also enjoyed a more powerful status in alliance decision-making than the size and scope of their businesses would suggest. That is to say, the strategy of fractional dissent that the smaller firms mobilized to enhance their importance worked effectively.

It looks as if the more powerful and economically stronger partners went to a great deal of effort to accommodate their South European peers. They did so not just because they harbored genuine responsibility for the welfare of the entire venture, but in addition because they were highly dependent on the smaller firms for attainment of individual goals. The professional acumen of the larger partners

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[48] In the light of agency theory, the Alliance Accord which was concluded in 1993 between the Nordic and Continental partners could be defined as an incomplete contract because the partners could not anticipate all future contingencies regarding its enforcement.

with a higher level of collective identity was thus based on an awareness of *"enlightened self-interests"*. In such a setting the network members who recognized their dependence on others were expected to *"forego the right to pursue self-interest at the expense of others"* (Powell, 1990, p. 303).

In this context, the perception of goal interdependency and responsibility for the welfare of the network contributed to the net transfer of wealth and expertise from the North European firms to their South European colleagues. These acts of *"corporate welfare"* improved the recipients' competitive standing to a degree that they could not have attained on their own. This contradicts an earlier suggestion that cultural incongruity and unequal resource endowment can negatively affect alliance business.

These results are compatible with findings from other studies of strategic alliances between large and small technology companies in the USA which have produced empirical evidence supporting a conclusion that smaller firms are the net winners from alliance-type interactions (Powell, 1990; Das, Sen and Sengupta, 1998). To this end, we agree with Powell's (1990, p. 61) insightful observation that development of an alliance is illustrative of an unpredictable process where the *"prior motives and initial conditions provide weak guidelines for the later outcomes"*.

Initial motives and individual resource endowment are weak causal explanations for network dynamics because partners to the game are learning by doing and adjusting their behavior in the light of new circumstances and opportunities. And, in this process, common purposes, shared interests and reputation become entangled with friendships, past experience and changes in future expectations transforming the initial identities and positions within the network's boundaries. The antecedents of resource inequality and differential power status become exposed to a confluence of incidental factors, and the paradox of unintended consequences which unleashed the change forces and re-modeled the pattern of interpartner dependency.

As a consequence, the alliance, in evolving, created dynamics that caused the initially more vulnerable partners to acquire more important network positions on which the larger partners became vitally dependent. The above shows that power relationships contain the seeds of transformation that, over time, may lead to change in dependence and benefit re-locations.

The shift in dependency that makes large firms to carethink more about the longevity of their alliances with smaller partners, despite the strategically stronger positions, a larger inventory of opportunities and proprietary assets, counters to certain degree the implications of resource dependency, network centrality, and bargaining power theories (Pfeffer & Salancik, 1978; Tichy & Fombrun, 1979; Dwyer & Walker, 1988). These theories, understood as an ability of stronger parties to capitalize on unilateral power dominance, suggest that access to resources valued by others will secure a dominant power position for resource controllers. These theories seem to be far too static for the shift in power relations that may emerge from network re-configuration and enlargement to be anticipated.

The above findings provide empirical backing for intercultural interaction and organizational mediation theories (Kanter, 1983; Gudykunst, 1992; Heider, 1958; Ting-Toomey, 1993) because they demonstrate that forces anticipated by these propositions re-arrange the power relations within a given network.

We may thus conclude that our conceptual framework, which combined the issue of cultural idiosyncrasy with network conflict and the process of network rearrangement, generated new insights into mechanisms that, over time, transformed interpartner relations. As a result, we have shown how several causal forces reversed the pattern of intra-network dominance, equalized the interpartner positions, and consequently, modified the benefit appropriation.

4.8 Enhancement of Operational Efficiency through Transfer Pricing

This section probes into matters related to alliance competitiveness and creation of sustainable competitive advantage through higher operational efficiency. These issues were vital for the alliance enduring, and they concerned all partners. The developments actually started in the early 1990s, but during the period 1993–1996 the topic took on a critical dimension and attracted collective involvement. The issue of sustainable competitive advantage was closely related to operational efficiency and the introduction of common operations standards that became an important building block of interpartner fit. As these issues touched on the inequality between the managerial and operational proficiency of the partners, they were sought resolved in a consensual manner.

Transfer pricing, or the reimbursement for services rendered to traffic passing through the territory of other partners, was a key issue that the alliance had to deal with in the management of international operations. Resolution of this issue in an economically sound manner was imperative for improving operational efficiency of all alliance partners, and the cornerstone of an incentive system that would enhance the amount of business transacted between the partners.

One indicator of operational efficiency is the cost level of service provision allowing the attainment of profit in given market conditions. Since the alliance's partners rendered many services to freight transferred between international origins and destinations, the efficiency of one party's performance affected the economic results of the others. This issue therefore frustrated interpartner relations and called for an effective settlement.

Division of costs is the most important element in every contract for service provision. The parties must know not only who does what, but also how the resulting costs should be divided. In most cases the fact that a party must do something means that it must also bear the resulting costs, unless otherwise agreed. But there are many exceptions, and uncertainties arise with regard to services performed on the part of other parties in territories distant to the domicile of the party that issued the order. In addition, difficulties arise with respect to division of costs whenever additional expenses are caused by unexpected events, such as when a cargo requires additional handling and/or when the price/costs level for the same type of service varies across different national and/or regional markets. The costs arising from international cargo supply operations can be divided into the following four categories:

1. Dispatch, carriage and delivery.
2. Customs clearance for export and import.

3. Services and assistance rendered by one party to another in addition to what the assisting party is required to do under the respective trade terms.
4. Insurance.

Costs related to dispatch, carriage and delivery are by far the most important since these include:

- loading at the seller's premises
- pre-carriage or consolidation in the country of exportation
- booking the cargo for shipment and issuing the relevant transport documents
- warehousing, storage and handling operations pending cargo dispatch from the country of exportation
- hire of transportation equipment and freight-carrying appliances in the country of exportation
- line-haul, or the main international carriage
- warehousing, storage and handling operations subsequent to discharge in the country of importation
- hire of transportation equipment and freight-carrying appliances in the country of importation [49]
- on-carriage or drayage operations in the country of importation
- unloading at the buyer's premises.

Export and clearance charges have actually disappeared since 1993 with the opening of European borders. So also have costs for services and assistance, which were basically rendered upon request for clearance of goods. However, this type of service may still incur outlays, e.g. in obtaining documents and/or in the performance of value adding functions, which the party in the buyer's country may carry out on behalf of the country of exportation prior to the final delivery.

Pricing of services which the alliance partners supply to each other under freight transit through various geographical sections of distribution pipeline is basically covered by accords between the pairs of parties serving the routes bridging the origins and destinations.

All partners have a certain amount of freight which they ship through international supply channels. Traditionally, each party carries the freight to the border and/or puts it on board a sea-going vessel, then hands it over to another partner at the other end of the journey to carry the load over the rest of the pipeline. To make sure that the costs of carrying the load are shared equally, the two carriers agree on price, or *"accounting rate"*.

On routes where traffic volumes are out of balance, i.e. where the amount of freight shipped in one direction exceeds that received from a given origin, or the other way around, the carrier who operates at the place of shipment pays the carrier where it terminates a settlement equal to half the accounting rate.

[49] This function can also be performed by the carrier from the country of exportation in the case of a given importation country allowing foreign cabotage.

However, as a consequence of the liberalization and deregulation of the European transportation market, both parts of this old regime are breaking down. With deregulation of transportation markets, the monopolies over servicing the different routes by carrying freight from given origins and destinations have been abandoned. As a result, a foreign carrier can take the freight all the way from shipper in country of origin and deliver it directly to consignee in country of destination if this is agreed upon between the freight buyer and the seller.

Countries in which transportation and logistics markets are deregulated allow a practice called *"international capacity resale"* (ICR). Carriers can lease or buy international transfer capacity in bulk and use it for shipments of consolidated cargo to the destinations needed. Indeed, the security that your partner in a given country has the capacity to carry your cargo whenever the need arises is one of the most powerful motives for establishing operational alliances and working partnerships between transportation and logistics operators.

The fact that ICR carriers can avoid settlement payments gives them a big price advantage as the price level is related to the amount of freight available at both ends of the journey, and a benchmark determined by the lowest price/cost ratio for a given service standard. Hence, once ICR is allowed into the countries at both ends of the route, accounting rates will plummet and tariffs will drop to the rate that covers the variable costs of the most cost-efficient operator.

Once a stretch of international route becomes a bargain, carriers from other areas are attracted, even if they have to travel by an indirect route.

For example, Holland and France both allow ICR, whereas Germany does not. So, if a shipper in Germany wants to send a consignment to France it can hire a carrier who will carry the consignment all the way through Germany to the French border and hand it over to the French operator who will deliver the freight to the French consignee. The freight will travel the usual way from Hamburg to Paris and will be costly. Instead, a competitive alternative arrangement may be offered by an alliance of logistics firms operating in all three markets. They pick up the freight at the shipper's premises and deliver it to a hub warehouse in Hamburg, where it is consolidated and shipped in a ULD (unit load devise) via Holland and Belgium to a gateway in Lille in France by a shuttle connection. From Lille the ULD is shipped to a distribution terminal or incoming dock station in Paris, where the ULD is broken into individual consignments, which are then delivered to end users by the local operator. With highly coordinated functions, the time window for the entire operation will not exceed the duration of direct point-to-point shipment. By circumventing transit over German territory with an accounting-rate system, the cost of service will be at least 40% cheaper, while the quality of dispatch will remain the same.

As operators acquire more freedom to channel shipments along low-cost routes, it goes without saying that service providers whose cost/price ratio exceeds the most competitive benchmark will be eliminated from the game. Moreover, as the amount of freight between the various international destinations is unevenly distributed, the system creates fierce competition on routes with low freight volumes. Competition causes cross-subsidies between low freight volume routes and those with high freight volumes. If a given carrier is highly competitive in terms of price and service quality, it will pick up more freight to deliver to another country than it receives in back hauls. As this operator must make settlements for supply services to destinations it does not serve itself, he will look for an equally competitive partner; the reason being that if an operator is highly competitive it may receive more freight for local handling than it can ship itself to foreign destinations. In the latter case it will receive large amounts of settlement payments from other partners who buy its services. This situation motivates firms to be highly competitive in the given market to ensure that more freight is received for the local delivery than is sent out.

These market conditions pressured the alliance partners to lower their operations costs to attract more traffic and stimulated those who bought services in other markets to demand the lowest possible freight rates. Unfortunately, this was not always feasible because of interpartner differences between price levels for the same type of service. Such disparities had different causes. One might derive from differences in workforce efficiency and labor market regulations. Another might arise from disparate quality of operations management, managerial skills and lax enforcement of quality standards. Still another might result from the variable demand levels for transportation and logistics among different national markets and structural imbalances between the inbound or outbound traffic volumes on certain international lanes. Finally, still another was an outcome of different modes of enforcing deregulation and liberalization by transportation authorities in the different countries.

All this brought the alliance partners to the realization that they needed a settlement code for mutual reimbursement of services performed between them in different markets of alliance territory. Such a system had to be based on the most competitive price benchmark for delivery of a given service quality, otherwise the partners would risk overpaying each other and losing a competitive edge in relation to their own customers.

This issue became a matter of interpartner discord and invoked a long series of negotiations which took about four years, from 1993 to 1997, before a practical solution that was implicitly accepted by all members was arrived at. However, being only implicitly accepted, it remained short of solving the problem once and for all for the reasons explained below.

The solution adopted required several important changes. One was designing a system of incentives for the continuous compression of operations costs, while another was the mutual disclosure of individual pricing structures under transaction settlements.

The first part of the scheme called for resolution of a structural problem that divided the partners; namely, the fact that some partners had substantially lower rates than others for the same services operating in different national markets. For example, the costs of local dispatch and line haul in Italy were the lowest among the alliance operators. At the same time the costs of warehousing and freight handling were among the highest. Similarly, in the Nordic countries the costs of line haul were relatively high compared to those in Holland and Germany, while the costs of freight handling were on a par with the Dutch level, but much lower than in Germany. At the same time, the North European operators used a formal quality control based on ISO standardization. This form of quality assurance was not practiced by Nedlloyd in Germany, nor by South European firms. The latter was a source of difficulty with cost/quality assessment because individual prices covered different quality levels. This interpartner differential hindered an economic transaction settlement.

Moreover, the partners were exposed to different intensity and forms of competition in different geographical markets and/or service provision segments, and so their willingness to practice least-cost pricing varied. The disparate efficiency levels were eroding the competitiveness of the entire alliance by inviting partners to switch to outside suppliers operating in a more cost-efficient manner.

Moreover, as the liberalization and deregulation gained momentum in a growing number of countries, the tariffs for international shipments plunged and became more comparable across geographical zones with similar amounts of traffic. This meant that shipment rates to/from Estremadura (a province between Spain and Portugal), which attracts low amounts of freight compared with other European regions should be on a par with rates for Northern Norway, with similar freight scarcity and lack of directional balance in inbound and outbound traffic. Moreover, globalization of trade and competition within the European Union facilitated by the introduction of a common currency equalized the price differentials between European countries in the direction of lower and more uniform tariffs.

In this situation, the only competitively sound solution was to base the alliance pricing system on the variable costs of the most cost-efficient operator. The result, however, was that the partners whose costs matched and/or remained below the above benchmark received full reimbursement, and could thus profit from international service provision. Alternatively, those who operated at costs higher than the benchmark would lose money, as they would receive a fixed amount of compensation. Needless to say this proposition was resisted by those who had most at stake, i.e. Dubois and Nedlloyd, whose variable costs varied a great deal but still, on average, exceeded those of the remaining partners.[50]

Introduction of the above scheme had several consequences, the most positive that the issue of transfer pricing exposed the relative inefficiencies of several partners. Second, it imposed a standardized reimbursement code based on a unitary tariff system. Unitary tariffs for all routes and destinations served by the alliance signaled commitment to keeping freight rates at the promised level. Such a system provided a baseline on which all partners could narrow down the cost variance within an agreed-upon band for all domestic and international quotations. However, as differences in cost levels reflected the variance in a firm's operational efficiency as well as the heterogeneity of market conditions, the adoption of one uniform system was not immediately feasible.

Small wonder then that the partners decided to solve this conflict-ridden issue gradually. The work plan agreed-upon in 1996 envisaged all partners and associated partners abiding by the following procedure for settlement of mutual transactions:

1. All transactions were to be settled through *an ex post ante* reimbursement of operators for the services supplied to other partners during a given period of time.
2. The settlements were based on a benchmark fixed on the lowest variable cost of the most cost-efficient operator among the alliance members or an outsider that prevailed within a given market segment during the period of compensation.

[50] This is not say that the Nedlloyd's cost/price structure was uniform. Nedlloyd's costs of operations in the Benelux countries, plus Austria and Switzerland, were among the most competitive, and served as a benchmark for other partners operating in these markets. The same pertained to the Nordic firms, whose price structure varied, but still, on average, was lower than the unit variable costs of Dubois and Nedlloyd Uniontrans of Germany.

3. The risk of vehicle utilization was borne by the departing party. The latter prepaid the remaining partners for services rendered under freight movement along a supply channel located outside the shipping party's operations.
4. The clearance of interpartner transactions for a given period of time was effectuated via EDI transfer and based on two alternative settlement codes, depending on the nature of the business. The first type of settlement was based on a fixed rate for a given service agreed-upon between the collaborating partners.[51] However, in the situation where multiple partners jointly supplied distribution services to one corporate customer, the interpartner settlements were based on the contract which defined the scope of territorial distribution and the desired quality for service delivery.
5. All partners had to disclose to each other the detail accounts of their cost structure in order to identify the services that were priced higher than the benchmark.[52]
6. Partners who suffered losses on services provided to other partners had a right to compensation equal to 25% of losses incurred during a given transaction period, but no longer than over two subsequent settlement terms.
7. Partners who during two consecutive settlement terms did not reduce the level of operating costs were obligated to restructure and rationalize their operations. Moreover, they had to accept that other partners would buy the freight-carrying capacity and other freight-handling services on the routes they served from alternative sources during the time the re-structuring was to be completed, until the cost of service provision reached the competitive level.

The above agreement was a breakthrough for DanTransport and its Nordic subsidiaries, who were those most exposed to the danger of in-competitive pricing.

The deal provided the general incentive to reduce operating costs, and stimulated to purchases of larger traffic volumes and/or a broader range of services from the most efficient suppliers. If implemented effectively, it would also stimulate toward growth in interpartner trade, strengthen business links among the partners and increase the scope of mutual business dependence. Moreover, by demanding self-disclosure of operations costs, it committed the less competitive parties to discipline their operational and financial performance, and forestalled opportunistic behavior.

It also allowed those who lagged on efficiency to rebuild their service provision system without the need to leave the alliance. In addition, an incentive was devised that stimulated toward permanent compression of operations costs in line with the standards set by the most efficient rivals. Such a solution could keep the competitors at bay by making it very difficult to offer more cost-efficient transit within the alliance's market area. The above created a long-term competitive advantage for the venture.

[51] One important aim for adopting this settlement scheme, apart from reimbursing the service suppliers, was to induce partners to operate in the most cost-efficient manner. The outcome sought was that the party producing services below a rate agreed for settlement could retain the profits, whereas the party whose production costs exceeded this rate was liable to suffer losses. The latter case should stimulate the loss-making party to improve its cost efficiency.

[52] This provision was of great practical importance for strengthening interpartner trust and identifying systemic inefficiencies in partners' service provision procedures and standards.

However, the scheme was also imbued with considerable flaws, flaws that reduced the ability to deal with problems that hit at the venture's competitiveness, such as varying levels of individual efficiency. One of them was the length of time needed for improving inefficient performance, during which other partners had to pay prices higher than offered by competition. One other negative effect was a neutralization of internal competition, i.e. the more efficient partners having to subsidize the less efficient ones within the alliance system.

Still, the third and the most significant flaw derived from the fact that the scheme did not formally commit all partners to adopt the least-cost formula for a given quality standard. The last weakness, which was functionally related to the latter, arose from the fact that within the alliance system efficiency improvement was treated as internal operations management. As such, this sphere of partner domestic affairs was basically excluded from the alliance's purview. The need to resolve the issue could not therefore justify any overt intervention into the internal matters of individual partners.[53]

As has been shown in the preceding chapters, the issues related to partner competitiveness and incongruent cost levels became a subject of negotiation. The outcomes of these negotiations were to a large extent affected by the simultaneous use of situational power and external competitive pressures. Over time, the power wielding and the external control mechanisms removed the out-of-specification cases and induced the less competitive partners to improve their performance.

4.9 The Founders' Contract and Mission Statement

In recognizing the progress reached in operations re-alignment, in 1996 the four founding partners staged a *"Founders' Meeting"* at which they signed the *"Founders' Contract"* and adopted the official Mission Statement.

The Founders' Contract emphasized that interpartner collaboration was of indeterminate duration and based in the first place on bilateral agreements. These conditions were required for consolidation of freight flows between the pairs of partners and reduction of variability in service quality. It stated that each partner had the right to service provision in the country of its main operations and that this right could also be exercised in countries where it had *"associated companies"*.

This clause officially acknowledged the *"Partners' Territory"*, defined as the core operation area where a given partner possessed a privileged business position over other partners' business arrangements. The above sanctioned the preceding reconfiguration of market coverage and motivated partners to channel to each other larger amounts of international traffic to the exclusion of third parties.

However, despite the bilateral character of collaborative agreements, the contract instructed the partners to base their operations and accounting (i.e., the reimbursement system and tariffs for transfer services) on standards devised by the alliance's functional experts. Specifically, the contract urged the partners to adhere to common standards established for:

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[53] However, this was not the case with Dubois, who in 1996 asked for external intervention and received financial and managerial aid from Nedlloyd and DanTransport to restructure its operations and market coverage.

- business plans and budget
- corporate sales of LTL transport and logistics and part load services (i.e. contracts with merchandisers and/or manufacturers of global wares with international distribution needs)
- EDI technology based on IFCSUM and IFSTA communications standards for systemized traffic solutions
- sales and marketing (inclusive but not limited to the use of logo and product names)
- service quality, cost control (i.e. benchmarked on a lowest cost level in a given market segment).

This broad range of standardization indicates that partners were willing to regulate their business and manage their operational interfaces in a way that conferred the idiosyncratic commercial identity to their venture.

It is interesting to observe that standardization was limited to services offered to corporate customers only, i.e. those who *per definition* required uniform quality standards. Besides, marketing of partners' services was not restricted to use of the alliance logo and its standard product name, leaving partners the freedom to supply other lines of service, and/or engage in other non-competitive working associations.

Moreover, the Founders' Contract created the Board of Directors composed of two executives from each member firm. This body acquired the functional power to coordinate the internal integration and represent the alliance vis-à-vis third parties with regard to licensing and use of trademark and operations technology.

In addition, the contract stated that decisions of the Board should be made unanimously, and that the Board had powers to apply punitive measures in ensuring fulfillment of its decisions.

The voluntary delegation of executive powers to the Board responsible for coordinating partner actions was evidence of the subjugation of individual autonomy to a collective body responsible for achievement of higher-order goals. This provision, falling within the scope of executive authority, resembled to a certain degree the power prerogatives available to senior corporate leadership. It was much broader than the decision-making latitude allotted to steering committees, which until then coordinated collaboration between the partners. As such, the Board of Directors became the predecessor of a formal managerial hierarchy that was introduced later.

Yet, the practical implications of the Founders' Contract were much broader than the contractual wording suggested. One far-reaching effect was an effort to systematize the alliance service provision technology by codifying all types of shipment and cargo categories that the partners handled under alliance-mandated operations.

The above had implications for operations technology, the production apparatus, organization of terminal work and investments in freight-handling equipment. Besides, the fact that the partners were committed to securing a certain uniform quality of service contributed to the partial standardization of service quality in national operations.

An alliance-wide commitment to certain quality standards led to the Board appointing a taskforce with powers to control the individual partner's service provision, the individual production facilities and the quality of information transfer. Partners whose performance diverged from the Board-mandated standards had to correct their performance within a prescribed time interval.

Taking into consideration the demand heterogeneity and the functional idiosyncrasies of the partners, these results show that the approach adopted by the Board to standardization was highly pragmatic.

Moreover, the Founders' Contract created the background for a preliminary consensus on the alliance's formal Mission Statement, which was an important declaration of common policy specifying the solutions designed to attain the objectives sought.

Adoption of the Mission Statement was preceded by long debates and negotiations.[54] The document was supposed to recognize the variability of partners' working situations and to balance the strategic difficulty arising from the pressures for customization and standardization.

As a consequence, the document contained several relatively loose and general statements that allowed the alliance partners to adjust their operations in line with perceived constraints and opportunities. The verbatim content of the alliance Mission Statement was as follows.

"E1 Alliance's Mission Statement"

We aim to be a top provider of high-quality groupage and distribution services and to cover all European countries.

Satisfying and exceeding our customers' needs is our central focus. Keeping up a regular in-depth dialogue with customers helps to maintain our position at the leading edge.

We strive for maximum reliability of our services, which are time-scheduled, door-to-door. We prove our performance. This is manifested by shipment monitoring techniques utilizing the state of the art information technology.

Our pricing is competitive, our tariffs are clear and transparent. As service providers, we accept carrier liability in accordance with CMR convention.

This makes us the preferred partner for trade and industry seeking one-stop shopping for European distribution services.

Our employees are skilled at their job and enjoy satisfying our customer needs. They know that they are part of a larger network and that they may rely uncompromisingly on their colleagues in the net. Our employees enjoy regular training and participate actively in the continuous creation of additional values to our services.

[54] How we went about re-constructing the Mission Statement is described in Part III, Methodology, in a chapter devoted to measures enhancing the internal validity of the findings.

Our systems and processes are constantly improved. We aim to operate ecologically responsibly by minimizing empty running, maximizing unit load factors, and using combined rail/road services where available and viable.

We generate sufficient return to meet our future investment requirements and to satisfy the providers of our capital resources".

The first passage defines the venture's aim, the main operations areas, and the main lines of service provision. The second mentions the means for attaining these goals. Communication with clients is proclaimed as a means of facilitating the attainment of a leading competitive position. Furthermore, customer loyalty is to be achieved by satisfying the customers' unspecified needs and exceeding at fulfilling customers' expectations.

The third section lists the procedures enhancing the collective market position. The first involves a high level of functional synchrony. The second aims at heightening service quality through a broad use of information technology.

The fourth passage assesses the alliance's prices and tariff system. It also provides information on the scope of carrier liability for loss and damage. An implicit message connoted by this section is that the unitary tariff system of the alliance is an easy to use pricing instrument. The other part of the statement implies that services will be priced on a par with (unspecified) competitors. Instead of promising the lowest possible prices, this declaration opens for negotiations on rates and delivery standards.

Finally, the last section states that an alliance is a *"preferred"* supplier for industrial buyers because such users might seek to do business with Pan-European service providers. This part of the statement is important because it is directed at potential buyers.

Several other operational merits are mentioned that might support the *"preferred partner"* image. Environmentally sound management is emphasized as a sign of social responsibility. Finally, in order to enhance the image of economic effectiveness, the continuous improvement of productions systems and a sound financial management are brought up.

It is evident that the Mission Statement strove to attain two apparently difficult aims. The first was the reconciliation of interpartner disparity with regard to alliance goals and modes of operations. The second sought to enhance the venture's attractiveness to potential users. Neither of these tasks seems to have been well accomplished.

The document is a minimum common denominator lumping together several least controversial statements. Areas of partner collaboration still the subject of protracted contention (the scope of practical standardization) or remaining in disarray (the overlapping service coverage in multiple markets) are removed from the statement.

Both the document and the process behind its formulation reflect the complexity of the working situation of the alliance, which was affected by strategic challenges emerging from the incongruence between locally and globally applied standards. These impediments restrained the scope of practical convergence of the partners.

The vagueness in the Mission Statement might have its purpose, however. It arose from a strategic awareness that individual partners needed a good deal of scope in decision-making autonomy in order to secure alliance freedom to react as market signals dictated. For the sake of keeping a grip on this dynamic potential, and being able to act and react in a situation-specific manner, it was reasonable not to declare any far-reaching strategic preferences. It seems that the temptation to proclaim a specific view on the alliance's modes of operation was forborne for two reasons. For one thing, it was impossible at that point in time to extract a steady and compelling consensus from all alliance partners. For another, the alliance partners realized that the myriad troubles that affected their collaboration would not lie quietly even after they had declared firmly how they intended to fix them.

The above implies that the principle of *adhoctracy* structured the alliance integration. Such an approach created room for adjusting the alliance's actions in line with developments in international markets.

4.10 Summary

This chapter has shown how the cultural differences, unequal resource endowment, market positions, and heterogeneous operations standards gradually became aligned through interpartner integration. It has also demonstrated how several areas of interpersonal and interorganizational commonality have been created that enabled the alliance partners to agree on important matters and to act in a concerted fashion. These commonalities reflect the adoption of collective norms for alliance practice and decision-making that transcended the cultural boundaries and created a match without which the functional interaction and intercultural collaboration would have been impossible.

The above produced a new type of structure within the alliance system, a structure composed of working relationships between the firms of the alliance and their roles as network members. As the new work arrangement became patterned over time, a new structural design emerged that remained predictive of future behavior. These patterns provided the basis for the standardization of business dealings and the institutionalization of alliance status.

However, we do not posit that all disparities have been removed and/or vanished as a consequence of these efforts. The important accomplishment, however, has been that substantial ties between the alliance members have become established and collaboration in several operational domains has been normalized. Although restructuring of individual operations and markets created proximity and interdependencies, a considerable degree of managerial and operational variability still persisted.

Several reasons justified this state. First, the geographical scope of alliance operations covered fifteen country territories. So, standardization of all functional disparities would require a much longer period of time. Moreover, the areas with heterogeneous standards could be approached only gradually because of a high risk of status quo disruption and uncertainties related to alliance endurance.

Second, and more importantly, heterogeneous operations standards were justified by the variability of demand structures in national markets and arose from needs to cater simultaneously to two types of customer: Those with global channels of distribution and those with local supply patterns and niche positions in domestic markets. The issue of how demand heterogeneity has been reconciled by partial standardization and partial autonomy is addressed in forthcoming chapters.

5. Institutionalization Phase in the "E-1 Alliance" Life Cycle

This chapter reviews actions mobilized over the period 1996-1997 in moves toward institutionalization of the status of the alliance. Alliance institutionalization marked a pinnacle in the organizational evolution of the venture and was a result of persistent efforts to manage the alliance through formal structures. Institutionalization of the alliance signaled to actual and potential clients and competitors that the venture had completed its transformation from once a loose association to now a private consortium, and had become a full-fledged player in the Pan-European rivalry.

Four substantial aspects of the institutionalization of the alliance are covered here. The first concerns the legal features of the European Economic Interest Grouping (EEIG), which provided the formal blueprint for the consortium's architecture. The second incorporates the Articles of Association, with a special focus on three governance structures and the relational fairness principle as a basis for alliance decision-making. The third topic involves the franchise contract as a legal instrument of alliance expansion. Finally, the fourth subject comprises the rules guiding the capital contribution to fulfillment of EEIG objectives, the conditions of partner exclusion, and the measures adopted to limit the scope of formal liability.

Lastly, a summary subsumes the different aspects of institutionalization and discusses the different leadership styles mobilized within the alliance framework.

5.1 The European Economic Interest Grouping – an Interorganizational Superstructure for Managing the "E-1 Alliance"

This section explores the process that led to establishment of an interorganizational superstructure for management of the alliance. The focus is on the events connected with adoption of the EEIG as a blueprint for the managerial system. The EEIG provided a formal basis for the Articles of Association that created a formal consortium company managed through three-governance hierarchies and a franchise contract regulating the rules of geographical expansion.

Establishment of a formal management company was pivotal in the linking of two regional networks: The Nordic system of service provision and the Continental grid of freight flows. The latter formed the basis for a brand name for the alliance that codified all types of services supplied and operating technology.

The exploration is conducted at two levels of analysis – the first the EEIG conceived of as an *interorganizational* management organization, the other the *internetwork* relationships between the Nordic and the Continental subsystems.

The strategic concept of the "E-1 Alliance" and its prospective competitive strength was based on a large geographical span of market coverage. Large market coverage emerged from linking two regional networks, the Nordic and the Continental, which together created a Pan-European pipeline for freight distribution. Earlier, we indicated that two major players, Nedlloyd N. V. of Holland and DanTransport of Denmark, with subsidiaries in 14 national markets, dominated these two regional networks and achieved a working consensus on how to integrate the two operational blocks.

In 1996, Nedlloyd N.V. and DanTransport faced three dilemmas. After having functioned for two years as a "*virtual*" alliance organization, they were beginning to recognize the anti-trust implications of such a set-up. Moreover, the ongoing globalization of the European transportation market was making them recognize the need to add a more formal identity to their venture. Finally, in 1996, with the abrupt defection of Hualintakeskus, acquired by a competitor, Nedlloyd and DanTransport executives were alerted to the need to safeguard the venture against disruption. Recognition of these exigencies impelled them into searching for more formally binding solutions.

The first task amounted to finding a suitable legal structure that would bestow the venture with formal status. The scheme sought would coordinate, in the least obtrusive manner, partner operations and raise the exit barriers to abrupt withdrawals.

The second task involved designing a set of managerial instruments for the operational and strategic link-up of two regional networks, and the removal of double and triple presence from the same markets. Resolution of these problems would materialize in a more transparent market structure and in standardization of the services provided to European customers. The latter precluded the alliance acquiring a distinct competitive advantage.

5.2 The Legal Structure of the European Economic Interest Grouping

The European Commission's policy with regard to mergers and acquisitions is clear: Parties that want to engage in cross-border mergers and/or acquisitions have to submit an application to DG IV and receive the regulator's approval. Parties that collaborate with regard to market organization and/or price-setting without filing for the permit may be accused of anti-competitive collusion and indicted for unfair competitive behavior by the European Court of Justice.
However, the Commission also recognizes the need for alternative modes of collaboration between firms from different countries. One of them was non-equity venturing or consortia of sovereign partners amalgamating their efforts without capital investment toward the achievement of specific business goals.

In acknowledgement of the need for non-equity international collaboration, a provision was drafted for a legal format for the EEIG, the statutory purpose of which was to facilitate *"cross-border co-operation of a nature similar to partnership or joint ventures ...*

and to make possible co-operation among businesses ... subjected to legislation of different [EU] Member States". The statutory provision also specified that *"the EEIG is different from a company mainly by ... virtue of its purpose".*

The purpose of the EEIG was stated in Article 3 of the Regulation 2137/85/EEC published by the European Economic Community Council on establishment of a new transnational company structure. Such a company could be established in order *"to facilitate or develop the economic activities of its members and improve or increase the results of those activities; its purpose is not to make profit for itself. Its activity must be related to the economic activities of its members and must not be more than ancillary to those activities. The grouping may not as a general rule be used as a basis for activities that are not connected to the existing activities. Typically, an EEIG may provide for its members joint purchase offices, joint sales offices or joint research and development".*

In view of the above, it is small wonder that both Nedlloyd and DanTransport executives recognized the immediate suitability of the EEIG provision and adopted this blueprint for formalization of alliance business. Suitability was further enhanced by the EEIG's simple management structure and limited legal impact on other business areas of partner firms. The contents of these terms are reviewed below.

Membership in the EEIG was extended to companies and legal entities which had their registered office and central administration in an (EU) Member State or natural persons who carried out any industrial, commercial, craft or agricultural activity in the Community.

Management of the EEIG consortium was vested with *"the members acting collectively, and the manager or managers"*, although a stipulation was also made that a separate contract signed by the parties could allow establishment of other managerial solutions with powers defined differently. Actual performance of the management function was to be conducted by one or more natural persons appointed by the formation contract or by a decision of the group members. However, another stipulation was added that the members of the grouping had supreme authority (over the manager), and could therefore make any kind of decision for the purpose of achieving EEIG objectives.

Still another important provision was a paragraph stating that *"there is no statutory requirement that a certain capital should be contributed to form the EEIG"*. The freedom to decide whether capital should be contributed was left to the members. This was very convenient because it meant that no financial investments would be needed beyond the funds necessary to design the trademark and a logo, and register them in the countries of EEIG operations.

The EEIG's formal powers with regard to its members were restricted by the following statements:

"A group may not:

- *exercise, directly or indirectly, power or supervision over its members' activities or over the activities of another undertaking,*
- *directly or indirectly, on any basis whatsoever, hold shares of any kind in a member undertaking; the holding of shares in another undertaking shall be possible only in so far as it is necessary for the achievement of the grouping's objectives and if done on its members' behalf".*

These two statements were crucial. They restricted the consortium's decision-making to subject-matters related to management of the EEIG, and introduced a borderline between the other business areas within the founder firms. Moreover, restrictions on mutual shareholding suited the two central players well, as none of them harbored any desires to acquire proprietary stakes in each other's interests. So the above articles restricted EEIG's legal bearing to management of consortium affairs, and therefore to exclusion of other matters of partner operations from its regulatory purview.

The EEIG provided the legal framework for the Articles of Association, the purpose of which was to formalize the "E-1 Alliance" system. The Articles of Association defined the hierarchical managerial structure, the scope of its executive powers with regard to decision-making, plus the extent of contractual obligations among its founders. The most immediate goal was to register the trademark of the *"E-1 European Distribution System"* under EEIG legal provision, thereby transforming the private contractual arrangement which was established in 1996 by the *"Founders' Contract"* into a private unlimited liability company.

The main objective of the EEIG organization with reference to the "E-1 Alliance" was *"... to develop, promote and facilitate long-term cooperation among the EEIG members (and their respective groups of companies) in order to create and strengthen a network among the members within the international forwarding business, particularly in European Groupage Traffics".*

In order to fulfill the above, the members were committed to:

- *"Work actively in order to develop, promote and facilitate cooperation with other members in order to provide the best possible platform for the EEIG, and create and strengthen the network mentioned in article 2.01,*
- *work towards creating and strengthening business relationship among the members by supporting the work performed by the EEIG,*
- *observe full confidentiality (both during and after the period of membership) with respect to all the information provided or made available by members to other members insofar as such information was of a confidential nature".*

It is important to note that the definition of the *"network"* was not specific. It left room for different operational and strategic combinations. The EEIG's main business area, described as the *"European Groupage Traffics"*, was also vague. It could be interpreted in a variety of ways and cover a broad array of the services provided by different partners in different markets.

5.2.1 The EEIG's Formal Power Hierarchy

The EEIG's organizational hierarchy was composed of three structures: The General Assembly of all members, the Board of Directors, and the Manager. Each level commanded a different understanding of decision-making, but built on power prerogatives assigned to a preceding hierarchical ladder. The idea was that in order to work efficiently together for optimum performance, the three components of the managerial system had to interact in an interfaced manner. The broadest scope of nominal powers was assigned to the General Assembly, which had the authority to:

- *alter the objective of the EEG*
- *alter the number of votes allotted to each member*

- *alter the contribution of every member or by some members to the EEIG financing*
- *alter any other obligation of a member*
- *admit new members or Associated Members*

The Board of Directors possessed the more specific strategic and executive powers to:

- *develop the strategies and business of EEIG, as well as supervise the Manager*
- *appoint and remove the Manager.*

Moreover, the Board of Directors had the powers to launch several standing committees or project tasks manned by functional experts from the founders and/or associated partner firms in order to deal with the following integration issues:

- *Marketing of the alliance's services,*
- *Application of commercial technology;*
- *Development of systemized product;*
- *Legal matters.*

Finally, the position of Manager was equipped with powers and obligations needed for:

- *proper execution of the decisions of the General Assembly and the Board of Directors*
- *preparation of the meetings of the General Assembly and the Board of Directors*
- *operation of EEIG business*
- *reporting on an ongoing basis to the members of the business activities of the EEIG*
- *entitlement to any action required to discharge the above duties and responsibilities.*

The Board appointed a Dutch executive, who served as a director of Nedlloyds' European LTL operations to the first CEO of the "E-1 Alliance".

It is worthy of note that whereas the functions of the Board of Directors as envisaged by the Founders' Contract foresaw supervision and enforcement of common operations standards, the EEIG's Board of Directors gained a more strategic profile and was less responsible for operations management. This difference in the nature of executive duties reflected the growing scope of integration between the alliance partners during the time period separating the establishment of these two managerial structures and a substantial advancement in the content and scope of interpartner collaboration.

5.2.2 Managing of Partner Relationships through Procedural Justice

The powers of the General Assembly and the Board of Directors were deliberately curtailed by the principle of procedural justice that subjugated these bodies' decisions to prior acceptance of all partners.

The following provision restrained the authority of the General Assembly: *"The resolutions of the General Assembly – with the exception of resolutions to dissolve the EEIG or to terminate the membership, or to adopt the annual report – cannot be implemented prior to expiry of a 30 day period after the adoption of such resolution (The Ratification Period). Within the Ratification Period any of the members may, if their respective management so decides, notify the EEIG of its disagreement with respect to the resolution adopted. In such a case the resolution should be void and treated as if it had never been adopted. If notification has not been given to the EEIG within the Ratification Period, the resolution in question shall be deemed to be final and implemented".*

Endorsement of a procedural justice principle within the statutory format of the EEIG demonstrated farsightedness on the part of Nedlloyd and DanTransport leaders.

Procedural justice is a horizontal coordination measure that is indispensable under strategy-making and strategy implementation. Application of this principle has proved beneficial in securing loyalty, trust and outcome satisfaction among subsidiary managers in large multinational corporations. The assumption that procedural justice can increase compliance with the Assembly's resolutions and commitment of the alliance managers to decisions taken by the Board of Directors evidenced prudence on the part of the dominant coalition. Prudence derived from the astute managerial observation of relational inequalities among the alliance's partners and proper assessment of disparate features of partners' working situations.

Empirical research on decision-making in multinational organizations established that subsidiary managers who believed their self-interests were being compromised by a higher organizational authority would engage in actions that not only were detrimental to strategy adoption but also sabotaged the decision process and thwarted strategy implementation (Bartlett and Ghoshall (1989); Guth and Macmillan (1986); Prahalad and Doz (1987); and Kim and Mauborgne (1991).

This research confirmed what both DanTransport and Nedlloyd executives also observed, namely that the motivation of partner firm managers to implement the alliance-mandated decisions would be low when their self-interests were under threat.

The first principle of procedural justice requires that working relationships between the subsidiary and headquarters are based on confidence in the rightness of decisions made by the company's upper body and trust in the fairness of interunit dealings. It is obvious that juridical provision alone cannot resolve this issue, but that a combination of formal procedures and managerial practice is needed. The second principle of procedural justice empowers the member units to challenge the rightness of decisions made by the company's upper body when such decisions threaten these units' interests and/or well-being. That is exactly what the EEIG's statute allowed. Finally, the third principle of relational fairness emphasizes the need for legitimization of the strategic rationale behind the decisions made by the corporate leadership by communicating the basic assumptions that underlay its judgement. Applicability of the latter principle would depend on whether the corporate leadership is prudent enough to voluntarily curtail its own authority in order to boost the corporate democracy and implementation loyalty of the lower-echelon managers.

Adoption of procedural justice demonstrated also caution on the part of Nedlloyd and DanTransport's managers with regard to acceptability of decisions made by the Board of Directors and General Assembly. Such caution was justified by the deep disparities that still divided the partners at the time when this agreement was launched.

Despite the efforts to standardize and integrate the partners' operations, which formally started with the Founders' Contract, both DanTransport and Nedlloyd executives acknowledged that a thoroughly global network with Pan-European service provision had not yet been established. In practice, the alliance firms were still operating multidomestically rather than in one global industry. This recognition was based on four contextual dimensions distinguishing the multidomestic industrial operations from the global market structure: Market, cost, government, and competition.

Global industries have global customers and distribution channels. The needs they meet are homogeneous across countries, and marketing is transferable across countries. Economies of scale and scope, *"sourcing"* efficiencies, and similarities of intercountry costs and skills are all high. Technical standards are compatible across countries, and government regulations on operating practices are absent. Competitors are multinational (operating in multiple markets) rather than national or regional (operating in only one national or regional market). Subsidiaries or member firms operating in industries that rank high on the above dimensions can be said to be operating in global industries.

Conversely, subsidiaries or companies functioning in industries ranking low on one of those four dimensions belong to multi-domestic industries, as was the case with the firms of the alliance. This is not to say that the alliance's partners did not win any corporate customers with standardized requirements for Pan-European distribution. The most important reason for the formation of the alliance was access to domestic networks controlled by the individual partners and a gradual integration of individual service provision networks within one Pan-European service provision system. The latter was necessary for extracting the scope and scale economies from consolidation of freight served within a large geographical area, pre-carriage drayage and post-carriage bulk breaking and international supply of distribution services.

Attendant upon the different features of multi-domestic and global industries are the different strategic requirements for success. These include differences in goals, competitive strategy and mission. For multi-domestic industries, market, government, competitive characteristics and demand structures are idiosyncratic. That was the case here.

In 1997, access to the European markets for overland transportation still remained distorted by the varying degree of government regulation. Fully deregulated markets included the Nordic countries, Switzerland, Austria, France, the Benelux region, England and Ireland. Germany, Spain, Portugal and Italy practiced restrained market's access for domestic and international operators, and lagged therefore on cost levels, operator efficiency and service quality. As a consequence, the quality standards for service provision were much more formalized and more rigorously enforced in the northern part of Europe than in the southern. These disparities generated frustration among the alliance partners, who were divided with regard to adoption of common time windows for delivery within the entire alliance territory.

Moreover, within the alliance's environment the network economies were in the first place achieved through consolidation of freight volumes and re-design of distribution networks to achieve a higher customer density on local routes. Performance of more global functions in the interests of reducing the overall cost of service, such as international line-haul, regional warehousing and distribution, on behalf of global corporate customers was neither sufficiently developed nor adequately integrated across individual partner operations domains.

In assessing the degree of globalization and standardization within the alliance's transportation market, we utilized our knowledge of the demand structure for single-modal and intermodal freight dispatch solutions in the four Nordic countries. The outcomes from a comparative four-country study reviewed in Part V of this report reveal factors which affected the scope of alliances' *integration.* This study shows a high level of heterogeneity in quality preferences for shippers operating in the four national settings. Several pieces of circumstantial evidence collected through personal interviews suggest that even more pronounced differences in the demand structure might divide the customers operating on the European Continent.

Such circumstances generated needs for location-specific solutions customized to the needs of native customers. As mentioned, the alliance also provided distribution services to manufacturers that operated globally and required standardized service quality in multiple geographical markets. However, even these standardized schemes had to match the requirements of local end-users. Such requirements were affected by the contextual variability in systems organization, consignment quality and information timeliness.

Consequently, not all interdependencies linking the members of a service provision network were of equal strength, or equally binding. Some links were more loosely coupled than others. If there were varying degrees of functional interdependence, so also were three varying degrees of functional autonomy.

The latter is evident from the finding that several partners of the "E-1 Alliance" still remained members of other non-competitive networks, because the venture did not supply all the service lines which these companies offered. Specifically, this applied to membership in two service supply arrangements:

1. The *"Deutsche Pakiett Dienst (DPD)"*, a global European network for distribution of small parcels and regulated by franchise contract binding operating agents from 17 countries.
2. A *"Fashionet"* network created by an association of international forwarders and logistics service suppliers for distribution of hanging garments and apparel to customers throughout the European Continent.

Hence, the operational autonomy needed by the partners to serve local markets combined with standardization of service provision required by the European customers imposed a dual strategic imperative of global European outlook and local focus. As such, it sanctioned a heterogeneous service provision strategy.

The above suggests that patterns of competition that the partners faced were mixed rather than uniform. On the one hand, competition was shaped by global rivalry among the Pan-European players that operated freely in highly deregulated markets. On the other hand, however, competition was local and structured by the small operators whose comparative strengths arose from sector-specific knowledge and niche positions in national markets less advanced in globalization.

So the need to respond to national markets by tailoring the service profile to native customers who prevailed in multidomestic markets was given priority by the alliance operators. A sound managerial strategy was one that admitted the differences in service demands, marketing practices, distribution channels, operating patterns and competition levels. Prudence, conceived of as the legitimate rights of all alliance partners to professional face-saving, required that interpartner variability of standards and skills should be attributed to diversity of demand composition and market imperfections. This face-maintenance strategy prevented interpartner conflict escalating from substantial to relational issues.

The face-saving approach gave managers in the south European firms time and an opportunity to improve their performance. The rationale behind this approach was that direct confrontation would humiliate the parties, and, as humiliation breeds defensiveness, the more defensive the targets became, the less cooperative they would be, and the less willing to implement painful interventions. Thus, concerns over the future effectiveness of group decision-making and the quality of collaboration underlay the introduction of procedural justice.

Moreover, a more to-the-point definition of problems arising from divergent strategic and operational expertise could obstruct acceptance of the new statute on the alliance's organizational ordinance.

In view of the above, one could readily anticipate that problems arising from the above disparities might impair the quality of joint business actions. The only realistic strategy was therefore to admit the diversity and assume that in future it could delay interpartner consensus. In this context, the EEIG's power structure had to be formulated in a manner anticipating the inherent conflict potentials. Resorting to power advantage as a means of controlling the process of decision-making would be dangerous, as it might coerce the smaller partners into participating in individually disadvantageous projects. Such a situation might reduce the voluntary commitment of these parties and incite to withdrawals.

This behavior suggests that the members of the dominant coalitions were aware that by declaring unilateral power superiority they might achieve submission, but no voluntary contribution. It is only in an environment in which participants have the opportunity to present counter-arguments, and even provoke controversy, that solutions individually unobtainable might be reached jointly. Judging from the above perspectives, the strategy of procedural fairness seemed well suited. It utilized interpartner diversity and the need for face-maintenance in sustaining individual commitment and the capacity to deal with future conflicts.

The leading players assumed that adoption of a relational fairness principle might help to strike a sensitive balance between the bureaucratic regime imposed by the EEIG blueprint and individual freedom to opt out from outright inconvenient undertakings. In this respect, basing alliance decision-making on procedural justice helped to cut short complaints regarding the exploitation of dominant power position. As such attitudes were dangerously dysfunctional, they had to be dealt with in order to prevent relational resentment from poisoning the group's working environment. Moreover, invoking procedural justice might have also been ideologically expedient in speeding up the on-going market re-alignment between Saima and Nedlloyd and in restructuring the French partner's business operations.

5.2.3 Principles for Alliance Extension

Another issue addressed by the Articles of Association concerned the principles for extension of the alliance. The EEIG conditions stated that the grouping was *"open"* to admission of additional members from the EU countries and *Associated Members* from other countries. In addition, admission of third-category members, such as agents and franchisees, was also foreseen under the category *"Associated Members"*. A specific provision was made stating that "*the Board of Directors and the EEIG may, if this was deemed desirable in order to meet the objectives of the EEIG, appoint agents and grant licenses or franchise rights on terms and conditions stipulated by the Board*".

The latter was important as it created a new category of alliance member, one whose relational obligations towards EEIG members were regulated by the agency and franchise contract. This solution was prudent in that franchising can reduce agency problems – such as adverse selection and moral hazards – arising from any breach of contractual agreements in the field of technology and quality standards. Using franchise provision, entrepreneurs can create hybrid organizational forms that secure the desired pattern of business behavior through residual claimancy.

At first glance, a franchising agreement is simply a commercial contract regulating any transfer of rights to use a brand name or a trademark in return for royalties. However, an effective franchising agreement is supposed to guarantee a given and standardized quality of services or goods supplied. Moreover, the brand specification is supposed to assure the idiosyncratic identity of the utilities supplied. By making the services offered distinguishable in the market place through compliance with the trademark's standards, a franchising agreement may be instrumental for achieving a price premium for a given service category. Branding may be especially beneficial in a commodity market, such as transportation, where important purchasing decisions depend on price level and on-time delivery.

This solution helped the alliance to overcome the managerial limits to expansion. Since the alliance did not possess financial and managerial resources to expand through direct acquisitions or green-field investments, the franchise contract utilized the possibilities created by licensing to increase the number of partners in new geographical territories.[55]

5.2.4 Capital Contributions to EEIG Management

Another part of the Articles of Association defined the code for the capital contribution of members, and distribution of expenses and earnings from the EEIG operations. The following five clauses regulated the contribution of members and the share of common expenses:

- *each member is obliged to participate in the financial rights and obligations of the EEIG as determined by the General Assembly,*
- *expenses incurred by individual members related to the EEIG should be borne by each respective member,*
- *expenses incurred by the EEIG should be borne jointly by the members on an equal basis,*
- *if a member, at the explicit request of the General Assembly or Board of Directors, accepted taking on a specific assignment on behalf of other members for preparation of joint actions, such expenses should be borne by the members,*
- *the EEIG was not established in order to pursue profit. Earnings yielded by the operations of the EEIG should serve to cover its expenditure as well as expenditure incurred by its members as a result of their cooperation concerning the EEIG.*

[55] Moreover, the franchise contract is such a powerful legal enforcement measure that the executives of the leading coalition considered adopting this instrument to manage the founder firms' operations. The goal was to secure in the long run an adequate level of service quality and adherence to the prescribed service provision technology. These elements were necessary to establish the brand identity for the "E-1 Alliance".

Obviously, the actual capital contribution on the part of members was a function of alliance policy and the objectives specified there, the duration of time for attainment of these objectives and the resources needed, both monetary and intangible. The above provision laid down the principles for individual monetary contributions only.

These formulations generated three implications for interpartner commitment and working relations with third parties. First, the EEIG was not a joint establishment that provided financial means for investments related to consortium activities. This meant for instance that all investments in terminal facilities arising from any increase in business volume and/or reconfiguration of service provision remained within the purview of individual partner decisions, with all the risks and benefits inherent in such undertakings. The same pertained in the case of investments in EDI systems, common software, and/or fleet capacity.

The second important limitation was that the EEIG did not concern itself with management of the alliance's daily operations and profit generation. The EEIG's mission combined strategic planning, development of new/better technologies for service provision, dissemination of technology advances across all alliance members, and extension of the alliance's spatial reach through admission of new partners. Finally, the third implication was that the alliance and its organizational superstructure could not perform as contractual partners *per se* in business transactions with third parties. It was the individual franchise holders, or the founder firms, who retained the right to make contractual deals and assume contractual commitments.

The function performed by the EEIG therefore resembled to a certain degree the role of strategy developer performed by the top leadership in multidivisional corporate systems.

5.2.5 Rules Concerning Withdrawal from the Alliance and Dissolution of the Venture

The Articles of Association specified the rules for withdrawal from the alliance by stating that *"any member may terminate its membership with one year's notice"*. In addition, the contract specified three circumstances under which the General Assembly might terminate the membership of a given party should it deem such a decision necessary. These contingencies occurred when:

- *the member had materially violated its obligations under the Articles of Association or any resolution duly adopted by the General Assembly and the Board of Directors*
- *the member suspended its payments (to the EEIG fund), went into receivership, became declared bankrupt or entered general arrangements with creditors due to insolvency, and*
- *when the third party, who was not a member of the EEIG, acquired shares in a member or if a member acquired or entered into an alliance with an undertaking competing with the EEIG, or if the control of a member was changed.*

In addition, the agreement stated that the member whose membership had been terminated (for whatever reason) did not have the right to:

- *use the name "E-1 European Distribution System"*, or
- *hold, use or dispose of computer programs or other software developed and owned by the EEIG.*

Although the EEIG's establishment was of a perpetual nature, the contract comprised a clause on dissolution. Liquidation was subject to a resolution of the General Assembly. The contract stated that all legal action performed under dissolution had to be governed by the law of The Netherlands, which also guided the dissolution procedure.

Summarizing, it may be said that the ingenuity of the EEIG blueprint was its practicality. The coordination of interpartner actions was functionally simple. Interpartner trust in the soundness of alliance-mandated decisions was enhanced through procedural justice. Application of relational fairness was prudent bearing in mind the substantial differences that still divided the partners. Compliance with the Board's decisions was facilitated by securing the smaller partners' confidence that their individual interests would not be compromised for higher-order goals. Together, these formal and informal structuring measures stimulated to voluntary contributions, which were necessary for creating a discernible competitive advantage.

One of the Nedlloyd executives and EEIG's co-founder described the EEIG's mission in the following manner: *"We think of ourselves as a "brainwave" enterprise, and not as a piece of hardware. What we need here is a good deal of innovative thinking and bold business ideas for aggressive strategic development ".*

5.2.6 Formal Limits of the EEIG's Liability

Adoption of EEIG's model for management of the alliance was also imbued with considerable risk of litigation from the unlimited joint liability that the partners bore for harmful consequences of actions performed under fulfillment of EEIG's duties. The possibility of joint, several and unlimited liability urged the partners to install a *"fire wall"* within the consortium structure. This was necessary to limit the risk of liability for consortium members or their licensees for accidents incurred during the handling of hazardous materials (hazmat) or by systematic errors in the operations' manual. Such failures could considerably damage freight shipments under trans-loading operations.

The risk that such acts could cause damage to cargo, injury of human life and/or third party property impelled the partners into limiting their liability for these occurrences. A solution was therefore devised by which the proprietary title over the *"E-1 Alliance's"* trademark, operations management manual, service provision technology and software was held by a shallow holding company. Such an entity was created to act as formal owner of franchise rights on behalf of the alliance founders.

The purpose of this arrangement was to limit the asset base from which claims would be paid in the case of indictment or lawsuit. This provision reduced the scope of liability for compensatory and/or punitive damages to the resources controlled by the holding company. In legal terms, the above meant that the consortium was considered as an independent entity without recourse to assets controlled by the founding firms. This provision mitigated any risk threatening consortium solidity and the sustainability of partner collaboration.

5.3 Summary

In the foregoing, measures affecting interpartner dealings and formal design of the alliance organization were identified comprising a mixture of formal contractual provisions and social structuring mechanisms.

The first formal structuring instrument involved the franchise contract that laid down the principles for standardization of service provision in international markets and geographical expansion. The second involved the EEIG blueprint providing the legal framework for the alliance's consortium and the Articles of Association, which defined the alliance as a private unlimited liability company.

The informal influence measure included the relational fairness that curtailed the formal powers of the alliance statutory bodies. The primary purpose of this social structuring was to enhance interpartner trust. Trust was needed to motivate the smaller partners into accepting the restructuring hazards in exchange for a formally confirmed assurance that their partisan interests would not be compromised by the dominant coalition.

It has to be observed, though, that the formal and informal control measures had one underlying motive. They both sought to boost the level of partner commitment through two types of relational influence. The first was normalization of participants' expectations regarding the performance of joint business actions, while the second involved a co-opting strategy that fostered alliance loyalty.

The subtle difference between the formal and informal control instruments might not arise from the overall goal sought, which involved conferring a higher legitimacy level on the alliance venture. Rather, it might emerge from this goal's inherent complexity and shifts in different aspects of goal emphasis at different points in time.

Whereas the EEIG blueprint and Articles of Association provided a set of rules that players could take for granted when defining working relationships with each other, the principle of procedural fairness boosted a general conviction that the alliance's existence was dependent on partners' voluntary commitment and proprietary contributions. The need for alliance loyalty derived from the voluntary nature of the alliance enterprise and the relative ineffectiveness of hierarchical power in securing spontaneous contributions beyond the call of duty.

In other words, the measures of relational control represented both the *authoritarian* and the *democratic* leadership style. The *authoritarian* managerial style was represented by the formal power hierarchy and the means of contractual enforcement. The *democratic* mode of leadership was evident in the adoption of procedural justice, the purpose of which was to secure alliance allegiance on the part of the minority faction.

The above provided several interesting insights in relation to the theoretical model. This framework distinguished between three leadership styles: *authoritarian, democratic and laissez-faire* and proposed how each of them might affect the process of group decision-making and decision outcomes.

The occurrence of these three leadership styles was readily identified during the development cycle of the alliance. It also appeared that the laissez-faire situation was most prevalent during the formative stage in the life of the venture, and came to the fore specifically under market re-alignment, when the re-structuring project was brought to a standstill because of the lack of a central coordination body.

The rationale behind the authoritative and democratic styles of alliance management emerged from the need to perform in two market environments – the Pan-European, which involved the corporate customers, and the domestic with local customers and operations. These two management techniques were adopted to achieve a balance, delicate though it was, between the standardization of international operations and the needs for standard heterogeneity to meet the demand idiosyncrasies, and for rendering these two lines of service provision profitable within the alliance system.

6. Accomplishment of Systemic Fit

This chapter explores the partial processes and measures which led to attainment of systemic fit within the alliance system. More specifically, it unpacks the *black box* of alliance evolution by bringing to the surface the efforts mobilized by partners under the integration process and the outcomes that these efforts brought about. The exploration focuses on the cycle of decision-making and decision implementation, and which involved the managers from all seven alliance firms, although the degree of individual participation varied at different points in time. The restructuring process was induced by problems with interpartner collaboration and complaints from customers – factors which led to recognition of the need for change. This realization later came to affect the scope and direction of interventions and their outcomes.

The exploration is in four thematic sections, the first reviewing the circumstances that affected choices of intervention domains and intervention measures. The second part of the framework aligns the enactment process and identifies the factors that both fostered and hampered the restructuring. The third section explores the factors that produced the systemic fit. Finally, the last part of the chapter explores the nature of interpartner fit in order to assess the chances of fit stability and venture endurance. The purpose of this discussion is to conjecture whether the venture could fall prey to forces of disruption, or whether it stands a good chance of durable existence. Finally, the results from the partial analyses of the decision-making cycle are summarized in a causal network of sequenced alliance change scenario.

During this exploration we varied the analytical notches up and down in order to capture the different factors that at different points in time affected evolution of then alliance. In some places the strings of variables were lumped together and then arranged in several layers of development. These streams were then subdivided in order to expose the shifts in causal directions. At other sites, the variable chains were broken down in order to expose the partial development scenarios, which explained the contents of important subprocesses. In still other parts of the exploration, a series of partial changes were pieced together and matched across several domains of intervention in a detail transformation scenario that produced several mini-cases composed of specific events and various combinations of actors.

6.1 Decision Framework for Interorganizational Change: Part 1

The first part of the decision framework is shown in figure 6.3.1.1, presented later in this chapter, where a causal sequence alerting partners to the need for intervention and instigating the change process is presented. Although the classification model overstates the linearity of the development process, it arrays the most crucial events that shaped this progression. The model specifies forces that pushed the alliance partners to accept the status-quo disruptions and implement several types of intervention.

6.1.1 Problem Recognition

Interventions into operational domains were preceded by acknowledgement of interpartner diversity. Acceptance of far-reaching changes derived from collaboration problems, such as the disparate quality of services provided to corporate customers and incongruent operations standards generating pressures for adjustment of individual performance and management models. Confronted with these pressures, all partners agreed to consider and approve a set of interventions that, at a given point in time, appeared to be needed for the desired level of fit.

At the outset of the life of the alliance, the managers had only a vague idea about how large and broad the interventions should be, and how a new system of service provision should be designed. Nor did the partners manage to reach a consensus on principles guiding their mutual dealings and collective task performance.

6.1.2 Problem Definition: Assessment of Urgency and Importance

Several important and urgent problems were probably ignored at the appraisal stage, and would have brought the intra- and interorganizational change process to a halt. This group of problems created a backlog of pending issues which later came to hamper the restructuring project. Other, probably equally, important and urgent problems were recognized and perceived as deserving to be dealt with. These were the issues that eroded the alliance market positions and/or threatened the benefits of collaboration.

Once the types and the scope of business problems had been recognized, the decision process began and entered a stage of problem-definition. This stage of group decision-making determined whether a given set of problems was clearly or ill-defined.

Clearly defined problems were those in which the cause and effect relationships were well understood. This generated obvious responses and remedies that although perceived as costly were deemed as workable. These problems were therefore readily resolved assessed on the basis of urgency and importance. The solutions to a clearly defined problem, one attributed with high urgency and high importance, were assessed through a series of large to mid-scale internal studies and probes into alternative options. In the case of disarray in which the cost of removal was prohibitively high, the response from the upper management was conservative: Search for new solutions and no action in the meantime.

Interventions that required dramatic rationalization and/or divestment were excluded from the action plans, one reason being past efforts to expand the firms' domains and consolidate the captured positions. Managers resisted pressures to change because these threatened market positions and their own personal stakes achieved at great expense of effort and perseverance.

6.1.3 Objectives and Measures

Empirical evidence reviewed in the foregoing indicates that the interventions attributed with *"Prohibitively High"* or *"Extremely High"* costs of execution involved realignment of individual operations domains and reduction of individual decision-making autonomy. Little wonder then that this range of decisions was not approved for immediate implementation and that these problems were left to linger. The high risk of unrecoverable costs of status-quo disruptions was the main reason these interventions being stopped, but the effect was functional inertia.

Moreover, several matters complicated the execution of decisions with a high failure potential. These interventions required changes in several other operations areas that were tightly related to other functions, which again were not related to alliance business. Because such decisions involved discontinuation of technologies, procedures and business relations, an immediate assessment of risks was outside the managers' zone of experience. The top managers therefore did not know how to proceed before the cost of implementation was better approximated and the assumed outcomes could be assessed through relevant studies.

6.1.4 Assessment of Implementation Costs and Difficulties

Not all clearly defined problems attributed with low urgency and high importance, whose resolutions were feasible but costly, became targets for immediate action. Still, when the costs were assessed as moderate, such as those related to investments in compatible communications systems, the solution was approved for rapid implementation. The practical implementation was left to functional units under the supervision of middle-level management after the general consent of the upper leadership had been received and resources allotted.

On the other hand, the entire class of ill-defined problems for which the cause and effect relationships remained unclear, and where the causal attributions varied across partners, was left pending. There were no responses for this group of problems and no workable options were sought. The underestimation of several important problems and their consequences produced a false sense of security.

The above led to misconceptions of decision urgency and so delayed the search for the solution and assessment of implementation constraints. Attributing these issues with low urgency signaled that they were less important and lacked the status valence that would have prompted the alliance managers to search for new options. These issues were therefore put to the side and defined as ill-suited for intervention.

However, not the entire class of issues attributed with high costs of implementation was overseen and removed from the change agenda. Some issues commanded formal studies of intervention measures, which outlined the probable outcomes. These studdies were carried out by internal experts or external consultants and lawyers. Common to these two undertakings, however, was that both the well and the ill understood issues with high and low levels of importance became the unlikely targets for intervention.

The latter perceptions concerned highly complex integration areas in which obvious culture-related disparities prevailed. These pertained to agreement on modes of formalizing alliance status, coordination of idiosyncratic marketing practices, leveling of service quality differentials and operational efficiency and harmonization of labor-relations management. Disparities, which required investments in production apparatus or technology improvements, have also been defined as insurmountable and difficult to tackle.

The reason lay in the large amount of resources required for such interventions and the fact that only a few partners were in a position or wished to mobilize these assets given the loose structure of collaboration in the alliance and uncertainty related to the venture's existence.

In this situation, a number of both well-perceived and ill-perceived problems with high and low importance and urgency were removed from the action plan until more information was available.

However, the attitudes of managers to problems differed and interventions were delayed. In the case of clearly defined problems, the managers were aware of the hazards arising from interventions into most of the vital areas of firms' operations and market coverage. In the case of ill-defined problems, however, the scope of difficulty was underestimated, the ensuing risk disregarded, and the search for new options stopped. Although in both cases the change process stymied, the reasons were different.

6.2 Implementation of Interorganizational Change: Part 2

Approval of the scope of interorganizational change ended up with agreement on the range of intraorganizational modifications and market re-alignments that required intervention. The majority were related to implementation of *"Moderately"* difficult interference. The prospects of implementing interventions perceived as *"Highly"* important and urgent and those with *"High"* and *"Prohibitively High"* costs of execution were slim, as these were either ignored or subjected to further study. Thus, the implementation process was limited to interventions that were accepted beforehand and scheduled for execution. Figure 6.3.1.2 (further up) aligns a set of criteria that guided the acceptance or rejection of various intervention classes.

6.2.1 Interventions Adopted

The first step in intervention approval involved determining the scope of disarrays, the range of rationalization, and the need for re-design of service provision networks in home and foreign markets.

Execution of intrafirm change required both minor adjustments and highly disruptive interference, and connected with this were decisions regarding the level of managerial involvement in supervision and coordination of the change process. The data indicate that the level of involvement of different management echelons was not always adequate when judged by the importance, urgency and complexity of the problems faced.

6.2.2 Managerial Involvement in the Change Process

Non-disruptive rearrangements, which required narrow managerial involvement, have been implemented by single professionals in functional departments or by interdepartmental teams. Their implementation was carried out quickly, but acquired low status. Plans were implemented on time and within budgetary constraints, but inspired little enthusiasm outside the project teams and earned little appreciation from upper management. These types of project involved synchronization of vehicle routing and staff re-location across different service-provision stations. The effects were small-scale adjustments which only marginally improved the overall integration level.

Non-disruptive changes implemented with broad managerial involvement were designed by cross-functional teams manned by experts from partner firms. These groups worked on removal of important misalignments, e.g. narrowing quality gaps in service provision and adopting common coordination tools for international performance. Progress on these projects was initially significant, but evolved into inefficiency; with targets only vaguely defined it became difficult to draw a clear borderline between areas of intervention and related domains.

Deadlines were consequently over-stretched and the budgetary limits overrun. Moreover, some participants even lost interest and motivation as they felt pressed to accept metrics designed by others. Related were also pressures for reconfiguration of individual networks and standardization of service quality in markets with variable demand patterns.

The alliance's partners found it difficult to agree on common standards, because given the idiosyncratic features of domestic markets there was no single *"correct"* standard that would satisfy all clients. Still another matter dividing the partners was how some of them required higher quality levels than others while not being able themselves to satisfy the quality standards which their counterparts required. Small wonder then that adoption of common standards generated disagreements that delayed interpartner adjustment and damaged the working climate.

As these issues ranked relatively highly in importance and urgency, the work process attracted the attention of middle-level and (occasionally) upper-level managers. In particular, executives from the DanTransport group of companies and Nedlloyd N.V. were active on expert committees working on the design of common operations standards.

The effects of this work process did not crystallize easily. A myriad of standards hampered the adoption of common metrics. As the changes proposed did not materialize in clearly cut blueprints, several projects were brought to a halt without any tangible outcome, and standardization was postponed. Moreover, only a few painfully agreed-upon proposals gained advisory status and stood to be accepted by the top leadership.

The implementation of highly disruptive changes, which commanded a narrow involvement of middle and upper-level managers, fared little better. Although several proposals devised by operational experts and cross-functional teams were accepted for implementation, their implementation was slow due to resistance from workforce and line managers. It was a painful process with a high level of confusion and a lack of clear-cut direction. The smaller partners resisted the pressures from the dominant coalition. The power tactics, which the leading partners mobilized to enforce the change process, alienated the targets and stopped restructuring.

6.2.3 Level of Implementation and Types of Outcomes

The restructuring was partly hampered by the lack of clearly defined principles for project management and a clear-cut design of new solutions, and partly due to link-ups to several other operations areas in partner firms. So, although these issues represented only moderate functional complexity and concerned subjects on which a general consensus had previously been framed, the lack of administrative centralism brought a halt to the implementation process.

Such was the case with installation of EDI and bar-coding systems. The technical standards had been agreed-upon beforehand. Still, the practical installation was delayed due to the lack of technical compatibility between the partners' hardware and the negative attitudes on the part of the smaller firms' employees towards use of electronic tools for tariff calculation, vehicle routing, and tender bidding. The DanTransport network of Nordic companies was the most advanced with regard to the use of electronic information systems. The degree of electronic advancement within Nedlloyd's corporation varied across the countries of operations with Van Gend & Loose from the Benelux region representing the highest advancement level. Saima Avandero and Dubois lagged behind on this issue. As both firms had much lower technical capital endowment than the other partners the attempt to computerize operations design and service supply management was resisted at floor level.

Implementation of highly disruptive changes with a high level of difficulty and outcome uncertainty commanded the involvement of top management. This intervention category involved re-alignment of market coverage, re-design of traffic networks and diversion of freight flows from the present routes to a system of gateways and hubs controlled by alliance partners.

Although the top leadership was aware of the significance of these interventions for functional fit, responsibility for their implementation was delegated to the middle level managers. The result was different perceptions of urgency and importance held by those responsible for interpartner restructuring. They lacked the strategic appreciation for the changes needed and the executive powers to coordinate the restructuring process across several layers of native organizations and across partner firms.

Top management did very little to raise awareness of these issues among the middle-level managers. Instead, it pressed for more expedient project execution. Moreover, the plans for systemic restructuring of the market coverage were not sufficiently elaborated nor were the consequences adequately appraised. Consequently, the top management was reluctant to admit the possibility of high financial losses that could result from these re-locations. The middle managers were therefore too quick to assume responsibility for highly risky actions which could lead to financially devastating results. Little wonder then that re-alignment of the foreign market coverage was stopped due to the lack of managerial expertise, lack of clearly defined assignment of responsibilities and duties, and lack of coordination at interfirm level. Issues such as dismantling double and triple presence from the same markets, bridging the gaps between services supplied and services required and terminating business relations with external parties were thus left lingering unresolved.

This functional inertia was a product of three types of conflict that inflicted the partners, diminished the effectiveness of group performance and postponed the implementation of new solutions. *Relational* conflict concerned interpersonal relations and was shaped by professional incongruities and disparate cultural identities of group members. *Task* conflict involved disagreements about the content of the goals for the work to be done. *Process* conflict was related to the measures for how the work should be done and which operational and technical standards should serve as the alliance benchmark. All these developments were potentially disastrous if not brought under control and managed adequately.

The more the implementation process was delayed, the higher was the resistance of employees and operational managers. Employees were threatened with the possibility of lay-offs or transfer to other partner firms. The positions of operational managers were endangered by the shutdown of foreign production facilities and re-design of operations patterns. The result was chaos and a deepening cleavage between the individual partners and the lower and upper managerial staff within individual firms.

6.2.4 Strategies for Regaining Momentum

The data show that the lack of clearly crafted decision rules and procedures for project implementation ignited crises that blocked the transformation process. As these crises escalated to antagonism, they eroded partner confidence in their venture and in the virtues of collaboration. Consequently, the fear spread that persistent crises would cause several withdrawals and lead to network implosion.

The lack of any clearly defined authority for managing the restructuring process produced a situation in which it was in the interests of all players to slow and delay interventions whose costs appeared too high and outcomes uncertain. It was painfully visible that all players were putting their own interests first and that not much commonality of interests existed. In this type of business setting, neither the most well-meaning intentions nor the best designed process would get the job done.

The ultimate solution was that some managers had to roll up their sleeves and dive into the interorganizational fray, putting to use appropriate and effective tactics that would make their vision a reality and their project ongoing. In these circumstances the coalition executives of DanTransport and Nedlloyd decided that the time had become ripe for more focused action. These managers engaged in difficult acts of self-inquiry that led them to take calculated actions based on their personal understanding of what was right in a given situation. The decision taken invoked mobilization of the network power that these two parties controlled and the use of social dominance tactics for resuming the restructuring process. Wielding social power was thus considered a measure of necessity that served the purpose of restoring the discipline of interpartner dealings. In this situation, the DanTransport and Nedlloyd executives assumed the role of *"problem owners"*.

The motives for assuming the *"problem owner"* function derived from a broad perception of *"enlightened self-interests"*. First, the leading coalition appreciated the sunk costs of interventions so far completed and saw the immediate need for dealing with the crisis in order to prevent the integration from derailing. Moreover, a desire to achieve something bigger than individually possible through common action might also have underlain this decision. Finally, the cravings for gaining social recognition might also have provided the impetus for these executives to accept this role under the assumption that the *"problem owner"* position provided them with an opportunity to employ their professional faculties and save the venture from oblivion.

In addition, the large scale of operations and the superiority of technical skills strengthened these players' personal and professional image. So, in their attempts to save the venture from disruption, the *"problem owners"* voluntarily performed the following tasks and assumed the following duties:

1. They structured the problems in hand. Through arraying the problems by level of complexity in various collaboration areas, they managed to define the major hindrances to alliance integration.
2. They involved themselves in searching for solutions to important problems, devised the functional options, and assumed responsibility for their implementation. Next, they explored what these options required from the particular members, and started coordinating the members' performance.
3. They decided to act after having assessed the pros and the cons of the strategies chosen.
4. They appointed their own experts and professionals as project managers to supervise the pace of intra-partner re-alignments and restructuring of smaller partner operations.
5. They designed and imposed a set of decision rules on alliance partners by adopting a hierarchical governance model that controlled the individual partner's adherence to common performance standards.

The data revealed that severe barriers to integration emerged in those areas of collaboration where no single actor assumed the responsibility of *"problem owner"*, and where no authority existed that could commit all partners to complete the agreed-upon restructuring. In this context, it became obvious that the assemblage of stakeholders who, although nominally interested in more integrated conduct, remained ineffective were not sufficiently motivated to complete this task.

Managerial sources at DanTransport and Nedlloyd indicated that the implementation crisis was caused by two types of disparate behavior mobilized by the partners in various integration areas:

- In certain areas all partners wished to control and coordinate the change process.
- In other domains no single partner wished to coordinate or control the integration process.

In the latter situation the implementation failed due to the lack of one strong problem-owner who could supervise and coordinate the actions of the various actors. Despite the fact that all partners were deeply dependent on the creation of a more efficient venture, they all saw themselves as only ancillary units implicitly leaving to *"others"* the critical task of restructuring management. The vacuum that emerged from the lack of a coordinating agent hampered the progress and eroded the partner confidence in the alliance project.

In the first situation, the crisis emerged because too many partners aspired to the role of *"problem owner"* and ended up competing one against the other. Both situations generated widespread frustration and resistance to change.

However, the duties arising from the *"problem-owner"* function were difficult to discharge owing to the lack of formal authority over the production assets of the smaller alliance partners. In the circumstances the DanTransport and Nedlloyd executives utilized their geo-economic and professional advantage. The first emerged from the fact that because of their size and location advantages, both DanTransport and Nedlloyd controlled the traffic crossing the entire European continent on which Saima and Dubois were heavily dependent. The strategy used represented a mixture of strategic threat and professional assistance.

The threat arose from the possibility to cut-off the two South European firms from access to large goods repositories feeding southbound and northbound pipelines and generating large amounts of shipments that the two smaller firms distributed in their domestic markets. The professional assistance involved a transfer of managerial and operational expertise from the large *"problem owners"* to their smaller colleagues.

The measures of assistance varied between recipients, but the goal was the same. For Dubois it was financial aid and the acquisition of an executive mandate to supervise the firm's restructuring. This involved staff rationalization, reconfiguration of physical facility networks and re-design of service supply operations. For Saima, the aid involved professional consultations and the use of in-house experts to design ready-made solutions for field applications.

These actions, coupled with the revival of negotiations with Saima on the cessation of business links with third parties operating in the markets served by Nedlloyd and DanTransport, brought about a series of breakthroughs which restored the collaborative spirit among the partners, injected new vitality into alliance collaboration, and strengthened interpartner bondage.

Figure 6.2.4.1 illustrates intertemporal distribution of events that drove the implementation processes through four stages of crisis-laden succession.

The implementation scenario is composed of a variable chain divided into four sequences. The first phase incorporates a set of contextual preconditions that triggered the integration process. The second stage includes a series of events that shaped the relational crises and reversed the integration trajectory. The third stage embraces a series of actions that punctured the stalemate and produced a breakthrough. Finally, the fourth group of determinants maps the endeavors that put the integration process back on track.

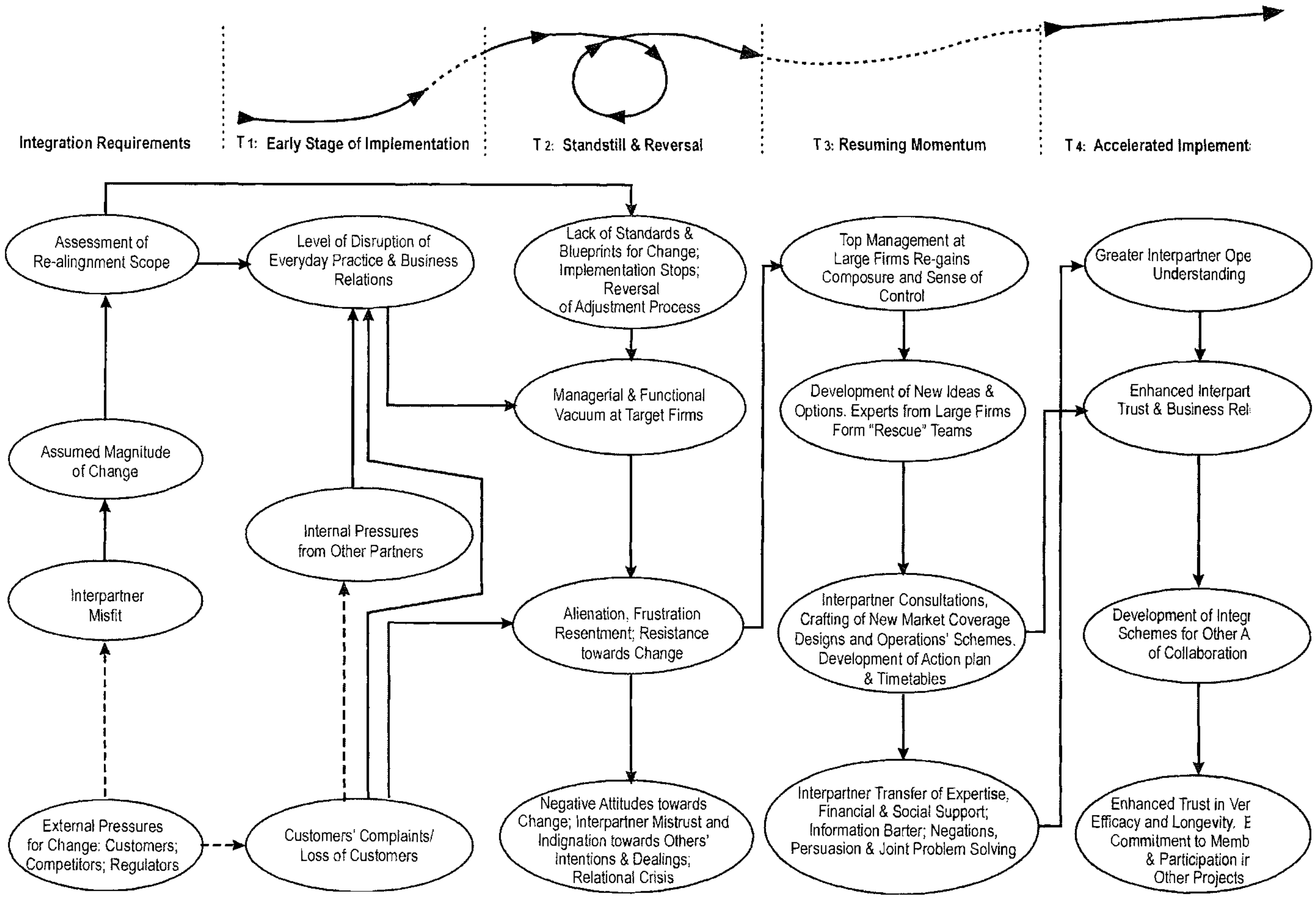


Figure 6.2.4.1: The Causal Flow of "E1-Alliance" Integration

6.3 Determinants of Systemic Fit – Part 3

It would, however, be inaccurate to assert that the duty of *"problem owner"* assumed by DanTransport and Nedlloyd served solely the good of the venture. Several pieces of evidence imperil this thesis. The acts of *"corporate welfare"* that helped the two smaller partners to improve their competitive standing produced positive outcomes for the donors, too. It was quite apparent that the stronger partners were highly dependent on Italian and French markets for flow consolidation and extension of their own catchment areas. One important reason was the fact that these two had more corporate customers with a global scale of distribution. Thus, the need to retain the Pan-European customers bred dependency on adequate service quality in the South European markets. Therefore, both DanTransport and Nedlloyd used their power advantage to steer the alliance performance in line with their own preferences.

However, it has to be admitted that the measures employed paid service to the voluntary ordinance of the alliance.[56] Yet the motives were mixed, with a time-changeable focus on self-benefiting and alliance welfare. The above underpins a conclusion that self-enhancement was also a driving force behind the decision of the large player. In these circumstances, the *"problem owner"* function was helpful because it provided a foothold in alliance management, an opportunity for system architecture and rehearsal of leadership prowess.

However, it has to be observed that the actual power use was limited to utilization of professional and technological superiority,[57] and that threats arising from the Pan-European hegemony were never activated.

The process of joint standard development was choreographed through interorganizational bodies in which all alliance members were represented. These bodies designed new operations solutions using inputs from all partners. However, the large players utilized their status differential by influencing the quality metrics, operationally validating the new solutions and supervising the process of solution adoption by the smaller firms. Still, the solutions proposed had a documented technical and functional utility, and therefore stood the chance of being accepted on efficiency merit.

Since the leading partners were careful not to invade the target firms' decision-making autonomy, this form of power wielding was free from coercion. Over time, the skills with which the leading players handled the restructuring crisis earned them the respect of smaller colleagues.

Mobilization of a power advantage can help to explain a paradox of two seemingly inversely related variables: Power and trust as two measures that facilitated the integration process. Paradoxically, power mobilized under performance of *"problem owner"* duties actually restored trust among the partners. The reason lay in implementation of a *"fast track"* policy for system transformation. The process of implementation showed that the power users did not harbor any exploitative in-

[56] A powerful argument supporting this contention derived from the fact that neither DanTransport nor Nedlloyd used the ownership rights arising from their control over Dubois shares and refrained from acquiring the majority stake in the French company after completing the restructuring operation.

[57] Plus adoption of EU legislation designing the formal organization of the alliance.

tent, but instead in disciplining the restructuring process they were contributing to a more coherent alliance system.

Power was used to influence all parties (including the power wielders) to implement the interventions needed for alliance fit. In this context, the use of power advantage was socially legitimate because it was driven by higher-order motives related to improvement of the competitive standing of the entire alliance. As such, this form of power contributed to restoration of interpartner trust by helping the smaller firms to transform their strategic intentions into actions and deliver a higher quality output.

To further substantiate this conjecture we looked into features of collectivistic cultural disposition because we assumed that these background elements might provide additional explanation as to how the use of power helped to re-instate interpartner confidence. As already mentioned, the pivotal values of collectivistic culture include conflict avoidance, appreciation of consensus and group harmony (Markus and Kitayama, 1991; Triandis et al. 1988). The motives that might have conditioned the behavior of large firms could have been the cognitive tension produced by interpartner discord and group polarization. In order to change this situation, the leading players used their in-house expertise and proprietary resources to improve the output from collective action.

In this situation, the North European managers (who espoused the collectivistic value orientation) might simply have acknowledged that it was their duty to resolve the relational conflict. However, this did not mean that all members of an intercultural decision-making group that included protagonists of individualistic values were willing to immediately accept the solutions proposed. Therefore, in a situation laden with intercultural conflict what mattered was an ability to elevate the focus from the most immediate objectives to long-termed collective objectives. The above meant disciplining restructuring behavior by defining the problems faced and enforcing technically workable solutions. These tasks mandated the use of two types of power: Situational power and expert power, which together broke the vicious circle. Yet their purpose was virtuous because power was used to speed up interpartner convergence, and so enhanced the chances of alliance longevity.

6.3.1 Intervention Outcomes and System Endurance

The link between the restructuring process and alliance endurance was assessed from the intervention in a reverse way and from the temporal duration of intervention outcomes.

The quality of systemic fit, and its durability, was thus dependent on the scope of non-reversible and reversible interventions introduced to the systems of individual firms plus the range of social relationships that partners established under collective task performance. Several features of reversibility construct are aligned in figure 6.3.1.3. Interventions into operations, market domains, and strategy making have been dichotomized by the short- and long-termed causal impacts on systemic fit.

The short-termed reversible interventions, although important in combating incidental adversity, did not produce long-lasting effects. Their impact on interpartner fit was contingent on the number of resources mobilized, the scope of changes introduced, and the depth of interorganizational penetration. As the case has shown, the financial intervention that DanTransport and Nedlloyd used to counteract the Huolintaksekus defection and re-establish alliance presence in the Finnish market was later scaled back as a consequence of changes in market conditions and re-appraisal of investors' strategic priorities.[58] Since these partners extricated themselves from joint investment, they reduced the scope of mutual dependence.

Contrary to the above, both the long-termed non-reversible and the short-termed non-reversible interventions created several critical changes that enhanced the stability of alliance membership and predictability of partner actions. Specifically, formalization of alliance management and institutionalization of its organization raised exit barriers for incumbent partners.

With the increase in scope of interpartner dependence, these measures have also increased the level of mutual control. The reason that the outcomes of these interventions were not readily reversible was that registration of the alliance consortium as an EEIG grouping in markets of its operations, and a large scope of contractual commitments that partners assumed by signing the EEIG contract, could not be scaled back very easily. Partners wishing to extricate themselves from EEIG commitment would need to go through several formal procedures. Moreover, the institutionalization partly standardized the technology of service provision to international customers, which benefited all partners.

In addition, severing of functional ties with third parties strengthened interpartner dependence. By engaging in frequent and repetitive exchanges with each other, partners established higher-order bonds that solidified the network texture.

The fact that both DanTransport and Nedlloyd were important drivers behind the institutionalization process reinforces conjecture that these two were genuinely interested in steering development of the alliance. To control this process they engaged in managing the performance of the venture and in designing its future shape. To control the present deals, they supervised the restructuring process and adopted higher quality standards. To shape the alliance's future performance, these leading players adopted a consortium format for managing the venture. Because these measures standardized the patterns of collaboration and partner performance, their effects cannot be reversed easily. So this type of change may be considered a predictor (not a guarantee) of venture stability and functional endurance.

Long-term reversible interventions, such as adoption of common quality metrics and a reimbursement scheme for services to freight in transit, might have produced a relatively weak binding. This is because the alliance operated in multidomestic markets with variable demand composition. In these circumstances the supply of standardized output constituted a relatively small share of alliance business, while the major benefits depended on catering to demand heterogeneity. Thus, in order to serve a large bulk of domestic customers a considerable degree of operational variance was needed.

Several long-term links therefore remained relatively weak and could be reversed. This ability confirms the hybrid character of the alliance. Hybrid forma-

[58] Here we refer to the fact that both Nedlloyd and DanTransport have scaled back the scope of their investment in BDN OY, a subsidiary established to serve the Finnish market as a consequence of Bilspedition's acquisition of Huolintakseskus. After some time, both investors minimized their financial involvement and re-deployed resources to other tasks.

tions can rapidly react to changes in environmental states by reconfiguring their internal assets, thereby counteracting the diseconomies of standardization.[59] Therefore, the ability to introduce and scale back long-term interventions could be seen as an indicator of the functional virility and competitive vigor, which evidenced the venture's flexibility to adapt.

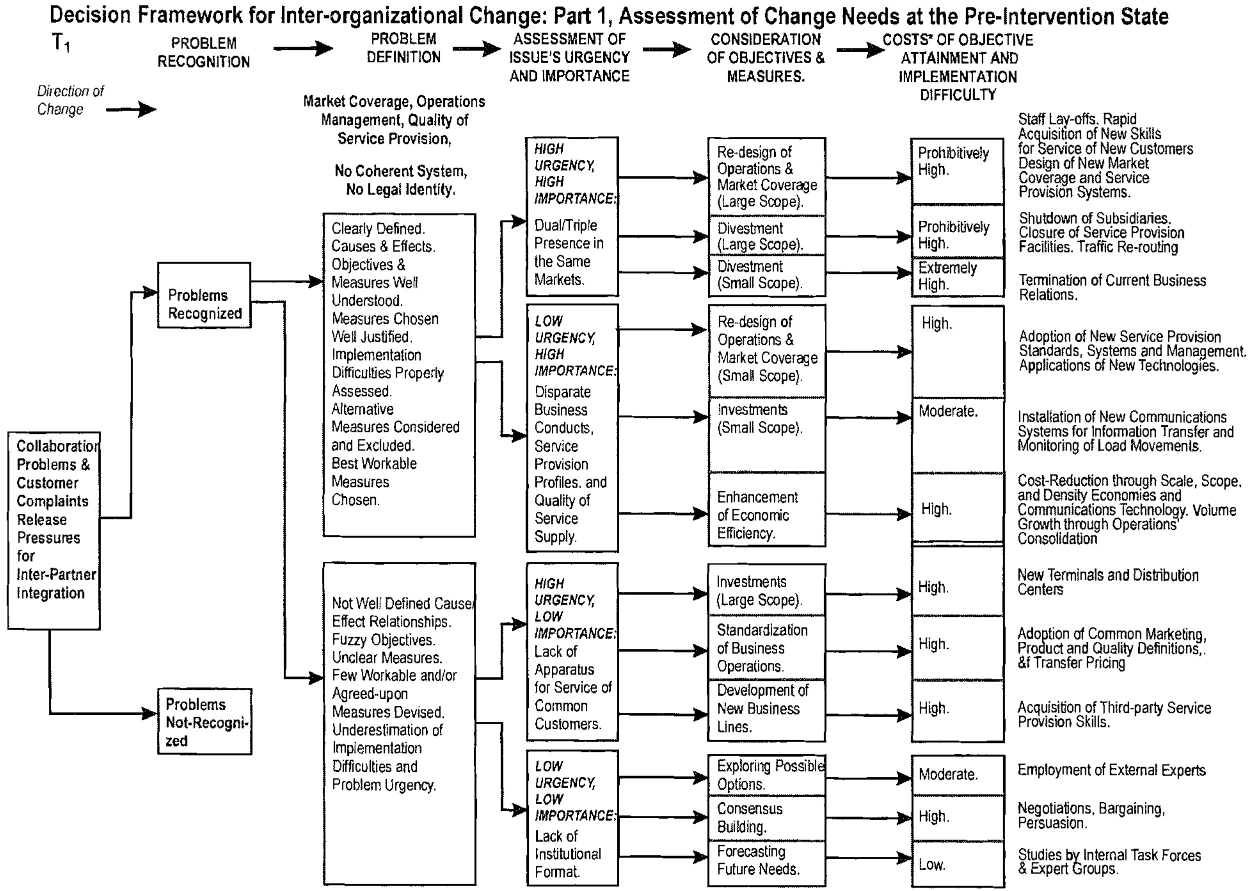
The above discussion provides a basis for two conclusions. First, the more variable the intervention outcomes the more complex the ties connecting the alliance partners. Second, the more numerous the tasks that the partners performed in concert the more advanced was the pattern of their integration, and the more durable the collaboration within the alliance network.

The various types of interventions and their outcomes are summarized in an ordered format in table 6.3.1.1. This alignment is followed by figures 6.3.1.1, 6.3.1.2 and 6.3.1.3 depicting the three sequences in the decision-making cycle, which contributed to intra-alliance fit.

[59] Here we allude to standard operation procedures used by UPS, FedEx and DHL in all countries of service coverage.

Table 6.3.1.1: The Contents of Organizational Change Achieved through Intervention Measures

Types of Change	Transitory Changes		Durable Changes	
	Short-term reversible	**Long-term reversible**	**Long-term non-reversible**	**Short-term non-reversible**
Structural	Standardization of scheduling and routing operations	Application of common quality metrics for service supply and performance management; formalization of alliance withdrawal and accession	Institutionalization of alliance's organizational format; introduction of hierarchical managerial system; adoption of franchise contract to control quality standards and protect the alliance trademark	Status division between founder and associated partners in scope in decision-making within the alliance consortium
	Sharing of terminal and warehouse facilities	Establishment of joint expert groups for quality improvement	Retention of variance in service provision, asset control and quality management to satisfy needs of local customers	Establishment of Board of Directors and CEO for management of the alliance consortium
	Joint risk-taking for vehicle utilization; signing of founder's contract; establishment of joint stock company in Finland	Subcontracting of service provision operations to partner firms in other countries; withdrawal from foreign markets defined as other partners' core operations areas	Introduction of interorganizational superstructure based on formal stature of European economic interest grouping	Adoption of EEIG status for managing partner commitments and performance; establishment of formal body for design of alliance strategies
Procedural	Active: Joint Promotion of "E1-Alliance"	Consolidation of international shipments in Pan-European hubs and gateway served by partners	Restructuring through enforcement of social power; application of tight project management standards;	Leading coalition of two partners assumes control over restructuring process
	Establishment of task forces for design of common standards for operations management and service supply	Joint service provision to corporate customers with Pan-European distribution networks	Provision of financial and managerial aid to needy partners and supervision of their restructuring	Gradual formalization of managerial rules for partner performance and contribution
			Implementation of business consolidation schemes in England and Ireland; design of market expansion into Eastern Europe and Turkey	Two leading partners control delivery strategies and project management
	Counter-action against internal defector		Adoption of formal rules and managerial predictability	Mixture of coercion and cooperation to break the stalemate
Content of Relationships	Concerted efforts to fight external adversity indicate interpartner integration	Uncoordinated efforts to disrupt status quo and establish new system lead to crisis, chaos and resentment	Transition from division and crisis to formalization of performance management	Flexibility and fellowship combined with formal rules for managing common projects
	Integration limited to ad hoc responses	Gradual development of new ideas for organization of the alliance	Institutionalization of interpartner relations through formalized decision-making	Awareness of needs for service innovation and development of new service options



* Cost was defined by the scope of efforts needed for achievement of objectives and implementation of the measures chosen..

Figure 6.3.1.1: Decision Framework for Interorganizational Change: Part 1, Assessment of Change Needs at Pre-intervention State

Implementation of Inter-organizational Change: Part 2, Post-Approval Intervention Processes

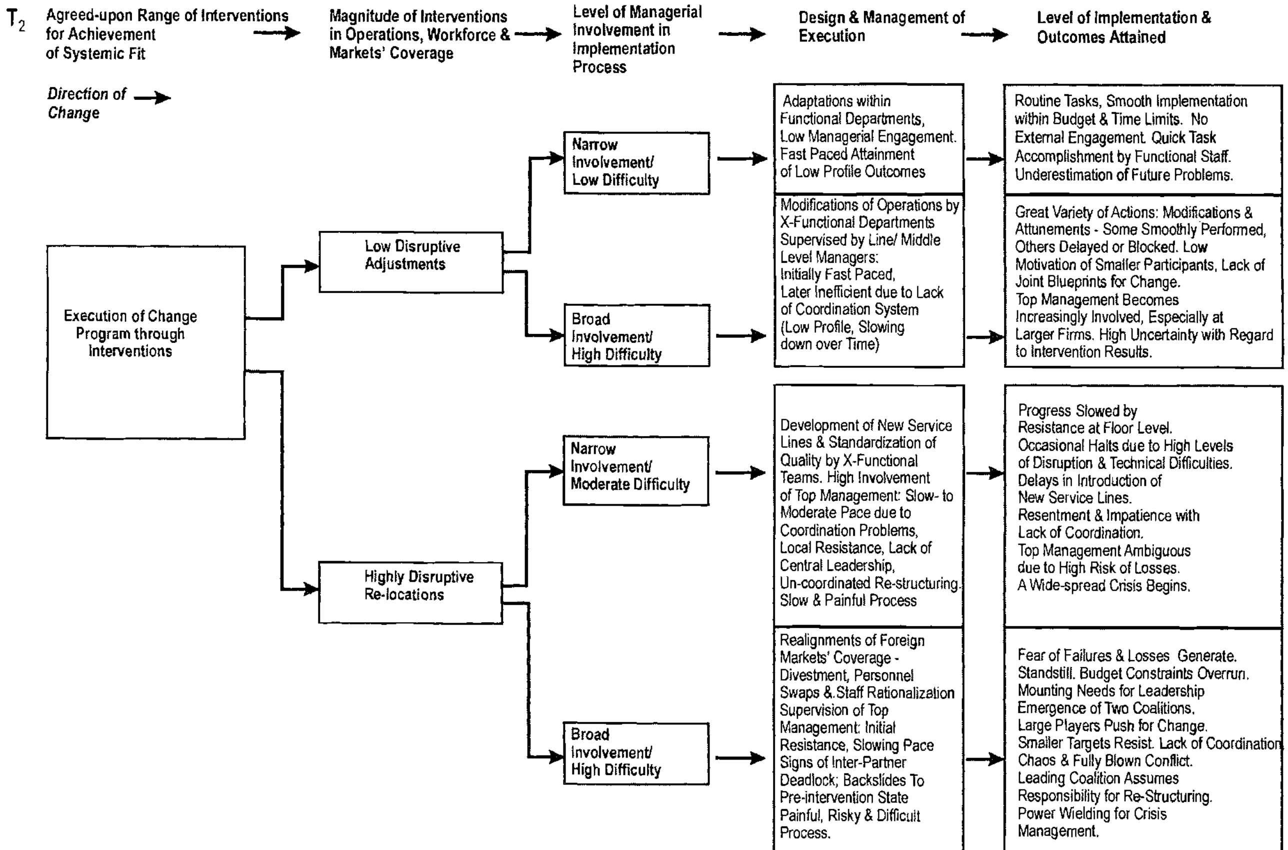


Figure 6.3.1.2: Implementation Framework for Interorganizational Change: Part 2, Processes Following Intervention Approval

Assessment of Change Outcomes: Part 3, Elements of Inter-organizational Fit during Post-intervention Period

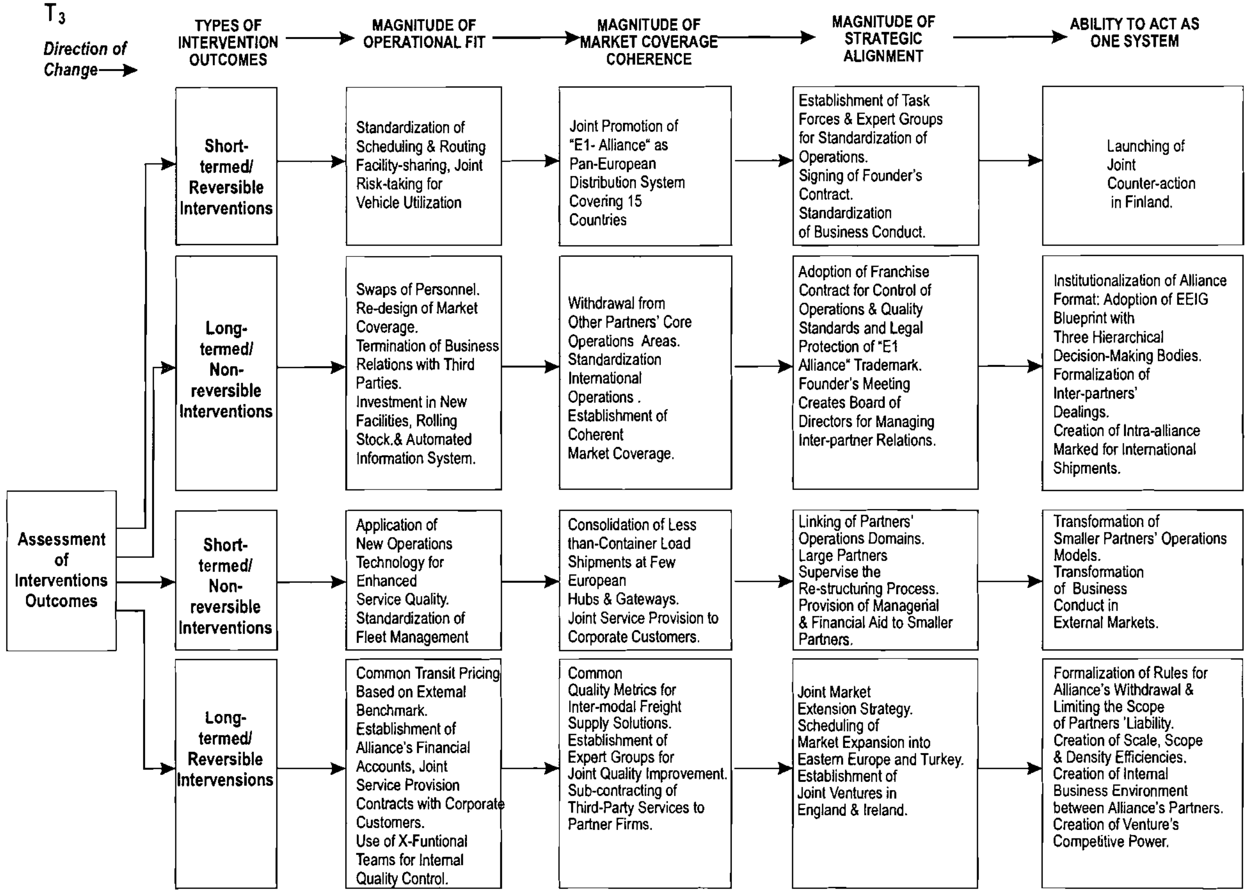


Figure 6.3.1.3: Assessment of Change Outcomes: Part 3, Determinants of Interorganizational Fit at Post-intervention Period

6.4 Synthesis of Findings

In the preceding sections, several stages in the decision-making cycle of partners were reviewed. This exploration created the basis for constructing a causal network of alliance integration (see figure 6.4.1).

Three streams of variables in the network are aligned in accordance with the causal impacts they exerted on fit building. The chart is divided into three sections composed of antecedent, intervening and outcome factors. These are marked with positive and negative signs signifying the direction of causal bearings. Causal factors marked with a plus denote positive (forward) causal impact fostering the integration process. Factors marked with minus signs denote reversal causal influence, which impeded and delayed the fit attainment.

The chart shows that three intervening and one outcome variable are attributed with both positive and negative impacts, indicating that these factors emitted disparate causal bearings during the life course of the alliance. Thus, the effects exerted by the *"Customers' Complaints"* *"Level of Managerial Involvement"*, *"Design & Management of Intervention Projects"*, and the *"Heterogeneous Standards for Domestic Operations"* varied in a causal direction at different points in time.

This suggests that the shift in causal impacts was caused by the types of managerial agent mandating the intervention, the degree of this agent's involvement and measures mobilized, and the goals sought. But the intervention impacts could also vary over time as a consequence of variance in environmental pressures. We elaborate more on this issue when we review the determinants of the whole change scenario.

The purpose of interpartner integration was attainment of systemic fit. Fit presupposed that the alliance could act as one interorganizational unit and function according to similar operations standards. Such a system would have low transaction costs due to the predictability of partner exchanges and to a highly coordinated service provision to international customers. The competitive strength of a system like this would derive from a creative integration of the individual skills of partners and put the alliance in a position to design and supply new types of solutions valued by domestic and European customers. The alliance integration would thus create several competitive benefits not available to partners acting on their own.

The above implies that the focal alliance would function as one large multidivisional system capable of competing against corporations with international market reach. This ability would come about from linking the physical market coverage of partners in one Pan-European service provision system.

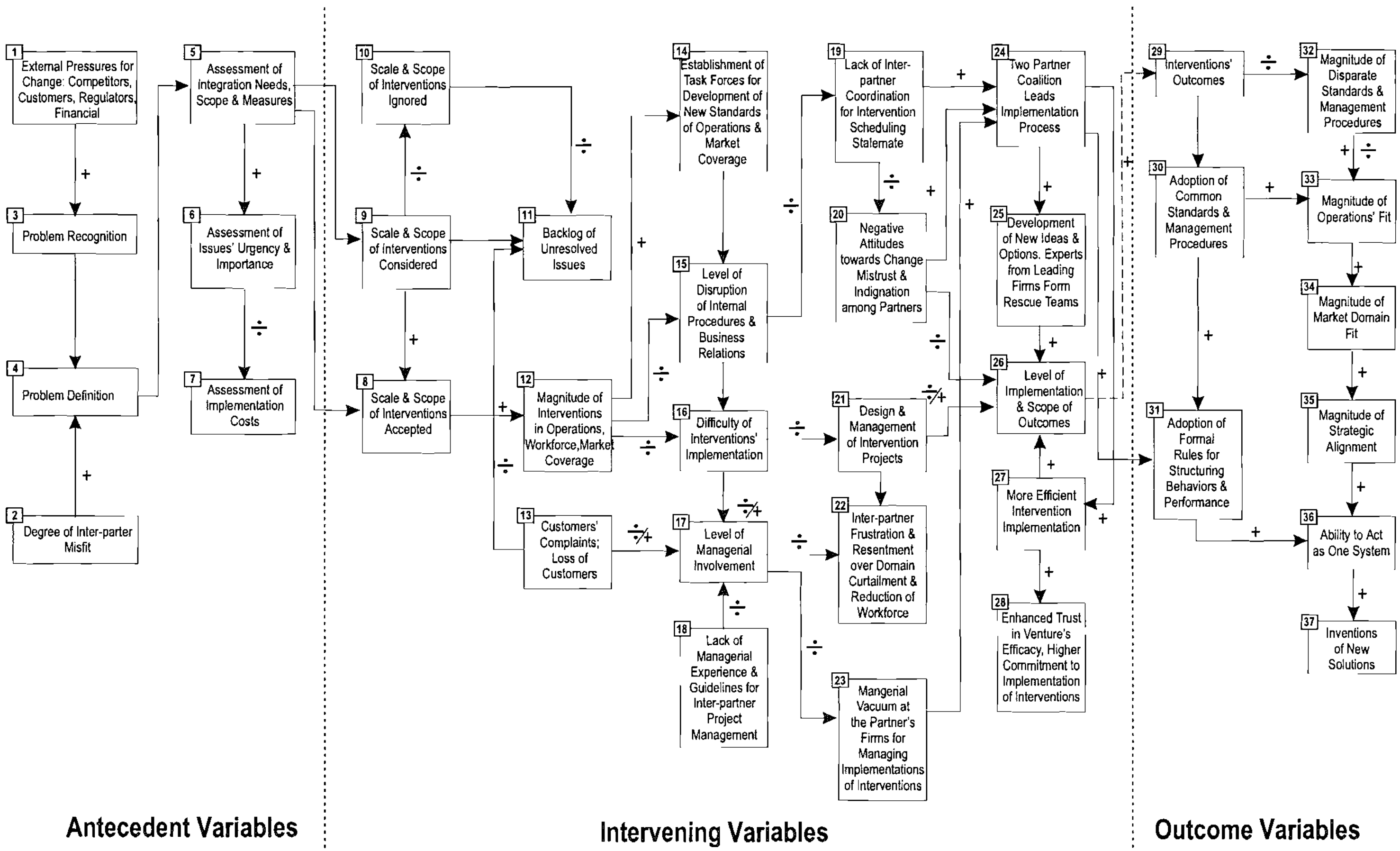


Figure 6.4.1: The Causal Network of Systemic Integration Achieved through Intra and Interfirm Interventions

6.4.1 Narrative for Causal Network

The narrative concerns the causal network of alliance integration presented in figure 6.4.1.

The first four antecedent variables (*1, 2,3 and 4*) producing the impetus for market consolidation worked in the following manner: Deregulation and liberalization of the European transportation market and the emergence of global manufacturers and merchandisers with Pan-European distribution networks created a new business environment in Europe. European managers were compelled into expanding the service supply on a Pan-European scale. A group of Scandinavian managers represented by DanTransport and its subsidiaries achieved a working consensus with Royal Nedlloyd of Holland regarding integration of two regional supply networks, the Continental and the Nordic. This working constellation was subsequently extended by the accession of Saima Avandero in Italy and Edouard Dubois et Fils in France, both controlling large domestic service provision networks. The result was an informal alliance between the four founder companies providing market coverage to customers in fifteen countries.

However, the effectiveness of the Pan-European system for service supply was impaired by a structural and operational mismatch between the partners (2). These disparities produced systemic diseconomies that hindered the partners from capitalizing on network coverage. Acknowledgement of this produced motives for tighter integration, an integration that required several interventions into the individual operations models of partners *(5, 6, and 7).*

The interorganizational misfit (2) caused problems for the partners managing operational interfaces and diminished the functional effectiveness of the alliance. The managers began to recognize the need for restructuring (3). In order to improve the effectiveness of the alliance, several functional areas in partner firms were earmarked for standardization and re-alignment (4). Re-alignment involved the removal of double and triple presence from the same markets and cessation of business relationships with third parties that operated in alliance partners' core market areas. Standardization involved supply of the same service quality, cost-leveling across several customer segments and coordination of international freight supply operations.

The above led to a preliminary assessment of intervention needs and measures (5), with the partners ranking the modifications needed by their urgency and importance (6). This contributed to developing managerial awareness about sequencing intervention actions based on the cost of implementation (7).

However, the program adopted was imbued with substantial flaws, which impeded the implementation process and diminished the intervention outcomes. The restructuring plan lacked clear-cut objectives and assessment of intervention downsides. Several objectives were not adequately explored and spelled out in discrete well-defined action plans, and their implementation was not endorsed by all partners.

It was no surprise, therefore, that the number of interventions considered (8) had to be reduced because of their complexity of implementation. The fact that some interventions were endorsed on the basis of low cost and (relatively) low implementation difficulty led to a situation where some critical areas requiring urgent and/or decisive interference were either ignored or just forgotten.

To justify this strategy, however, it had to be admitted that several urgent problems had either been non-active or not adequately understood at the time of assessment. Later, the large number of underestimated problems and the lack of managerial experience from dealing with highly disruptive interventions thwarted the integration process (8). The fact that the scope of interventions accepted was too narrow (9, 12) produced within the course of time a backlog of unresolved matters (11). The managers came under severe stress in trying to deal with a large number of highly complex issues clogging the implementation process. As a result, the backlog hampered the restructuring project *(13,19, 21 and 22)*.

Delayed standardization elicited customer complaints in markets where interventions were either inadequate or poorly synchronized (13). The complaints generated discrepant causal effects. While on the one hand customer dissatisfaction led to loss of business, on the other it alerted the partners to the need for synchronization and prompted broader managerial involvement in the restructuring process (17). However, this involvement inadvertently escalated interpartner conflict, a conflict that had its roots in different levels of partner alliance loyalty, lack of resources for implementing the alliance-mandated disruptions and lack of managerial mandate for coordinating restructuring across several firms. As the conflict evolved into crisis, implementation of the change process has came to a halt. It had become obvious that the alliance urgently needed a central authority to coordinate the implementation of difficult and vital interventions (16).

A parallel stream of causality took another path, one that shows how the need for interventions in operations, workforce and market coverage (12) led to the appointment of task forces and functional experts who defined the scope of interventions (14). The blueprints that these groups designed required several highly disruptive changes. The partners who were targeted for large-scale interventions reacted with mistrust. They resisted pressures from partners who were keeping their own systems intact while imposing a stern change scenario on others. Because the changes proposed required interference in everyday operations and the severance of business links with external parties (15), their implementation was initially rejected (16). Since these issues were rooted in customer complaints, however, they commanded a higher involvement of middle and top managers (17).

The double marks assigned to the *"Level of Managerial Involvement"* suggest that this factor produced discrepant causal impacts signifying the uncertainty connected with the outcomes of managerial action. The likelihood that a higher managerial involvement would speed up the integration process was reduced by the lack of managerial experience from large-scale market re-alignments (18). The fact that the focal managers recognized the urgency of the above problems and attempted to find solutions was positive and stimulated to the problem awareness that led to mobilization of efforts which later facilitated integration.

Another explanation for these discrepant effects derived from the fact that such endeavors were poorly synchronized because of a leadership vacuum hindering coordination of partner actions (23). This outcome, although undeniably negative in the short-term, contributed in a long run to a higher level of change awareness and the adoption of a more formalized managerial system. It also prodded the coalition of larger firms into assuming leadership over the integration process (24). This occurrence disciplined the integration, and in the long run contributed to systemic fit.

The causal path composed of three variables (15, 19 and 20) displays a crisis scenario showing how the managers in the partner firms inadvertently damaged their working relations and reduced alliance allegiance. This relational crisis halted implementation of all interventions, even those that had earlier been framed for effectuation (21).

The same scenario shows that the *"Design & Management of Intervention Projects"* was yet another factor whose causal bearing varied over time, and again caused by the broad range of intervention needs and interpartner differences in degree of alliance loyalty.

The crisis-breaking sequence displays the following *"story"*: Since the interfirm coordination of important interventions was lacking while pressures for interventions mounted, the employees and operational-level managers became deeply afraid of status-quo disruptions and the consequent rationalization (22). Implementation of important interventions was resisted at the bottom line, and, coupled with the leadership vacuum (23), stopped the entire change process. The lack of synchrony between decisions and actions generated relational crisis. As this crisis protracted and paralyzed all actions, the coalition of DanTransport and Nedlloyd managers assumed responsibility for alliance business by acquiring the role of *"problem owner"* (24). Later, this decision was to facilitate development of the new ideas and solutions that revived interpartner restructuring (25).

The above emerged from the interplay between several variables. The larger players began to realize that the lack of coordination (19) of important interventions (23) might contribute to negative attitudes toward alliance collaboration (20). They envisaged a horror scenario with a series of cascading withdrawals and an ultimate network implosion. In the circumstances, they applied tight coordination measures and supervised the transformation process by appointing their own experts to project managers.

In addition, a parallel rescue operation involving a transfer of managerial aid and financial resources to the South European partners materialized in the development of an action plan for coordinating restructuring projects (25). Implementation of the plan accelerated the pace of interventions (27) and eventually produced several tangible positive effects.

Introduction of the alliance's *"steering committee"* disciplined and synchronized the performance of partners (26) and broke the relational stalemate. These outcomes restored interpartner trust in alliance stability and in the skills of the managerial team to keep the restructuring going (28). In this process, no clear *"violators"* or *"victims"* of interpartner trust breach could be identified, as all partners were engaged in trust-damaging behavior by defaulting on important interventions. Yet, the trust rebuilding process was not straightforward. The most difficult part was restoration of trust between Saima and Nedlloyd, whose working relationships had been severely strained by the protracted conflict.

Several positive outcomes came as a result of the crisis (29). First, the partners agreed on common standards for operations connected with the service to Pan-European customers (30), standards which strengthened the power position of the leading coalition and later contributed to the adoption of a hierarchical governance model for alliance management (31). However, several disparate standards continued to linger (32), so diminishing the scope of alliance fit. While this operational diversity undermined the scope of interpartner match, the standard heterogeneity was vital for the existence of the alliance because of the variability of service requirements in domestic markets.

Since operational heterogeneity was offset by standardization efforts (30), the net effects of these two variables (30 and 32) produced a delicate internal fit in operations (33), market coverage (34) and strategic thinking (35). This fragile equilibrium was a product of centripetal and centrifugal forces compelling the alliance partners to standardize certain parameters of services provided to border-crossing traffic, while at the same time retaining the operational idiosyncrasy required by domestic distribution. A fragile balance between national and international operations standards was needed to meet the global requirements of European clients and at the same time serve local users.

The causal effect that a string of variables (30, 32, 33, 34, 35) produced on the alliance's ability to act as one business system (36) was further reinforced by the institutionalization of the venture's status and formalization of interpartner commitment (31). Adoption of a formal consortium structure for managing interpartner dealings and business relations with third parties opened up several new avenues (37), which utilized the synergies created by combining the partner capabilities and assets.

This enhanced the competitive position of the alliance as a whole and improved the competitive standing of each partner. In this situation, the adoption of a franchise contract protecting the alliance's trademark and service provision technology enhanced partner confidence in the longevity of the venture and in its chances of geographical expansion. The latter was a promising strategy that helped to overcome the managerial limits to market growth and led toward the attainment of size benefits. Adding new franchisees with new operations territories enhanced the critical size of the network and the likelihood of creating scale, scope and density economies.

Although these explanations seem long, taken together they display a causal change scenario that was produced by several strings of antecedent and mediating factors. The material reviewed provides fairly apparent evidence that there was a clear need for leadership within the alliance's system. It has also shown that the status advantage on the part of the larger players produced several positive results that accelerated alliance transformation.

The development described was fairy complex and unfolded through partial change trajectories and several time periods. Yet the outcomes of these subprocesses converged when analyzed from *an ex post-ante* perspective.

The evidence collected and presented here justifies the conclusion that each causal link worked as described, and that the range of different causal effects was produced by three classes of determinants. This series of inductive inferences has been based on strong confirmatory feedback from our data, which was sequentially validated by consultations with informants.

6.5 Summary

This chapter identified several of the forces that fostered and impeded integration of the alliance. The process explored occurred through a series of intra and interorganizational adjustments, re-locations and re-alignments. The ensuing change led to gradual attainment of a strategic and operational fit between the network members. The outcomes of change actions have been examined from the perspective of contribution to a systemic match. Interpartner match presupposed arrival at a stage at which this voluntary venture could perform as one operational unit, acquire a formal organizational status, and be capable of withstanding competitive pressures.

The issues explored were outlined in a three-step sequence. The first comprised the decision-making criteria that conditioned the choices of areas for structural intervention. Here, the focus was on efforts to standardize the operations technology and remove market misalignments that divided the partners.

These tasks were dichotomized by level of difficulty and cost of implementation, the reason being that the intervention areas attributed with high difficulty and high costs of execution were initially excluded from the action agenda. In time they obstructed the transformation and a deadlock emerged that blocked the restructuring and stratified the partners within two coalitions: Those who pushed for change and those who became targets for intervention.

The second part of the framework explored the measures that were activated under the restructuring process. Some of them shaped the crisis that frustrated alliance collaboration. The effects of these mechanisms were mapped as a chain of crisis-ridden occurrences. Next, several crisis-breaking strategies were reviewed. Two agents that voluntarily assumed responsibility for the restructuring project resolved the interpartner conflict and resumed the alliance integration. The current section also aligns the various managerial actions that the leading coalition mobilized in dissolving the relational stalemate and in keeping the restructuring going.

The third part of the exploration presents a set of indicators measuring endurance of the alliance system. As the alliance mission was of a perpetual nature, its endurance depended on the ability of the partners to synchronize the fulfillment of alliance-mandated tasks. The last part of the exploration evaluates the effects of several interventions that partners introduced to operations and system management. Two classes of determinants served as indicators of partner alliance fidelity: Durability of intervention effects and reversibility of intervention impacts. This argument held that the partners would be more prone to collaborate within the alliance framework the more durable the interventions they had introduced, and the higher the costs of reversing the interventions already in place.

The purpose of this analysis was to link the various streams of immediate and remote causal variables within one explanatory framework. The assumption underlying this reconstruction hinged on a belief that it can help us to understand *how* the interorganizational change occurred, and *what* the inputs and outcomes of integration were.

7 Conclusions

In the preceding chapters, the results from the exploration of the alliance's evolution have been presented. The venture's transformation over time was broken down into a series of mini-cases and subprocesses, and examined from five analytical perspectives. Based on the evidence reviewed and the results from the analytical deduction, several conclusions seem viable and are summarized below. These conclusions answer the research questions posed in this study by identifying the main components of the alliance's transition.

1. The most salient finding, which corroborates an earlier theoretical supposition, is that the focal alliance did not evolve from a less to a more advanced organizational structure in a straightforward linear fashion.

2. More interestingly, however, and contrary to our anticipations, the third stage in the alliance's progression was *institutionalization* and not *integration*. Institutionalization was based on the EEIG legal blueprint, which provided a framework for the alliance's organization and governance. The fact that this phase led to the foundation of a multi-firm consortium, which used a franchise contract to protect its trademark and service provision know-how, constitutes an important departure from the theoretical vision. Since our original conceptualization presupposed that the final *stage* in the alliance's development would be *integration,* the empirically verified integration construct acquired a more explicit process denomination. The three organizational semi-structures that evolved during the alliance's life course, *formation, implementation and institutionalization,* resulted from a stepwise integration, which made the partners' efforts more functionally adjusted and structurally coherent. Although integration was undoubtedly sought, it did not constitute the ultimate goal of all coordination efforts.

3. The ultimate goal of alliance transformation was attainment of systemic *fit*. This fit was the pre-condition of a joint supply of services to international customers and the reaching of common decisions. However, integration was restrained by the need for individual autonomy. Self-governance was required to act and react to unevenly distributed opportunity windows, and to cater to two groups of customers: Those with global needs for service provision, and those with locally varying service demands. Integration thus constituted a mechanism of change or a *modus operandi* rather than a stable organizational structure. Yet, since integration increased the degree of dependence among partners, it also modified the design of alliance arrangement.

4. Intra-alliance fit arose from the establishment of more stable and complex network ties. These ties grew more numerous as the alliance business expanded and partners learned how to master more common tasks. A dense web of network ties stabilized the interpartner relationships and clarified the border between the alliance and its adjacent environment. Integration happened over the entire course of the alliance's life, though with varying speed and through different measures. It occurred through reversible and non-reversible interventions, by adoption of common standards for international operations, and due to *fast track* and *corporate welfare* policies.

5. Power was a factor that stratified the network units. This investigation has shown that power inequality indeed existed and was mobilized within the alliance context. However, the motives behind and the outcomes of power usage differed from those theoretically imagined. Contrary to the resource dependency and bargaining power theories, power was activated not to secure the power wielders' unilateral advantage. Rather, it was used to accelerate the attainment of systemic fit and enhance the alliance's competitive standing. Still more important, power inequality did not result in unilateral submission of those with lower power status. The attempts of the dominant coalition to impose its own standards on the smaller players were defied, and the desires to maintain operational autonomy were partially fulfilled. Thus, an initial power advantage did not guarantee a higher share of the alliance's gains or a more strategically beneficial position. Power was instead employed to attain higher-order goals, which facilitated fulfillment of the alliance's mission.

6. Two parallel, yet functionally different developments balanced the power asymmetry. The first was a qualitative shift in attitudes towards power usage. Several years of relentless integration caused the partners to admit that the heterogeneity of national markets justified a high degree of functional autonomy. The second arose from the alliance members' mastering of operational fit and attainment of a discernible competitive position within the European market. Establishment of a Pan-European system for logistics provision made the larger players more dependent on their smaller allies. In these circumstances, any further attempts on larger firms' part to capitalize on their status might have antagonized the increasingly important smaller partners.

7. These outcomes illuminate an important research question as to which was the most difficult area of the partners' integration that impeded their functional and strategic fit. Balancing operational idiosyncrasies with the sacrifice of individual autonomy for the sake of common standards for international service provision was one of the most difficult tasks for the alliance partners. Taken together, these results shed a new light on the important and until now unexplained issue of how to forestall an alliance's premature dissolution. By inference, these findings can also shed some light as to why so many alliances are quite short-lived. This observation is often rehearsed in the alliance-related literature, but without explanation of the underlying causes (cf. Doz & Hamel, 1998). By suggesting that an alliance may be prolonged by the integration of its partners' business operations without unnecessarily compromising their individual autonomy, and that the alliance's management should be based on ethically sound practice, our results provide new insights into the problem of early alliance dissolution.

8. The requirements of institutionalization mandated adoption of procedural justice for mutual face-saving and securing of allegiance to the alliance. The fact that the management of this multi-firm consortium was based on relational fairness enhanced trust in the soundness of the alliance enterprise. Since the alliance venture was dependent on all partners' voluntary contributions, their perceptions of alliance fairness preconditioned the stable input of resources to the venture's competitive capabilities. Devolution of decision-making power from the General Assembly and Board of Directors to each individual partner equalized the values of the majority and minority. Subjugation of the alliance executive powers to the requirement of relational fairness enhanced

[60] By inference, these findings can also shed some light on the reason why so many alliances are quite short-lived. This observation is often rehearsed in the alliance-related literature but lacks explanation of the underlying causes (cf. Doz & Hamel, 1998).

confidence in the ethically decent process of making important decisions. By so doing, it balanced the status asymmetry among the network units, which in turn equalized the partners' positions and strengthened their alliance loyalty. These occurrences produced a *de facto* democratic managerial model where important decisions were made by consensus. Consensus preconditioned the psychological synchrony, fostered implementation fidelity and motivated contribution of resources beyond the call of duty.

9. These findings counter the suppositions of the resource dependency and bargaining power theories. They show that network dynamics activated by system enlargement and integration equalized power and established an ethically sound governance practice. The effects of network dynamics were reinforced by the partners' cultural variability, which caused the larger players with collectivist orientations to care more about collective welfare and commit considerable proprietary resources to the network's development and endurance. Still, the attainment of a cross-cultural match was a demanding task that was impeded and delayed by several types of conflict.

10. It was ultimately the smaller partners that became the net beneficiaries of the alliance's gains. The fact that the smaller firms acquired decision-making status that exceeded the scale of their operations and became the recipients of an expertise and wealth transfer caused a shift in power positions. This shift was triggered by the growing dependency of the North European partners on their South European colleagues in order to operate as full-fledged Pan-European service suppliers.

11. Two types of alliance managerial structures, i.e. procedural justice and franchise contract, were lacking from our theoretical framework, and constitute the net value-added for business practitioners. Procedural justice provided a basis for ethically sound dealings that heeded differences in interpartner interests and market peculiarities. The franchise contract allowed international expansion and saved the venture from costly foreign investments. Since international expansion was based on licensing new operators, while dealings among partners relied on relational fairness, both provisions spared the alliance from large outlays that would have arisen from supervising the quality of international performance and ensuring adherence to agreed-upon standards. This strategy reveals ingenuity on the part of the leading coalition. It created the time and decision-making gains, made the alliance easy to manage and improved its competitive standing.

The findings of this study confirm that going international by means of a voluntary strategic venture was a risky endeavor. A deal cut by seven parties that forged an international alliance would not have any strategic value without its practical enactment. Yet, the lack of joint professional standards and administrative centrality, and the cultural variability among the alliance members, obstructed integration and ignited several crises. The meticulous exploration of the forces that both facilitated and hampered the alliance disclosed a series of determinants, occurrences and individual traits and their integrated effects, which were pivotal for the venture's advancement.

It is worth emphasizing that all these deductions would not have been possible if had we not focused in our analyses on the cultural idiosyncrasies of the alliance partners' and included in the exploration the cultural trust theory, the balance hypothesis and the game theoretical metaphor. These three conceptual perspectives, which were not explicitly incorporated into the conceptual model, expanded our understanding. They brought to the problem a set of notions and insights that helped to relate the observed patterns of behavior causally to cultural features of the partners' national business contexts. They also contributed to our understanding of how culturally shaped perceptions of goal interdependency related to a shift in power relations and benefit appropriation.

This study recognized the explicit role of organizational history and maturation for understanding the process of alliance development. It provided several substantial insights into the origins and destinations of partners' actions, their bearing on relational alternations, and the achievement of systemic fit. It exposed a range of structuring mechanisms that composed the *black box* of the alliance's metamorphosis.

All in all, this study of one alliance's transformation substantiates the conclusion that the alliance was not invented, nor did it emerge from major shifts in the economic environment. It developed from a loose working association into a formally structured consortium based on EU-mandated legislation and governance modes practiced by formal corporations for managing inter-divisional dealings and business with third parties. However, the alliance's formal managerial system was much more democratic because the venture's existence was totally dependent on the unabated loyalty of its partners.

The alliance resulted from the dynamic tension produced by a need to unite partisan interests with network-wide norms and objectives. It survived and progressed thanks to the growth of the voluntary commitments of its partners. The creation and evolution of the alliance that is the focus of this study thus resulted from a dramatic change that occurred through a series of conscious, though not always concerted, efforts of those who saw their future as dependent on the venture's success.

Part V

Syntheses of Findings

1 Introduction

Part V of this report synthesizes findings from the field study. The overall goal of the integration was to arrive at an empirical model of alliance evolution grounded in data and that provided parsimonious understanding of the change process of the alliance.

This stage of the investigation consists of analytical confrontations between the empirical results and the theoretical visions. The method unearthed several streams of causal flows that were positive, parallel, reciprocal, reverse and which offset each other.

Outcomes thematically related to three stages in the evolution of the alliance have been extracted from the entire empirical material using the three conceptual headlines from the model. The content of each headline was then explored to establish a relationship between a state or an event at any one time, and that same state or event at a later time. These steps revealed several strands of evolution, which were divided into three thematic headings, each corresponding to one class of assumed determinants of alliance metamorphosis. These findings were then juxtaposed with the transition mechanisms that we have hypothesized would causally affect the pace of alliance development.

Scanning the empirical material to establish how the alliance was developed in praxis revealed that the three phases – formation, implementation and institutionalization – could certainly be discerned in the organizational progress of the alliance. These stages constituted three organizational semi-structures produced by different change stimuli and which encompassed several streams of evolution. As these structures represented different purviews of analysis, we sought to establish the systematicity that linked them and made them constituent parts of the alliance transition. These procedures materialized in an empirically validated model of determinants of intra-alliance fit, which emerged from linking empirical details with general theory and establishing a causal sequence between the empirically grounded variables.

The sequential analytical comparisons unraveled the social change dynamics emerging from compelling exogenous shifts and endogenous relocations within the network system, which together modified the behavior of the different network units. The intertemporal modification of practice in a strategic, social and economic sense thus became a change agent contributing to the structural advancement of the alliance.

The significance of these findings emerged at the intersection between the system conceived of as an alliance network and a set of restructuring forces driving its change process. Tracing the effects of various change stimuli therefore followed the conceptual model's structure. This analytical procedure helped discern the various stages in the interplay between the process and the structure (Fiske, 1994).

Within such a framework the structure was conceived of as a property of a system. Systemic structures generate practices, sometimes also called processes by which they are used and, in turn, modified by those practices. In this context, the system is produced in part, at least, by its practice, as the practice is produced in part, at least, by the system. Systems and practices structure each other in a two-way process, though not an equal one (Fiske, 1994, p. 195).

The sequential analytical comparison method served three purposes. The first was verification of the analytical relevance of the extant theories; the second involved establishment of causal relationships between theoretical expectations and empirical manifestations; and the third consisted in refining the empirical embodiment of several theoretical constructs. The outcomes from the sequential analytical comparisons are therefore subsumed under three thematic headlines:

1) Findings which corroborated an earlier conceptual vision
2) Findings that diverged from theoretical anticipations
3) Findings which generated new insights into theoretical constructs and/or expanded the scope of the empirical boundaries of these abstractions.

Part V of the report consists of five substantial and six subsidiary chapters. The first three analytical chapters deal with the contextual contingencies and internal dynamics that shaped transformation of the alliance, and identify a group of change stimuli that both converged and diverged from the conceptual baseline. The fourth chapter assesses the degree of alliance integration that was viable from international market perspective.

The chapters dealing with development of the alliance have a similar structure. First, by drawing on the empirical change scenario from Part IV of this study, we determine whether the findings represented robust enough manifestations of the theoretical constructs and/or construct categories. Second, we establish whether the causal impacts of these constructs converged with our conceptual vision. Third, we probe into the duration of the causal bearings of these constructs and verify whether the impacts were active during more than one stage in the life course of the alliance. Fourth, we capture the temporal shifts in direction of the causal impacts of the constructs in order to determine whether a given set of stimuli facilitated or impeded evolution of the alliance.

The fifth chapter presents a set of variables that ultimately structured the alliance evolution and determined the systemic fit. This is followed by a chapter, in which the contributions and limitations of the study are discussed. Insights from the partial summaries are subsumed in a conclusion-chapter, which recapitulates the findings from the previous assessment of explanatory powers of the extant theories, relates them to a broader field of research on business internalization, and defines three types of value-added from this study. In addition, it sketches several avenues for future research.

2 Findings from the Formative Stage in the Life Course of the Alliance

This chapter integrates findings from the formative stage in the life course of the alliance. The results are divided into five substantial sections, each presenting the empirically verifiable effects of one antecedent factor from the conceptual model. We then probe the causal direction of each determinant in establishing the quality of its impact on the alliance evolution.

The conceptual model included five antecedent factors reflecting the various aspects of the partners' diversity and postulating that these determinants would generate equivocal impacts on the early stage of the alliance's existence. That, we assumed, would set the stage for the venture's later organizational advancement, and the type of governance structures that would be adopted for its management. In this context, the chapter presents the topics that recognized the impacts of:

1. Individual service provision expertise and physical supply networks
2. Individual power bases
3. Individual missions and domains
4. Different cultural identities
5. Individual expectations of alliance benefits

on the formation of the alliance, and the mechanisms that structured this process.

The five sections that follow review the empirical outcomes from a longitudinal examination of the first part of the alliance life course. Specifically, they reveal how the creation of a Pan-European system of service provision and the re-alignment of market coverage changed the partners' network positions, their attitudes towards each other, and the distribution of intra-network power.

2.1 Individual Service Provision Expertise and Physical Service Supply Networks

Empirical evidence presented earlier documented that creation of one coherent market coverage system within the alliance's geographical area became a subject of managerial contention. The discord arose from discussions of how the alliance's service provision network should be constructed from the individual capabilities and domains of its partners. Probing into the nature of the discord revealed that it was at least partly related to differences in skill level, quality standards and organizational models. In addition, analysis of the partners' market domains revealed that they served different customer segments and conducted their working relationships with customers and sub-contractors differently.

Examination of the alliance's business environment disclosed several contextual idiosyncrasies, such as unique patterns of competition, varying degrees of market regulation and differences in production costs within the areas of each partner's operations. Thus, by inference, the diversity of the partners' expertise derived from the diversity of demands on them for service and from their business contexts. The heterogeneous logistics markets justified heterogeneous managerial and operational solutions because partners operated in several multi-domestic markets rather than one global environment.

Contextual variability was evident in the industrial base, represented by the manufacturers and merchandisers in various countries. The end-users' demographic features (small versus large account holders, for example) and the types of commodities shipped in domestic and foreign trade (highly processed industrial products and/or consumer goods versus low-processed components and raw materials) also varied. Within the firms themselves, cultural variability between managerial practices, varying quality of managerial skills and differences in capital endowment all contributed to interpartner diversity. In addition, the lack of alliance leadership, fear of *status quo* disruptions, fear of market loss and uncertainty about the alliance all magnified the differences between partners and thwarted the creation of one coherent service provision system.

These findings corroborated the theoretical assumption that differences in operations, management, business strategy and functional organization, dichotomized as supply and demand orientations, would obstruct the alliance formation. However, having compared the empirical accounts with the theoretical suppositions, we established that the complexity of the problems was much higher than had been hypothesized.

Therefore, the theoretical assumption that market ideology and operational profiles would differ among the partners according to two broad strategic orientations was inadequate for assessing the scope and effects of interfirm diversity. Operations in the international environment imposed much higher demands on the firms in the alliance and required a much broader range of skills than those we had originally envisioned.

Our conceptual framework presupposed that diversity between the partners would vanish quickly as a result of high-speed convergence. We assumed that when faced with global market requirements, partners would be highly motivated to acquire new service provision skills by learning from each other, a motivation which would derive from the desire to operate in Pan-European market and be in a position to compete internationally.

The empirical records of the early stages of the alliance's formation and the problems that bedeviled this process revealed that the acquisition of new service skills, as learned from other alliance members, did not happen. On the contrary, the discord of 1993-1996 that antagonized Nedlloyd, Saima Dubois and Dan-Transport was causally related to their disparate market service models, which involved differences in service specialization, production facilities, and managerial practice, and was complicated by their multiple presence in the same markets. This complex situation was too much for the managers' ability for problem solving; it hindered interactive learning and identifying of synergies between individual business models.

These problems deterred the alliance managers from realistically appraising the risk associated with removal of systemic misalignments and blocked important interventions. Relational and task-related conflict arose, which generated functional inertia and delayed acceptance of common standards for international operations, adoption of joint marketing strategy and common information technology. The lack of operational congruence hindered the partners from providing services to corporate customers that demanded a high level of international attunement. This, in turn, eroded the venture's economic foundation.

These issues were not thoroughly resolved during the period of our analysis, although several changes in the partners' operations and market coverage have been successfully made. Because of the structural nature of the misalignments, the removal of important market and operational incongruities may be protracted.

Moreover, we have also shown that total standardization of the partners' service provision was strategically not viable due to heterogeneous demands from local customers. However, the formalization of the alliance's organizational format may facilitate progress in this area. The Board of Directors is equipped with formal executive power to standardize the partners' operations. It may draw a line between standardized and non-standardized areas of service provision and create two production systems within the alliance's system. Yet, in light of the empirical findings presented below, this action may be difficult because the two large partners have adopted two different competitive postures.

Nedlloyd's managers unveiled plans for dramatic change in the company's operations by *"going virtual"*. This strategic vision presupposed disposal of several production assets in order to allow the firm to become a virtual service supplier. Disillusioned by the setbacks of extracting competitive benefits from a series of physical acquisitions, the Nedlloyd leadership realized that in order to reap large-scale network benefits, a much more unorthodox approach was needed.

Therefore, Nedlloyd opted to become a logistics broker instead of a traditional asset-based supplier and begun a gradual divestment and outsourcing of production functions to various diversified asset-based sub-contractors. Market service is now organized by coordinating the various lines of logistics services supplied by independent contractors. This strategic rationale hinged on two factors. The first was a need for a more flexible production apparatus in order to meet highly diverse demand from various customer segments. The second was a reaction toward a growing pressure on logistics firms to internalize the high financial risk inherent in the role of third-party service suppliers.

A virtual service supplier retains its competitive edge by providing a broad range of services to multiple users in a variety of manufacturing and merchandising industries. In order to cope with diverse demand structures, the company needed a high level of operational flexibility, which mandated compression of fixed costs by phasing out of in-house production. The main source of business expertise would then arise from the capacity to design and launch a large number of distribution solutions, integrate the various service packages effectively, and coordinate the performance of multiple third-party service providers.

Against this backdrop, DanTransport adopted a totally different strategic philosophy. In order to boost the company's competitive standing, the firm's managers chose to invest in physical assets. They acquired two Swedish establishments, Swedex and Fillip Lorenzen Logistics AB, and invested considerable financial resources in technical upgrading of their production facilities. As a consequence, DanTransport has considerably enhanced its stock of production capital and the level of physical capital endowment per employee. The firm thus linked its competitive strength to possession of a region-wide, technologically advanced production network. The competitive advantage of this strategic posture came from its strong market position as an asset-based service provider with a large capacity for in-house production.

The managers in these two firms thus held two different concepts of competitiveness that rely on different capabilities, resources and visions. How these two divergent strategies will affect the alliance and the relations among its partners is difficult to foresee. Undoubtedly, if these two firms wish to continue their collaboration, they need to work out a new scheme for how to manage their relationship effectively.

One way of doing so might be via an internal electronic market, which would operate as a clearing-house for services transacted by the partners. Such an arrangement would transfer information about projected freight handling capacity and upcoming requirements, allowing the partners to trade their service provision capacity like a commodity. However, this solution will not work without a centrally positioned broker with coordinated managerial powers, acting as a link between the collaborating partners and their clients. This role may be filled by an agent appointed by the Board of Directors or a third party, which proves adept at deal-making and mediation.

We may thus conclude that this study has determined that there is indeed an impact of diverse professional skills and production networks on alliance formation and integration. However, it has also been established that the scope and gravity of the problems that the partners experienced considerably exceeded those originally anticipated. There is obviously a lack of empirical knowledge on the nature of the problems that may arise during the formation of international alliances, and a need for more extensive research that would envision a broader range of issues.

Our examination of the hindrances to the alliance's integration showed that the effect of the partners' diversity varied. Initially, the variations in expertise and service provision created a strategic rationale for establishment of the alliance, thus contributing to the alliance's formation. However, diversity ultimately had a negative effect on the implementation of the alliance contract since there were difficulties in integrating the disparate operational models, production apparatuses and service provision profiles.

Over time, it is our supposition that this negative effect of the partners' diversity will abate as a consequence of their mutual re-alignments; the partners will then be in a position to perform in a coordinated manner. The degree of variance between the partners' operations and their physical facilities will decrease as a result of the alliance members' coordinating tighter their operations into one of network system. Yet, because such a solution will require substantial concessions of individual autonomy and changes in how the managers think and act, it may still be quite distant in time.

In sum, our first conclusion is that differences in professional expertise and physical production networks created a precondition for an alliance to be conceived in the first place. There was an over-optimistic expectation that a voluntary alliance might become an effective tool of internationalization due to the assumed complementarity among the partners' skills and production facilities. In the long run, however, differences in skills and production apparatuses generated barriers that impeded integration. Thus, the second conclusion is that the likelihood that a group of allied firms will succeed in an international business environment is contingent on several determinants, discussed in the next section.

Figure 2.1.1 shows how the causal bearings exerted by incongruent service provision expertise and service provision networks shifted direction over the life course of the alliance.

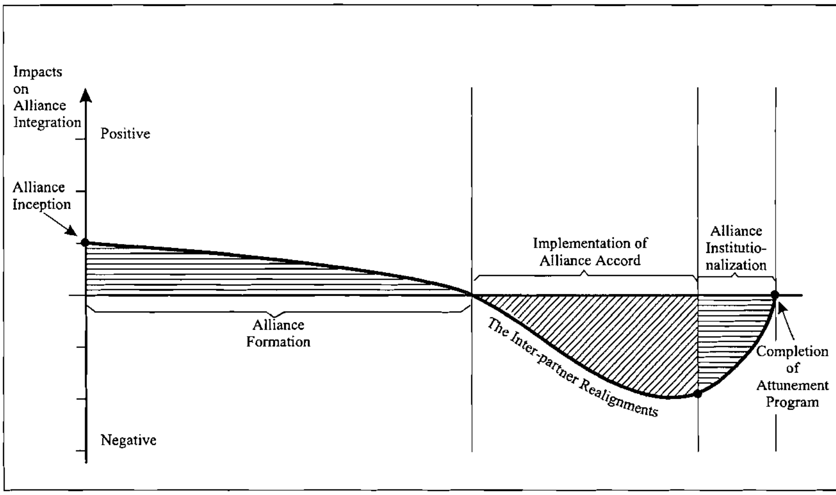


Figure: 2.1.1 Causal Bearing Exerted by Disparate Service Provision Skills and Incongruent Physical Production Networks on Alliance Integration

The figure suggests that incongruent service provision skills and service provision networks changed from initially positive causal influence during the stage of alliance's inception to negative during the formative and implementation phases. However, after several important re-alignments have been introduced such as standardization of international operations and investments in new terminal facilities, the negative impact of these two factors started to reverse. The latter took shape after the alliance became institutionalized.

2.2 Individual Power Bases

The power asymmetry between the alliance partners led to mobilization of status advantage and the development of majority and minority factions. The pattern of power distribution and the modes of power-wielding therefore constituted two important issues that are explored in this study from multiple perspectives. The imbalance of power had considerable influence on the formation of the alliance and its organizational evolution. The results indicate that uneven power distribution was an antecedent and mediating factor influencing the content of interpartner ties, the modes of operations of the venture and the appropriation of benefits.

The conceptualization of power inequality was somehow static and limited to two sources of relational dominance. The first, related to network centrality, postulated that a central location within a given network would confer the potential for control over resource flows on which other system members might be highly dependent. The second was connected with uneven resource endowment and unequal bargaining positions.

Both perspectives were based on social exchange theory and resource dependency thinking, and postulated that units unfavorably placed within a given network might be deprived of important assets. They would therefore be dependent on more powerful others who were strategically better positioned. A less advantageous power position implied a greater willingness to concede on important values in return for access to critically needed resources, i.e. a lower power position would lead to less scope for individual discretion because of lower bargaining leeway. A weaker bargaining position would in turn restrain strategic autonomy by preventing those with lesser latitude from leaving the alliance at individual convenience.

More specifically, the willingness of partners to collaborate within an alliance was positively affected by their co-dependence on the attainment of individual goals, and inversely linked to alternative means of goal attainment. An advantageous power position arose from fellow system members' positive assessments of resources controlled by a given party. Conversely, social dependency on parties with a greater resource endowment resulted from the perceived or real exigency for reaching the resources needed, and the lack of access to alternative resource repositories. Power advantage and dependency were thus inversely related and connected with the potential for resource substitution, and the perceived urgency for resource possession. In addition, the degree of relational dependency on others resulted from the partners' individual assessment of benefits and sacrifices arising from alliance membership, and which affected their willingness to prolong collaboration. We hypothesized that dependencies created by resource scarcity, time urgency and network position would affect interpartner relationships, the alliance's goal attainment and the stability of alliance membership.

The analyses of the formation process revealed that power asymmetry between the alliance members undeniably existed. It arose from the superior geo-economic positions of the large North European firms, the larger size of their operations and their more advanced technology standards compared with their South European partners. We have established that the larger players used their superior status to change the business behavior of those in a lower power position and to structure the performance of the alliance in line with their own strategic preferences.

In this context, our supposition that power asymmetry would be manifested in an uneven resource distribution and differential scope of influence on the development of the venture has been empirically corroborated.

However, it was also observed that the power asymmetry leveled out with the growing scope of partners' co-dependency related to geographical expansion of the alliance. First, the adoption of common standards for information technology made it possible to share information not only among partners but also with a broader network of customers. Second, an enhanced ability to share data helped to attract still more clients using a given information transfer mode, thus further expanding the network boundaries. Third, the consensus on IT and operations standards magnified the scope of network interconnectivity and created a migration path for cargo transfer between the partner operations territories. Over time, the larger network operations created much denser working relationships, and more numerous and complex dealings. This, in turn, generated a large number of issues, business opportunities and policy matters where the prosperity of one partner became contingent on the performance of the others. The increased number and gravity of such issues rendered them important stakes in interpartner business. As a consequence, the role of those initially with a lower network status was elevated because these parties acquired a higher position in the completion of Pan-European tasks. As all partners' functional and strategic positions leveled out in the alliance context, the utility of unilateral power advantage vanished.

Because functional effectiveness of the alliance as a whole hinged on contributions from all partners, the positions of smaller partners in the Pan-European system became elevated and the initial power imbalance disappeared. Moreover, as all partners became more dependent on profits generated by alliance business, their degree of reliance on the alliances grew even more. The network collaboration thus unleashed the change dynamics that balanced the initial power asymmetry and rendered the partners more dependent on each other.

Two imperatives shaped this evolution. The first was the need for an integrated operations system in order to establish a joint competitive identity within the Pan-European market. The second derived from the need for an unabated voluntary commitment on the part of the smaller network members.

Empirical support for these motives was found in the *corporate welfare policy*. The financial and managerial aid that the larger North European firms offered the smaller partners helped the latter to become full-fledged Pan-European service suppliers. These acts of corporate benevolence also produced some undeniable benefits for the sponsors. First, they widened the territory of the network for the larger firms' customers who could count on Dubois and Saima's service provision in the French and Italian markets. Another benefit was that the recipients re-paid the past favor by shipping their domestically generated traffic to the North European partners, thus increasing the volumes of freight in transit and the amount of service supplied by the North European firms.

The transfer of managerial expertise and technical know-how reduced the initial power distance. It also disseminated the North-European service provision standards, which made it easier for the larger partners to codify the service supply technology that underlay the franchise contract. In addition, the relational fairness principle also balanced intra-network power. Subjugation of decisions made by the Board of Directors to the consent of all partners had a power balancing effect in that it increased the influence of the smaller firms on Board-mandated decisions.

We have also documented that when the alliance reached an operational fit, the power perceptions changed. A higher level of interdependence on serving Pan-European clients meant that the stronger partners had to be careful not to antagonize their South European colleagues. The larger players simply realized that in order to secure the long-term alliance allegiance of the smaller firm managers they had to incorporate the minority preferences within alliance strategy.

However, power balancing can generate new tensions because of the strategic differences between the larger and smaller firms. The smaller partners may have a much narrower strategic focus than the larger ones, who operate in multiple markets. This difference can affect partner perceptions of the mission of the alliance and the Board's decisions regarding alliance expansion. These issues are not trivial, as disparate strategic foci may both expand and constrain the alliance operations. So the need to reconcile the strategic priorities of various partners can constitute a real challenge to the Board of the alliance, who would have to resolve this issue from the perspective of power parity.

The evidence marshaled in the foregoing shows that the Pan-European scope of service provision, institutionalization of the alliance format and the aid offered by the dominant coalition that increased the network positions of the smaller partners all had power-balancing effects on interpartner relations. This is important, because it sheds new light on measures that can enhance the durability of voluntary ventures. Because the long-term existence of such formations depends on the long-term unabated commitment of the partners, the parity of power positions may be a prerequisite for members trusting the sincerity of collaborative intentions. Trust may precondition individual willingness to contribute proprietary resources to alliance goals and foster responsibility for the well-being of a network.

In view of the above, one conclusion seems justified and is reiterated here: Both the social exchange theory and the resource dependency paradigms seem too static to envisage a dynamic process that modified the intra-network power relations. The reason is that networks change in response to many external and internal pressures and by so doing re-arrange the initial internal configuration in line with new pattern of mutual dependence.

Yet another deduction drawn from this study is the sustainability of power imbalance that is a topical issue discussed in writings on power. This study has shown that mobilization of social power with the purpose of capitalizing on unilateral status advantage has unleashed countervailing forces that balanced the power asymmetry. This finding converges with other studies of power dynamics (Bacharach and Lawler, 1982) in which it has been shown that, irrespective of contextual factors, power dominance is emotive and breeds resentment towards inequality. The emergence of a minority coalition opposing the larger partners' power dominance has empirically confirmed the craving for power equilibrium and parity-based social relations.

The above documents two outcomes. First, and most important, the initial pattern of interunit resource distribution is a poor indicator of future power relations. Second, the results from this study confirmed the importance of the time factor and the plausibility of process-related methodology in explaining the power dynamics. The gradual balancing of interpartner power that started with the formation of majority and minority factions and continued over the alliance development process could easily have been overseen had our investigation not covered a decade-long time period, or not approached this process from multiple analytical perspectives.

In sum, this study has shown that power was a social influence mechanism modifying the contents of working relations, the pace of integration, and the appropriation of alliance benefits. We have demonstrated that within the focal voluntary network, power was a change factor that over time shifted the direction of relational influence. Long-term network dynamics modified the power status of partners from a state of relational asymmetry to one of functional equilibrium. In addition, the relational fairness-principle has brought interpartner standings into line, thus securing voluntary inputs to the Board's decisions and the loyal decision implementation. Finally, we conclude that, contrary to the conceptual model, power dynamics transcended the role of an antecedent factor. The study has shown that power was an active ingredient that structured functional and social interactions through three stages of development of the alliance. Figure 2.2.1 lists the factors, which balanced the interpartner power.

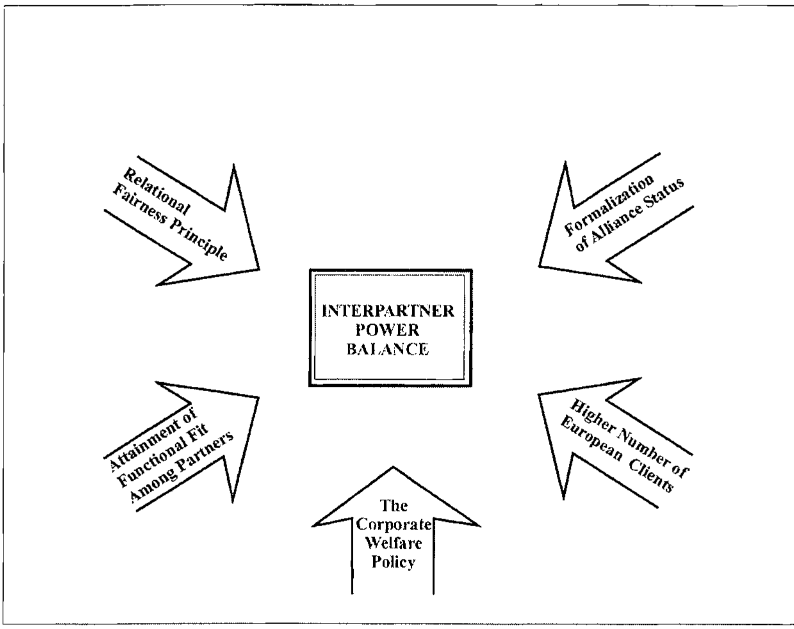


Figure 2.2.1: Factors that Balanced the Interpartner Power Relations.

2.3 Individual Missions and Domains

This study confirmed the plausibility of the conceptual vision that incongruity of missions and domains may retard systemic integration. Our exploration revealed that incongruent missions and domains had to be eliminated, or at least reduced, if the alliance was to function as one supply system and generate network economies (Hertz, 1993).

The reasons for incongruent missions and domains were strategic and historical. The first derived from the fact that the alliance operated in multi-domestic markets varying in regard to costs of production, degree of liberalization and demand composition. These contextual differences justified diverse strategic priorities and company-specific formats, which produced overlapping markets and variant service provision standards. The relational disparities were the source of structural misalignments that impaired ability to operate in concert and eroded the rationale behind the venture's existence. In addition, uneven resource distribution and asymmetric strategic positions within the Pan-European market underpinned disparate strategic objectives and benefit expectations.

Exploration of the expansion of partner firms showed that many foreign establishments were triggered by historical opportunities. Capturing foreign positions required great financial and managerial strength and was attributed with high sunk costs, thus explaining why the managers of firms resisted abandoning entrenched positions. In addition, the lack of alliance administrative centrality, the high-perceived risk of business losses related to market dislocations, and the high level of uncertainty regarding the venture existence discouraged the partners from embarking on irrevocable interventions.

The exploration of obstacles impeding interpartner integration therefore identified the structural misalignments and the operational disarrays. By varying the levels of analyses this study identified five classes of domain-related incongruities which obfuscated the establishment of more transparent collaborative relationships and necessitated the disarray removal. These included:

- Double and triple market presence with overlapping service provision facilities.
- Variant organization of market coverage through wholly owned subsidiaries, agents, joint ventures and loose partnerships with other allies.
- Different modes of customer service: Outsourcing of service provision to local operators, in-house production and sub-contracting of services to highly specialized operators and/or carriers.
- Differential service provision skills and specialization levels: Export-import brokerage, service of various trade lines and different customer segments.
- Different types of supply operations: Overseas transportation, overland transportation, consolidated logistics, management of intermodal chains, Pan-European merchandise distribution, service of domestic markets, and inventory management for industrial users.

Incongruent missions, overlapping markets and the lack of alliance-wide standards also eroded the alliance's economic foundation. This was caused by the absence of one party responsible for service provision in markets served by multiple firms and the inability to extract the scope, scale and density economies from highly divided traffic volumes.

Disparate market domains, service provision skills, production technologies and network designs underlay the conflicting missions that, again, reflected incongruent goals and priorities (Thorelli, 1986). We have observed that at the preformative stage all participants seemed to be highly attracted to the idea of a strategic venture. The proposal that partners' efforts should be unified within an alliance that would serve the Pan-European market was extremely appealing. However, each partner held different views with regard to how this goal should be achieved in practice, i.e. within what time interval, and with what input of individual resources and sacrifices (Hertz, 1993).

The above shows that besides the overlapping domains which caused partners to compete head-on with each other, the alliance incongruence problem was also exacerbated by the divergent operational parameters, skills and resources that were developed in different operating contexts and designed to fit the local markets' peculiarities.[61]

[61] These findings corroborate results form the internationalization study of the Swedish freight transport industry conducted by Hertz (1993). Hertz has established that, among others, several operational overlaps and memberships in competing business-webs jeopardized the post-merger integration between Bilspedition and Scansped. However, the empirical results from the present study suggest that the lack of an internal fit, at least within a volutary working association, could not be totally attributed to overlapping domains, functions and strategic ambitions. The incompability problem arose also from disparate production assets, technologies and strategic visions, which were developed from the perspective of different social and market realities. The above indicates that even though the operational solutions and strategic preferences of collaborating partners did not directly compete with each other, they still remained in disarray and difficult to reconcile because of the sheer scope of contextual variance and functional idiosyncrasy. Such disparity was sanctioned by the context-specific requirements and functional history, which conditioned the partner firms' development and made them the viable candidates for alliance integration. This result

The empirical accounts of various phases of interpartner integration have revealed that brokering of an agreement on how to remove these disparities was a complex task requiring overcoming individual resistance to change and restructuring of operations and market service models. The negative externalities of these interventions were severe and involved the cessation of profitable business links with third parties, the shutdown of service provision facilities, workforce rationalization and disruption of operations. No surprise then that the complexity of this task, combined with the lack of a general sense of direction for the venture's development, caused functional paralysis.

Resolution of this crisis would not have been possible had the two large partners assumed the role of *problem-owners* and mobilized the power advantage to compel the smaller firms to embark on a restructuring process.

The restructuring of interpartner dealings and cessation of exogenous business ties required a range of risky interventions that affected several layers of partners' organizations (Hetz, 1993).

The four categories of interventions that transformed the interpartner work processes and created a more coherent European service provision system were:

1. Restructuring service provision within the Nordic region to integrate the networks operated by DanTransport of Denmark, Toll Post Globe of Norway, Fraktarna AB of Sweden and Huolintakeskus of Finland within one service provision system called the *"Inter-Nordic Alliance"*.

2. Partial standardization of service provision to international clients. Creation of network economies at levels of firm, region and international supply channel through consolidation of service provision in a few European gateways. Investments in new terminals, re-design of supply networks and an increase in the amount of service transacted between the partners.

3. Creation of a Pan-Continental operations system from service-provision networks managed by Saima-Avandero of Italy, Nedlloyd of The Netherlands, and Dubois of France. Realignment of market coverage schemes according to the principle: one partner – one market.

4. Bridging the Continental and Nordic networks. Management of European freight flows through the Pan-Continental pipeline of national and regional gateways controlled by alliance firms.

Despite relational crises, efforts to remove the domain disarray rationalized the service provision system and increased the diffusion level for alliance-wide operations format. In order to extract efficiencies from the larger scale of operations, a lower level of transaction errors and higher level of customer service, the partners had to adopt the same standards for alliance performance. Leverage of these parameters was mandatory for devising the alliance's competitive identity.

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confirms that interpartner diversity was both, functionally and contextually justified, and thus very difficult to remake due to the past history of success.

The gradual removal of domain misalignment and adoption of alliance-wide standards occurred through two seemingly incongruent measures: The use of unilateral power and social networking. The use of relational power was justified at the early stage in the life of the venture. It helped to re-structure individual business performance and transform company-specific formats into alliance-wide standards. Power tactics were supplemented by social networking in the form of financial and managerial aid helping the smaller partners to absorb the new technology. The process of relational structuring enhanced the level of trust in benevolence of the larger partners, and re-established the smaller partner's alliance commitment. Eventually, both efforts materialized in a formal consortium applying franchise contracts to standardize the alliance's service provision technology. The consortium built on a more transparent layout of partners' domains and uniform standards for alliance operations.

These accounts provide the basis for two conclusions. The first is that here again we deal with a factor that over time shifted the causal direction. In the short run the existence of disparate missions and domains fostered the alliance's formation through spurious impression that these two diversities could easily be realigned into a new and more coherent system. However, bearing in mind that divergent missions were difficult to reconcile while removal of overlapping domains ignited relational conflicts, the long-term bearing of this variable on systemic fit was undeniably negative. This finding diverges from conceptual assumption that partners' missions would converge quickly because of the need for joint strategic focus. The fact that the partners initially agreed on alliance fitness for international service provision did not resolve many practical non-trivial matters related to how a given alliance should be managed, how it should operate, and what individual inputs would be needed to produce the benefits expected.

Yet, the removal of strategic and historical disparities would not have been accomplished had not the alliance partners developed a set of joint values. Such a platform has been built through dissemination of technical knowledge and the transfer of financial resources easing the transition pains for smaller firms. It was composed of alliance-specific skills and expertise on how to create new business opportunities from partners' capabilities and inputs, and facilitated by interpartner trust in long-term collaboration. The second conclusion is that the present pattern of market domains may be re-modeled as a consequence of new environmental threats and opportunities. Thus, the future design of alliance domains and its mission may be shaped by highly unpredictable occurrences that again may rearrange its partners' roles, markets and modes of operations.

Figure 2.3.1 depicts the domain realignment process in line with agreement on one market-one partner. The first phase illustrates the state of domain overlap where three partners jointly cover one segment of a market and compete against each other for the same customers. The second phase shows the effect of interpartner re-location where two partners have abandoned the common market segment leaving its service to the first unit.

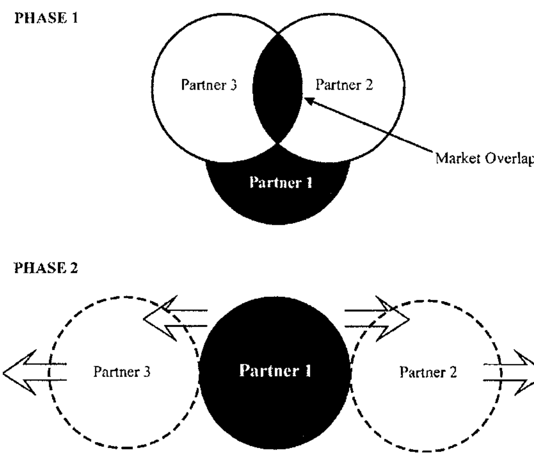

Figure 2.3.1: Two Phases in Realignment of Incongruent Domains.

2.4 Different Cultural Identities

The empirical accounts of partner interaction partly confirm the theoretical supposition that cultural variability would strain the working climate and diminish the benefits from collective action.

Our conceptual model defined culture as an antecedent factor that would manifest in the disparate value orientations harbored by the alliance's managers as a consequence of ideologically divergent heritage. Culture was thus operationlized as a propensity to emphasize either individual or group welfare. It was assumed it would lower the quality of intra-group interactions by impairing the communication, the speed of decision-making and the loyalty to fulfillment of the alliance mission. We have hypothesized that disparate cultural orientations would retard the interpartner integration by impeding the work process of culturally mixed task forces and managerial bodies.

Yet, the chronicle of the evolution of the alliance revealed that the impact of cultural diversity on partners' integration was much more complex and produced different causal effects at different points in time. Consequently, we have established that cultural diversity produced both positive and negative impacts during different stages of the alliance integration.

Examination of culturally structured behaviors disclosed that cultural differences in attitudes and loyalties produced a range of outcomes that transcended the definition of antecedent factor. These differences generated a mediating impact which affected not only the communication style and the quality of decision-making, but also the propensity to implement collectively agreed interventions. The cultural idiosyncrasies of the partners therefore exerted both the antecedent and the mediating effects on attainment of alliance fit. This was evident from a reluctance on the part of alliance managers to re-structure individual business models as a means of making them functionally coherent. The lack of sequential correspondence between the agreed-upon decisions and their implementation was identified in this study as the most important culturally derived impediment threatening the raison d'être of the alliance in the short and medium term of its existence.

In the long run, however, the partners' cultural diversity produced an undeniably positive causal bearing: Culturally structured perceptions of alliance commonality and virtues of collaboration triggered several actions contributing to a systemic match.

One positive effect of cultural variability on alliance integration was the transfer of financial and managerial resources from the larger to the smaller partners. This act of group loyalty improved the competitive standing of the smaller firms to a degree not attainable without alliance membership. Yet, a more important effect of this benevolence was the re-establishment of trust between the large and the small partners which bolstered overall alliance commitment. Thus, these acts of corporate welfare facilitated in-group consensus, and created the time and decision economies. Consensus spurred adoption of higher standards for service quality (quality standards that improved the alliance's competitiveness) and committed all partners to take individual responsibility for the venture's welfare (responsibility that motivated to higher inputs to alliance goals).

These findings partly depart from the conceptual predictions of two cross-cultural interaction theories. The first one [devised by Berger et al. (1985), Hirokawa and Rost (1992), Kume (1986), Markus and Kitayama (1991) and Steward (1985)] specified a set of conditions for making high quality decisions by intercultural task groups. The second [developed by Gudykunst (1992), Gudykunst and Nishida (1986), Gudykunst, Matsumotu, Ting-Tommey, Nishida and Kim (1994), Hui and Traindis (1986) and Triandis (1989, 1991)] featured the requirements for effective cross-cultural communication.

These conceptualizations do not harbor analytical foci broad enough to explain the gradual decrease in the level of culturally generated conflict. Neither do they specify how the members of intercultural small groups may, over time, reduce their ethnocentric bias and draw on the creative potential of cultural idiosyncrasies as a means of increasing collective output. Having said that, we admit that several developments hypothesized by these propositions have been corroborated by this study.

First, our findings corroborate the viability of research conducted by Berger and associates (1973,1985) regarding the impact of status differentials on interpartner interaction. We have shown how the use of power advantage antagonized the partners, triggered the majority and minority factions and induced opposition from the smaller parties. That ignited the interpartner conflict, which froze the structural re-alignments and brought about functional inertia. The power differential also produced a positive effect, however. It encouraged the larger partners to assume leadership duty, which in the long run salvaged the alliance undertaking.

Second, we have established that the above behavior could only partly be attributed to different cultural orientations. Following Berger et al. (1985), we observed that an ability to emphasize personal identity and not status superiority increased the effectiveness of intercultural communication. Our results show that personal identity with the alliance mission and personal competence to reconcile the different aspects of partner cultures enabled the DanTransport managers to mitigate the minority and majority differences and foster alliance commonality despite cultural diversity. The above suggests that a personal ability to settle disagreements, dissolve coalitions and cut consensus may emerge from a combination of pro-group cultural values and a pro-consensus individual orientation. Together these capabilities may produce a highly effective mediator.

Third, and not so obvious, we have demonstrated that culturally rooted idiosyncrasies divided not only the North and South European partners, but also the Nordic managers who embraced the collectivistic cultural disposition. Within-culture relativism in identity with collectivistic values and enactment of pro-group ideology through managerially scripted actions shaped several conflicts that delayed creation of one coherent service supply system within the Nordic region.

This finding is important because it exposes the explanatory limits of intercultural decision-making and intercultural communication theories. These conceptualizations remain generally indifferent as regards the intensity of values that may differentiate the protagonists of the same cultural ideology. Specifically, they do not explicate how the subtle differences in *in-group* identification can affect the process of group interaction, commitment to group goal attainment and efforts to heighten the outcomes from collective actions. The reason for these analytical shortcomings may lie in the fact that the theoretical and field research into impacts of cultural variability on business interactions was conducted mainly in the USA. This research was inspired by the large cultural distance between highly individualistic American social values and a highly collectivistic Asian orientation. The conceptual rationale and the financial support for these studies derived from the search for cultural explanations behind the professional excellence that underlay the stunning economic success of Japanese companies in the North American business environment in the early 1990s.

This research was not designed to capture the subtle cultural differences in value identification within one cultural orientation and/or culturally homogeneous block. Research conducted by European scholars, such as Casson (1990, 1992, 1995) and Hofstede (1980, 1991), who focused on the effects of cultural differences on work attitudes and work-related behaviors, did not develop a set of fine-tuned instruments capable of measuring the individual variability in cultural identification. The issue of differential identification with collectivistic norms on the part of collective value followers deserves more scientific exploration, especially in Europe, where cultural differences separate not only individual countries, but also larger and smaller geographical regions.[62]

Fourth, congruent with Triandis's proposition (1989), we have established that the differential level of loyalty towards *in-group* members is present in attitudes harbored by protagonists of North and South European business cultures. Our postulate that managers with a collectivist value orientation would adopt a collaborative posture towards in-group members, and that this attitude would be contrasted with a generally more assertive disposition of those with individualistic identity, was coupled with Fukuyama's (1995) dichotomization of South and North European values from the amount of trust present in these two societies. Drawing on Triandis' and Fukuyama's conceptualizations we have explained how the egalitarian sentiments of North European firm managers spurred an awareness of co-dependency and prompted the resource contribution to the alliance project. These findings explained how the culturally shaped motives caused the larger partners to voluntarily assume a leadership responsibility for the alliance project. Next, by exposing the difference in collaborative attitudes between the

[62] One such attempt could be found in Ludvigsen, J (2000):" Cultural Differences between Nordic Managers", The International Scope Review, No.6, July, pp. 1-31

partners with collectivistic and individualistic identities, we have shown how this culturally molded inclination contributed to a transfer of managerial expertise and financial assets that bridged the gap between the stronger and the weaker partners. As a consequence, it enhanced the level of interpersonal and professional trust between the network members.

Fifth, this study has revealed that partners with collectivistic and individualistic identities differed in regard to perceptions of alliance goal commonality. In the same vein, we have also shown how the culturally conditioned differences in degree of responsibility for the venture's welfare contributed to alliance institutionalization, adoption of hierarchical governance structures and a franchise contract for geographical expansion.

Sixth, we have observed that culturally generated tensions produced by disparate preferences for formal dealings propelled the leading coalition to institutionalize the alliance status, and base its governance on relational power parity. This procedure diminished the general level of anomie within the system and made the attainment of collaborative outcomes more predictable.

Seventh, we have noticed that the vicinity of cultural values, congruent personalities and professional skills led to development of two coalitions between the alliance members. The dominant coalition of the larger partners installed the leadership order within the alliance system. Thus the values that the larger coalition contributed to alliance development involved engineering the corporate welfare program, formalizing the alliance status and supervizing the re-structuring project. This indicates that the North European managers who harbored collectivistic self-perceptions extended the initial *in-group* boundary by sharing important resources with their South European colleagues. This observation converges with Triandis's (1989) hypothesis that collectivists are more inclusive than individualists, and more inclined to share proprietary resources with the group members because they feel responsible for the well-being of the entire community.

Finally, this study has demonstrated that very little intercultural learning occurred during early stages in the life course of the venture, as inferred from the process related to establishment of the *"Inter-Nordic Alliance"* and building of the "E-1" European distribution system.

There are several obstacles that might have reduced the motivation of managers to intercultural learning. First, time was short and pressures high to reorganize partner operations to manage international traffic through one set of standards. In these circumstances what mattered was identifying the quickest the most efficient solutions and disseminating them across the firms in the alliance. Yet, these arguments do not explain why the adoption of technically superior solutions was initially resisted by the smaller partners, and why it took such a long time for them to agree on standardization.

Another and presumably more plausible explanation could be found in a combination of self-reference criteria that biased the mutual perceptions of partners and the heterogeneity of demand in various national markets. During the period preceding the restructuring process the managers might not have seen many benefits in sharing professional knowledge because of the high peculiarity level of each national market. Thus, prolonged use of self-reference criteria in judging the quality of performance of others was an outcome of the low level of partner integration and the lack of cross-country comparable standards.

The above pertained to partners with higher and lower power status because both cultivated ethnocentrism by emphasizing their own standards. This posture of self-orientation hindered the acceptance of solutions designed by others and indicates that the focal managers demonstrated poor ability to manage their cultural biases and scored low on professional flexibility. A lack of professional appreciation for local standards impaired the ability of all managers to solve problems emerging from the local and global nature of alliance business. It seems that at the initial stage of collaboration all managers lacked the cognitive skills to refrain from imposing their own frame of reference on others. This finding confirms the thesis advocated by Hofstede (1980, 1990); namely, that cultural differences can become so critical and ingrained that they block dissemination of idiosyncratic solutions across several contexts. The latter may inhibit intercultural collaboration and/or cross-contextual synthesis.

However, since the alliance has become institutionalized we have observed that a proclivity to rely on ethnocentric values has gradually abated. Moreover, as the partners who served the same customers had to share their business practice, all parties realized they could now draw on a larger potential of functional solutions that had hitherto remained untapped. It may be that the experience gained from increased work exposure and the struggle for joint survival enhanced the overall level of interpartner trust and facilitated learning. Learning at this stage could also be facilitated by a growing awareness that knowledge acquired from a broad range of service provision and systems' organization could be used for improvements in other locations. Thus, only after the partners discovered a broader potential for practical gains from standardization did the willingness to share idiosyncratic experience increase, and, with it, interactive learning. Standardized management systems and frequent working contacts thus facilitated the transfer of knowledge and enhanced the level of mutual acceptance.

This learning produced two insights; the first involving the skills for how to cope with mutual diversity, the other (and more valuable) how to make creative use of diversity potential. By linking the unlike together, the partners developed a new competence: How to get the details of multiple solutions and to accept more than one perspective on a given issue.

This change in attitudes led to codifying the multiple service provision techniques into the franchise contract that underlay the alliance's position as a franchise holder. In so doing, the partners have implicitly acknowledged the suitability of various solutions for various market situations. Moreover, decisions regarding production technology and design of international supply solutions were left to functional experts and task forces with good knowledge of customer specifics. The above shows that the partners accepted the resourcefulness of local solutions and that this conviction pertained to all alliance members, including the larger ones who initially opposed the heterogeneous product strategy.

We can surmise that in the future the pace of intercultural learning will accelerate before it eventually stabilizes, because more cognitive flexibility will be needed in the medium term to cope with complex markets for local and global distribution. Besides, as the alliance expands the number of business lines and the patterns of managerial activity, the need for matching the domestic specifics with global service parameters by offering multiple solutions within the same delivery system may increase the attractiveness of context-specific capabilities.

As the partners acknowledged that their alliance had to satisfy global and local users, they had to commit themselves to functioning in a multi-cultural environment. Over time, the experience from dealing with intercultural diversity led to the partners sharing their location-specific knowledge – a development that increased the level of mutual dependence for service delivery and enhanced the range of service provision. The broad range of service provision became in turn a competitive weapon used by the alliance to survive the Pan-European rivalry.

The figure below utilizes the image of an "S" shaped curve to visualize changes in partners' attitudes to their cultural diversity . It suggests that the initial attitudes of cultural ethnocentrism have been gradually reduced due to growing amount of tasks performed in concert and a larger web of working relationships established. Both these interactive exposures contributed to interactive learning. The shape of the curve implies that the mutual acceptance for cultural diversity increased after the alliance became institutionalized and partners' working relationships partly standardized. With time, however, when the scope of working relationships stabilizes, the amount of mutual learning may flatten out or even abate. The initially growing pace of intercultural learning has directly and positively affected the intra-alliance fit, and indirectly, but positively, the effectiveness of the venture's performance.

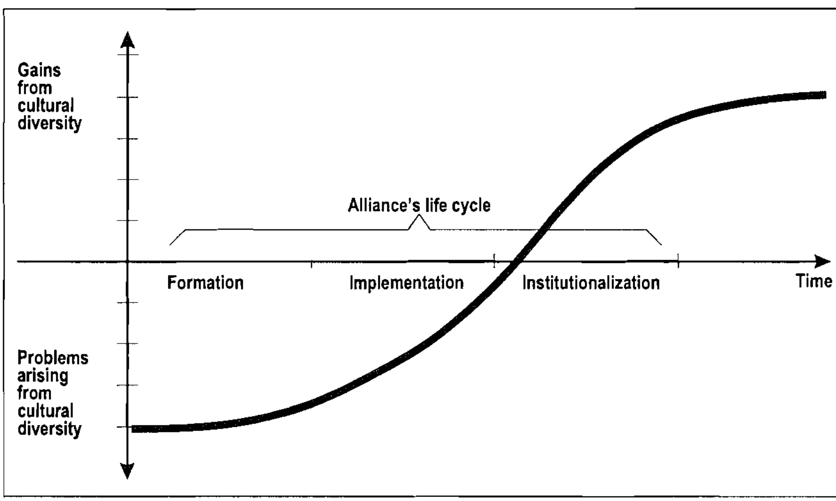

Figure 2.4.1: A Schematic Illustration of the Qualitative Change in Managers' Attitudes to Cultural Diversity.

Figure 2.4.2 on next page summarizes the effects exerted by partners' cultural diversity on intra-alliance match which were mediated by two factors: The tasks performed in concert and the types of working relationships established in the course of alliance-building (cf. conceptual model in figure 1.1, pp. 43). The figure shows that these two mediating factors acquired several partial manifestations with both, positive and negative influences on systemic fit, and that the scope and number of positive effects overpowered the magnitude of negative consequences, and hence, contributed to strategic and operational match.

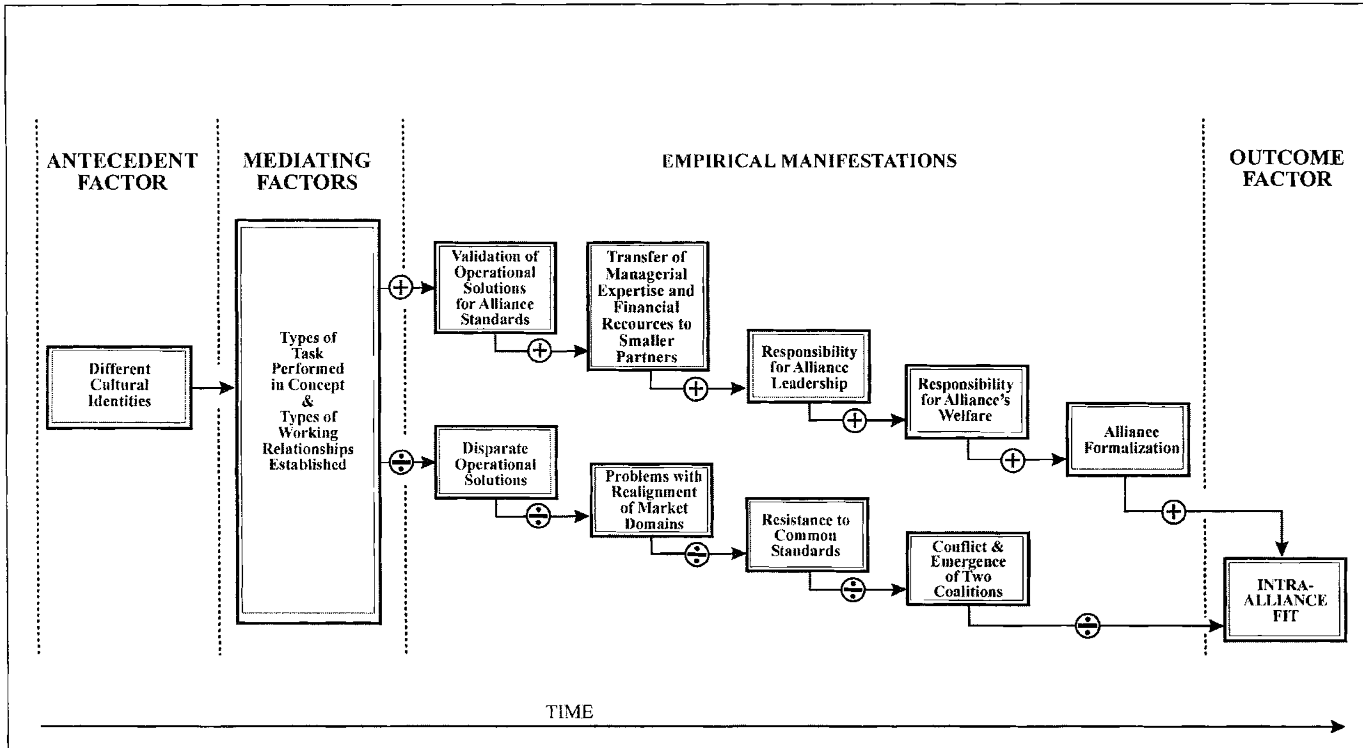

Figure 2.4.2: The Empirically Assessed Impacts of Partners' Different Cultural Identities on Intra-alliance Fit

2.5 Individual Expectations of Alliance Benefits

The empirical results marshaled in Part IV of this study confirm the theoretical supposition that disparate benefit expectations antagonized the partners. We have also shown that disparate cultural backgrounds and power positions operated as input factors that amplified interpartner conflict, which again was connected with incongruent benefit expectations. The compound effects of these tensions impaired the quality of decisions made by the alliance group along with the synergistic gains from group collaboration.

But there was another finding still more important and revealing. We have established that the discord regarding benefit expectations was a logical extension of highly incongruent viewpoints on three other issues:

- How the alliance benefits should be created in the first place.
- How large the contribution from each partner should be, and, for that matter, the individual sacrifices.
- How the burden of contributions should be distributed across the partners.

These disparities provided input for three types of conflict that stratified the partners into minority and majority factions; namely, relational, task and process conflict. We established that all types of conflict were causally related to the lack of managerial infrastructure within the alliance organization. The lack of coordination management rendered several interventions inefficient and delayed systemic fit.

The conflict erupted due to the lack of:

- an agreement on market re-alignment programs
- an action plan for the course of interventions, and
- clearly defined objectives and benefits of synergy initiatives.

The explanations presented showed that the conflict management strategy represented a mixed motive game. It involved a combination of power and collaborative effort. Power was mobilized to compel the laggards to perform the necessary interventions. Collaboration involved financial and managerial aid to smooth the pain of transition for the lagging parties.

This finding is important because it counters the normative prescription of intercultural group decision-making theory. This theory discerns between the collaborative and competitive style of conflict handling and posits that only collaborative mode of conflict management can contribute to high quality group decisions. Reason is that only friendly collaborative atmosphere will facilitate compilation of a wider sphere of information, foster critical evaluation of a larger number of ideas, and motivate group members to come up with more creative solutions. Consequently, groups whose members compete will make lower quality decisions because participants may feel defensive and afraid of being defeated in the pursuit of individual gains (Dace, 1990; Deutsch, 1969; Markus and Kityama, 1991; Putman, 1986).

Our findings indicate that a mixture of collaborative and competitive strategies can be effective. We have shown that enhancement of individual inputs to decisions made by members to culturally mixed groups that collaborate, but at the same time also disagree, cannot be achieved by an indiscriminate use of a cooperative strategy alone.

Two empirical observations underlie this statement. An intercultural group of decision-makers may concur under the decision-making process, but may later disagree when its members discover that implementation of the agreed-upon options requires individual sacrifices or increases the individual risk of negative outcomes. This indicates that even if a group has consented in the first place, it may later refrain from implementation when the negative consequences of the solution adopted have been assessed through and better understood.

We have observed that the problems hampering the alliance development did not arise from interpartner disagreement on the needs for integration, but rather from disparate individual propensities to accept the risk of status-quo disruption. This suggests that a plausible causal relationship may exist between the discrepant benefit expectations, an antecedent variable in our conceptual framework, and the reluctance to comply with unpopular decisions, which was defined as an implementation-conditioning factor. The latter may be inversely related to the magnitude of discrepant expectations, which could suggest that the more disparate the partners' benefit expectations, the less willing the partners were to comply with unpopular decisions, such as those demanding individual sacrifices. This observation is crucial, as the causal link between these two factors was not explicitly stated in our conceptual model (see figure 2.5.1).

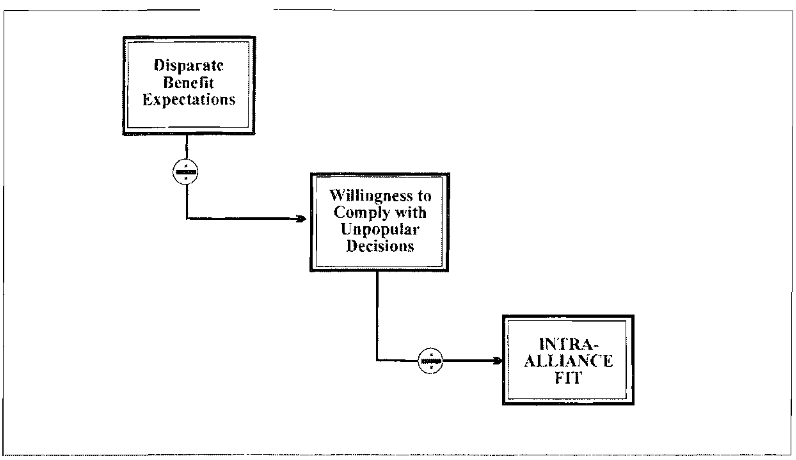

Figure 2.5.1: The Empirically Verified Link between Disparate Benefit Expectations, the Willingness to Comply with Unpopular Decisions, and the Attainment of Alliance Fit

Flaws that Thwarted Alliance's Development

In the search for obstacles that hampered the construction of the alliance, the following functional and conceptual flaws have been identified:

1. The alliance's objectives were only vaguely defined at all stages of the alliance life course. Even the Mission Statement, which was meant to seal individual partners' visions, contained ideologically correct formulations that did not provide any practical guideline on how to produce the alliance synergies. Overarching goals that made good slogans, such as *"improvement of alliance performance by sharing the best practice"* and *"coordination of service provision at Pan-European level"*, did not provide a sense of direction for operational managers. They therefore had to be dis-aggregated into discrete, well-defined objec-

tives, with each objective then subjected to hard-nosed financial analysis. By dis-aggregating the objectives, the managers at each business unit would have gained an understanding of how each intervention had to be implemented, i.e. with what individual inputs and within what time-frame.

2. The haphazard mode of re-structuring projects revealed that partners lacked a thorough understanding of the real costs and benefits of their undertaking. The results were disastrous. The scattershot and unfocused efforts that emerged when different parties imposed their own views on what needed to be done to reach the imprecisely stated goals eroded the effects of several painful interventions. Clarifying the real objectives and benefits of interventions, or *"sizing the price"* of these efforts, was thus the first and the most important disciplining measure that was missing. The managers needed to be as precise as possible with regard to the types of synergy sought for themselves and for the entire venture, and also the ultimate costs of interventions.

3. If coordination of interventions across several partners was necessary, then there was a need for an alliance-wide strategy. In order thus to better understand the effects of proposed interventions, the Board of Directors should have commissioned a cost/benefit study. Without some concrete sense of costs and payoffs, all decision-makers were acting on instinct rather than on considered reasoning. Small wonder then that several important restructuring projects were stopped when the partners realized that the costs had outgrown the benefits, or when the benefits did not materialize within the expected time-frame. Yet, it is also important to bear in mind that estimation of financial costs and benefits does not always tell the whole story.

4. Financial outlays rarely take into account the opportunity cost of synergy programs, particularly the costs that may arise from focusing managerial time and effort elsewhere. The empirical accounts of implementation problems confirmed that the real difficulty with sizing the benefits of integration lay in the lack of knowledge of *when* the opportunity costs would be greater than the benefits. However, the data also show that the managers' expectations of intervention outcomes were magnified by the synergy bias. In these circumstances, forcing the involved managers to substantiate their benefit expectations for the interventions proposed would disclose the real upsides and downsides, and narrow down the implementation project to interventions with predictable outcomes.

5. Thus, by dis-aggregating the broadly stated goals into more precise targets, the potential for conflict could be better assessed. By disclosing the gaps between the perceived or real sacrifices and the anticipated future benefits, the magnitude of the conflict could be approximated and precautions taken. In this context, the collaborative strategy alone would not do any good. If collaboration was to produce results it had to have been preceded by systematic efforts to break down the tasks in hand into meaningful components appraised prior to implementation at individual partner and alliance levels.

Flaws that Amplified Interpartner Conflict

Two factors led to wrongheaded decisions, and subsequently, to interpartner discord.

1. Partners suffered from synergy fallacy. In assessing the potential for synergy, the alliance executives overvalued the positive *knock-on* effects and overlooked the downsides. The chronicle of occurrences that stifled the integration progress shows that several synergy initiatives had many unforeseen consequences. Their effects were both beneficial and harmful. We have seen that wrongful implementation of market re-alignment programs prompted managerial and staff opposition, and reduced the commitment of all partners to collaboration. In the search for alliance synergies, the managers overshot in synergy potentials. In large part, this upside bias was a natural accompaniment to the synergy bias. Since alliance managers were inclined to think best of synergy, they also looked for evidence to back up their positions, while avoiding evidence to the contrary. This upside bias was also reinforced by a general belief that collaboration, teamwork and sharing were intrinsically good for the alliance. In fact, collaboration without a clear identification of synergy potentials proved totally worthless; sharing was not always feasible owing to unequal resource endowment; and teamwork was often distorted by the lack of basic rules for managing group decision-making. So, in many instances, the areas where the partners searched for synergies proved misguided.

2. On top of that, the partners suffered from a considerable shortage of skills. That was why so many interventions failed to make the synergy happen. Professional pride and the need to save face made it very difficult for senior managers to accept that they, along with their colleagues, lacked certain critical capabilities (Ting-Toomey, 1985, 1988). The lack of the right skills, such as those required for managing large-scale market re-alignments, for coordinating the service provision operations of several firms and for building alliance competitiveness from individual capabilities undermined the feasibility of the integration project, however big the initial opportunity potential. What's more, learning new skills was not easy, especially for senior managers with different cultural backgrounds and ingrained ways of doing things and of perceiving the world. When new and unfamiliar skills were called for, a serious error was underestimating the difficulty of building them. In this context it might have been better to have let several opportunities pass by than to em5bark on interventions that were directly wrongheaded and could not be successfully completed.

Implications for Group Decision-making

The best antidote for these biases, as for all biases, is self-discipline and an awareness of one's own limitations. Simply by acknowledging the tendency to overstate the potential for synergies, the alliance executives could have been better equipped to spot the distortions and avoid many traps. Before embarking on uncoordinated actions, they could have put their ideas to the test by asking themselves and their colleagues: *What exactly do we want to achieve, and how big do we want the benefits to be? What gains at the alliance level could be produced from intervention into an individual unit's operations and management? What possible downsides could emerge from these actions?*

The above prompts an important issue missing from the analytical focus of intercultural group decision-making theory: *How should the interaction among members of culturally mixed groups be structured in order to minimize the level of conflict and produce high quality decisions?*

Selection of an appropriate mode for conflict resolution may depend on the circumstances and the ability to spell out the scope of collaboration benefits and costs. The empirical accounts of the problems that the partners faced under alliance integration showed that an *a priori* consensus on how to accomplish this task was missing.

In these circumstances, optimal output from the group decision-making could be achieved by varying the use of collaborative and competitive measures, depending on the subject of decision-making and the magnitude of the conflict.

When the conflict was substantial and emerged from incongruent implementation of agreed-upon solutions, and not from disagreement on the content of the tasks and/or modes of problem resolution, then use of power may prove effective in the short term. It may induce those who for various reasons are unwilling to fulfill their commitment. So, when the goal sought was to punctuate the interpartner stalemate and prod the alliance managers into implementing the agreed-upon restructuring, the use of dominance tactics showed to be effective. Implementation opportunities open up when all unit managers understand and commit to the synergy program, but with a lack of skills, people or resources, it can't happen.

As we have seen, the integration failed at an early stage in the life of the alliance because none of the partners assumed responsibility for the project and no plans were drafted detailing the contributions of all parties. Moreover, the decisions to intervene did not take into account the skills of the managers involved, and the specifics of their business. We have recorded that these aspects were occasionally disregarded, and in instances when this happened power-wielding did not speed-up removal of the disarray but instead irritated and alienated the targets. So the conclusion is that a lack of the managerial skills required to deal with highly sensitive conflict-laden issues might jeopardize the best of intentions, even when preliminary consensus has already been framed.

In the long run, however, a domination-based conflict handling strategy won't work. First of all it will not motivate the group members to collaborate at the expense of individual sacrifice. Second, it will not secure the voluntary commitment to decision implementation even if a consensus has already been reached. Third, power will not motivate group members to contribute the best of their abilities to collective welfare.

The view that we present after having analyzed the process of alliance development is that the alliance executives should have been much more skeptical about the synergy potentials and benefits of collaboration. This would have made them much more cautious. Before embarking on several costly interventions they should have clarified the scope of expected and feasible benefits, examined the needs for mutual involvement and taken into account the possible downsides. Fewer initiatives should have been launched, and those approved should have been better scrutinized for the real costs and possible drawbacks.

In this manner the executives could have saved time and money, and devoted these two scarce resources to better planning of their undertaking. Since uncertainty was high, it would have been better to proceed cautiously. Rather than intervene decisively, the managers should have encouraged further exploration, possibly in the form of pilot projects and fact-finding analyses, temporary assignments, and forums for sharing and clarifying ideas. All of these on a strictly exploratory basis. An exploratory mechanism is by definition designed to collect the facts, and its end result is a better-informed decision-maker. In implementation mode, by contrast, the intentions were to change the working and thinking of the managers.

Implications for Managerial Effectiveness

It is our contention that in many cases the wait-and-see stance or do-as-little-as-possible alternative should have been chosen. In many instances the opportunities were too small, the risks too high, and the outcomes too poorly understood. The do-little-strategy could have saved the alliance partners valuable management time, stress and unnecessary disruption.

In saying the above we realize that the idea of doing as little as possible might not sit too comfortably with many executives. After all, it flies in the face of most basic managerial instincts; namely, taking action, getting things done, and creating a whole greater than the sum of its parts.

Yet, adoption of a *"do little in the first place attitude"* could actually have helped to achieve the synergistic gains at a later time. First of all, the scope of harm inflicted by the pursuit of synergy mirages would be smaller. Second, by carefully selecting those interventions that contained real synergy potential, the alliance executives could have introduced some sort of priority system that would have created a baseline for coordinating their actions. For instance, by establishing an advisory center to work on development of alliance-wide standards and common terms for tender bidding, the partners would have become more deeply involved in each other's business and better able to assess the needs of re-structuring. Such an arrangement would also take into account the available skills of the alliance partners, and the difficulties with how the development of new skills would take place. So, by being more cautious, the alliance managers would have limited the interventions to fewer areas, but with a higher probability of synergies.

All this implies that by being specific and concrete in assessing the synergy potential, the alliance managers could actually have avoided many conflicts, or more quickly brought those already erupted under control. It is never possible to predict all the unintended consequences that might flow from synergy initiatives, or for that matter from any management action. However, simply by being aware that interfirm collaboration involves both costs and benefits the managers would have been able to have taken a more objective and rigorous view on synergy efforts.

In some cases, the managers would have been better able to structure their efforts to avoid many downsides. In others they would have been able to kill off proposals and/or stop interventions which were doing more harm than good. Needless to say, such discipline would have greatly improved the outcomes.

To foreclose the latent conflict and resolve the active discords, the partners could have proceeded in a two-step manner. First, a more thorough assessment of the possible benefits and individual sacrifices could have reduced the scope of distributive conflict between the members with independent and collectivistic identities. If such an appraisal were based on relational parity that derived from procedural justice, then the equality of status of members would become obvious.

Equalization of the positions of all members in alliance decision-making heightens the level of involvement of group members in debate on the scope of interventions. This, in turn, creates a sense of responsibility for alliance performance and signals that alliance welfare depends on contributions from all partners. Thus, the propensity of all partners to collaborate might have been increased by drawing on resourcefulness of all group members and making them responsible for the venture's welfare.

Second, an emphasis on the commitment and resourcefulness of all group members increases acceptance of individual sacrifice, and motivates the group members to generate many solution ideas. Structuring the decision process by making it appropriate and acceptable to all participants enhances the members' collaborative involvement and the amount of individual input. Infusion of a group-work process with relational fairness and respect for individual idiosyncrasy could also enhance the entire group expectations of the positive outcomes. This could also release the peer pressure propelling the members with individualistic and collectivist orientations to compete on the quality and number of individual contributions. Outcomes might be a higher acceptance for temporary sacrifice, a better quality of alliance decisions and a larger scope of collective outcomes.

In summary, had the alliance partners explored the synergy potentials carefully, they might have avoided many conflicts and increased the level of individual contributions and collaborative outcomes. If the process of synergy extraction had been better managed, it would have delivered a boon. Unfortunately, we have seen that the potential for synergy was poorly understood, that interventions were wrongly selected and outcomes disappointing. These results undermined the interpersonal confidence and trust necessary to keep the individual commitments high to justify the need for temporary offerings.

The above findings have bearings on prescriptive functionality of intercultural group decision-making theory. Both a collaborative and a competitive style of conflict management may increase the quality of decision-making and decision outcomes, but this would depend on whether the group members manage to specify *where* to look for synergistic gains. If the conflict is distributive and related to individual sacrifices required for the creation of collective benefits, then by assessing the relationship between the scope of inputs needed and the benefits expected could reduce the conflict potential. Phasing out areas with poor synergy returns would eliminate the tasks where the chances of collective gains are poor. Concentrating alliance collaboration in areas with large synergy potentials would keep the conflict at bay, because it would increase the likelihood that the group-created synergies were large enough for all members to benefit from collaboration.

Chart 2.5.2 summarizes the empirically assessed conflict resolution strategies that may enhance the quality of decision-making by member of mixed-culture groups.

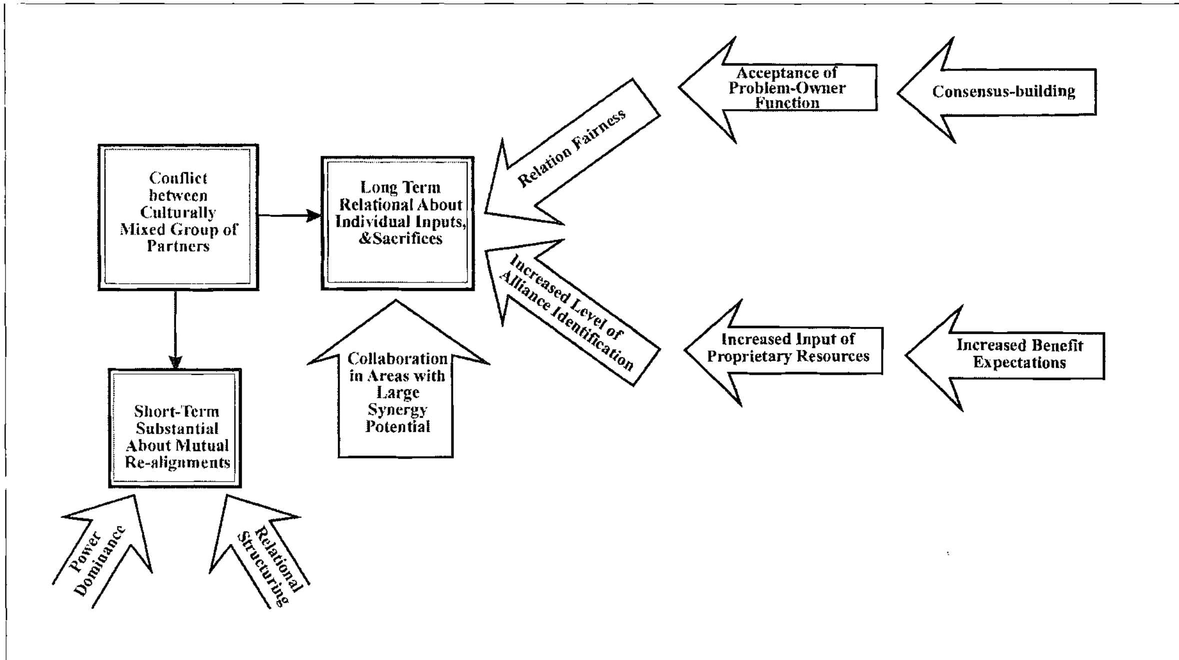

Figure 2.5.2: The Strategies for Conflict Resolution

3 Conclusions

The findings from the exploration of alliance formation have been presented in the foregoing sections. This survey revealed several developments that countered some theoretical suppositions, confirmed numerous others, and broadened the scope of our understanding of several theoretical concepts. In sum, these results produced new knowledge of how the alliance was created and what factors shaped its organizational gestation.

A general conclusion drawn from this investigation is that our theoretical model was too mechanistic and causally static. Therefore, our assumption that the impacts of the five antecedent variables would affect only the formative stage in the alliance's life span cannot be sustained. By examining the empirical manifestations of:

1. Individual service provision expertise and physical supply networks,
2. Individual power bases,
3. Individual missions and domains,
4. Different cultural identities, and
5. Individual expectations of alliance benefits,

we have shown that several effects transcended the infant stage of the alliance's life, spilling over to the phase of implementation of alliance's accord, and affecting the alliance's organizational institutionalization.

Findings That Corroborate an Earlier Conceptual Vision

Several findings of our research *confirm* the model's expectations that antecedent factors would generate both positive and negative impacts on alliance integration. These findings pertain to different service provision skills and physical production networks, differences in power status, and cultural variability.

The direction of influence of the antecedent factors reversed over a ten-year period. Basically, the findings corroborated our conceptualizations, but also disclosed that some impacts were much more equivocal than we had originally assumed. In addition, the extent of influence of these factors was much more far-reaching than the model predicted.

Incongruencies in expertise and production networks of the various partners had a definite impact. First, this variable contributed to the alliance's formation by giving the wrong impression that diverse expertise and production assets can create a basis for serving a broader range of market segments. Yet, during the implementation period, this variable changed direction and impeded the alliance's integration because incongruent business skills and production facilities proved to be difficult to align.

In the same vein, but in reverse, the impact of the partners' cultural diversity was also disparate. At the early stage of the venture's existence, cultural variability impeded consensus on standards for alliance operations. However, during the post-contractual period, this variable began to have a positive influence because over time, the partners developed the ability to cope with demand heterogeneity and learned how to utilize their cultural variability to improve alliance competitiveness. Thus, the long-term impact of cultural diversity on alliance integration was favorable. Integration was achieved through the combined effect of cross-cultural learning and an increase in managerial awareness of demand complexity, which justified the awarding of individual operators with considerable autonomy.

Findings That Diverge from Theoretical Expectations

Findings that diverged from the extant theories pertained to how conflict was handled among the members of this culturally mixed group, and how the quality of the group's decisions improved. Contrary to the recommendations of intercultural decision-making theory and the communication effectiveness hypothesis, we found that both collaborative and competitive styles of conflict management can be effective at dealing with disagreements. However, the effectiveness of both methods depends on the decision being made, the nature of the disagreement, and whether the conflict pertains to decision-making or decision implementation.

When the conflict was substantial and arose from a reluctance or lack of ability to implement a collective decision, then a combination of collaborative strategy and power tactics compelled the lagging parties to abide by the agreement. However, when the conflict was distributive and arose from discord on input of proprietary resources and/or the scope of individual sacrifice, then being specific and concrete was helpful. Pinpointing areas with large synergistic potentials allowed areas with poor synergistic returns to be phased out. Thus, targeting collaborative efforts to areas with large synergistic potentials reduced the potential for conflict and increased the scope of collective gains. In addition, decision-making by relational parity stimulated a sense of individual responsibility for the welfare of the group and motivated the members with individualistic and collectivistic orientations to increase proprietary contributions to achieve alliance goals.

According to the theories of intercultural group decision-making and communication effectiveness, only a collaborative style of conflict management can improve the quality of a decision's outcome. Our findings in this study diverge from these theories. Therefore, these results brought to light several subtleties regarding modes of conflict handling. Knowledge of these subtleties may help practicing managers to deal with culturally rooted discord in international business settings.

Findings that Expanded the Empirical Boundaries of Theoretical Constructs

This study unearthed several empirical manifestations of theoretical constructs, which revealed that real-life problems are much more all-encompassing and complex in terms of incongruent missions and domains and disparate expectations than those conceptually envisioned. This confirms that empirically validated knowledge of how voluntary alliances are created and how they acquire a more advanced organizational form is still in short supply (Gulati, 1998).

New Insights

The combined effect of the five antecedent factors facilitated the persistence of organizational differences between the alliance partners during the alliance formation. These differences derived from the partners' demographic variability and discrepant perceptions of teamwork, and impeded operational and managerial effectiveness. In the absence of a leadership team, several highly uncoordinated interventions had to be stopped before the members of the dominant coalition could bring the implementation process back on track. It was thus not until the executives from the larger firms had assumed leadership responsibility that the performance of the alliance as a whole took a positive turn. From this point on, the scope of integration increased steadily for all partner firms, although several organizational differences persisted throughout the decade. The comparative analyses of two constellations of alliance partners and their mutual relationships revealed that the change had occurred in all alliance organizations, but at different rates and through different actions.

From a developmental perspective, all organizations progressed from uncertainty and misfit towards a higher level of operational accord, although the larger organizations did so more quickly. These results provided supportive evidence that the members of the dominant coalition had correctly perceived the need for leadership within the alliance system, and had applied the correct measures for interorganizational coordination. Moreover, the leadership team's interpretation of interpartner differences in market situations also proved to be right and resulted in the right choice of re-structuring policy.

Members of the minority coalition, in contrast, had embarked on a course that forced them into a reactive mode of behavior, where changes in perception and system organization did not happen though anticipatory planning, but through confrontation with external powers and receipt of externally controlled resources. This situation gave rise to several kinds of conflict.

However, during the last stage of alliance formation, all organizations developed a workable division of labor and a system for control and coordination. Over time the alliance established a managerial infrastructure that was based on decision-making parity. Towards the end of this sequence, uncertainty and conflict were under control, and partners started thinking about market extension.

These events helped to identify the infant and youth stages in the alliance's evolution and confirmed that large-scale intra-firm and interorganizational restructuring and learning had occurred. These findings may provide practical knowledge to those seeking to understand not only the creation and early stages of an alliance's development, but also its maturation.

The most obvious inference from this study is that alliances cannot be understood apart from their history and knowledge of the partisan interests of their members. The initial organizational choices, along with the ability to amass enough power and trust to carry them out, set into motion a process that aligned the alliance members' various developmental paths, belief systems, and organizational actions. Without an appreciation of the gradual development of coordination measures, it would be difficult, if not foolhardy, to assess how the individual differences receded, leaving room for a new and more coherent alliance system.

The longitudinal, multi-perspective research method permitted us to assess multiple aspects of inter- and intra-organizational change. It also rendered several new insights. Our observations of the alliance's organizational evolution revealed that several power theories, such as the social exchange hypothesis and the network centrality and resource dependency propositions, are far too static. The analytical foci of these conceptualizations are too narrow; they fail to envisage how power asymmetry can be re-modeled in the course of the network's transformation, and how this transition can change the patterns of interpartner dependency.

Voluntary networks are more loosely structured than orthodox corporations. Their flexibility may make these systems more amenable to change stimuli. In the case studied, the primary stimulus and agent of change was the catalytic action taken by the dominant coalition – action that both facilitated and legitimated the alliance transformation. The fact that the dominant coalition utilized its power advantage energized the alliance's advancement. However, it also released countervailing forces that balanced the initial power asymmetry, compelling the leading coalition to modify the alliance's governance structures, which in turn led to the adoption of greater fairness in interpartner relationships, and produced two outcomes. First, the smaller South European partners became net benefactors of alliance gains and attained more favorable power positions than that afforded by their scale and scope of operations. Second, mobilization of power that served the highly legitimate purpose of interpartner integration established an equilibrium that, over time, equalized the power asymmetry.

The following conclusion may be of interest to business executives: In the long run, the exercise of formal and legitimate power will not increase the scope of individual contributions to fulfillment of organizational goals. Neither will it improve the quality of organizational decision-making, nor decision outcomes. When power asymmetry within a given organization protracts, those in minority factions may accept the difference in organizational status and attribute all responsibility for organizational success and failure not to themselves, but to the dominant faction. Such displacement of responsibility may decrease the motivation of the minority to contribute proprietary resources to organizational objectives, especially when the fallibility of the ruling faction becomes obvious.

In addition, we have also exposed several explanatory limitations of various theories of decision-making on culturally mixed small groups and intercultural communication effectiveness. We have shown that these propositions lack the finer-level conceptualizations that allow assessment of differences in the level of cultural value identification between proponents of the same cultural ideology. This observation derived from the problems we encountered during classification of data denoting the differences between the Nordic managers, who all embraced collectivistic values, but who still differed with regard to freedom to exercise organizational power and propensity to make decisions by consensus. As we have shown, there were quite noticeable differences in managerial practice among the Swedish, Danish, and Finnish managers.

More research is needed to validate these findings by studying managerial behavior connected to organizational power wielding in multiple international settings. This issue is quite important in view of the economic integration taking place within the Nordic region, where growing number of manufacturers, merchandisers, and service providers engage in mergers, acquisitions, and strategic alliances. Moreover, the general issue of culturally rooted differences in managerial role enactment across Europe is more important than ever in view of today's sweeping business consolidations and the dearth of academic knowledge on this strategically important subject.

4 Findings from Implementation of the Alliance Accord

This chapter addresses two important questions: *Whether or not, and if yes – how,* the six mediating factors from the conceptual model have in reality influenced implementation of the alliance accord. In analytical terms this required establishing whether these factors modified the contents of social ties between the partners, their modes of collaboration or the design of the alliance's managerial apparatus.

This query was answered through an analytical confrontation of theoretical constructs with empirical findings. This procedure identified two types of change drivers:

- Those that both facilitated and impeded the alliance organizational advancement, and
- Those that regulated the interpartner relationships and made the venture capable to participate in European rivalry.

In order to relate the outcomes of analytical comparisons to the extant theories, our summary follows the structure used in conceptual model. As a result, the effects of the six intervening variables, which impacted on the alliance transformation, are presented below:

1) Types of tasks performed in concert;
2) Types of working relationships established;
3) Individual propensity to trust and commit resources;
4) Degree of interpartner consensus;
5) Willingness to comply with unpopular decisions, and
6) Degree of relational control.

Furthermore, for the want of understanding the causal utility of behaviors that we assumed would function as *"transformational technologies"*, an assessment was done for each of them alone and then in concert.

4.1 Tasks Performed in Concert

Empirical evidence marshaled in the foregoing confirmed that the alliance would eventually reward its partners with several gains. These would emerge from a creative combination of partners' individual skills, operation models, production facilities and market knowledge, and from managing these assets in a manner that will create a distinguishable competitive advantage for the entire constellation.

Domain restructuring, operational standardization and coordination of individual operations produced tangible gains, but these benefits did not emerge solely from the link-ups envisaged by the conceptual model. Rather, these synergies accrued from the interplay between the antecedent and mediating factors, and from the outcomes achieved as a consequence of the forward and reverse causal bearings of these factors.

The analyses of interpartner integration and the tasks performed in concert revealed that several kinds of synergy were illusive and did not materialize. On the other hand, certain other gains did not unfold within the time period preceding the Founders' Contract, but started to emerge slowly after institutionalization. Nor have these synergies acquired the format that has been hypothesized, but instead, displayed a much more strategic denomination.

First, extracting synergies by combining individual capabilities was difficult. Several things hindered this, the most immediate being the overblown expectations of synergy potentials. Next, the lack of a clear-cut strategy by which to manage the restructuring process, coordinate disparate business models, find interfaces between the divergent managerial cultures and utilize market idiosyncrasies for the benefit of the alliance gave rise to interpartner conflict. These conflicts impaired the quality of collaboration and eroded the potential for synergy.

Thus, the network effects did not consist solely in new service lines, in the linking-up of geographical markets, better utilization of production apparatus and operational cross-fertilization. Rather, and in line with joint governance hypothesis, the benefits accrued from formalization of alliance's managerial structure and bridging the Nordic and Continental networks into one Pan-European system, which opened up for European scale of operations. The EEIG blueprint introduced strategic apex, which unlocked several operational and market-synergies, and transformed these payoffs into enhanced competitive standing.

The Board of Directors, who assumed the duties of strategic apex, devoted its efforts to alliance expansion, operational coordination at European level, and establishment of boundary spanner between the alliance and its markets. In enforcing the Founder's Contract, protecting individual interests through relational fairness principle, and ensuring fair play in mutual dealings, the Board created a synergy of *joint governance*. In addition, the EEIG structure formalized the four coordination mechanisms that changed the way the work was organized within the alliance. These included:

- Mutual operational adjustments
- Partial standardization of service provision and operating skills
- Realignment of international market coverage.

The first job the Board performed was approving new service provision schemes devised by expert committees. This task showed that the alliance could function as a multiunit corporate system. Yet the relatively low amount of executive power that the Board of Directors had at its disposal exposed its work process to pressures from competing forces. In these circumstances the Board had to spend a good deal of time fighting strategic battles caused by divergent business interests.

However, the alliance's top leaders did not try to bottle up this disparity. They responded in a collective manner and used persuasion, negotiation, consensus and rapport to blend idiosyncratic interests, balance divergent visions and channel them to productive ends. This job materialized in the adoption of a multidisciplinary work plan, which drew on the partners' skills for supply of new service categories.

This discord and how it was managed showed that the alliance was an inherently democratic organization. However, bearing in mind that it also was a volitional formation, nothing short of truly democratic regime would secure the partners' acceptance of the Board's decisions and decision implementation.

Another common task performed by the Board was a liaison connection with the environment. Since the alliance's existence hinged on common projects that utilized the partners' skills and production apparatus, the acquisition of new customers and of new assignments was vital for the venture's endurance. Because each project involved the distribution of different merchandise and required different managers, different service provision skills and different geographical coverage, the Board of Directors had to make sure that the large projects kept coming.

Still another important duty assumed by the Board was negotiating the conditions for network accession with new partners. Some of those who wished to join the alliance were attracted by the possibility to work in multinational teams and in large international market. Others had to be approached and co-opted. In these circumstances, the strategic apex had to devote its time and energy to creating a steady and balanced stream of new projects, new customers and new partners.

Still another practical benefit that arose from the Board's actions was the sophisticated system for bridging of the freight flowing between the partners' operating domains. This synergy emerged from the creation of a supply chain which integrated the functional areas of seven operators who collectively transferred load-carrying units between the Nordic region and the European Continent, and could serve multiple global customers through consolidation of freight volumes. Because the basic managerial infrastructure has been installed and the standards for international performance specified *a priori,* the benefit of joint governance amounted to guaranteeing stable output from concerted actions.

More specifically, this study has demonstrated that the most pivotal competitive advantage the alliance created lay in interlinking two logistics networks – the Nordic and the Continental – into one Pan-European service provision system. Control over the south-north conduit for the European freight transfer comprised the backbone of the alliance's competitiveness. It was also the source of a superior power position of the two large partners, who supervised access to northern and southern ends of this pipeline. In this context, establishment of the Board of Directors gave the smaller partners a greater say in alliance management, putting all partners on a par with each other and making the alliance environment truly democratic.

This leadership model contributed to a sustainable level of performance that minimized the operational variance in different markets and guaranteed reliable service provision.

Since the adoption of strategic apex was not explicitly hypothesized by our conceptual model, these results evidence that our theoretical understanding of the competitive advantage produced by logistical strategic alliances is still inadequate, and that more empirical work is needed to further our knowledge on this issue.

We have already documented that an important source of alliance synergy was the strategic apex, the duties of which were performed by the Board of Directors. The goals that the Board pursued were twofold: Selecting avenues for alliance strategic development and securing contractual assignments and new business partners. We have also observed that accomplishment of these tasks was difficult because of the requirement of procedural justice exposing the Board to partisan interests. The above situation antagonized the partners reducing also the benefits of joint governance.

How the Board deals with this complexity may affect the alliance strategic position. If the Board succumbs to partisan pressures without being able to elaborate its own strategic vision or creatively blend the inputs from the various sources, then its impact on alliance strategic position may be negative.

If the Board shows strategic acumen, however, and reconciles disparate visions by extracting the best elements from multiple proposals and synthesizing them in a new and more compelling business plan, then it may contribute to competitive advancement of the alliance. In addition, whether the alliance retains or improves the strategic advantage emerging from the Pan-European scale of service provision may depend on the alliance partners' ability to reduce the costs of operations, modernize production facilities and effectively market the new business concepts.

In summary, we have shown that the tasks partners performed in concert created several synergistic gains. We have also demonstrated that the magnitude of synergistic gains differed from that expected. Moreover, we have established that extraction of synergies from interpartner collaboration was difficult and took much longer time than expected and that the nature of tasks performed in concert was more technically complex and geographically encompassing than assumed. However, despite severe protracted difficulties the tasks the partners performed in concert were instrumental for adoption of joint governance system and for unlocking of synergies of internationalization and ability to participate in European rivalry. Figure 4.1.1 summarizes the different types of collaborative gains that emerged from introduction of joint alliance's governance.

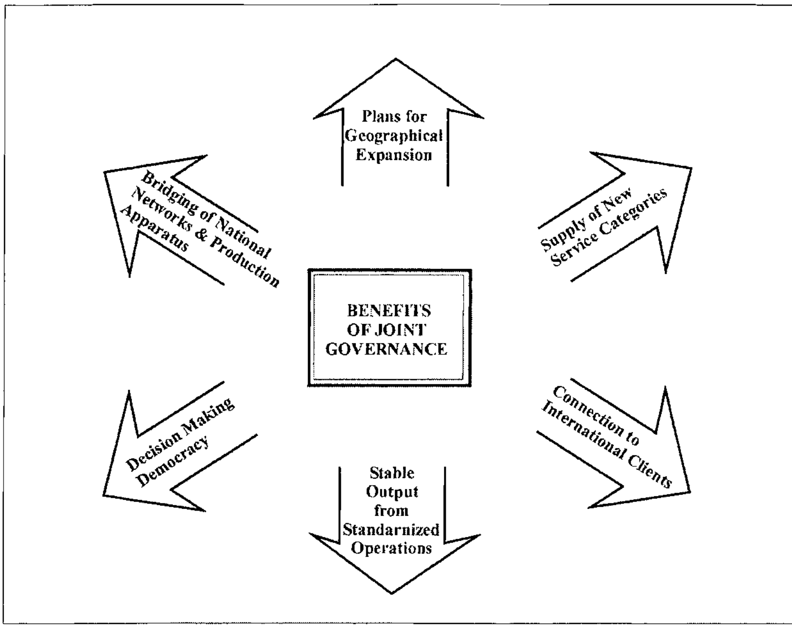

Figure 4.1.1: Benefits of Joint Governance

4.2 Types of Working Relationships Established

The data revealed that over the life span of the alliance the type of interpartner collaboration was transformed from ad-hoc, haphazard business encounters to a network of stable transactions performed by mutually committed firms. As the amount of business transacted increased, so did the frequency of partners' exchanges. As interpartner dealings were repeated over time, they acquired a more stabile pattern. These developments led to gradual standardization of network operations and more predictable outcome from concerted actions.

Thus, much empirical exploration was devoted to assessing how the interpartner links progressed from a relatively unstructured state to a standardized format, how this metamorphosis increased co-dependence between the network units, and what hurdles the partners met during this transition.

Consequently, we have shown that building of a more coherent network through interpartner restructuring was much more demanding in terms of inputs required when compared to theoretical assumption.

Thus the confrontation of these results with the network theory revealed again that our theoretical baseline was analytically static and somehow unimaginative. As a consequence, it was not well suited to capturing the mechanisms of relational transformation that increased the co-dependence of partners and reconfigured the network structure.

Our theoretical model focused on several aspects of inter-unit relationships and suggested that these properties would affect the network's operations and longevity. These included the features of inter-unit transactions, the content of interunit links and the resources exchanged, plus the governance modes for managing these transactions.

Still, none of these categories reflected the magnitude of change that each network unit had to make in operations and management to attain a functional match with other members and become a part of an integrated system. Or, more importantly, none of these network descriptors predicted how the network members should align and re-align their assets in order to respond to environmental exigencies, and how such a requirement might affect the network design and its management.

So, the theoretical framework was ill equipped for dealing with a situation when chasing changeable goals generated pressures to remodel the network exchanges. This flexibility was required to deal with the highly volatile environment within which the alliance operated. Because this environment exerted frequent pressures for re-modifying unit inputs and performance, the network's structure had to be capable of processing the units' inputs into new values and of delivering these contents as output from the entire system. The network thus needed a structure that would manage the system's dynamics.

In order to become collectively functional and reduce the structural disarray, the network members performed several painful interventions. We have established that the partners applied four types of intervention, these causing a different sphere of disruption, but creating a more coherent network structure. Specifically, we have shown that a series of *long-termed* and *short-termed non-reversible* interventions into operations, market domains and strategic preferences changed the network structure. They increased the scope of mutual penetration and made the network firms more co-dependent

Moreover, this study shows that environmental volatility manifested in frequently changing goals led to development of network's technology of survival. We have recorded that the alliance members succeeded at *absorptive capacity*, which allowed them to learn from the amalgamation of local and global solutions. This knowledge was used to design new service provision systems serving global and local clients. In functional terms this knowledge was utilized to perform the sea-land and in-land bridging that linked the partners within a Pan-European system. Thus, the Pan-Continental scale of alliance operations combined with the application of both context-specific and systemic solutions created a powerful competitive weapon that contributed to alliance survival.

The alliance-specific knowledge provided inputs to standardization and differentiation of the performance of units. On the top of that the highly specific knowledge helped to to meet the frequently changing goals and became instrumental for network flexibility. Transformation was the key to the network's ability to produce output valued by the environment. Consequently, ability to transform and deliver output appreciated by important others contributed to the network's functional persistence. These facts underscore the importance of functional and social ties in the creation of network efficiencies and the capacity for European competition.

Because the alliance partnership relied on interpersonnel exchange for various service-provision projects, it kindled professional and social ties between the member firms' staff. These ties functioned as avenues for exchange of expertise and practice, and contributed to development of new competitive skills. The fact that the focal alliance became a forum for knowledge development and design of competitive strategy therefore supports a conjecture that partner relationships were based on strong social content.

Since development of new operations models took place at functional level within the alliance system, the input to these ties equalized the network power relations. On the other hand, however, some actions that shaped the alliance performance, were driven by cultural, operational and interpersonal disparities. Although this polarization created an anchor for relational conflict, it also facilitated institutionalization of the alliance. In other words, alliance functionality was both hampered and facilitated by the close personal ties between the managers and members of operational teams, but looking from a long-term perspective, these ties have strengthened the venture' competitive resilience.

The above finding sheds new light on the mechanisms of interorganizational convergence, which is necessary if an operating system based on volitional collaboration is to become internally fit and respond efficiently to environmental pressures. However, knowledge of the conditions that may induce the network members to transform themselves in order to become mutually coherent remains outside the analytical purview of the extant network theory (Gulati, 1998).

The other important point exposed by this research was that synergies that the alliance created increased the system's coherence. One positive occurrence that strengthened interpartner commitment was the experience gained from the restructuring process. The higher collaborative affiliation that emerged from this activity increased the reliance of partners on each other, and diminished power inequality.

Thus, contrary to theoretical anticipation that the pattern of interunit power would stabilize the pattern of network relationships, we encountered that power inequality released the network dynamics which reversed the pattern of interpartner dependency and increased the network bondage. As the alliance expanded on a European scale, the positions of the smaller partners became elevated. Because larger partners had larger numbers of Pan-European customers, the creation of a bigger network made them more dependent on the smaller firms for an effective functioning of the entire system. This suggests that it was the imperative of network competitiveness and not the initial power distribution that increased the larger partners' dependence on alliance effectiveness. This enhanced the smaller partners' power positions and put the relationships between the larger and the smaller firms on a par.[63] The imperative of goal functionality therefore mandated relational parity.

The alliance's coherence was also enhanced by the establishment of a permanent leadership body. This demonstrated that collaborative dynamics brought not merely efficiency gains but also profound organizational advancement. The transformation signaled that relationships between the alliance partners had ceased to be reliant on expert teams, task forces, and project managers, supervising the realignment project. After institutionalization took hold, the partners' dealings were managed by higher-order links imposed by the EEIG architecture. In terms of organizational development this transition marked a move from *operational adhocracy* to *functional bureaucracy*.

[63] On the other hand, however, the latter effect can also be partly ascribed to interpartner cultural diversity in loyalty to the alliance project. The fact that the major players were the followers of collectivistic ideology in itself made them care more about the alliance's functionality and endurance.

This metamorphosis can be ascribed to at least three external and internal pressures. The first arose from the strategic shifts in the European logistics market and the subsequent growth in international competition. The second derived from the defection of the Finnish partner, while the third was related to the smaller firms' resistance to the operations standards proposed by the dominant coalition. These three pressures gave rise to the stronger players admitting to the diminishing utility of unilateral power and deciding that the alliance, just as any other business organization, should be managed within a formal bureaucratic structure.

Yet bureaucratization of the alliance could never be far reaching. Since alliance competitiveness hinged on the capacity to serve both global and local customers, each partner needed to exercise considerable operational autonomy. The above required that the alliance managerial structure could not stabilize, but remain somehow fluid in order to *ad hoc* respond to new threats and opportunities.

Based on the above, we maintain that despite certain bureaucratic features, the alliance as a whole retained a *hybrid* posture – a characteristic which emerged from the soft balance between the operating freedom to respond in a highly variable manner to changing market needs, and the use of bureaucratic tools to coordinate partner responses. The uncertainty that emerged from this dual managerial model was offset by the practical gains from flexibility. As long as neither of these two instruments commanded critical weight or the use of either varied with circumstances, the alliance would retain a *hybrid* structure.

In summary, these analyses of alliance restructuring have shown that both the lower-order ties (the lateral interpersonal with functional and social contents) and the higher-order links (the EEIG architecture) created a tightly knit texture that held the network together. This grid provided the basis for the strategic and operational fit that bolstered the venture's functional effectiveness. The exploration of intertemporal change in alliance structure demonstrated that interpartner ties became conduits of knowledge transfer, expressive exchange and power equalization.

This evidence also supports a deduction that the nature of tasks performed in concert causally affected interpartner relationships. However, we have shown that the establishment of a strategic apex disciplined the units' interactions and operating modes, and enhanced the quality of customer service. By so doing, it standardized the content of interpartner ties.

When the content of a task was well understood, the interpartner relationships were structured by franchise technology for service provision. However, when the nature of a task was vague, working relationships remained fluid with partners finding new solutions through social affiliation. This corroborates an earlier inference that there may be a close functional sequence between the tasks performed in concert and the working links connecting the network operators, making both the important determinants of network structure.

The complexity of interpartner relationships is illustrated in figure 4.2.1, which shows the four forces affecting the process of alliance management.

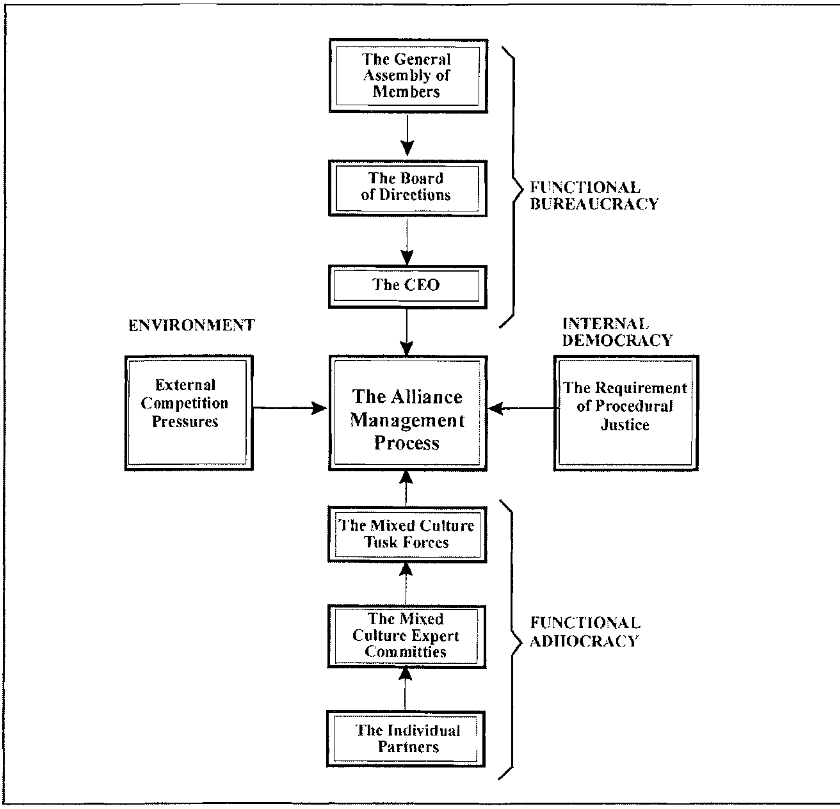

Figure 4.2.1: Forces Influencing the Alliance Management

4.3 Individual Propensity to Trust and Commit Resources

Findings related to how the alliance members implemented the partnership agreement support a conclusion that from the very beginning partners sought to base their collaboration on institutional and transactional trust. They formalized the venture's organization, the mutual dealings and the business relationships with third parties. They also applied procedural justice to manage their functional interactions.

The data indicate that the process of confidence-building continued over the entire life course of the alliance. Hence, the causal bearing of this factor was not constrained to implementation of alliance accord. Moreover, the issue of trust-building acquired a much broader dimension than envisaged by the conceptual model. As anticipated, the lack of interpartner and institutional trust indeed obstructed the realignment process and the adoption of common operations standards. But, we have also shown that the partners had to deal with several other and more encompassing challenges arising from the lack of internal and external confidence.

Members of the dominant coalition therefore mobilized multiple efforts to strengthen perceptions of reliance. These included the provision of financial and managerial aid to partners in need, standardization of international operations and formalization of alliance status; measures that made the network more manageable and better equipped to operate in a Pan-European logistics market.

Efforts to legitimize alliance status were induced by internal and external pressures. Externally, the alliance was competing against formal corporations with hierarchical managerial structures. To convince the present and prospective users of Pan-Continental freight supply solutions that despite its informal nature the alliance was a highly reliable service supplier, the dominant partners institutionalized the venture and standardized its modus operandi.

Trust was also needed to deal with the tensions arising from cultural and operational disparities, with relational conflicts and the wobbling commitment on the part of the smaller firms' managers. In addition, the interpersonal and professional trust between members of the dominant coalition served as an anchor motivating these actors to voluntarily assume the leadership duty over the alliance's business.

Thus, efforts to augment institutional trust included the Founders' Contract and adoption of the EEIG blueprint. By regulating the modes of how the business transactions between the partners were conducted and decisions taken, these formal provisions defined the rules of the game that restricted the modes of play of the participant actors. By imposing a set of *"constitutive expectancies"* that regulated the players' present and future interactions under mutual dealings, these regulations diminished the level of anomie within the system and increased outcome predictability from collective actions.

By installing a normative order regulating the conduct of partners, the institutionalization created an objective *"scheme of interpretation"* by which to assess whether the players were adhering to or breaching the rules of the game, the scope and contents of transgressions and the violators. In that manner a system of internal jurisdiction was introduced which imposed a set of objective norms regulating the partners' behavior and providing the basis for determining whether the game participants were observing *fair play*.

Trust in such a system emanated from perceptions of normality and the image of a *"structured environment"*, which standardized expectations of alliance members in regard to their own and their associates' behavior. The value of a framework like this was that behavior enacted in accordance with prescribed convention remained highly predictable, and therefore minimized the occurrence of *"nasty surprises"*. Exclusion of "*nasty surprises*" eliminated the need for close monitoring of individual performance, and bolstered stability of future outputs. By reducing the need for frequent renegotiations of business conduct, such a system produced time and decision economies.

The relational fairness principle that safeguarded the Board of Directors against the perils of partisan decisions was another means of trust elevation. The right of individual partners to veto the decisions of the alliance governing council enhanced the perception of *relational fairness*. Within such a milieu all members had an equal right to veto decisions that would commit them to disadvantageous undertakings. Still, the value of such a provision did not arise solely from the right to oppose, but also from a signal that disparate individual interests had to be taken seriously during crafting of alliance strategy. It therefore helped to mitigate any conflict that might arise from the *double commitment* of alliance managers to the alliance mission and their native organizations. Thus, by promoting acceptance for disparate interests, these measures sought to build institutional trust and forestall conflict. As already observed, exposure of the Board's decisions to pressures from competing groups could evoke indecisiveness, or even a functional standstill. Yet, from the point of view of trust-building it was a sound provision because it enhanced the level of partner loyalty to implementation of Board decisions.

Still another effort that bolstered trust in alliance collaboration and stability of partner relationships was the *corporate welfare* policy staged by Nedlloyd and DanTransport in relation to Dubois. By providing means that saved the latter from imminent bankruptcy, these acts demonstrated that the alliance could perform as an alternative to external capital market, and that the aid donors were capable of managing a turnaround operation.

The financial and managerial aid provided by DanTransport to Toll Post Globe to the smaller partners underpinned a conclusion that the dominant coalition, in seeking to create a benevolent impression, was willing to commit considerable financial assets to the alliance cause. And, as such resources could be used to salvage the old systems and/or develop new business options, the venture was financially self-sufficient and stood a good chance of longitudinal existence.

In making the small partners believe in the benevolent intentions of the dominant players, institutional and interpersonal trust was strengthened. Trust resided in the expectation that no alliance member would be left alone in the case of acute adversity. Instead, being an *in-group* member, each of them would be rescued from any possible bankruptcy, not only for its own sake but also for a higher-order reason related to preserving the integrity of the alliance. In this way, trust was cognitively established because it built on rational reasons, such as legitimacy of higher-order goals and positive experience with a given party. Trust in this context came from the judgement of integrity based on the perceived consistency between the larger players' actions, and (the empirically validated) anticipation that future actions would be consistent with these parties' words and past behavior.

Another measure of trust-building arose from self-disclosure of operating costs. Our model presupposed that self-disclosure would evidence trust between the alliance members, but we have also anticipated that openness in interpartner dealings might suffer as a result of cultural disparity. Consequently, we posited that a willingness to disclose the details of one's own business, which was imperative for access to trustworthy information, common bidding and performance of common tasks, would differ across managers with individualistic and collectivistic identities. The former would be less prone to reveal the details of his business practice, while the latter would be more willing to do so because of stronger *in-group* loyalty.

We have established that the need for mutual disclosure has been satisfied by the uniform code of compensation. The cultural variability in openness and transparency was surmounted by awareness that by neglecting to deal with individual inefficiencies the whole idea of alliance collaboration would fail. As a result, all partners would lose through overpaying for services delivered by other partners beyond their own operations areas.

This awareness helped the partners to deal with the varying willingness for self-disclosure, but also committed them to improve, in the long run, operational efficiency. Given that the partners' operations models and market conditions differed considerably, the compression of operational costs in line with the most efficient competitor was an extremely difficult task. The fact that the partners committed considerable managerial resources to resolve this issue is thus evidence of a high level devotion to the creation of a joint competitive advantage. It also supports a conclusion that after several years of muddling through, the partners eventually learned how to trust each other, and enabled them to deal with idiosyncrasies of domestic markets, incongruent service coverage, and variable managerial skills.

However, this change of attitude was also prompted by external forces, specifically the European Commission, which removed the quantitative restrictions on access to intra-Union market and increased the level of competition in the European freight haulage industry. By imposing time and efficiency exigencies, this highly competitive environment propelled the alliance partners into improving individual efficiency. Yet, as shown in the chronicle of interventions, the realignment of market domains and restructuring of individual business models was blocked by the relational conflict that antagonized partners and stifled the disarray removing process.

In this context, the transfer of managerial and operational expertise from North to South European partners broke the relational stalemate. The above is an example of functional benevolence, although of a kind not motivated by relational altruism alone. Rather, it emerged from the perceptions of *enlightened self-interest* that involved a partisan desire to force others to accept the uniform standards and create systemic benefits that would befall all members.

All in all, the evidence from Part IV of this study demonstrates that the alliance has gradually become a forum for knowledge-sharing, cost-compression, network re-design and competitive collusion. It supports the inference that an adequate level of trust between operating agents must have been established that allowed these agents collectively to launch a competitive strategy and mobilize resources for its implementation.

Yet, having reviewed the process of trust-building and trust-enhancement, one word of caution. Despite its seemingly purposeful nature, it would be wrong to define the process of trust-building as a string of coherent actions. This process did not proceed in a linear fashion, but in spells and blocks of initiatives with variable temporal outcomes. Thus, although several of these mechanisms heightened the level of trust in the long run, in the short and medium term several of these actions generated equivocal impacts, some of them with reverse causal outcomes.

One case in point was the setbacks that partners encountered under the restructuring project. As indicated, this project hit a problem due to the lack of project management and a joint executive body, but also to the fact that *highly expected benefits* did not materialize in line with partners' calculations. The lack of synergistic gains from painful interventions therefore eroded the partner confidence in the economic effectiveness of the venture.

The confidence-damaging effect arose from a breach of the psychological contract between the partners, namely that related to *unmet expectations and loss of trust*

– a situation when the game's players fail to receive something they have expected from the game, and as a result experience a *"reality shock".*

As the partners failed to achieve the expected benefits, they encountered a sense of discrepancy and dissatisfaction that lowered their commitment and alliance involvement and, in the case of a gridlock between Saima and Nedlloyd, also stimulated to eviction. So, when the partners experienced a series of painful interventions failing to produce the expected outcomes, they realized that something anticipated was missing, and consequently reduced the scope of their proprietary contributions. This perception of a breach of the psychological contract diminished the partners' belief in the alliance being capable of delivering an implicit promise. Their level of future expectations was reduced and consequently the degree of functional engagement.

These findings have several implications for the extant social trust theories. First, the observation that members' trust in their organization shifts with reward appropriation is not broadly acknowledged by these conceptualizations. Second, the trust needed to create positive expectations of benefits from collaboration cannot be substituted by establishment of a formal organizational structure, as posited by studies on equity-based joint ventures (Harrigan, 1985).

Although a formal administrative structure may enhance the level of organizational trust by regulating the units' decisions and actions, trust is essentially one ingredient in a particular social relationship. It is based on the binary nature of consistency between expectations and actions, and between actions and their outcomes. When units experience that a given collaborative relationship does not fulfill their expectation they may perceive this as a breach of psychological contract. They may therefore lose confidence in contributions made today being rewarded later. As a result, the link between performance and outcome is undermined, and the level of members' allegiance to an organization may decline. In such an environment the trust-building agent has to convince the discontented units that they must persevere in collaboration and extend the time horizon for benefit expectation.

It could be argued that, implicitly, the members of the leading coalition foresaw the inter-temporal shifts in the commitment of partners, and therefore formalized the venture by regulating the mandatory contributions. But that was not sufficient to keep trust at a satisfactory level and motivate the participants to enhance their contributions. That's why the leading partners mobilized the corporate welfare policy, the purpose of which was to increase level of interpartner belief in the stability of relational bonds by setting a precedent that demonstrated a high level of own loyalty.

Still another insight drawn from these findings is that trust, despite its relational character, is a highly hierarchical construct identifiable at several levels within the alliance system. The basic level of trust is dyadic, e.g. the mutual confidence established between DanTransport and Toll Post Globe, and between DanTransport and Nedlloyd. Another level is triadic, e.g. as evolved between Nedlloyd, DanTransport and Dubois after the two larger players provided the third with financial aid. Still another level is where trust is first broken and then reinstated, as in the quadruplet relationship between Nedlloyd, DanTransport, Dubois and Saima, which developed after these four companies restructured their market coverage systems. Finally, the last level was systemic and emerged after the partners regulated their collaboration through the EEIG convention and requirement of relational fairness.

In summary, our analyses have established that trust-building and trust-enhancement were achieved through social influence measures and formal regime. These measures represented the mechanisms of psychological contract that kept the network intact and motivated partners to contribute proprietary resources. We have also recorded that trust is a property of such a system, and fluctuates in line with the units' satisfaction with benefit appropriation.

The nature of trust-enhancing measures identified in this study broadened our understanding of the concept and extended the empirical embodiment of social trust theories. Basically, the impact of relational dimension on social trust dynamics seems to have been disregarded in these theories. Rather, with a focus on the circumstances of trust occurring, such as access to trustworthy information, lack of hidden agendas and ability for self-disclosure, these theories link the presence of trust to the absence of trust violations (Casson, 1990,1995; Chong Ju Choi, 1995; Gombetta, 1988; Lustig & Spitzberg, 1995), or define trust as a measure of uncertainty reduction (Johanson & Vahlne, 1977; Thorelli, 1986).

Without questioning the plausibility of these conceptualizations, our empirical findings supplement the above propositions with the following perspective. The focal point of our reasoning is that by forming an alliance the partners concluded a psychological contract that implicitly regulated their voluntary contributions. The magnitude of these inputs were driven by the expectations of collaborative synergy. So, when after painful restructuring the alliance failed to deliver the gains expected, the partners perceived the situation as a breach of an implicit contract. It occurred because the partners experienced an imbalance between individual sacrifice and lack of benefits. Although the scope of expectations might have varied across partners, the nature of the benefits expected remained consistent. All partners wanted higher sales, lower costs, and less risk in doing business.

Trust, as manifested here, relates to partners' individual expectations, assumptions or beliefs that costs arising from past actions will be beneficial, favorable, or at least not detrimental to their individual interests. Such defined trust was a relational property, which lay at the heart of partner commitment and influenced collaborative involvement. As a general positive attitude to another social entity, trust acted as a guideline for a partner's behavior within the network and interpretations of mutual actions. In this context the experience of unmet expectations was crucial because it led to trust erosion. By generating a sense of negative discrepancy from the input/output ratio, the breach of psychological contract could in the long-term bring about network implosion.

In order to secure network endurance, the leading partners had to deal with temporal disappointments by improving the odds of getting future compensation payments. Thus, by employing the measures reviewed, which made the alliance more manageable and capable of greater synergies, the dominant coalition increased relational trust in future collaboration.

Figures 4.3.1 and 4.3.2 below subsume the structure and content of the trust concept verified by this study.

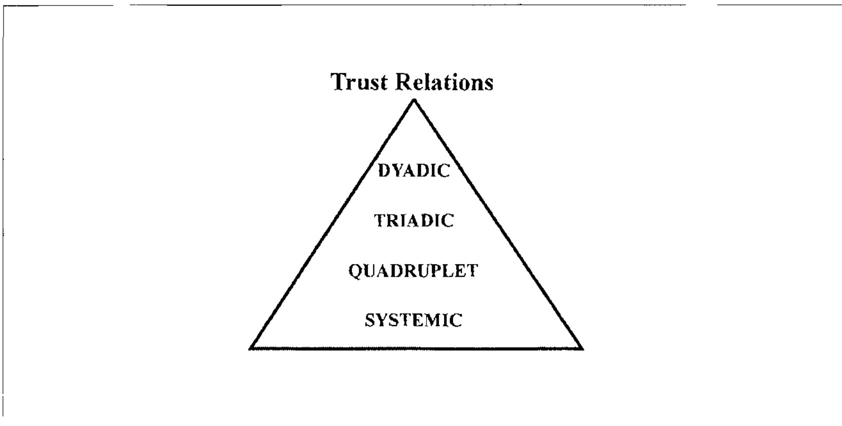

Figure 4.3.1: The Structure of Trust Concept

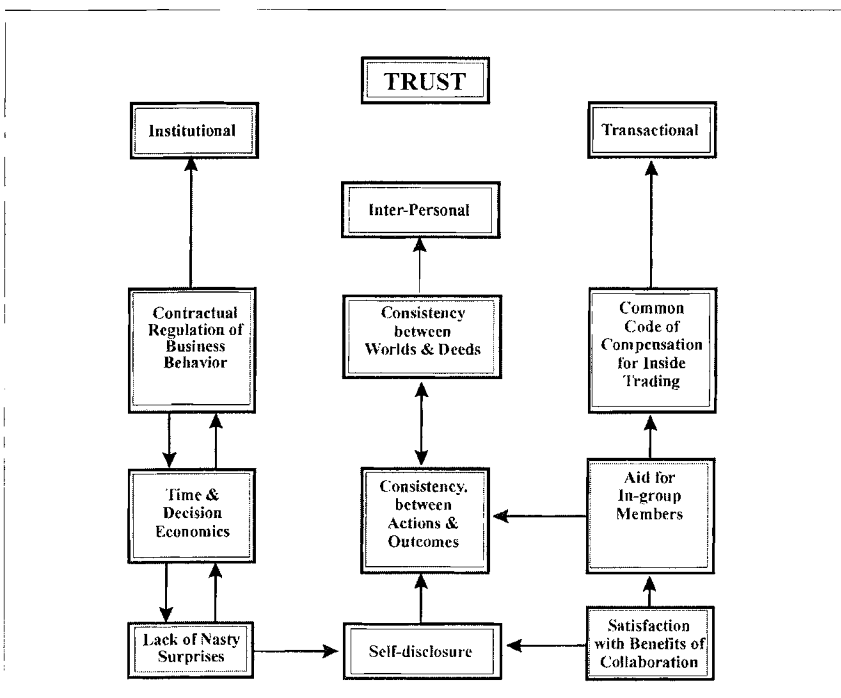

Figure 4.3.2: The Contents of Trust Concept

4.4 Degree of Interpartner Consensus

Our theoretical model presupposed that decisions made by consensus would be more easily acceptable to all partners, and therefore stood a higher chance of implementation, despite the fact that they might have diverged from the individual preferences of some members. The above implied that in an alliance lacking a formal decision enforcement body, the mode and process of decision-making would affect the likelihood of decision acceptance and the participants' willingness to execute the collectively agreed solutions.

The model postulated that in order to achieve these aims the alliance members had to base their decisions on freedom of discussion and unrestrained polemics. Moreover, the theory in question recommended that partners should abstain from any sort of dominance such as imposing time deadlines and other regulations that might narrow down the scope of discussion or speed up the decision-making (Moscovici & Doise, 1994). The main conceptual argument was that only under conditions of unconstrained freedom to advance any kind of argument would partners increase their alliance commitment and mutual collaborative involvement.

Yet, the empirical results have shown that unfocused discussions and unrestrained polemics were not goal-functional. The alliance was under considerable competitive pressures, which meant that partners could not afford to engage in lengthy unfocused discussions of multiple conceivable solutions. They needed to reach decisions. And, these decisions had to be made under considerable uncertainty and within narrow time windows. Still more important, however, was that these decisions had to be implemented and produce the outcomes sought. Moreover, they had to be efficient, i.e. they had to produce the desired outcomes despite constrained amount of input.

Our general inference based on the empirical findings is that the measures used to encourage cohesion among alliance members converged to certain degree with those conceptually anticipated. Yet, how these measures were applied, and which empirical manifestations they acquired, differed from those theoretically envisioned. In this way, our investigation produced new insights into the theory of group decision-making, and specifically into its part dealing with the links between style of decision-making and social acceptance of decision outcomes (Moscovici & Doise, 1994; Kim & Mouborgne, 1996).

The process that paved the way towards decisions by consensus showed that progress in alliance integration could not be attributed solely to a fostering of unanimity and harmony. Our investigation has revealed that the sequence, which preceded institutionalization, was replete with dominance tactics mobilized by DanTransport and Nedlloyd in relation to two smaller parties. We have also reconstructed how relational power dominance was vigorously opposed by the targets despite the high technical merits of the solutions proposed. The above shows that during the implementation process the decisions made by the partners were not consensual. Consensus was considered as both ineffective and inefficient in bringing the alliance to a position where it could capitalize on a larger scale of operations. Moreover, although interpersonal links have been established between the large and small firm managers, they divided more individuals than they united by contributing to two contending factions. The emergence of majority and minority coalitions, which opposed each other, undermined the extraction of synergies from partner capabilities and contributions.

All this seems to counter the theoretical proposition advanced by Moscovi and Doise (1994), who suggest that consensus may be the only viable way of making high-quality decisions. Having said the above, however, we emphasize that a proclivity to resolve important issues in a more consensual manner was registered at a later stage in the alliance life-course, particularly after it became formalized. Yet the mechanisms which facilitated consensual decisions differed from those advocated in the focal theory.

Moscovici and Doise (1994) hypothesized that decisions which are preceded by unrestrained discussion and which lead to consensus among group members would score higher on implementation. The reason was that such decisions would foster an awareness of *"belonging"*, which in turn would facilitate individual identification with collectivity and *in-group* members. This perception was contrasted with the notion of *"not-belonging"* that underlay an *out-group* status characterized by the lack of group commitment. The authors posited that by creating a forum where discussions were unrestrained, the partners would enhance the degree of alliance identification and group loyalty. Perceptions of *belonging* were thus instrumental in the contribution of proprietary resources, strong commitment and temporary acceptance of individual sacrifices.

The authors suggest that plurality of group members should be respected, but also emphasized, thus motivating the partners to seek social recognition by enhancing their contribution to group well-being, and, by so doing, facilitating feelings of belonging despite individual differences. A partner's willingness to increase its individual involvement and abide by collective resolutions would be conditioned by the desire of social acknowledgement emerging from individual contributions.

This investigation has established that the sense of *"belonging"* and perceptions of *"alliance citizenship"* did indeed foster alliance loyalty and partner commitment. We have also uncovered that the varying scope of partners' group loyalty and *belonging* at various points in time could be attributed to initial misalignments of partners' domains and the low degree of working experience. Thus, during the formative and implementation stages there was little awareness of alliance *belonging*; this had still to be established. Yet, the establishment of alliance loyalty at a later stage in its life-course did not occur solely through unrestrained polemics and/or relational harmony.

It was not enough that decisions regarding restructuring were not controversial and gained consensus. They had to be followed by actions, actions associated with liability of newness and high perceived risk of business losses. Moreover, joint actions had to be based on uniform metrics, and partners often could not agree on the set of standards to serve as the benchmark.

The smaller partners saw common standards as an infringement of external autonomy and resisted the idea. As this discord evolved, a relational conflict erupted, and in these circumstances the use of power by the large partners to impose their own benchmark laid the groundwork for the venture's competitiveness. Feelings concerning the *"belonging"* of the venture were established when it became clear that standardization was increasing the effectiveness of alliance operations and its overall business potential. The introduction of a regime that institutionalized rigorous project supervision and quality inspection was the first threshold of commonality making it possible to coordinate partner operations in a more uniform fashion. As such, it was a predecessor of intra-alliance fit and an important building block in functional consensus.

Several other actions documenting a strong alliance *"belonging"* are important. The standards proposed by the dominant coalition for alliance performance had to satisfy the requirements of technical and outcome effectiveness. This task was not easy given that operational standards would affect network design, the cost of operations and quality of service provision, the deployment of freight-moving fleet and the level of skill requirements, all of which varied among the partners. However, standardization of these factors pre-conditioned a stronger competitive position within the Pan-European logistics market.

In this context, the fact that the members of the dominant coalition spent a good deal of effort testing in their own backyards the technical merits of these standards indicates a high-level of venture commitment. It also reveals that the sense of *"belonging"* created a solid economic fundament for alliance business by stimulating towards contributions of proprietary technical expertise and managerial skills to alliance goals. These efforts transcended the notion of free polemics and unrestrained discussion, and provided empirical evidence that the spirit of *"belonging"* on the part of the large partners was manifested by their *deeds and resource commitment,* and not merely by their *talking.*

Still another example of *"belonging"* could be deduced from the voluntary undertaking by the dominant coalition of responsibility for managing the alliance development. This decision implied that large players assumed the duties of *"problem owners"* because the above occurred when the alliance was dogged by relational conflict. As a consequence, all restructuring was brought to a standstill, thereby depressing the willingness of partners to collaborate and contribute to future undertakings. In these circumstances the duties of *"problem owners"* were strategically significant, but managerially complex. They involved crisis management and installation of a joint value platform around which the partners' future efforts could be coordinated.

The assumption of responsibility for the stranded alliance project without formal powers to control the smaller partners was driven by strong feelings of alliance allegiance. In this context the spirit of *"alliance citizenship"* did not originate from the consensual style of decision-making, but from a broader understanding of self-interest. The enlightened approach to self-interests relied on awareness that by helping the alliance the members of the leading coalition attained their own goal related to a strong organizational presence in the Pan-European market. In the words of Moscovici and Doise (1994), the above behavior represented a *social act of participation* motivated by a pursuit of collective welfare and partisan interests that stimulated to larger contributions.

Findings from this study underpin a proposition that after the alliance became institutionalized the partners' decisions acquired an increasingly consensual style. Several factors might have contributed to this change of practice.

First, over time the partners might have learned how to tackle their mutual idiosyncrasies and have become keener to trust each other. Second, they might also have learned how to identify and select solutions with common utility, solutions, which stood a better chance of uniform acceptance. Third, establishment of a formal managerial hierarchy based on procedural justice enhanced interpartner confidence in the fairness of alliance decisions. When the partners had grown confident that their individual interests would not be imperiled, and that they would not be left alone in the event of adversity, they might have felt less vulnerable, and therefore less compelled to defend individual positions. In this case, stronger loyalty to the alliance mission might have derived not so much from the free style of the polemics of the partners as from the transfer of financial resources and technical expertise from the larger to the smaller units. The above acts of *corporate welfare* increased the confidence of the smaller partners in the benevolence of alliance *belonging*. Fourth, as a consequence of the above experience, partner alliance commitment might simply mature. This means that after having achieved the first collaboration benefits, partners might become more willing to share the idiosyncratic knowledge and resources they had built up over time through a series of individual investments.

Based on the above, we conclude that the introduction of a consensual style of decision-making added to interpartner confidence and the common experience gained from managing a long-lasting conflict. Avenues were opened for a more amicable style of mutual dealings and enhanced the number of decisions taken unanimously.

In sum, our analyses of the alliance's style of decision-making provided the basis for the following conclusions:

1) The sense of *belonging* was certainly important for individual alliance commitment, and motivated partners to contribute proprietary resources to alliance welfare. However, it was not stimulated by free discussion alone. It was facilitated by the adoption of the EEIG scheme regulating interpartner dealings as well as several focused actions, including common metrics for business performance and the transfer of technical know-how and financial aid.

2) The willingness to contribute proprietary resources to group welfare did not derive solely from the need for social acknowledgement or unrestrained discussions. Rather, it was fostered by perceptions of enlightened self-interest underlying the acknowledgement that by helping the alliance to survive the leading coalition had actually extended the scope of its presence in the Pan-European logistics market.

3) Proliferation of the sense of belonging and the consensual style of decision-making was related to the growth in partner confidence in the moral fairness of the alliance institution.

4) The causal effect of the consensual style of decision-making on feelings of group belonging was unequivocally positive. Yet, the bearing that the interpartner consensus exerted on alliance integration varied across the three stages in alliance development. The formative stage was replete with relational dominance tactics. Thus, during this period consensus was absent and had to be established, and that, according to the focal theory, was detrimental to interpartner fit.[64] However, the above laid the basis for common functional standards, which at a later stage led to a more consensual style of decision-making. The data suggest that decision-making became more unanimous after the alliance became formalized, which could have had something to do with the higher level of confidence in the durability of the alliance institution and its effectiveness. The latter indicates that the propensity to make consensual decisions increased after the alliance legitimated its governance structures in regard to its own participants and adjacent environment.

[64] In this context we discern between the "general" and the "functional" types of consensus. The first pertained to development by alliance partners of the general conviction that collaboration within the alliance framework could create unspecified synergies. The second pertained to an agreement on particular modes of collaboration that would produce highly specific benefits. Whereas the former type remained present throughout the entire sequence of alliance life, bar the implementation crisis, the functional consensus had to be gradually established as a new form of organizational decision-making.

The contributions from these findings to the theory dealing with the social acceptance of collective decisions are threefold (Moscovici & Doise, 1994). First, the sense of *belonging* and the level of *identification* with collective interests on the part of group members may not be fostered by unrestrained polemics or the input of proprietary resources driven by a desire for social acknowledgement. Rather, this would emerge from actions, the primary goal of which would be to increase collective welfare, especially at the expense of (temporary) individual sacrifice.

Secondly, and more importantly, building group cohesion from group members' contributions can take various forms. This investigation has established that dominance tactics can contribute to collective welfare provided such a method is not motivated by a desire to improve individual status, but instead by a mixture of collective and individual considerations.

Thirdly, the fact that a causal link was identified between alliance formalization and a growing proclivity to make consensual decisions might expose the limits to external validity of the Moscovici & Doise (1994) proposition. Under the premises outlined by these authors, consensual decision-making may pertain to less organized groups or *ad hoc* assemblies that do not harbor a deeply ingrained sense of joint purpose. When a group is composed of loosely linked individuals who do not share a collective desire for deeper involvement, an unrestrained discussion may be needed to reduce the members' variance and create group loyalty. Group loyalty may, in turn, improve the chances for unanimous settlements. Thus, a consensual style of decision-making may be needed to keep the group intact and prevent individual withdrawals, as opposed to a situation when group settlements would be reached through a majority vote or compromise.

Yet, this was not the case with the focal alliance, whose partners shared perceptions of business commonality and long-term co-dependence. Feelings of *belonging* among the alliance partners, therefore, were inherently stronger, but perhaps not sufficiently so for a consensual mind-set to be established at an early stage of the alliance lifetime. That's why the partners could not agree on a joint course of restructuring and standardization.

Intervention by the dominant coalition, which stepped in and introduced common standards, was thus strategically prudent, because it salvaged the existence of the venture. Despite the short-term bickering and friction, in the long run the partners actually came to appreciate the purposefulness of dominance tactics. The use of power by the larger partners therefore had a unifying effect that spawned the long-term sentiments of *alliance citizenship*. Which leads to a conjecture that unrestrained polemics need not always foster group coherence and pave the way for consensual decisions. Group consensus in the case in hand was boosted not by unrestrained discussions but by strong unilateral alliance allegiance on the part of the dominant coalition and fairness of alliance managerial practice.

Figure 4.4.1 summarizes factors, which contributed to interpartner consensus.

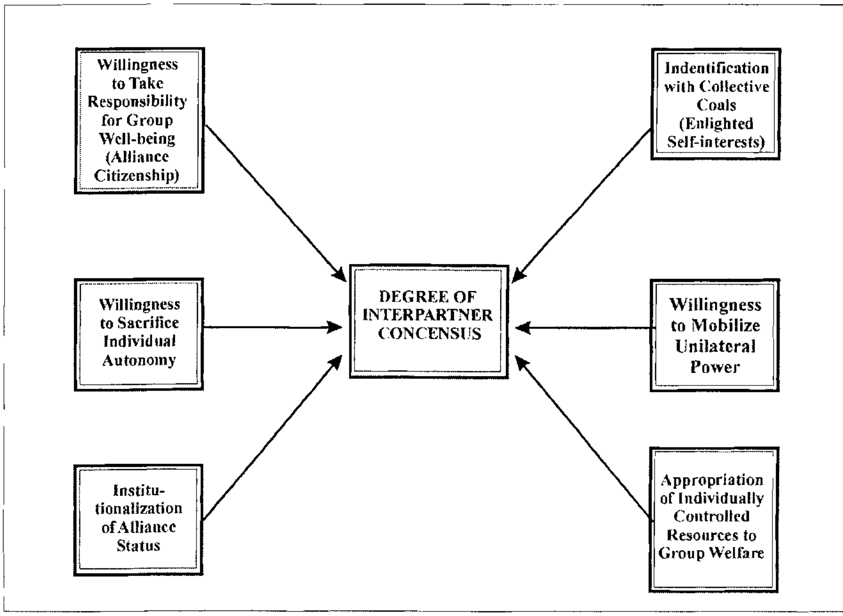

Figure 4.4.1: Factors Contributing to Interpartner Consensus

4.5 Willingness to Comply with Unpopular Decisions

The results from analyses of implementation of the alliance accord disclosed that the temporary unwillingness of partners to comply with unpopular decisions stifled development of the venture and impaired business effectiveness. These outcomes confirmed the conceptual expectation that a willingness to accept the perceived or real individual disadvantages for the sake of alliance welfare would be absent in many instances, and would thus impede the pace of interpartner integration and the achievement of internal cohesion.

We also observed that reluctance to abide by unpopular decisions did not derive solely from cultural differences in partners' dispositions to exercise individual autonomy over collective interests, variable respect for group agreements or acceptance of risky projects for future gains. Unwillingness to implement difficult decisions derived also from the lack of a managerial infrastructure within the alliance system, shortage of tangible resources and adequate in-house expertise on the part of the smaller partners.

The highest levels of reluctance to implement risky resolutions were recorded for three types of projects, which sought to increase partners' functional integration. These included:

1. Re-alignment of international market coverage for removal of double and triple presence and establishment of a more transparent service provision system based on the one-partner-one-market principle.

2. Standardization of partner firms' operations in order to attain an interpartner fit for joint performance of service provision tasks.

3. Acceptance of the decisions of interorganizational superstructure, which regulated partners' business dealings, relationships with third parties, and direction of geographical expansion.

Part IV of this study has documented that acceptance and execution of many jointly-agreed decisions were impeded by a high risk of status-quo disruption, high and prohibitively high costs of implementation, and considerable result uncertainty. In this context, our study has identified three classes of change-obstructing mechanisms that came to the fore under introduction of important interventions:

- The varying degree of partners' alliance involvement.

- The absence of one dominant alliance value system and/or alliance-wide norms for regulating interpartner collaboration.

- The disparate cultural mores, which affected partners' attitudes to group consensus and implementation of collective settlements.

The nature of these obstacles converged with the impediments envisaged in our conceptual framework. Hence, the anticipation that the lack of willingness of partners to implement structural interventions would impede interpartner consensus and the pace of their adaptation has been confirmed by this study. Empirical manifestations of the theoretical constructs used to delineate the relationship between the willingness to comply with unpopular decisions and the odds against alliance integration have been identified.

However, the temporal distribution of these impediments and the efforts mobilized for their removal were not limited to disarray-reducing measures during the time interval that preceded the Founders' Contract. Relational conflict that erupted under this process and the means used by the dominant coalition to deal with the crisis, revealed that the lack of willingness to implement the agreed solutions threatened the entire existence of the alliance. It thus produced a rationale for later institutionalization of the alliance system and the adoption of a bureaucratic structure for its governance.

In this sense, the causal bearing of this variable spanned over a longer time interval than we assumed, and acquired several new operational features. Thus, the causal impact of this variable surpassed the implementation stage of alliance-building and affected its institutionalization. Therefore, this study adds to the existing knowledge of alliance development and extends understanding of the empirical mechanisms that conditioned this process.

In the following, the empirical manifestations of constructs with causal bearings on implementation of the alliance accord are reviewed.

Our investigation has established that the emergence of dominant and minority coalitions that divided the North and South European partners along operational and strategic solutions for alliance management could be seen as two types of *deviant* behavior (Sherif & Hovland, 1961; Kiesler, 1969). The coalition between the large North European partners was not formed solely due to professional and personal vicinity between the managers of these firms, but also to the need to consolidate these partners' support for measures proposed for alliance development.

Similarly, the minority faction formed by the smaller South European partners manifested a resistance to the power advantage of the larger firms and their attempts to infringe the autonomy of the smaller firms. This resistance was mobilized to withstand external pressures to change the targets' operational behavior and preserve the features of the smaller firms' network environment.

When judged from the perspective of alliance integration and the need for interpartner fit, this resistance was totally irrational. It retarded standardization of alliance operations and synergistic gains from international collaboration. It also delayed orchestration of service provision systems and engineering of new service supply concepts for corporate customers. Yet, when analyzed from an individual manager's need for preserving professional integrity, it was a highly understandable reaction confirming that these targets sought to maintain individual *"face"* when exposed to an imperative to change issued by external power agents (Ting-Toomey, 1988).

Likewise, the aim of the coalition formed by the larger partners was to project a belief in their own standards and in the suitability of *"fast track"* restructuring for resolving the problems of the smaller partners. In sum, the positions held by these two competing factions revealed a large value distance contributing to relational cleavage and conflict of interest.

The case in question corroborates Sherif and Hovland's (1961) and Kiesler's (1969) proposition that parties highly committed and confident about the rightness of their opinions would stand firm on their positions and oppose abandoning individually held standpoints for the sake of group consensus. As both parties stood firmly on individual positions, a dissonance emerged that was based on the lack of partners' *collective involvement.*

It is not therefore surprising that in the absence of individual concessions the search for collegially acceptable solutions was stifled and that conflict erupted which stalled the restructuring process. At this stage in the alliance life course, the venture suffered from the absence of one *dominant value system.* Such values were required to adhere to the agreed norms of behavior of individual and corporate actors. The vacuum blocked the alliance development.

In the absence of one dominant value system, managing of existing working relations required constant attention and resources that were in limited supply. So the dominant value system, whether formal (mission statement) or informal (the network loyalty), was missing from interpartner collaboration. Voluntary working associations of autonomous firms that do not base their collaboration on one dominant value system are more vulnerable to individual withdrawals and less able to build an enduring effective collaboration. They therefore expend greater time and effort on vigilant mutual monitoring and frequent re-negotiation of transaction rules. In contrast, voluntary associations, which established common norms for members' behavior, would need smaller inputs to manage the existing relationships, and could use more resources to establish the new ones. Given that network expansion proceeds through establishment of new relationships, the lack of a normative order may deter network development (Shan & Kogut, 1993).

In the absence of a dominant value pole, the attainment of interpartner consensus was not feasible. As long as the members of two coalitions did not appreciate each other's views and standpoints, they remained entrenched in individual positions (Zaleska, 1982). Convergence of partner behavior around common standards was not therefore attainable.

We also registered that the second type of impediment to implementation of risky decisions was a psychological desire to preserve professional pride in the resourcefulness of locally used solutions. This was the case with the Swedish managers, who, under re-engineering of their company's business profile, resented DanTransport's direct intervention into Fraktarna's operations. Similarly, the desire to preserve individual and professional *"face"* was an underlying motive magnifying the scope and level of conflict and which aggravated working relationships between Saima and Duibois and Nedlloyd. By including Dubois as its ally against Nelloyd, Saima enhanced the level of conflict for the latter, despite the fact that Nedlloyd masterminded the restructuring project and was a co-lender of the financial aid that saved Dubois from imminent bankruptcy.

Saima and Dubois managers' resorting to face-saving tactics to cover-up for professional embarrassment caused by their under-performance and a need for external aid may also indicate that these parties basically did not oppose the change. Rather, problems with adherence to agreed-upon plans might have been rooted in a shortage of tangible resources and the professional skills required to introduce higher standards and new concepts to their operations. In this context, the leading coalition has accurately apprised the situation and increased the odds of alliance integration by providing the smaller partners with financial and technical assistance.

The third wedge dividing partners and jeopardizing decision-making consensus originated from the cultural distance between value orientations. Dubois and Saima operated in an individualistic cultural setting, while DanTransport and Nedlloyd espoused collectivistic welfare. During the implementation of restructuring projects, the disparity of partners' cultural orientations might have amplified the effects produced by the lack of intra-alliance norms and asymmetry in resource endowment. But, because this crisis produced a standstill in partner interventions, the entire existence of the alliance came under threat. As a consequence a gradual change of mentality was triggered which made partners realize they all had a stake in the survival of the alliance.

However, this assessment struck a stronger chord with the North European partners, whose stakes were greater and who were the proponents of collective welfare – in other words, their disposition facilitated a sharing of proprietary resources with the smaller partners. The operational and competitive standing of the latter has been improved, and has put them in a position to become full-fledged members of the Pan-European distribution grid. Moreover, the collectivistic mindset was also a contributing factor prompting the North European partners to accept the role of *"problem owners"* related to undertaking leadership responsibility for organization of alliance business. This pivotal decision facilitated alliance development and opened up an avenue for its institutionalization.

These findings converge with Triandis, Bontempo, Assai and Luca (1988), and Schwartz & Bilsky's (1987, 1990) hypotheses that parties with an individualistic cultural orientation are more assertive and less prone to abandon their individual positions, especially when such standpoints are used for preserving their individual *"face"*. That would happen irrespective of whether these positions were adopted for rational or emotive reasons.

However, the above also confirms the second part of the Triandis et al. (1988) and Schwartz & Bilsky (1987) propositions, namely that the proponents of collective values are more prone to abandon individually held positions for the sake of demonstrating pro-social tendencies. Consequently, the latter would behave in a manner that would be more conducive to achievement of collective interests and group consensus.

These results support our theoretical contention that in a cross-cultural working environment participants encounter more plural and higher barriers to consensus than in a mono-cultural business setting. In an international environment the underlying commonality of values that preconditions common solutions and collegial decisions would be missing due to disparate cultural attitudes towards individual sacrifices and the varying level of individual loyalties to group welfare.

In this context there is no doubt that the only viable solution was to institutionalize the alliance venture. Institutionalization created a foundation in which some common values could be embedded. So, by adopting the legal EEIG formula that formalized the alliance organization, the leading coalition has also regulated interpartner dealings and working relationships with external parties. Such a system conferred on the alliance the image of a structured environment within which the patterns of social transactions had become standardized, and hence predictable. In this sense, partners utilized the opportunity provided by formal contractual agreements, which are salient and reliable measures of regulating individual behavior. Regulation provided a baseline that was to be critical in future decisions regarding collaboration on the development of new service provision, commercialization of new concepts, and investment of tangible resources in business relationships with other partners.

Only after the above baseline had been established could the convergence of opinions and actions proceed. A willingness to abandon individually held positions in order to comply with consortium-imposed rules and regulations had gradually increased, thereby enhancing the involvement of partners in the alliance. As a result, mutual concessions were easier to extract for the sake of consensus building. In this process the distinction between the deviants and the moderates subsequently diminished. As all parties had to adhere to the EEIG legal framework that regulated the terms of transactions and individual contributions, a system of universal norms was established.

At this stage it did not really matter what the change proportion of any individual party was nor how divergent its position was initially. All partners had to abandon their individual stances in order to adhere to norms imposed by the new institution to which they consented. The failure to do so in the long term would be tantamount to consortium withdrawal. Within such a framework, everything posing a problem or requiring a decision, whether choice of action to be undertaken or investment to be made, would proceed from the base of summit.

The finding that it was the smaller partners who overtly benefited from intra-network transfer of technology and financial resources may suggest that the platform around which partners polarized to make joint decisions and perform joint actions was more extremely located than the original positions held by the two larger members. The above indicates that in order to secure alliance stability and establish a consensus forum, it was the members of the leading coalition who made the bigger concessions and moved in greater proportion from originally occupied positions than did the minority faction.

The willingness to shift, however, was not determined solely by the value position held by these parties being nearer the group dominant value pole than those of the smaller partners. The change was also partly conditioned by the cultural orientation of these partners, which helped them see themselves as stewards of the collective interests of the alliance.

The above converges with research conducted by Zaleska (1982). Empirical support is established for this author's postulate that there would be a positive correlation between the positions originally held by members of the group and those in which groups reach agreement, but the group would tend to consent on more extreme solutions. The above implies that, in the final count, it would be relationships to others and responsibility for the entire venture, and not the subject of contention, that determined the degree of shift in individual viewpoints and improved the odds against consensus.

By combining insights from the group consensus theories (Moscovici & Doise, 1994; Zaleska, 1982) with the propositions that defined cultural values as important determinants of consensual decision-making (Schartz & Bilsky, 1987, 1990; Triandis et al. 1988), the following conclusions have been formulated with reference to mechanisms that may enhance decision harmony in an intercultural business environment:

1) Establishment of a formal organization structure that regulates the business of partners may increase the scope of collective involvement of group members and consequently cause them to converge towards one consensus platform.

2) Decision-making by consensus requires pooling together minority and majority values. Only under these circumstances can the adjusting partners, who have to move a long way from their original positions, avoid loss of face, comply with group demands and/or contribute to group interests, and uphold individual alliance commitment.

3) Partners with a collectivistic value orientation would more readily accept (than those with individualistic disposition) the need to move from individually held positions because these partners would harbor a greater willingness to contribute to collective goals and group cohesion.

4) The achievement of alliance consensus would not be feasible if the stronger partners did not show a spirit of empathy for the smaller ones. By complementing the use of unilateral power with a transfer of financial and technical assistance they made adjustments possible for the smaller partners. If they had not changed their initial stance, and shown an understanding for the working situation of the smaller partners, the group would probably have started bargaining over the scope of necessary concessions, and the implementation of important interventions, if any, would have been postponed indeterminately. By accommodating the smaller partners for the sake of the alliance, partners with a collective value orientation contributed to maintenance of the social system and to relationships between its units.

5) The attainment of group consensus would not be feasible without establishment of a common value platform around which partners could oscillate for

making concessions. Therefore, in mixed culture groups the scope of concessions needed for reaching consensus would not only be determined by how far away the members' individual stances were located with regard to the group's main value platform, but also by the nature of their cultural values. Members with individualistic self-perceptions may typically make smaller concessions than members who espouse collectivistic values and *pro* group dispositions.

6) The long-term impact of consensual decision-making on alliance integration was definitely positive, despite the long series of rows and adjustments that preceded development of the capacity for unanimous settlements. This supports conjecture that a capability for consensual decision-making in cross-cultural groups cannot be achieved through one-off short-term undertakings, but only through a series of long-term relational projects.

Finally, two closing observations are important. The issue of how intercultural groups of decision-makers can reach consensus is important. Consensus may improve effectiveness of decision-making and willingness of decision implementation, thus diminishing conflict potentials that often threaten the stability of working relationships between people with various cultural backgrounds. More research on consensus-enhancing measures is therefore needed, especially in a European business environment, which is notorious for its variability of working co-cultures. Further, consensus building and consensus attainment is also important for preserving the life of voluntary network constellations and preventing that these formations die prematurely before having fulfilled their founders' objectives.

Figure 4.5.1 displays two groups of factors with reverse and positive bearings on willingness to accept unpopular decisions by a group with culturally mixed members.

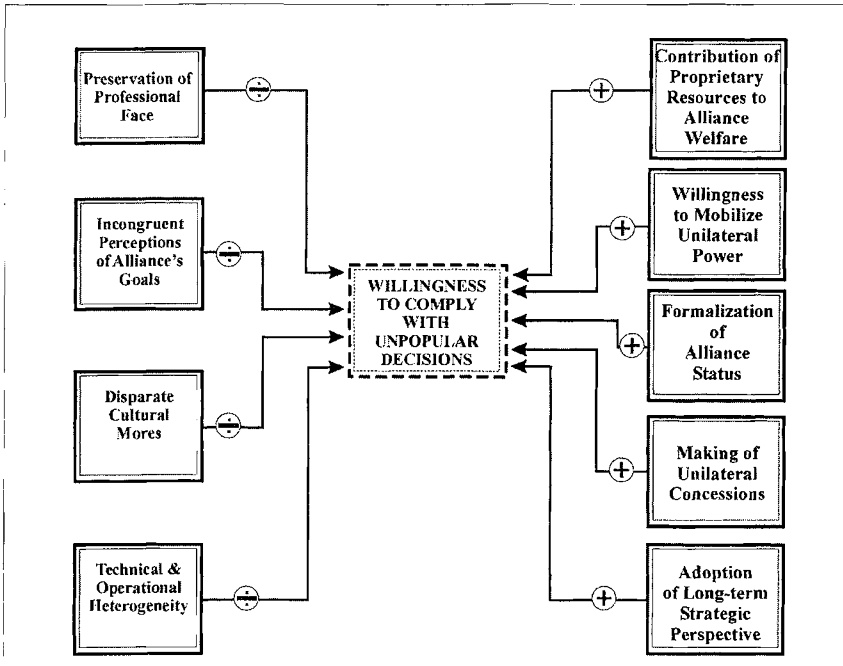

Figure 4.5.1: Impediments and Contributors to Partners' Willingness to Accept Unpopular Decisions

4.6 Degree of Relational Control

Empirical evidence marshaled in Part IV of this study reveal that three distinct leadership styles have been observed within the alliance system. The first, represented by EEIG's formal power structure, is indicative of bureaucratic and authoritarian style. The second, manifested by loose supervision of the service provision process of the partners and the institution of relational fairness, exhibits democratic management form.

Third, under implementation of the realignment program the elements of a *«laissez-faire»* model came to the surface. Because at this stage the venture lacked a coordination body, the *"laissez-faire"* construct acquired a new empirical content, a content differing from that defined by Jesuino (1986) as a situation with no leader. Instead it exhibited two conflicting behavioral modalities: Crowding and interpartner competition for coordination of certain types of interventions accompanied by a lack of interest for other intervention areas. The *"laissez-faire"* situation arose from the lack of an administrative apparatus managing transformation of the alliance.

The fact, however, that these three managerial styles have been identified by this study does not answer the question of how effective each prototype has been in fulfillment of the alliance mission. In other words, this finding does not explain what kind of organizational infrastructure needed to be established so that the alliance's management function effectively. Therefore, the analytical spotlight turned from the features of managerial style to the type of organizational structure that the alliance acquired.

In this context the basic query was what kind of organizational blueprint was the most functional for the alliance network. *Should there be more or less standardization of partners operations and business planning, more or less coordination of service-provision schemes? Should there be looser or tighter control of individual partner's business models and strategic visions? And, finally, whether or not it was functional to formalize the alliance's decision-making system?*

Finding proper answers was not simple. Because of international market diversity, variance in partner performance and resource endowment, total standardization was not viable, while tight coordination of all strategic endeavors would be much too costly for a venture without a formal administrative apparatus. The alliance partners faced a difficult dilemma: How should they regulate their behavior in order to achieve an optimal level of systemic fit and simultaneously retain the individual autonomy they need for service provision to multi-domestic markets.

The analysis of the decade-long life course of the alliance revealed that its managerial structure was modified as the venture progressed from a loose to a formal organizational system. During this transition, different managerial solutions were applied to cope with the varying demands of the environment. Therefore, the degree of decision formalization and operational standardization, which prevailed early in the alliance life, differed from the one that emerged after institutionalization.

While choosing the governance structure, the partners had to consider the environmental conditions, since these exogenous factors affected the modes of operations and performance of the venture. In addition, since the existence of the alliance was dependent on the volitional contributions of its partners, the governance structures had to inspire the partners to contribute in ways beyond the call of duty.

The review of the European logistics market shows it under deep structural transformation. The conclusion was that the alliance business environment is both complex and dynamic with highly varying demand, and both the local and global contenders operating in the same markets. Previous research on the relationship between organizational structure and environment has documented that a dynamic environment calls for an organic structure, while a complex one calls for a decentralized structure (Kim & Mouborgne, 1996; Mintzberg, 1976). However, this work did not indicate how to internalize this environmental multiplicity within one organizational system.

The survey of demand composition demonstrated that demand patterns for logistics services varied considerably across shippers from the four Nordic countries (Ludvigsen, 1999). Managerial sources interviewed in this study indicated that the demand structure might differ even more between shippers operating on the European mainland.

Drawing on these results, we postulate that standardization of service should be restricted to intermodal freight supply solutions, i.e. those that linked more than two operators. In contrast, single-modal freight dispatch solutions with two collaborating parties should be exempt from standardization in order to leave these operators sufficient autonomy to cater for local idiosyncrasies. This was difficult to achieve in operational terms because of limits to capacity sharing in the production of various service lines. It was even more difficult to accommodate within one managerial structure requiring two tiers of supervision for two different types of operations.

Intermodal bridging serves the supply channels that distribute global wares through border crossing networks. The single-modal freight supply solutions serve multi-domestic or local customers within a narrower scale of operations. Thus, the second factor that affected design of the alliance organization and its management structure was the ratio between these two types of business in alliance service portfolio.

During the period 1994–1996, the share of global operations in alliance business was much lower than the supply to local markets, a situation which mandated a simple organizational structure with only one decision-making body, i.e. the Board of Directors, who coordinated business dealings between the dyads of partners. However, in anticipation of imminent growth of international business, the Board sought to attain scale and scope economies. From early on the Board envisaged interpartner integration as a condition of alliance internationalization. International integration required operational standardization, elimination of the double and triple presence from the same markets, cessation of business links with some third parties, and allocation of core markets based on the major bulk of partner operations.

From the very beginning the alliance sought a functional fit, because it was evident that only through integration could the venture become an efficient Pan-European supplier. Operationally, a border-crossing system with a uniform level of service quality was required. Yet, under implementation of a restructuring program a highly toxic conflict erupted that damaged the alliance's working environment and brought integration to a standstill. As interpartner tensions lingered over time, they threatened both the stability of dyadic relationships and the entire existence of the venture.

At this point in time the network lacked a managerial body that could supervise the restructuring process, and it became obvious that this area of internal dealings was badly in need of more regulation. However, regulating the pace of individual interventions for the sake of systemic fit involved curbing of individual autonomy.

No surprise, then that the efforts, to constrain individual freedom evoked resistance from the smaller partners. They rejected imposition of externally developed standards, advocating instead standard heterogeneity, an attitude which collided with the position held by the dominant coalition, who saw its own standards as a benchmark for alliance performance. As none of the partners wanted to forfeit too much individual latitude for the sake of alliance integration, a conciliatory solution had to be devised. In this situation an organizational architecture that regulated the partners' behavior through hierarchical bodies was a viable solution.

One important requirement of such a system, mandated by a need to serve domestic customers through the highly developed skills of individual partners and at the same time cater to global clients, was an ability to respond to more than one valid demand at a time. Service delivery to Pan-European customers required strong and sometimes authoritarian leadership that could weld these individual skills and capabilities into one tightly coordinated system. The organizational blueprint that was thus adopted in view of so many constraints was a compound structure that emerged from a mixture of entrepreneurial *adhocracy* and bureaucratic hierarchy, i.e. a *hybrid*.

The rationale behind the hybrid structure derived from the need to develop and provide many diverse but interrelated freight supply solutions utilizing the service provision apparatus and personnel of the partners. Therefore, the General Assembly, the Board of Directors and the position of CEO position were all established within the consortium system. The Board acted as a chief governing council with expertise capable of professional task performance. But in order to secure operational flexibility, a parallel and large autonomy was granted to task forces, project managers and standing committees composed of functional experts. The Board had thus to retain a semblance of central control, despite the operational power of the multidisciplinary teams.

These conditions were conducive to a managerial blueprint with elements from more than one system. Such a solution was found in the EEIG construction. The EEIG's decision-making design was sufficiently authoritarian to constrain the individual freedom by enforcing common standards on international operations, and sufficiently democratic by allowing service customization. On the other hand, however, the formal power authority of the alliance's executive body was curtailed by the requirement of procedural justice that prevented the Board from making decisions incompatible with partners' self-interests.

The formalization of alliance decision-making, first by the Board of Directors alone and then with the General Assembly and the CEO in addition, proved beneficial for the effectiveness of the alliance. It speeded up important strategic decision-making, such as the adoption of common standards for computer information systems, bar-coding technology, franchise contract, and the alliance trademark. It also guaranteed some discretionary leeway for the individual partners, which they needed for service provision to local users.

While it has exposed the Board to pressures from divergent business visions, which reduced its decision-making effectiveness, it also ensured that the Board's decisions were negotiated and taken on the basis of internal consensus. Moreover, the Board's decision-making reflected the working conditions of the alliance as a whole, and specifically the challenges arising from the need to respond to multiple demands and reconcile divergent viewpoints. The Board could incorporate instruments borrowed from authoritarian, democratic to *laissez-faire* styles of management in dealing with the tasks in hand.

An example of the Board's varying managerial style was its adoption of a reimbursement code for services to freight in transit, which was excluded from the Board's purview and exposed to market regulation. As the compensation that partners paid to each other was benchmarked on the production costs of the most efficient competitor, full disclosure of pricing methods was required and underperformers urged to discipline their operations. When the situation called for *"bold"* decision-making, the Board, realizing that unconditional compliance would not be achieved through formal power-wielding, deliberately curtailed its own executive authority by creating a *laissez-faire* situation where the amount of compensation was subjugated to market forces.

Several other findings relating to how relational control was exercised within the alliance did comply with the conceptual model. The fact that two larger partners became the chief architects of the alliance institutionalization corroborated an earlier assumption that higher technological advancement and large operating networks would be the two power ingredients affecting alliance design and management. In showing that the evolution of the alliance was controlled by more powerful parties, we have confirmed that a causal relationship existed between the individual power position and the scope of influence exerted on alliance integration.

Still another line of reasoning corroborated by this study was how culturally diverse values could affect the degree of relational control between the managers of alliance firms and could counter the impacts of power asymmetry. In the foregoing we observed that the smaller partners were supporters of looser integration and heterogeneous alliance standards, while the larger firms favored homogeneous technology and formalized decision-making. Although such behavioral modality might be related to other factors, such as market conditions, and not to the partners' cultural identities, we believe that the zeal with which the North Europeans standardized alliance collaboration was partly conditioned by a drive to enhance collective welfare. By establishing social norms that regulated the group members' interactions and relationships with the environment, these measures evened off the positions of the partners, diminished the level of general uncertainty, and enhanced *group* cohesion (Triandis et al. 1988).

This behavior diverged from the conduct of the South European partners, who embraced individualistic cultural values. They did not actively participate in designing the alliance organization, they were less immersed in, and even opposed to, a close integration. Finally, they became the net recipients of financial and technical aid from their North European brethren, and in the final count augmented their power positions to a degree unattainable without external help.

In sum, these results document that the modes of relational control between the alliance participants evolved from loose working links and pairwise agreements to bureaucratic governance structures imposed by the EEIG blueprint. Thus, this leadership hierarchy resembled to a certain degree a power-wielding structure applied by formal multidivisional corporations. Yet, the EEIG solution differed from the latter in that it was more democratic and flexible because its ubiquitous concern was in securing the alliance loyalty of the partners and an unabated, long-term, contribution of proprietary resources.

All in all, a stepwise formalization of the status of the alliance leveled off interpartner positions and improved its competitive standing. It also enhanced the venture's legitimacy and efficiency of performance. So, despite the temporary lack of managerial supervision and divergent viewpoints on the kind of leadership suitable for alliance management, adoption of the EEIG blueprint normalized the alliance's performance.

However, the issue of how gradual formalization of the alliance management would change the content and degree of relational control was not explicitly envisaged by the theoretical model reflecting a general dearth of knowledge on applied managerial models for voluntary network organizations. This study thus provides new and empirically grounded insights into the mechanisms of interorganizational integration that transformed a focal alliance into a more advanced functional format.

Figure 4.6.1 illustrates the evolution of the alliance's control apparatus.

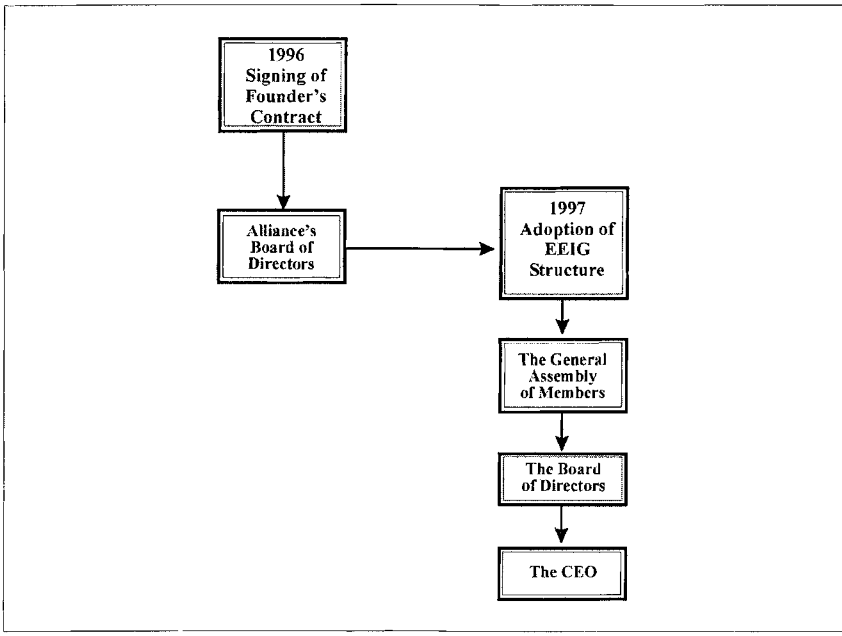

Figure 4.6.1: The Evolution of Alliance's Managerial System

5 Conclusions

The analyses of six modalities of the implementation process show that the causal drivers we assumed would function as mechanisms of alliance transformation partly departed from and partly concurred with the conceptually envisaged. Yet, the persistent discrepancy found between the theoretical and empirical manifestations of several model factors leads to the conclusion that our theoretical vision was neither particularly imaginative nor sufficiently dynamic.

Still, this disparity also revealed that restructuring and integration of the partner business models were gruelingly complex tasks. Therefore, our empirical findings transcended in many instances the theoretical baseline and added new insights to knowledge on organizational change and maturation.

Seen in retrospect, the fact that some empirical findings diverged from the conceptually envisaged should not surprise anyone. It merely reinforces an earlier realization that the current stock of knowledge on alliance dynamics is still greatly lacking (Gulati, 1998). This is confirmed by an observation that signing of a formal alliance agreement did not take place prior to restructuring, but was a consequence of relational realignments.

Bearing in mind that building of alliance fit was a *hard part,* which involved a move from negotiation table to risky stage of strategy implementation, it did provide insights into organizational transition and factors that structured this process. It also provided evidence of managerial prowess in managing the change process and linking of national networks.

Given that the restructuring project had to be completed by each partner within the domain of its own operations, and no alliance-wide management body was appointed to coordinate the process, it is not surprising that many initiatives hit problems and ignited conflicts. It took place during development of the *intra-Nordic Alliance,* with amendments tabled by four Nordic members, as well as during relocations between the "E-1 Alliance" partners. In both cases the parties came up against severe problems that rendered their efforts void or ineffective. No surprise thus that a Pan-European freight distribution system was not established within the time frame and within the budgetary constraints, nor did it initially deliver the benefits expected.

Instead, a dissonance emerged between the resources invested and the benefits attained. This experience produced a *reality shock* that reduced the collaborative engagement of the partners. It took a voluntary decision of the dominant coalition to coordinate the restructuring project that saved the alliance from imminent disruption. It also laid down the basis for later institutionalization, which improved the venture's efficiency and rendered it capable of participating in European competition.

Outcomes That Diverged from Conceptual Vision

We have observed that outcomes, which *diverged* in scope and substance from the conceptual baseline, had mainly to do with the pace of alliance integration. Our analyses have shown that tasks performed in concert had a bonding effect on partner operations and contributed to alliance match. Yet, they also required highly risky interventions. The complexity of tasks performed in concert exceeded our conceptualization, while the nature of causal impacts exerted by the joint task performance varied over time. During the disarray-reducing process, the lack of task coordination measures obstructed fit attainment, while at the later stage it fostered a partial standardization.

The *long-term and short-term non-reversible* interventions were those most effective at altering partner operations and establishing a new alliance structure. They represented two categories of restructuring measures that despite short-term negative impacts produced positive long-term effects. Still, the fact that these interventions generated high sunk costs does not preclude that partners will not modify their collaboration in view of future environmental changes.

Another example of our findings diverging from the focal theory was the role of consensus in fostering group loyalty and feelings of belonging. We have shown that the ability to come to consensual decisions and resolve disputes in a unanimous manner was less related to creating a forum for unconstrained polemics and more the result of two other measures. The first was establishment of three levels of managerial hierarchy within the alliance organization and subjugation of the decisions of the Board of Directors to the requirement of procedural justice. The second was a transfer of financial resources and managerial knowledge to the smaller partners that helped the latter become the full-fledged members of the Pan-European distribution system.

New Insights

This investigation has shown that the "E-1 Alliance" operated in a highly volatile and complex environment characterized by a variable demand composition and a dynamic industry structure. In order to secure operational flexibility in this kind of working setting an organizational structure was adopted that combined the bureaucratic tools of management with entrepreneurial freedom of action. Because this solution awarded operational autonomy to operational task forces, which were responsible for idiosyncrasies in the market, this mode of management combined the elements of *functional bureaucracy* with *functional adhocracy.*

The extant literature on strategic alliances is replete with arguments that alliances benefit from hybrid organization because this can secure operational autonomy and the rigor for a broad range of projects (Casson, 1995). Yet, the fact the hybrid structure in this very alliance consisted of the EEIG blueprint for consortium organization and a principle of procedural justice that fostered unabated alliance commitment, delivered a means-tested solution that could be applied by other multifirm alliances. In this respect, the above design extended a repertoire of organizational models that could be applied by other volitional networks.

The empirical evidence recounted in this study underpins a conclusion that the alliance was goal-effective, despite the high costs of disarray removal. The alliance created three classes of gains:

1) Economic: Scope and large-scale network benefits, lower cost/higher level of service quality, lower financial risks of service provision and seasonal and geographical variability in capacity utilization.

2) Joint governance: Fewer working relationships to manage, formalization of the decision-making process and establishment of a strategic apex linking the alliance to the environment.

3) Strategic: Permanent presence in the Pan-European logistics market that derived from the Pan-Continental scale of service provision, a broad range of service portfolio and network design options, an extension of the plan horizon, an extension of the investment horizon, and an opportunity for low-cost geographical enlargement.

We have also established that the main reason behind the interpartner orchestration was a Pan-European system for service provision. The above only partly supports an earlier assumption that the alliance's competitive position would be improved if individual efficiencies were combined. Actually, these benefits did materialize, but they were not the gains the partners were really seeking.

Thus, the main synergy that emerged from the alliance collaboration consisted of creating a pipeline for international freight movement by bridging the Nordic and Continental networks. This confirms that lying at the core of alliance competitiveness was transcontinental integration. It was also a source of the superior power status of DanTransport and Nedlloyd, who controlled access to large freight repositories and the distribution apparatus at the south and north ends of the Pan-European supply channel.

However, over time, the addition of the South European markets enhanced the roles of the French and Italian partners. From geo-strategic perspective, the co-option of South European satellites extended alliance freight supply coverage and rendered the larger partners more dependent on networks served by the smaller firms.

By extending the freight transit axis in a south-west direction, the alliance consolidated larger freight volumes and increased its scope of operations. With a Pan-European span of service coverage, the venture was in a position to serve corporate customers and compete with other logistics service suppliers in a Pan-European market. Thus the crux of alliance competitiveness was the large geographical scale of operations, while the strategy for this goal achievement was Pan-Continental integration.

However, the alliance's competitive advantage did not depend solely on Pan-European operations. Its international strategy involved a dual coordination system that created two types of value chain. In one, the alliance pursued *"multi-domestic"* strategy by allowing its partners to retain operational autonomy. In order to respond to demand heterogeneity in local and national markets, each partner created a complete value chain in every country of operations. In the other, by supplying services at a Pan-European level, where different elements of the value chain were concentrated in different countries and no country had a complete value chain, the alliance pursued a *"transnational"* strategy. There, the partners coordinated and standardized their operations in order to secure homogeneous output (Porter, 1986; Bartlett & Ghoshal, 1989).

A parallel use of *"multi-domestic"* and *"transnational"* competitive measures is seldom practiced by orthodox multinational corporations, who typically choose one or the other. This is conditioned by the need for controlling the FDI level, the costs of operations, and the cognitive overload for the corporate center (Gupta, 1987; Dess, Gupta, Hennart & Hill, 1995). In other words, by combining these two competitive weapons the focal alliance became a highly potent contender in the Pan-European logistics market (Gomes-Casseres, 1996).

Findings That Converge with Conceptual Baseline

These outcomes *confirm* an earlier observation that both voluntary strategic alliances and orthodox corporate systems are two parallel organizational arrangements which nowadays structure competition within the European freight haulage market.

We have shown that in the pursuit of critical mass, the European corporate players expanded their market reach through international acquisitions. Large-scale economic advantage involved efficiency gains from unit cost reduction and network enlargement. The main strategic aim of the focal alliance converging with that of formal corporations supports a conclusion that despite its voluntary *modus operandi* the venture represented a robust operational solution, which sought the same strategic goals and could compete vigorously. Internationalization can indeed be attained through different organizational models and resource combination.

By revealing that internationalization of the market supply occurred through a multifirm alliance that did not require equity investments, this observation confirms the focal alliance's suitability for international extension (Gilroy, 1993; Gomes-Casseres, 1996; Doz & Hamel, 1998). This study provides an example of a non-equity alliance that performed both, the marketing and the co-production, and by so doing became a tool of the market's international extension.

Consequently, alliances could be seen as instruments creating various types of rent for their participants, expanding resource usage and contributing to synergistic gains through working interactions and intercultural learning (Doz & Hamel, 1998). In this connection, we have shown that by pooling individual resources to produce two types of value chain, the alliance's partners created a network-specific knowledge that functioned as the alliance's survival technology.

The above underlies a conjecture that, over time, the focal alliance succeeded in producing a whole larger than its constituent parts. In that manner it expanded the initial resource endowment and delivered output that was not only larger than the sum of partner contributions, but also valued by the adjacent environment. In addition, we have demonstrated that the focal alliance developed the know-how to effectively process the range of individual inputs. The above suggests that the alliance's organizational model generated the benefits of joint governance and proved goal functional.

Findings that Extended Analytical Boundaries of Theoretical Concepts

In this respect, our exploration opened the *black box* of alliance transformation and generated new insights into mechanisms that structured the alliance evolution. In exploring the contents of processes that led to implementation of alliance accord, we assessed how a series of painful interventions changed the pattern of market coverage, reduced operational disarray, and established a hybrid organization that combined bureaucratic management with entrepreneurial freedom of action.

The above contributed to development of *new knowledge* on how a non-equity alliance could acquire discernible competitive advantage and become a full-fledged player in the Pan-European market. Unpacking the *black box* revealed a scenario of alliance transition. It allowed mapping the stage sequence through which the alliance partners enhanced their collaborative awareness, the functionality of their undertaking, and the net value of collaborative output.

However, it has also demonstrated that interpartner diversity shaped conflict, and that conflict, in turn, diminished performance, but that these links had subtleties. Experience gained from orchestrating common tasks, plus joint alliance governance, moderated these relationships, making conflict manageable and performance predictable. Overall, these results suggest a complex link between interpartner diversity and the quality of alliance performance. By identifying several intervening variables with positive and reverse impacts, we generated new insights into contingencies that affected alliance progression. These insights enriched the empirical embodiment of consensual decision-making proposition, social network hypothesis and social trust theory, and produced new tools for managerial practitioners. To a certain degree these outcomes filled the knowledge gap of factors shaping the advancement of interorganizational networks (Gulati, 1998)

Exploration of the alliance dynamics showed that the reduction of internal disarray did not occur straightforwardly, and that the six drivers of interorganizational transformation varied in a causal direction in the short, medium and long term of their operation.

We have confirmed that trust functioned as a social regulator of the players' actions. However, trust exerted a dual causal bearing on partner convergence. Basically, efforts to enhance the level of institutional, interpersonal and transactional trust facilitated alliance integration. An exception, however, was when the psychological contract between the partners was broken by the failure of alliance collaboration to produce highly expected benefits. Unmet expectations reduced interpartner confidence and commitment to the alliance project.

The fragility of the confidence of partners demonstrated that the breach of organizational trust might impair the members' group loyalty, but in addition incite to defection. Despite the formal alliance agreement, the conclusion that the mutual commitment of partners was also regulated by a psychological contract through which the input of proprietary resources and mutual loyalty hinged on benefits from collaboration, brought into prominence yet another aspect of the trust construct. It disclosed that the functionality of alliance organization was contingent on the interplay between the *"psychological contract"* that partners *implicitly* concluded with each other, and which guided their spontaneous relational actions, and the legal code of alliance agreement which regulated their formally defined performance (Kim & Mauborgne, 1996).

Furthermore, the identification of several situations where trust was first established, then broken, before being re-instated supports a conjecture that trust was a relational property with varying impacts on alliance integration. Maintenance of trust was contingent on consistency between expectations and actions and between actions and their outcomes. Trust thus varied with the level of satisfaction and comfort attained from alliance membership.

The above aspect of trust is important because it conditioned the alliance loyalty. Yet, trust conceived in this way is missing from the purview of extant trust theories. This finding *extended* the empirical basis of the trust concept.

Viewed overall, in exploring the causal effects of six factors that affected the alliance dynamics, we assessed two elements of the change process:

- How the gradual removal of structural disarrays unified the alliance partners.
- How the sequential fit building enhanced the functionality of the alliance.

Thus, this part of the inquiry dealt with the *"how"* question, which is seldom examined in research on strategic alliances (Gulati, 1998). By exploring the causal bearings of six endogenous factors which conditioned the alliance transition and produced causally variable impacts, this chapter sheds new light on how each of these drivers individually, and then together, affected the pace of alliance evolution. As a result, it has extended the empirical purview of social change theories and provided new insights for managerial practice.

6 Findings from Alliance's Institutionalization

Exploration of the alliance's decade-long evolution demonstrated that institutionalization was the third stage in the venture's organizational advancement. Although this result departed from our theoretical model, it converged with the conceptual reasoning that institutionalization would be an *outcome* of several streams of integration and that integration would contribute to how the various firms fit within the alliance. This provided basis for several insights.

Institutionalization of the alliance venture was a complex project, which built on four coordinating pillars:

1) The EEIG legal framework, which provided the statutory underpinnings for a seven-firm consortium;

2) The franchise contract, which codified the service provision technology, standardized the quality of service supply and regulated licensing of new operators;

3) The task forces, which were equipped to meet demand idiosyncrasies in various product markets. The heterogeneous standards of service provision endowed the alliance with the entrepreneurial ability to react swiftly to international challenges and opportunities; and

4) The reimbursement code for services rendered to freight-in-transit that based the amount of interpartner compensation on production costs of the most efficient competitors. The code imposed financial discipline on underperforming partners, awarded those that operated efficiently, and introduced financial transparency into the alliance's transactions.

These measures regulated business performance, which, *together* with managerial bureaucratization, was a bulwark of the alliance. This institutionalization built on prior integration that occurred at interpersonal, intergroup, and interorganizational levels.

Earlier, we observed that the ultimate goal of alliance transformation was *interpartner fit,* which preconditioned a joint service provision at Pan-European scale. Institutionalization was thus the stage in the alliance's development where the venture became capable of participating in Pan-European competition.

Our findings corroborated Lorange and Roos' (1992) proposition that a strategic alliance may be compared to an organic entity, which transforms itself from a loose into a tightly coordinated structure; this change differentiates it from other constellations. Yet, this functional integration would not be feasible if the underlying relationships among the individual partners were not both functional and cognitive in nature.

The diversity of the alliance's members and the history of conflict that bedeviled their collaboration necessitated both cognitive and functional fit. Thus, systemic fit could not be solely achieved through functional adjustments and standardization, but was also realized through interpersonal proximity and adjustments (Lazarus, 1991). Interpersonal convergence fostered awareness of collective goals and contributed to cross-cultural learning. As a result, it conditioned the confluence of opinions and strategic visions and the partners' social embeddedness (Gulati, 1998).

Evidence reviewed in Part IV of the study shows that the alliance's institutionalization occurred via several efforts and actions. In order to explain the processes that contributed to structural integration, we examined the effects of two mechanisms of match attainment: Interpartner learning and the growth of alliance loyalty.

First, partners learning from each other solidified alliance ties. Such learning was a consequence of joint efforts to clear up confusion, adoption of new operations technology and conflict management. Learning also occurred as a result of several status quo disruptions, such as the re-design of service provision networks and imposition of new service quality standards. It was sparked by two types of interventions: The measures that created a new managerial structure, and decisions that caused the partners to re-engineer their individual business models in order to achieve a more coherent alliance system.

The pay-offs were wisdom gained in hindsight and a new knowledge that partners acquired during long struggles with internal conflict and external adversity. Many obstacles obstructed their learning. Cessation of business links with third parties was painful and risky. Our analyses of the dyadic relationships between Saima Avandero and Nedlloyd, and between Nedlloyd and Dubois, have determined that restructuring of these actors' operations and knowledge networks entailed several difficulties. These difficulties derived from the need for *"unlearning"* old modes of business conduct and developing new ways to deal with, and prosper in, a new business constellation.

We also observed that intercultural learning was initially obstructed by a lack of appreciation for locally applied solutions and managerial practice. Cultural ethnocentrism generated resistance towards technologies and standards developed in foreign settings. An example occurred when the Danish owners imposed cost-cutting measures, which infringed on the Fraktarna's managers' sense of control. Likewise, opposition against external infringement was later observed in Saima and Duibois' resistance to service provision standards proposed by the larger partners.

Thus, the EEIG legal blueprint, which regulated decision-making and the business dealings with third parties, was incapable alone of governing the partners' interactions. Consensus was to an equally large extent based on partners' fidelity to the venture's idea and the virtues of collaboration. Otherwise, partners might have simply ceased all efforts to link their business future to the alliance system, and consequently stopped committing proprietary resources.

Allegiance to the alliance was vital for the interpersonal relationships among its members. It involved a psychological process that preceded, but also paralleled, their functional integration. In this respect, we found empirical backing for Moscovici and Doise's (1994) proposition that partners' identification with the alliance's mission would increase over time and that disparate standpoints and values would gradually recede as a consequence of collaboration and joint investments in the venture's welfare. At an early stage in the alliance's life, divergent opinions and actions delayed functional union. But over time, and after they had learned more from each other, many disparities either vanished or became only minor. More intense collaboration and interaction thus generated *isomorphic* forces, which caused the partners to perceive the world more similarly and adhere to similar structures. As a result, the partners drew closer to each other (Lyles, 1988).

As the partners modified their standpoints to fulfill the alliance mission, the positions adopted by the alliance as a whole became more extreme and radical compared to those previously held by its individual partners (Zaleska, 1982). One case in point was adoption of the EEIG blueprint. When interviewed at the beginning of 1997, the top executives from the four founder firms expressed uncertainty as to whether the EEIG framework would be useful for alliance formation. The managers of two smaller firms were only remotely acquainted with the consortium project and not very conversant with the EEIG model. Their doubts therefore derived from a lack of adequate knowledge. In contrast, the executives of the larger firms were quite aware of the legal merits of the EEIG blueprint, but still had doubts as to whether this system's architecture would be approved by the smaller partners.

The introduction of the EEIG blueprint clarified the roles of individual members and made the alliance's performance more predictable. Consequently, it diminished the level of uncertainty and decreased the amount of stress that frustrated the alliance's work processes. Clear role prescription strengthened functional bonds by providing written rules for operational conduct and business dealings with third parties. However, although institutionalization heightened identification with the alliance for all partners, it might have encouraged greater loyalty from partners with collectivist values only because such parties felt more responsible for the alliance's welfare and were less accepting of functional uncertainty. The degree of alliance fidelity on the part of partners with individualistic values might not have increased so much because they were by nature less risk-aversive and relatively less committed to the alliance's development (Hofstede, 1980, 1983).

No surprise, then, that interpartner match was reached by acceptance of solutions that were more extreme than the previously held individual standpoints. The smaller partners accepted the standards devised by the larger ones, but only after the operational effectiveness of these standards had been proven and the smaller firms had received managerial and operational aid that put them in the position to benefit from the new technology. For their part, the larger partners curbed their power and based alliance management on relational fairness, thereby increasing the scope of influence for the smaller firms.

However, the architects of alliance institutionalization did not dismiss the possibilities of future discord and defection. The alliance managerial system incorporated several measures that balanced the majority and minority influences.

The exposure of the Board of Directors to the conflicting views of expert groups and task forces was the first step towards relational equilibrium. By allowing divergent interests and competing viewpoints to be aired openly, this arrangement transformed the Board into a forum where the merits of different visions could be discussed and assessed. Only after the conflicting views had been reviewed and reconciled in the form of Board-mandated resolutions was a motive for abiding by the Board's decisions established, which enhanced the likelihood of loyal implementation of alliance decisions.

The principle of relational fairness that allowed the General Assembly and the Board's decisions to gain uniform acceptance created a forum for individual freedom of expression. By establishing an arena where deviant opinions and standpoints could be presented, this principle defied conformity and boosted individual commitment. This demonstrates that the opportunity for unrestrained debate was explicitly incorporated into the alliance order, which supports Moscovici and Doise's (1994) proposition that an open debate and free polemics can be effective at forestalling conflict and fostering feelings of group belonging.

The alliance architects utilized consensus to guard the network against the dangers of incongruent interests and desires for defection. These results support our earlier expectation that the alliance's success would be based on a widespread sense of goal commonality and a sound institutional framework that *together* would guarantee the objectivity of decisions and a just relationship between individual inputs and benefit appropriation.

7 Conclusions

To a certain degree, the outcomes discussed in the previous section corroborate the findings from studies of dyadic alliances in the North American business context. The review of such studies by Gulati (1998) discussed the governance instruments appropriate for managing these volitional constructions. The author posits that prior working links among the alliance partners may lead to a profound shift in modes of alliance management. Specifically, over the course of time, *"cautious contracting gives way to looser practices as partners become increasingly embedded in the social network of prior ties. Familiarity between organizations through prior alliances does indeed breed trust which enables firms to progressively use less hierarchical structures in organizing alliances"* (Gulati, 1998, p. 303).

New Insights

The empirical accounts of the alliance's development process have documented that both the contractual/bureaucratic measures and informal social networking are effective elements of managing multi-firm alliances.

Reliance on trust for social control of multiunit networks can be problematic. Trust alone will not secure the long-term outcome stability of collective actions. Having to deal with more than two partners complicates the task of network management because partners may sub-optimize on alliance loyalty, which may result in differences in quality of performance among units, thus impairing collective competitiveness.

In the case of the alliance that is the focus of this study, the provision of a standard quality of service to a Pan-European market became a cornerstone of the venture's competitiveness and a proof of international functionality. In this context, the formal managerial instruments enforced adherence to common performance benchmarks and contributed to the venture's survival.

Thus, having analyzed the life cycle of this alliance, we conclude that the role of trust in governing network relationships should not be overestimated. Trust is a fragile asset, which may vary and even disappear over the course of time. Moreover, trust cannot be directly enhanced by task routine and/or group members' familiarity. Trust is rationally established from consistency between words and actions and the expected congruity between past and future conduct. However, trust is also a highly unstable relational property that varies with the quality of interaction and the benefits of collaboration.

Emphasis on social trust may also vary with cultural identity. Partners from individualistic cultures may attach a higher value to selfish pursuit of individualistic goals. This disposition may make them care less about trust building; they may even compromise on social trust for the sake of self-enhancement. Such behavior may contrast with attitudes of collectivist value holders, who typically emphasize group commitment and require high-level fidelity from their working partners (Triandis et al. 1988).

Trust is an unstable asset. It can be broken by inconsistency between intentions and actions, unmet expectations arising from the lack of correspondence between individual inputs and the benefits acquired, in addition to the partners' cultural dispositions. Thus, trust *per se* is not a suitable social mechanism that *alone* can secure effective management of volitional multi-unit networks.

Therefore, the governance of alliance establishments should combine trust with formal enforcement. Such a system should project an image of predictability and stimulate the partners to increase their working involvement by securing their autonomy to express and guard their individual interests. The latter cannot be achieved through institutional arrangement alone, but by a combination of institutional and social measures that *together* may guarantee procedural, relational and distributive fairness. An example of a functional solution that incorporated these two elements is presented in the case at hand.

However, the long-term stability of a multi-firm alliance may depend more on volitional consent than on formal enforcement. The reason is that an alliance, like any other volitional organization, ultimately relies on consent among its members, and can work effectively only if all members agree to act in good faith. They have a compelling reason for doing so, since it is to each partner's advantage to serve the Pan-European market in concert rather than alone. However, if for whatever reasons the members are unwilling to abide by the alliance rules, forcing them to do so by applying institutional sanctions would do little good. Indeed, it may only cause harm because it may make breaches of rules more likely. A defendant may ignore the adverse ruling of the Board of Directors, and by so doing igniting a crisis of confidence and/or stimulating individual withdrawal.

Thus, voluntary self-regulation through commitment and loyalty may be much more powerful than contractual legislation. This observation lends support to the work of Casson (1990, 1995) and Kim and Mauborgne (1993, 1996), who emphasized the role of procedural justice and a participative style of decision-making for securing organizational allegiance.

Outcomes that Converge with Original Vision

As we draw to the end of this study, we relate several findings from this research to the issue of social embeddedness for managing the volitional networks that was researched in the North American business context (Gulati, 1997, 1998).

Gulati's survey touches upon the topic of the social dimension in network integration. The author makes several highly valid points, i.e. that alliances should not be seen as atomistic entities because they utilize both social and functional links for attainment of systemic fit and are embedded in external networks, which may affect their operations and success. We support Gulati's observation that a large body of research on strategic alliances has underestimated the importance of social embeddedness, and therefore suffers from a *reductionist bias* that impairs our understanding of *why* alliance-like voluntary undertakings are formed in the first place, and *how* they evolve over time. Gulati's (1997, 1998) observations converge with results from this study that historical embeddedness in working relations and links with third parties were among the major factors that facilitated, but also impeded, the alliance's systemic integration.

Outcomes that Depart from Original Vision

Another recurrent theme in North American studies of alliances is the focus on safeguards against moral hazards arising from the unpredictability of partners' behaviors (Kogut, Shan & Walker, 1992; Podolny & Stuart, 1995; Powell, Kogut & Smith-Doerr, 1996; Doz & Hamel, 1998). More specifically, the fear of unilateral opportunism and asymmetric appropriation of benefits from dyadic collaboration provides a powerful rationale for sophisticated legalistic foreclosures, and even leads to horizontal acquisitions.

At this stage it is quite uncertain whether these concerns are universally valid, and if not, how ubiquitous they are beyond the US sphere of business culture. The proclivity for opportunism and self-enhancement may vary with the cultural orientation, task structure, and nature of operations. For instance, managerial sources in the alliance studied here were not so much concerned about unjust appropriation of the benefits produced by the entire alliance as they were with the risk of opportunistic defections and sub-optimization of individual contributions. In effect, the strength of social pressures for morally sound conduct that derives from culturally held values might transcend those imposed by the contracts. It can be expected that, for instance, the perils of opportunism and unilateral appropriation would be less likely in working associations where all partners adhere to collectivist values. In the same vein, moral asymmetry would presumably occur more often in strategic alliances formed between partners with individualist and collectivist cultural identities. Consequently, the governance structures for managing the alliance should pre-empt the effects of variable allegiance by creating an organizational forum where individual differences can be exposed and subjected to the process of consensus-building.

8 Contextual Factors with Impact on Alliance's Integration

This chapter approaches the issue of intra-alliance integration defined by our conceptual model as an outcome of fit-building efforts. More specifically, it explains which degree of interpartner match was viable for the alliance's competitiveness, and how this strategic and operational matter was resolved by the alliance partners. In so doing it answers the following three queries:

1. Which contextual factors limited the scope of alliance integration?

2. How far it was feasible for the alliance's partners to integrate their individual service provision networks?

3. Why did it take such a long time for the partners to learn from each other under interactive service provision?

To answer these queries our analytical focus shifted from the international organization of service supply to the structure of demand in alliance's European markets. In order to determine how the variability of demand for alliance's service provision influenced the scope of its integration, we draw on the knowledge of demand heterogeneity for freight-supply solutions in Sweden, Finland, Denmark and Norway assessed through an auxiliary study of demand structure (Ludvigsen, 1999).

Our conceptual framework reviewed several marketing studies positing that heterogeneity of customer demand in international markets may constrain the scope of suppliers' integration, output standardization, and opportunity for cross-cultural learning (Bartlett, 1982; Carpano & Chrisman, 1995; Doz, 1986; Ghoshal, 1987; Prahalad & Doz, 1987; Porter, 1986, 1989). In addition, several studies of relationship between transport demand and supply in the US and Norway (McGinnis, 1989, 1990; Evers, Harper & Needham, 1996; Ludvigsen, 1999) established that shippers' decisions to use a particular supplier of freight dispatch are driven by a need to match the quality of services required with the quality of services offered. The quality of services required is in turn affected by the types of cargo shipped, the unit load devices used, and the segment of customers served

In the foregoing we have shown that the focal alliance operated in several multidomestic markets which differed with regard to demand characteristics, degree of deregulation and competition, and the costs of production. In addition, we have also established that the competence gained from serving native customers through country-specific skills was an important strategic advantage of the alliance network.

In this context, the analytical goal was to establish whether the alliance operated under the market conditions where, according to Porter (1986) and Prahalad & Doz (1987), standardization should be limited, because the ability to satisfy customer-specific needs should take precedence over benefits of standardization.

8.1 Problems with Standardization

The issue of demand structure and its relevance for alliance's operations came to the surface under personal interviews with alliance's managers. Several informants admitted that they experienced considerable difficulty with balancing two opposite demands: The need to achieve a systemic fit that would allow the venture to operate as one taskforce and the imperative to apply diverse standards to satisfy local customers.

The first goal required standardizing the service provision in order to secure uniform service quality in all markets served, while the other and equally viable pressure produced demands for operational diversity. This duality hampered the effective coordination of two operations areas and keeping the cost of service provision at a competitive level.

Service quality requirements demanded by global customers with international scale of distribution differed from those required by smaller users with local preferences and operations. This inconsistency made that the alliance firms had to draw a borderline between these two operations domains, but at the same time coordinate their provision. In the terms of operations management, the service of domestic markets required that the quality supplied varied locally while service supply to international customers required several costly interventions into operations in order to standardize the service provision technologies and deliver a homogeneous output.

Thus, the knowledge of demand structures in the countries of alliance's operations determined the scope of variability in supply of single-modal and intermodal freight supply solutions. This knowledge had implications for supply organization and degree of interpartner fit because it determined which service quality parameters the alliance partners should standardize, and which could vary.

Shippers' quality preferences determine the mode and supplier selection in shippers' buying decisions (Evers, Harper & Needham, 1996; Ludvigsen, 1999; McGinnis, 1989, 1990). Therefore, shippers' assessment of service quality is essential for their choices of single-modal or intermodal transit, and a particular service supplier.

Failures on the part of logistical service suppliers to deliver the service quality required can evoke shippers' dissatisfaction and reduce the usage of a given type of service, leading consequently to business loss. On the other hand, suppliers who manage to customize the quality of service in line with shippers' preferences may increase the amount of business transacted, and enhance their competitive standing.

Knowledge of demand composition allowed to approach an important problem with relevance for all firms who operate in international markets with homogeneous and heterogeneous customer needs: *How to strike a sensitive balance between standardization and customization in product and/or service supply?*

Thus, the issue of standardization and customization of service provision has a broad international dimension. It is highly relevant for strategic decisions of large global logistical operators like UPS, TNT, DHL who, typically standardize their worldwide operations. By so doing, these service providers disregard the local variability in demand structures.

Actually, the strategy, which guides these players' service provision standards and supply organization, guarantees a universal service quality worldwide. On the other hand, however, the industry's newsletters as well as these operators' own financial records reveal persistently poor results in European markets. According to the professional judgements of informants in this study, this underperformance is an outcome of unwillingness on the part of these parties to differentiate service provision in various markets in order to match the supply parameters with peculiarities of European demand. In this context, the strategy of standardization and customization of service provision touches upon an important issue related to effectiveness of different modes of market internationalization (Bartlett & Ghoshal, 1987; Carpano & Chrisman, 1995; Doz, 1986; Goshal, 1987; Porter, 1980,1986,1989).

In the following we draw on results from a study of demand composition in the four Nordic countries and relate its findings to the issue of functional standardization and customization of single-modal and intermodal freight dispatch solutions delivered by the focal alliance.

8.2 Single-modal and Intermodal Service Supply Solutions

The analysis of Nordic shippers' demand structure has established that the following six single-modal and seven intermodal dispatch solutions are currently used for outbound and inbound shipments (Ludvigsen, 1999). The managerial sources in this study confirmed that these solutions are also supplied by "E-1 Alliance".

Table 8.2.1: The Route Structure for Intermodal and Single-modal Freight Shipments from/to Nordic Countries

Single-modal Dispatch Solutions	Intermodal Dispatch Solutions
1 Truck Carrier	1 Truck + Rail
2 Rail	2 Rail + Short-Sea Ferry
3 Truck + Short-Sea Ferry*	3 Ocean Shipping + Rail
4 Short-Sea Ferry	4 Ocean Shipping + Rail + Truck
5 Ocean Shipping Line	5 Unaccompanied ULDs: semi-trailers, swap-bodies, and containers on Ro-Ro Ferry **
6 Air Freight Carrier	6 Rail +Truck + Short-Sea Ferry + Truck
	7 Truck + Rail + Ocean Shipping

* Although on face this form of dispatch involves two modes, it was defined as single-modal because of geographical location of the Nordic countries in relation to the European mainland which means that almost all trucks have to cross the sea en route from the Nordic region to the Continental Europe. The most common modes of transport are Ro-Ro (Rolling Road) ferries considered by the users as a part of road infrastructure for sea crossing.

** Shipments of unaccompanied ULDs on Ro-Ro ferries were defined as inter-modal transit because the ULDs can optionally be carried on trucks or rail cars after arrival at the port of discharge.

Source: J. Ludvigsen (1999): "Freight Transport Supply and Demand Conditions in the Nordic Countries: Recent Evidence", Transportation Journal, Vol.39, No.2, pp. 31-54.

The structure of intermodal and single-modal dispatch solutions demonstrated that Nordic shippers are highly dependent on single-modal *inland* connections and intermodal *sea-land* bridging for freight movement and dispatch. These results also underscore the need for strategic and functional alliances between the different modes' operators and logistics service providers who organize freight dispatch between distant origins and destinations and secure the adequate dispatch quality across international supply channels.

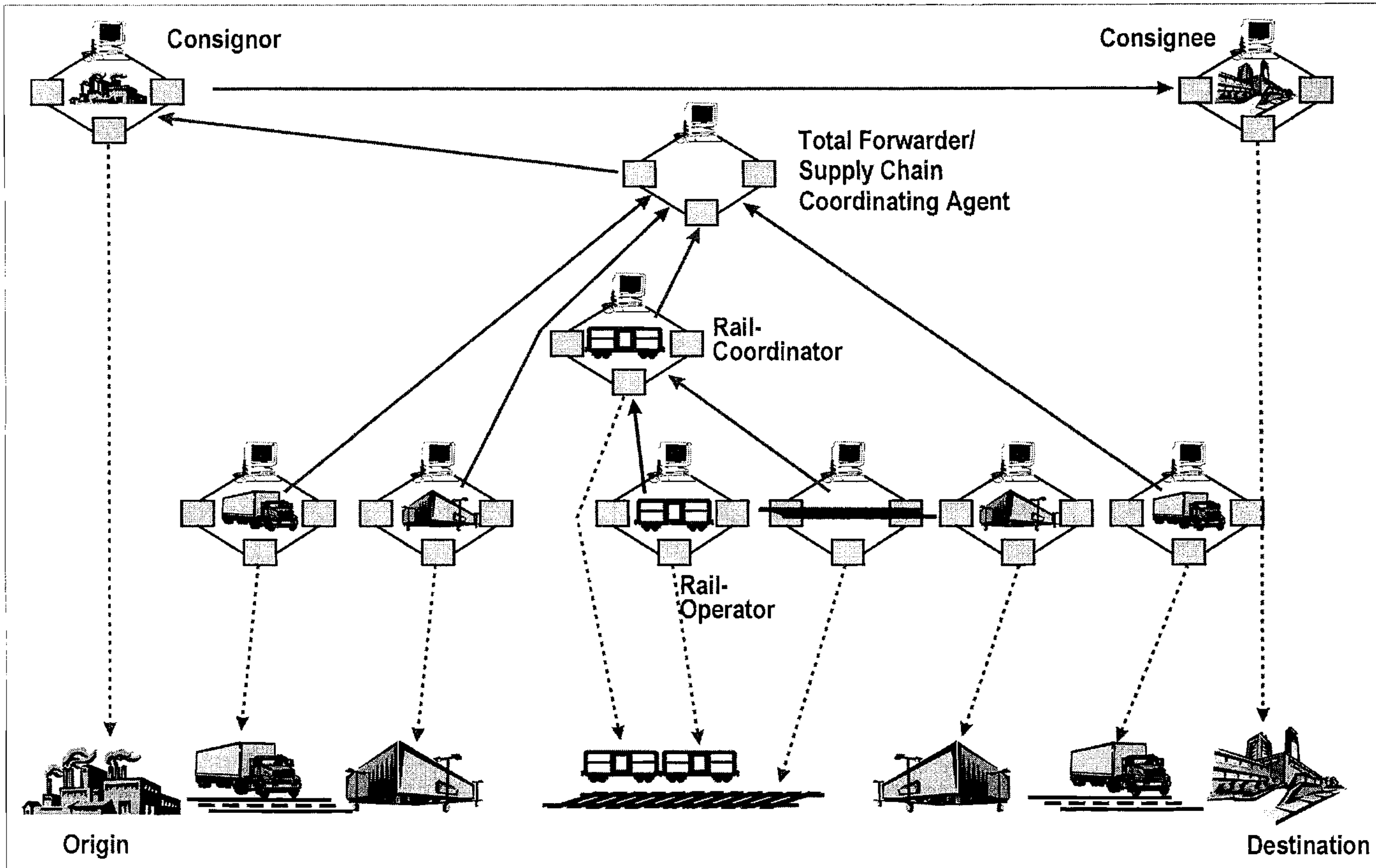

Figure 8.2.1 The Physical Flow and the Organization of Road-Rail-Road Intermodal Transport Chain

The *inland bridging* typically involves the truck and rail carriers and forwarders who coordinate the work divided into three operations sections: Inter-docking [65], line-haul and break-bulk [66]. Truckers provide the first and the third part of a service supply chain. They bring in and consolidate the freight prior to the long-distance journey, and break the load carrying devices such as swap-bodies and containers into smaller consignments for local distribution. The line-haul operations between the ports of discharge and the loading stations are typically performed by rail. Forwarders and/or logistical firms integrate the various parts of service supply chains into one supply trajectory. These parties also own and/or lease terminal facilities where the value-adding and trans-loading takes place.

The *land-sea* bridging can have different designs and operators. It may include off-loading of containers in the port of discharge, cross-country movements of containers on rail flatcars and supply to another harbor for loading on deep-sea or short-sea vessels destined to overseas locations. From there, the containers or trailers are loaded on trucks and hauled to off-loading stations. Alternatively, the sea-land bridging may involve loading of containers in the port of discharge on rail flatcars and shipment to inland terminals for bulk breaking. After the bulk is divided into small batches, the truckers deliver small consignments to end-users.

Still, another pattern of sea-land bridging involves land transportation operators on the one side of supply chain and a rail carrier on another. The journey is conducted by the short-sea vessel, which carries unaccompanied unit load devises, the road trains, rail wagons, or the whole rail trains. The last two solutions represent a popular intermodal form of dispatch for shipments between Norway, Sweden, Finland and the European mainland. Again, synchronization of multiple carrier operations within a given supply chain is supervised by logistical supply companies who, apart from the marketing function, chartering of shipping space and organizing transshipment also secure the terminal facilities for value-adding and other freight handling operations.

Several layers of bridging the road-rail-road operations are presented in the chart. The chart also shows the scope of coordination task that falls under the purview of the coordinating agent who manages the functional interdependencies between the intermodal operators.

The second important outcome with reference for the focal alliance was that the Nordic shippers did not differentiate between the quality requirements for intermodal and single-modal dispatch solutions. However, the regression analyses run on factors extracted from the four national data sets showed that the factors' composition and their relative impact on the shippers' choices of intermodal and single-modal solutions varied across the four Nordic countries. These outcomes support a conclusion that shippers' modal decisions were affected by different set of preferences for service quality. These factors and their rankings are shown below.

[65] Inter-docking involves the following logistics operations: Pickup of freight at the client's site, consolidation of small consignments, stowage into load carrying devises, and carriage of loaded units to inter-modal terminal for shipment to final discharge destinations.

[66] Break-bulk involves stripping of containers and/or other load carrying units at the destination terminal, division of freight into small batches, labeling and sorting, and distribution of small consignments to final end-users or consignees.

Table 8.2.2: The Relative Importance of Individual Factors for the Swedish, Finnish, Danish and Norwegian Shippers' Quality Assessments of Intermodal and Single-modal Dispatch Solutions

Ranking *	Intermodal	Single-modal
Sweden		
First	Operational Excellence	Operational Excellence
Second	Availability	Availability **
Third	Cargo Risk **	Cargo Risk **
Finland		
First	Operational Excellence	Operational Excellence
Second	Technical Efficiency **	Technical Efficiency
Third	Information & Value Requirements **	Cargo Risk **
Fourth	Cargo Risk	Information & Value Requirements **
Denmark		
First	Operational Excellence	Cargo Risk
Second	Cargo Risk	Operational Excellence **
Third	Value Requirements **	Value Requirements
Norway		
First	Operational Excellence	Technical Expertise & Value
Second	Technical Expertise & Value	Timing
Third	Restitution **	Operational Excellence **
Fourth	Timing **	Restitution **

* Rankings are based on regression of factors' impact on shippers' overall quality assessment.
** Regression coefficient is not statistically significant within the confidence interval of $0.05 > p < 0.10$

Source: J. Ludvigsen (1999): "Freight Transport Supply and Demand Conditions in the Nordic Countries: Recent Evidence", Transportation Journal, Vol.39, No.2, pp. 31-54.

8.3 Factors Affecting Intermodal Choices

Table 8.2.1 shows that "Operational Excellence" was the most important factor for Nordic shippers' choices of *intermodal* form of freight dispatch. Ranking of this factor was stable and consistent for all shippers' intermodal choices. This indicates that the quality dimensions that loaded on "Operational Excellence" factor constitute a set of parameters that underlay the majority of shippers' intermodal decisions. Finding of this factor significant and stable across the entire sample of shippers' intermodal choices, suggests that intermodal operators in the four Nordic countries should get familiar with this factor's composition in order to bridge the gap between the quality of service offered and the quality of service required.

The composition of "Operational Excellence" factor differed across shippers from the four Nordic countries. Still, two quality elements remained common for intermodal choices of all shippers: "Service Availability at Destination Points" and "Expediency of Ordering and Chartering". One element, "Service Availability at Origin Points" remained stable across shippers from Finland, Denmark, and Norway. Three quality dimensions remained consistent across shippers from two countries: "Timeliness of Pick-up and Delivery" (Finland and Denmark), "Availability of Unit Load Devises (ULDs)" (Finland and Denmark), "Frequency of Service" (Finland and Norway).

These results indicate that although the demand structure varied across shippers, some quality dimensions remained universal. These service elements should be targeted for quality improvement and *standardization* in the Nordic countries.

The factor "Cargo Risk" was the second most important decision criterion for the Nordic shippers' intermodal choices and showed significant for choices made by Finnish and Danish shippers. Its impact on the Finnish shippers' decisions was negative. This may suggest that "Cargo Risk" was perceived as a real problem which negatively and significantly affected the Finnish shippers' quality assessment. However, the opposite was established for the Danish shippers. The latter suggests that "Cargo Risk" did not pose any substantial problem for intermodal shipments to/from Denmark. Values of regression parameters obtained for "Cargo Risk" and "Restitution" factors, although positive for intermodal choices of Swedish and Norwegian shippers, were not significant.

8.4 Factors Affecting Single-modal Choices

The review of factors that underlay the Nordic shippers' choices of *single-modal freight supply* revealed that their composition and relative significance varied across shippers. For the Swedish and Finnish shippers, a set of quality attributes labeled as "Operational Excellence" appeared an important and significant decision making parameter. For the Danish shippers, the concerns over "Cargo Risk" seemed to be an important single mode selection factor. For the shippers from Norway, a set of quality attributes covered by "Technical Expertise & Value" factor showed to be an important and highly significant decision-making criterion.

This demonstrates that decision-making criteria that underlay the Nordic shippers' choices of single-modal dispatch were much more heterogeneous than for intermodal supply solutions. This finding is important bearing in mind that majority of shipments to/from Nordic countries is still effectuated by single-modal carriage and may serve as a quality benchmark for intermodal operators.

The above indicates that low commonality of criteria underlay the Nordic shippers' single-modal choices. This reinforces a conclusion that the decision criteria for shippers' choices of single-modal freight dispatch are more heterogeneous than for intermodal transit. These results seem plausible when considering that the Nordic countries vary considerably with regard to industrial structure and topography. These facts are reflected in differences between the commodities shipped southbound and northbound and in different transport modes used for inbound/outbound border crossings.

These differences support an inference that the quality of single-modal freight supply varies much more between the four Nordic countries than the quality of intermodal dispatch. The above suggests that operators should be very careful with standardizing the service provision parameters for single-modal solutions.

These results substantiate the international marketing studies positing that standardization of product and operations in multiple national markets is advisable only if demand patterns are homogeneous (Buzell, 1968; Buzell et al, 1990; Porter, 1980,1986; Prahalad & Doz, 1987; Takuechi & Porter, 1986)).

Since the parameters behind the Nordic shippers' choices of single-modal and intermodal freight supply solutions varied across four countries, the chances that the focal alliance would gain from a large-scale standardization were rather slim.

Thus, the partners have rightly chosen the scope economies that arise from broad range of product/service lines, and an ability to customize operations and service supply technology in line with market peculiarities as the alliance's core competitive weapon (Porter, 1986; Prahalad & Doz, 1987).

These outcomes confirm that supply of a broad range of service through flexible production apparatus and context-specific skills allowed the alliance to serve a large number of customer-segments in various national markets. Thus, in order to retain a sufficient level of autonomy and minimize the cost of standardization that would not produce additional competitive advantage, the partners have rightly opted for moderate scope of integration (Carpano & Chrisman, 1995)

8.5 Implications for the Scope of Alliance's Integration

Two inferences are drawn with regard for standardization and differentiation of alliance's service supply. First, the single-modal supply solutions that typically involve two service providers and connect origins and destinations in two countries should be excluded from standardization. Suppliers who operate in dyadic constellations should customize their performance in order to meet the specifics of service requirements.

Second, the international standardization of service provision should be done with caution. Standardization should include these service quality dimensions only, which are universally demanded by all shippers in all countries of alliance's operations. Service quality should be standardized to the degree to which this strategy improves the compatibility of partners' operations and output. Therefore standardization should be restrained to intermodal dispatch solutions, which typically involve more than two operators.

The above is highly understandable. As the number of service providers increases within a given supply chain, so increase the odds of cargo damage, dispatch tardiness and poor cargo handling. Such failures might arise from incongruent service provision technology and/or a lack of adequate coordination. Thus to effectively bridge the various interconnecting elements in a given distribution channel and deliver the required service quality, the performance of several channel members should be uniformed.

More specifically, these findings indicate that the quality dimensions covered by the *"Operational Excellence "* factor may serve as a baseline for service standardization. The quality attributes covered by this factor have also been identified by American shippers' as highly demanded service qualities (Evers, Harper & Needham, 1996).[67]. As the validity of these dimensions extends outside the Nordic region, they may become safe candidates for standardization. Consequently the following quality dimensions may be targeted for standardization:

- *Service Availability at Destination Points* – important for reducing round-trip costs through elimination of empty back hauls of unit load devices;

[67] Unfortunately, the resource scarcity and time exigency hindered us from extending the demand study to shippers from the Continental Europe. However, the data collected through interviews with the continental partners supports a conjecture that demand structure at the European mainland may vary even more as compared to the Nordic countries because of high economic diversity among industrial structures of continental countries.

- *Expediency of Ordering and Chartering* – e.g., staff promptness and helpfulness important for avoiding booking and chartering problems;
- *Service Availability at Origin Points* – important for securing adequate service quality at shipments' origins;
- *Timeliness of Pick-up and Delivery* – important for reducing the cost of inventory holding through precise and reliable scheduling of inbound and outbound shipments;
- *Availability of Unit Load Devises* – important for settling of appropriate time fixtures for ULD chartering, and
- *Frequency of Service* – important for frequent shipments of small freight batches under Just-in-Time regime.

In addition, freedom from loss and damage and timeliness in settlement of claims for lost and damaged shipments must be a self-evident service quality for all service providers. This element of performance improvement must enjoy a high priority in personnel training programs. Adoption of standard operating procedures in order to uniform all network members' performance is highly advisable with regard to this issue.

Moreover, in order no to overshoot in each direction and maintain an optimal level of standardization, the logistics suppliers should also study the solutions adopted by service users for managing manufacturing and distribution operations. These solutions are structured by shippers' desires to remain competitive and supply goods in accordance with contractual terms, and at the lowest possible cost.

8.6 The Stance Adopted by Alliance

The above indicates that the degree of balance between service standardization and customization was sound in the alliance context. After a long spell of interpartner adjustments when standards for international service provision became adopted, the partners have accepted that a large chunk of their operations had to remain country-specific in order to meet the local demand requirements.

This condition called for hybrid management structure, which granted entrepreneurial autonomy to multidisciplinary teams responsible for fulfillment of customer specifics while at the same time applied bureaucratic measures to coordinate the international performance. These results confirm suitability of the hybrid managerial model for balancing the bipolar demands and explain why the learning effect from interpartner interaction did not materialize earlier.

When looking from *ex post ante*, the scope of alliance integration transcended the metamorphosis envisioned by conceptual model. On the one hand the empirical accounts revealed that alliance progressed incrementally from project-based coordination to bureaucratic managerial superstructure. However, we have also shown that the passage from the less to more advanced organizational architecture was not so neat and smooth as anticipated. Moreover, relatively little interactive learning occurred during the first two stages in the alliance life. Instead, a relational conflict erupted because partners resisted acceptance of local solutions and mutual managerial diversity.

When looking at integration from the entire network perspective, the importance of company-specific adaptations is reduced. The progress in building of inter-partner match was facilitated by changes at individual firms' level, but hinged on development by the entire network an ability to establish new external working links and/or strengthen the existing ones. We have observed that systemic fit has been built gradually through a range of bridging strategies that helped to manage cultural variability, power asymmetry and operational disarray. These measures produced new linkages that made network members more interdependent, more equal and more attractive to global clients.

The gradual learning by the partners of joint task-mastery led to more complex, profitable international projects, produced stronger social and functional bonds and higher level of mutual dependence for alliance benefits. Over time, the engagement in performance of more numerous tasks converted the dyadic links into multiplex, reinforcing thus the network texture.

In order to assess how the mutual adaptations actually occurred, the analytical spotlight focused on sub-unit level, as the latter represented a locus where the dyadic linkages originated, became transformed, and grew stronger. Here we have also observed that in addition to the bonding effect, dyadic relationships at interfirm and interpersonal levels became playing grounds for various conflicts, relational animosity and tensions. On the other hand, however, we have also documented that interpartner relations functioned as conduits of professional consultations, and social and financial support. Thus the process of fit-building was affected by both, the positive and negative relations, which generated centripetal and centrifugal forces that concurrently stifled and enhanced the alliance integration.

We have shown that the Founders' Contract facilitated a pair-wise integration, but it has also urged partners to take a longer view and adjust their individual businesses to alliance's objectives. Thus, the dyadic relationships became a springboard for collaborative expansion, which over time linked the working units into triplet and quadruplet constellations. These constellations jointly designed competitive tactics by exchanging professional and location-specific knowledge. The EEIG structure that later replaced the Founders' Contract institutionalized the interfaces between service provision to local and global markets, and the scope of partners' integration into formal governance model.

However, judging from the present speed of globalization of the European transportation market one can expect that the scope of alliance's international operations will increase rapidly. The growth of Pan-European trade will boost the use of intermodal freight supply solutions and increase the scope of operational standardization.

Hence, it may be anticipated that as the alliance supplies larger amount of standardized output, its core competitive advantage will shift from the scope to scale economies. This means that as the proportion of international operations in alliance's business grows, the alliance will increasingly rely on uniform standards for serving the European distribution channels.

8.7 The Learning Effect

The above marks a shift from a *multi-domestic* to *transnational* value chain managed through a set of uniform standards. This change of strategic profile was manifested by codification of all service provision solutions and using this record as a technical basis for franchise contract. Such a code created repository of alliance's know-how that allowed the partners to design new service solutions for various market segments. By actively using the resourcefulness of operational diversity for broadening the alliance's business potentials, the partners succeeded at interactive learning.

However, this breakthrough was also facilitated by two other parallel developments: The growth in service provision to corporate customers and a higher technical effectiveness of new standards. Learning at this stage was thus boosted by the growing awareness that new standards enhanced the overall service quality supplied by the smaller partners, and by so doing, elevated these parties' positions in Pan-European distribution system.

8.8 Summary

This chapter answered an important research query of which scope of interpartner integration was viable for the alliance's competitivenes from the international perspective. By drawing on results from demand study, we established that customer demands for alliance's services varied across national markets constraining thereby the scope of venture's integration (Ludvigsen, 1999).

A survey of Nordic shippers in manufacturing and merchandising industries disclosed that thirteen different combinations of single-modal and intermodal supply solutions were used for freight movements between the Nordic countries and the European mainland. This finding confirmed the need for operational and strategic alliances between the different modes' operators and logistical service suppliers. By dividing the freight moved along international supply channels into several service sections, these alliances perform the inland and sea-land bridging operations. Forwarding and logistical service providers synchronize the freight moving operations and secure the required dispatch quality.

The analyses of decision parameters that underlay the surveyed shippers' modal choices of shipment solutions disclosed that shippers' decisions differed by the country of operation. The examination of factors that affected the shippers' intermodal choices showed that two factors, "Operational Excellence" and "Cargo Risk" were two requirements that all respondents considered as highly important for choices of intermodal freight transfer. Although the composition of these factors varied across shippers from the Nordic countries, still some few quality dimensions were universal for users from the four, three and two countries.

This consistency suggests that alliance's partners should standardize the intermodal supply only. The above seems plausible, bearing in mind that supply of intermodal dispatch typically involves more than two operators who perform sea-land-bridging. Inconsistent operations technology and/or quality standards may impair the quality of entire supply chain. In these circumstances, standardization of partner's service provision may improve the effectiveness of alliance as a whole.

The examination of factors that affected choices of single-modal dispatch revealed a much more heterogeneous demand structure. The latter supports a conclusion, that single-modal supply forms should be excluded from standardization for the sake of local customers whose quality requirements differ at individual country and/or region levels.

The above indicates that the alliance's competitive weapon consisted not so much of scale as of scope economics. This strategy built on an ability to satisfy a wide range of customers in various national markets with a broad range of service provision and flexible service production apparatus. The above justifies a conclusion that a relatively loose integration was an optimal solution for managing the alliance's business.

However, it has also been observed that the proportion of international service provision in alliance's business portfolio may grow as a consequence of European globalization. Therefore, the scope of standardization will increase too, and with it, the need for unification. This process was reflected in codification of alliance-wide service provision technology that built on individual partner's solutions. These solutions become used for designing the distribution schemes for corporate customers and other clients. The above suggests that in the near future the venture's competitive strategy may rely more on scale economies and less on scope or context-specific solutions.

9 Empirically Verified Model of Alliance Evolution

This chapter synthesizes findings from the analysis of alliance evolution and arranges them in empirically verified model of change factors that is grounded in data.

By exploring data accumulated from three waves of interviewing and re-interviewing of informants we sought to trace the pattern of evolutionary change. We did so by examining the intertemporal dynamics of change, which gradually allowed us to identify the impacts of interpersonal differences, external shocks and countervailing forces. Consequently, we identified the key mechanisms that transformed the focal alliance and the causal links between the effects of events at one point in time and their impacts on subsequent events, processes, and outcomes. This sequential examination of relationships between states and events produced four types of causal outcomes that comprise the empirically verified change model:

1) *Negative, but with no clear causal implications.* The lack of causal effect was produced by the initially positive impact of a variable, which over time became negative, but equal in strength and duration to the prior bearing. Likewise, when this negative effect was offset by equally strong positive impact of another variable which was functionally related to the first one, then no net final effect was ascribed to either of them. Similarly, no-effect was deduced from a

relationship between two strings of interrelated factors that exerted opposite causal effects, but at different pace.

One such causal outcome was generated by incongruency between firms' expertise and production apparatus and cultural diversity of their managers' practice. The assumed complementarity among proprietary production apparatus and operating skills contributed in the short run to the alliance's formation. It provided the rationale for pooling the firm-specific strengths into one alliance system on the assumption that such a system would be able to compete across more product-market segments. However, the cultural variability of the alliance managers gave rise to minority and majority factions, which challenged each other. Mutual rejection of each other's operations models shaped the relational conflict that delayed systemic integration.

Then the effects of these variables have been analyzed from the perspective of alliance's entire life course. The conclusion was that interfirm operational incongruencies obstructed the alliance integration by impeding relational adaptations. In the same vein, cultural diversity has positively affected the long-term integration because it instigated intercultural learning that created a larger inventory of operational solutions and broadened the alliance's competitive repertoire.

When juxtaposed, the long-term negative effect of operational diversity offset the long-term positive effect of inter-cultural learning with no final bearing on the alliance fit.

2) *Positive, but also without clear causal inference.* An outcome was deemed positive but without causal effect if there were persistent, long-term differences in causal bearings of two or more variables that were functionally interrelated, but cancelled each other through opposite causal effects.

A series of variables with such causal effects resulted from the short-term negative impact of power asymmetry and the short-term positive impact of disparate missions and domains. Yet, the long-term analysis revealed that over time these variables shifted causal bearing. Specifically, power mobilized by the dominant coalition accelerated the interpartner re-structuring and systemic fit. These effects were, however, offset by the long-term negative impacts of overlapping presence in the same markets. In the final analysis, the long-term positive outcome of power mobilization was counterweighted by the negative effect of conflict, which erupted during re-alignment of partners' market coverage. Thus, these two variables produced no net impact on alliance match. This conclusion was reached after we first pieced together and compared the impacts emitted by power differentials and incongruent missions and domains, and then juxtaposed their effects in a long run.

3) *Negative with causal implications.* An outcome was deemed negative if a given event or occurrence instigated a series of long-term negative causal bearings which led to cumulative negative developments or states that impeded the systemic fit.

One triple causal chain with long-term negative impact emerged from: Disparate benefit expectations, unwillingness to comply with unpopular decisions, and inability to reach consensus.

The more disparate were the partners' benefit expectations, the less they were willing to implement decisions which required temporary individual sacrifices. Consequently, the more the partners resisted sacrifices for the alliance's sake, the greater was their inability to reach consensus. This triple negative chain was further exacerbated by the fact that the low propensity to reach consensus reduced contribution of proprietary resources to alliance project. As a result, these four interlinked factors thwarted integration.

4) *Positively, and showing real, long-term and clear effects that led to a series of positive developments.* An outcome was deemed positive if a series of events could be identified with clear benign effects, which contributed to alliance fit in a strategic and operational sense, and improved its competitive standing.

Such positive outcomes emerged from the *"cumulative causation effects"* produced by the tasks performed in concert, the types of working relationships established, the degree of relational control, and the propensity to trust and commit resources. The first benefits arose from the positive link between the collective task mastery (which contributed to strong social and professional bonds), and adoption of formal governance structures (which regulated the partners' functional interaction). Subsequently, the satisfaction from collective task-mastery increased the professional and social affiliations and collective trust in benefits of collaboration. This, in turn, enhanced the managers' willingness to contribute proprietary resources to alliance's project.

These positive factors strengthened the alliance competitive position. First, the entire constellation could draw on the larger pool of capabilities, an opportunity not available to an individual firm. Second, the scope of services offered by the venture was much broader than that of the individual partner, and enhanced the alliance attractiveness to global and local clients.

The persistently positive causal effects produced by the collective task-mastery and increased trust in alliance collaboration was observed despite the short-termed causal lapses. The rift between the partners that emerged after a series of painful interventions failed to deliver the benefits expected undermined the partners' short-term confidence in alliance. It has also impaired the partners' ability to respond to market demands, thereby reducing the business opportunities for the entire venture.

However, the completion of the re-alignment project produced a new type of working environment. The international operations were now governed by one set of standards, which improved the alliance standing as European service supplier. The latter motivated partners to integrate even in more functional and strategic domains and re-instated trust in venture's functionality. Trust was now based on more transparent operations system with one partner responsible for one particular market. As a consequence and despite the failure to produce the immediate individual gains, the new environment generated new business opportunities and improved chances of scale economies.

Trust variable generated thus divergent causal impacts in the medium and long terms of alliance's life. A temporary decline in confidence caused by failure to benefit from painful interventions reduced the partners' mutual loyalty and input of proprietary resources. In the long run, however, the standardization of international service provision in conjunction with alliance formalization helped to rebuild interpersonal, institutional, and transactional trust. Rebuilding of confidence enhanced the partners' ability to function as one taskforce; this positive long-term effect outweighed the temporary negative impact of a breach in trust.

Ultimately, our empirical investigation has established that the intra-alliance fit was produced by the interplay between two groups of factors: Those with long-term positive effects and those with long-term negative outcomes.

Figure 9.1 shows the balance of forces that over a decade-long period concurrently and interchangeably shaped the alliance's metamorphosis, and aligns them in an empirically verified model of alliance fit.[68] It also suggests that in the long run the forces of progression overpowered the forces of regression contributing thus to attainment of systemic match between the network members.

The attainment of systemic fit could thus be ascribed to two inversely related impacts, which in the long term and in final count facilitated the interpartner adjustments and structural relocations, and by so doing, boosted trust in the benefits of collaboration and volitional networking.

It should be remembered, however, that this systemic fit might depend on a soft balance between these two inversely functioning factors which means that it can be easily tilted by, say, dynamics of interpartner relations, or changes in strength and direction of external pressures.

[68] It is easy to see that the variable labels in the empirically verified model have been modified as compared to our prior conceptual framework in figure 1.1 in order to adequately reflect the outcomes from the field study.

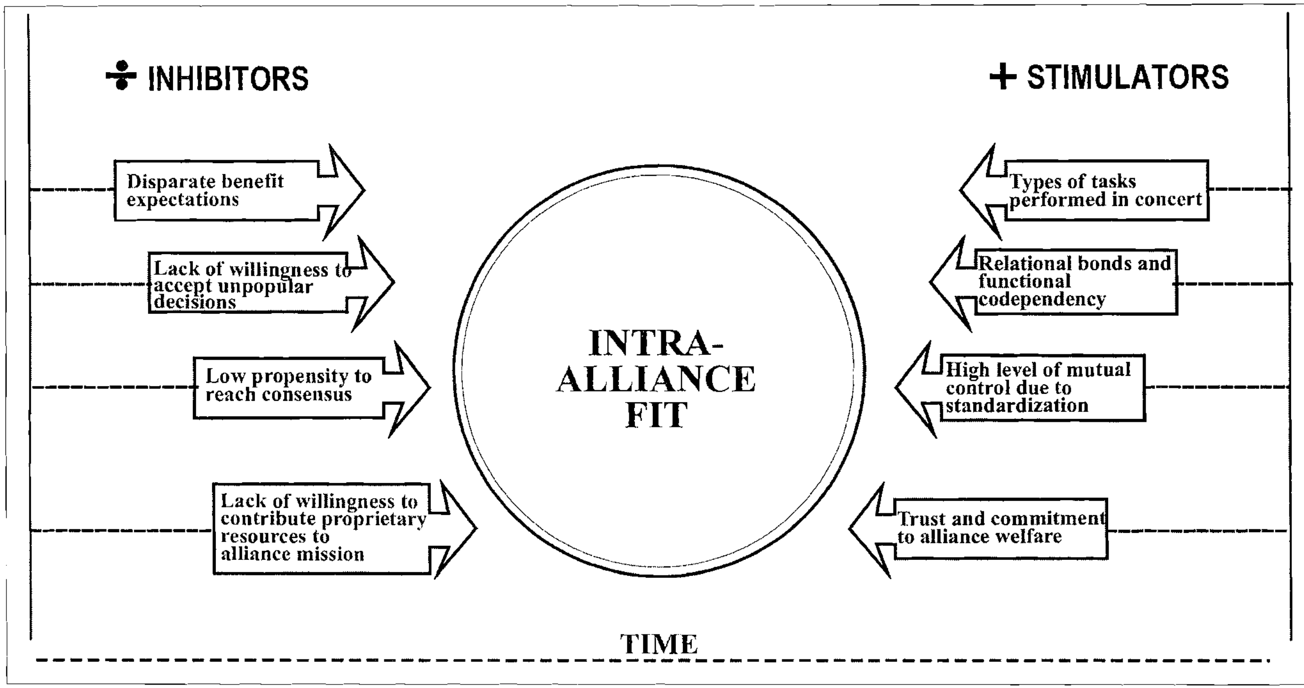

Figure 9.1: Two Types of Forces with Causal Impacts on Intra-alliance Fit

Specifically, the rapidly progressing globalization of the European logistical market manifested in accelerating demand for standardized intermodal freight supply solutions may decisively change the quality of intra-alliance fit. Judging from the current growth in the amount of freight moved within the European logistical market, the level of standardization of alliance's operations would have to rise considerably in order to meet the market requirements. This means that as the proportion of international operations grows in the alliance business portfolio, the partners would have to standardize a larger portion of their service provision in order to secure a uniform level of quality at Pan-European scale. Needless to say, further increase in standardization will bond the partners' operations more strongly together and make them more interdependent for serving the Pan-European territory.

The attainment of systemic fit between the alliance partners produced several tangible benefits. First, the linking of partners' national markets produced the size parity with several large European logistical MNEs, such as Schenker-BTL, Kühne-Nagel and Danzas whose competitive strength build on a broad geographical coverage.

Second, several non-reversible interventions into individual business models restructured the partners' operations and partly standardized the service provision technology. This strategy raised the switching costs and strengthened the barriers to opportunistic exit. The latter improved the venture's competitiveness because it could count on contributions from a group of stable and well-attuned partners.

Third, the adoption of franchise agreement for protection of alliance's service supply technology deterred its competitors from imitating its operational solutions and provided funds for later expansion.

The combination of *"multi-domestic"* and *"transnational"* competitive strategy produced several additional gains. The *"multi-domestic"* nature of alliance operations allowed the partners to meet heterogeneous demands by creating a complete value chain in their home countries. This made the alliance capable to compete through a broad market-customer spectrum. Being *"transnational"*, on the other hand, allowed the production of different elements of the value chain in different countries, and creating a Pan-European distribution system. The alliance acquired then an ability to respond quickly to demands of global customers, and at the same time, attain economies of scale from service standardization.

A final benefit of integration was the adoption of bureaucratic decision-making structure, which created economies of joint governance. Adoption of common managerial structure facilitated the supply of services that were heavily dependent on specialized information sources, country-specific skills and location-specific production facilities, but also on uniform international standards. In sum, attainment of systemic fit endowed the alliance with a broad range of competitive weapons that allowed not only an effective defense of its own domain, but also launching of strategic assault on rivals' markets.

10 Summary of Findings

By applying five levels of analysis, this study has identified the exogenous and endogenous forces, which structured the alliance transition from a loose association to a formal network organization. Utilizing the network paradigm and a longitudinal method of analysis we unpacked the *black box* of alliance metamorphosis and arrayed its contents in several streams of evolution.

First, based on the external control hypothesis, we have shown how the liberalization of the European logistical market and the failure of international acquisitions to produce sound returns on foreign investments created a strategic rationale for international alliances. In this context, we have demonstrated how several parties who felt vulnerable due to environmental shifts and that were determined to improve their strategic standing, took the initiative to form the focal alliance.

Next, we have documented how heterogeneous demands in national markets restrained the scope of alliance's integration, although this situation may change as a consequence of European globalization. Next, we exposed the process of creating a Pan-European distribution system, which released isomorphic forces that modified the network members' positions and balanced the initial power asymmetry.

Third, following the strategic choice perspective, we have established how the cultural variability of alliance's partners and the geographical scope of their actions affected the alliance progression and the venture's organization. In addition, we have exposed how the dynamics of interpartner interaction affected the venture's organization and international advancement. By emphasizing the importance of environmental impacts and social features of alliance partners, we unraveled the change scenario showing how the interfirm diversity affected the alliance transition and integration among its partners.

While the past research on social determinants of alliance formation focused on a firm's position within a network of other firms (Gulati, 1995, 1998; Kogut, et al. 1992, Mattsson, 1999, Stuart, 1998), the contribution of this study comes from two types of outcomes. The first assessed the intervening processes that structured the alliance's functional metamorphosis. This required identifying the ingredients of partners' interaction such as collaboration, conflict, trust, consensus, and power that transformed the long-term network relations, and the network's management. The second determined the causal motors that facilitated attainment of systemic fit and pooled them together into empirically verified model of alliance's change factors. This model exposed the centrifugal and centripetal forces that structured the alliance development and produced a fragile match.

In this way this study revealed the content of process dynamics and added new insights into our knowledge of the development of interorganizational volitional alliances (Gulati, 1998). Taken together, these results affirm a view that diversity among partners has gradually abated as a consequence of two factors. The first was a stepwise building of functional consensus on the partners' strategic and operational choices, while the second was institutionalization of the alliance status (Doz & Hamel, 1998; Gomes-Casseres, 1996; Granovetter, 1992; Gulati, 1998).

We have established that the alliance's internationalization did not happen via transfer of capital and ownership among the partners. Rather, it was achieved through adoption of bureaucratic control measures for managing of the collective performance in a Pan-European market and a process of painful integration of individual business models, which took a decade to deliver the large-scale network efficiencies.

Yet, the record of functional adaptations did not capture the nature of social mechanisms that structured the alliance development because the venture's evolution was to a considerable degree shaped by social engineering that bonded the network members and increased the alliance loyalty. These linkages created conduits for friendship, power wielding, co-dependency, and trust that fostered collaborative commitment.

Furthermore, we have also shown that the large scale of alliance operations combined with operational fit among its partners generated several *network effects* and that the creation of these gains would not be possible without social consensus. In this context, it became apparent that the collaborative synergies that the alliance produced and which improved its competitive standing have been generated by both, the institutional and interpersonal integration.

That the *network effects* can not be solely attributed to formalization of alliance status becomes even more clear when we reflect on Katz's (1964, p.132) observation *"that an organization that depends solely upon its blueprints of prescribed social behavior is a very fragile social system"*.

Drawing on the loyalty, collaborative spirit and collectivistic values of its partners, the alliance persevered through a long crisis and improved its competitive standing despite multiple challenges. The gains came from individual contributions, which bore the marks of extra-role behavior and included efforts voluntarily exerted beyond the call of duty.

These empirical outcomes emphasize the roles of:

1) Environmental and social factors as two drivers of alliance transformation;

2) Collectivistic values and the professional acumen of alliance managers as important forces that re-structured the units' interactions and facilitated the establishment of new organizational system;

3) The strategic logic of threats and opportunities, which generated motives for alliance formalization and gains in efficiency. Efficiency pursuits, in turn, facilitated the achievement of systemic fit.

The results from this research relate to the current debate on *industry versus firm-level* impacts on international performance that were reviewed in this study's ontological perspective. On one side, the focal firms' actions and their outcomes have been molded by the contextual factors such as liberalization of the European logistical market and diversity of demand from international users. This view broadly characterized the system-structural vision espoused by industrial organization and organizational ecology literature.

However, this study has also established that the firm-specific strengths, the power of managerial discretion, the cultural dispositions and the interpersonal ties between the alliance managers worked as powerful determinants of interfirm match. These elements confirm the empirical validity of free will, strategic choice and voluntary network perspectives.

In summation, these outcomes corroborate the relevance of both, the firm-specific and the contextual factors as valid determinants of alliance evolution. These results imply that the debate on dichotomy between firm versus industry impacts has shifted focus from *which* of these two parameters dominates the firms' behaviors to *when* and *how* the effects of these two factors reinforce each other. Our outcomes show a binary causal link making both, the firm-specific and the environmental factors to work powerfully in concert, and shape the outcomes of alliance's entrepreneurial undertaking.

At a more fundamental level, we observed that the development of an international alliance was a complex phenomenon, which evolved as a result of two forces that both stimulated and impeded its advancement. Also, we have established that in the long run the forces of progression overpowered the structural impediments resulting in mach between the smaller and the larger parties. These results support a conclusion that firms in both, vulnerable and strong strategic positions may gain from participation in volitional alliances. This finding departs from the established conviction that weak firms should be wary of entering strategic alliances with stronger partners (Doz & Hamel, 1998).

The chapter below translates the above findings into conceptual and theoretical insights. It also offers several implications for managerial practitioners and further research work.

11 Insights and Contributions

Having outlined the various processes and forces that drove the alliance's transformation in this chapter we specify: *What insights can be learned from the foregoing findings that may enhance our understanding of the phenomenon of internationalization?*

This study has confirmed that the network perspective was pivotal for identifying the processes that structured the focal alliance's evolution. These included the explicit role of time in the reduction of structural disarray and adoption of formal managerial measures. Since this alliance became international from its inception by linking its partners' fifteen national networks into one service provision system, we encountered a severe problem accounting for the mode of foreign market entry and applying internationalization theories. Thus, this study has established that despite early international coverage, the alliance's final organizational design and the benefits of internationalization did not materialize immediately, but emerged slowly as a consequence of interpartner adjustments. It therefore took ten years to create a fully working system and large-scale network efficiency.

Furthermore, the network approach allowed us to move beyond the firm as unit of analysis; indeed, the alliance's international evolution could not have been adequately understood from a single firm's perspective. Consequently, based on the network view and a spectrum of subsidiary theories, we discovered how the permeability of interfirm boundaries contributed to group cohesion and joint decision-making. This conceptual framework facilitated exposure of temporal nature of alliance integration, formulation of findings, which provided basis for conceptual, theoretical and managerial insights and several themes for future exploration.

11.1 Conceptual Value-added

The case provides an example of a voluntary, less structured and collectively taken stance, which a group of European managers adopted in response to macro-economic threats. It departs from the notion of the single corporate actor that expands internationally through green-field investment or foreign acquisition.

The study shows that strategic decision to unite several national service provision networks was triggered by a need to acquire international scope in order to respond to market demands, and specifically, to international expansion of customers in merchandizing and manufacturing industries.

The above confirms that the European growth in demand for internationally distributed goods and liberalization of market access worked as stimulators, which released adaptation on the supply side in the logistical service provision industry, and forced the operating agents to increase the scope of their activities. The group of the focal operators analyzed here opted for an alliance solution as a strategic tool of internationalization.

By showing that both, buyers and sellers are socially and economically connected into networks of market operators who serve various industries and/or customer segments, and that changes in one sphere of a market (i.e. the demand side) affect actions, organization and geographical scope of supply operators, the above findings support the empirical validity of *"markets-as-networks"* concept (Håkanson, 1982; Girlroy, 1993; Johanson & Mattsson, 1994; Mattsson, 1995).

The interactive essence of *"market-as-networks"* concept was not only corroborated by a spillover effect between demand and supply structures within the European logistical market. It was also supported by a series of interpartner adaptations and relocations that have been driven by a need to respond to variable customer exigencies and to gain competitive advantage by creating a quality gap vis-à-vis other service suppliers. Both these interactive processes were structured by positive and adversary relationships among the focal operators, and between themselves and different elements of their environment (Mattsson, 1995).

The study focuses on a volitional network that was formed by a group of autonomous but interdependent stakeholders who joined efforts for the purpose of international expansion. This project was not explicitly designed to take over fellow operators' markets, assets or customers, but sought new business options through re-alignment of individual market domains and extension of collective market reach. These pursuits resulted in a European distribution system, which created new business solutions and a stronger collective competitive standing.

The above illustrates that the members of a network can act as a unit by making collective decisions and performing actions contributing to two apparently incongruent objectives: Attainment of collective network goals and protection of their own self-interest. By establishing a Pan-European freight supply system that connected fifteen national markets and formalizing its management, the alliance in question became capable of operating as one functional system. It could act and react to competitive pressures in a manner similar to that of multi-divisional organizations.

1. Thus, the first conclusion from this study is that networks of organizations that operate as voluntary alliances, and do not exercise proprietary control over their members' assets, can become effective vehicles of internationalization. The international business provision skills can make these voluntary networks potent competitors of traditional corporate systems.

However, there is a difference between how volitional networks and corporate systems function. The network's ability to make collective decisions does not derive from a proprietary power authority. Rather, it results from negotiations, consensus building, trust and allegiance, and the gradual convergence of cultural and goal diversities. Moreover, development of collective decision-making may occur in several lengthy stages and require establishment of an institutional format. In the case studied, the internal fit needed for the alliance members to perform in concert was achieved through a mixture of voluntary commitment and institutional arrangement. The construction of one coherent alliance system was facilitated by three seemingly incompatible social structuring measures:

(1) Strong interpartner commitment to the venture's goals, group loyalty and confidence in the sincerity of fellow partners' motives;

(2) Mobilization of power dominance to remove structural inconsistencies, accelerate market re-alignments, and harmonize individual modes of operation; and

(3) Trust in adherence to agreed-upon norms and relational obligation rooted in a deep sense of interdependence for access to the Pan-European market.

The fact that these social engineering methods were used in parallel underscores the importance of a sensitive balance between power usage and voluntary commitment for managing a network's development. Their combination was instrumental for structural transformation and preserving of partners' loyalty to the alliance.

The results of this study show that an alliance of seven logistics firms that joined their efforts to cover the Pan-European logistics market was a successful undertaking, despite the doubts rehearsed often in the literature on the effectiveness of international volitional formations. By showing that the alliance studied here contributed to low-cost domain extension for second-tier firms with limited resources, created new business options from leveraging the partners' core competencies, facilitated learning, and improved the collective competitive standing, this study has corroborated the international effectiveness of volitional networking.

On the other hand, multiple studies have demonstrated that voluntary collaborative networks fall prey to premature dissolution, leaving their goals unfulfilled. In this regard, by applying a multivariate, in-depth method of analysis, this study has established how the processes of relentless re-alignment and social networking countered the centrifugal tensions and contributed to systemic fit. Saving the venture from premature dissolution required balancing of power asymmetry, institutionalization of alliance's organization and preserving of partners' individual autonomy.

Unpacking the *black box*, which revealed the alliance transformation process, amounted to determining the duration and magnitude of two types of inputs: Human emotive and cognitive energy and material assets, both of which were used for integrating the system's units through joint governance modes.

Our results show that an important motive behind the alliance's formation and its subsequent evolution was the improvement of collective competitive standing. This need was generated by structural shifts in the European transportation market, which released consolidation forces and pressure toward international networking.

This study has demonstrated that the establishment of a discernible competitive posture was a multi-level project. At the individual firm level, the issue was assessing how collective competitive standing was improved by standardization of individual members' international operations, while at the same time retaining the context-specific skills to cope with location-specific demand peculiarities. At the network level, this exploration unraveled how the alliance's institutionalization made interunit interactions easier to coordinate and control.

2. Thus, the second conclusion from this analysis is that the alliance in question would not have been in a position to improve its competitive standing without the achievement of cognitive and interorganizational fit among its members. Thus, a stronger competitive position was gained from a combination of the partners' individual capabilities, joint governance of international operations, and preservation of individual leeway. A good dose of interpartner trust was also vital.

Voluntary alliances may survive in highly competitive environments by drawing on various partners' competencies, for example, the ability to utilize business opportunities through functional flexibility. However, in order to capitalize on swift action and reaction to environmental challenges, a high level of trust is needed among the commonly managed, but independently owned, units. This means that the network as a whole may be governed by a centrally designed set of precepts, but that the network firms' adherence to the joint rules is only weakly monitored. Because a breach of norms of conduct can easily lead to network implosion, the consequences of trust violation are highly visible and affect all partners. Therefore, network members are willing to treat trust building and maintenance as a normal and expected form of managing their collaboration.

The role of trust as a social control measure was evident from the finding that after a relatively long period of dissent, the partners became highly committed to guaranteeing the service quality of the alliance standards. Adherence to these standards was vital for retention of corporate customers who bought services from all the alliance's firms. Failure to do so would in the long run erode the network's economic and competitive foundation and threaten the European scale of service provision.

Using a power hierarchy for managing the alliance's business was justified only to the degree to which such a structure stimulated the voluntary collaboration on which the alliance idea was founded. Hence, the authority of the Board of Directors to make decisions and impose sanctions was only valid to the extent to which such actions contributed to interpartner trust and long-term commitment. In this context, procedural, distributive and relational justice functioned as managerial instruments, which not only guaranteed the implementation of the Board's decisions, but also stimulated alliance members to efforts beyond the call of duty.

3. Thus, the third insight from the case studied is that voluntary collaborative networks may be relatively inexpensive measures of internationalization as compared to other forms of foreign expansion. This is because intra-network integration, although lengthy and painful, may be less encompassing than formal mergers and relatively economical because networks seldom apply traditional control mechanisms such as multiple layers of corporate management. Networks with a goal of perpetual existence may be managed through a simple coordination body and a set of agreed-upon rules, because they rely on interpersonal trust and relational fairness for securing the desired modes of behavior. Thus, trust within the networks reduces the transaction costs and assures *"those contemplating a long-termed relationship that adaptations to future contingencies will be made in a jointly optimal manner"* (Lorentz, 1988, p.201).

4. The fourth insight deduced from this case is that an alliance may facilitate joint goal achievement, but at the same time also expand the range of individual options. Such options are not available to individual units without alliance membership. The results from this study also suggest that attainment of these goals did not require high capital spending on acquisition of equity stakes in partner firms. It did require, however, a lot of managerial effort, time and interpartner commitment to achieve the cognitive and operational synchrony that allowed the seven loosely coupled units to perform as one task force. Apart from the operational gains accrued from a larger supply network, the alliance produced several distinguishable strategic benefits. The six classes of strategic advantage, the processes through which they were created and the relevant resource inputs are summarized in the table below.

Table No.11.1.1: Strategic Benefits from Alliance Collaboration

Strategic Benefits	Intervening Processes	Resource Input
• Market coverage of 15 country territories	• Integration of individual service provision systems. Operational standardization. Creation of Trans-Continental freight-supply pipeline.	• Waiver of individual service provision standards, pricing and management autonomy. System rationalization.
• Asset co-specialization for supply of diversified service lines. Lower risk of asset utilization	• Re-alignment of European markets. Codification of proprietary service provision technology.	• Divestment, staff relocations, re-engineering, disruption of old business links, power-wielding, forbearance. Integration at international level. Preservation of heterogeneous standards for service of local customers.
• Economies of joint governance	• Institutionalization of alliance organization. Branding of "E1-Alliance" trademark. Safeguarding of alliance service provision technology through franchise contract.	• Waiver of individual autonomy. Transfer of managerial and financial aid. Balancing of power asymmetry. Conflict management.
• Economies of agglomeration	• Pan-European freight transfer through South-North pipeline. European hub-and-spoke system for movement of systemized traffic. Consolidation of nodal positions at important European hubs.	• Cessation of business links with third parties. Transfer of international business to alliance partners. Reconfiguration of proprietary distribution networks. Interlinking through IT system.
• Cross-cultural learning and cross-fertilization	• Cross-cultural tensions rooted in diverse operations and management standards. Introduction of joint task forces and procedural justice. Synergy between partners' capabilities and joint governance.	• Conflict resolution through "Problem owner" function. Leverage of core competencies across multiple market segments and countries. Codification of multiple designs and technologies for European operations.
• Enhanced collective competitive standing	• Utilization of partners' capabilities for performance of global and national distribution. Maintenance of voluntary commitment.	• Fidelity to network rules and service quality standards. Permanent cost-cutting. Customization of production facilities. Trust and mutual loyalty.

The decade-long alliance development progressed through three organizational sub-structures: *Formation, implementation and institutionalization.*

The first two established the operational basis for the venture's effectiveness, while the third formalized its organizational status. Thus, the final destination for the alliance's advancement was a formal consortium system that was managed on three levels of a power hierarchy with a franchise contract that safeguarded its service provision technology. The members of the consortium's managerial hierarchy possessed the executive power to regulate the partners' performance and strategic undertakings. Yet, the scope of this authority was relatively limited as compared to that of corporate management. Basically, it applied only to international operations and did what was required for efficient freight movement through the Pan-European distribution channel.

The functional and strategic fit within the alliance was actually quite an achievement, bearing in mind the cultural and contextual diversity among the network members' operations, organizational models, technology standards and managerial practice.

However, it must be admitted that disparity in abiding by collegially taken decisions antagonized the partners. Divergent cultural attitudes towards the network's design and management proved difficult to reconcile within the alliance's voluntary framework. Frustration caused by the lack of synchrony in implementation of vital interventions resulted in relational crisis. It also underlay the mobilization of power on the part of larger partners to force the lagging partners, at the expense of voluntary commitment, to implement certain interventions.

Fortunately for the alliance's integrity, the power hegemony lost its utility with the adoption of the EEIG blueprint, which introduced three managerial structures for securing individual adherence to alliance-mandated decisions. Moreover, the act of "*corporate welfare*" staged by the larger partners eased the transition pains for the smaller firms, and helped the recipients to re-align their market coverage and improve the quality of professional performance.

In addition, the forbearance of the leading parties from acquiring the smaller partners demonstrated a rock solid belief in the spirit of voluntary commitment. The consequence was that over time, the smaller partners elevated their power status within the Pan-European service provision system. The finding that it was the smaller firms who benefited most from the alliance also revealed that it was the larger partners whose collectivist cultural disposition made them more committed and responsible for fulfillment of the alliance mission.

The net transfer of financial assets and managerial expertise from the North to the South European partners would not have been possible had the Northern partners not assumed the responsibility for the alliance's welfare. This action was driven by the attitude of "*enlightened self-interest*" because it actually promoted the larger partner's establishment of a strong operational presence in the Pan-European market.

5. This underpins the fifth conclusion: The need for network integration may reconfigure the initial power relations. Such forces may be released by environmental pressures and/or re-definitions of actors' roles in performance of network-vital functions. The compound effect of these mechanisms balanced the initial power asymmetry and created a decision-making parity.

6. The sixth deduction from this study suggests that in order to survive, networks need to change. They may change quite often, and in so doing re-model their internal structures. As customers shift preferences, markets change boundaries, resources change status, and partners change positions, the only means of survival may lie in permanent transformation. It could be thus posited that voluntary working constellations such as networks with partly formalized governance internalize a high level of change for the sake of goal functionality. Sub-units' flexibility and ability to learn interactively may thus be two vehicles of network effectiveness. Functional survival is achieved through combination of structural resilience towards external contingencies and flexible adaptability.

In this context, a parallel reliance on social ties and a bureaucratic rules for network management was justified not only by the need for preserving alliance functionality and interpartner fit; it also served to forestall, hinder, and guard against defection. This implies that network stability cannot be achieved by increasing exit costs and/or regulating rights to withdrawal. Rather, social deterrence measures such as personal stigma, cross-cultural alignment, power balancing and loyalty-building may be more effective at forestalling opportunistic withdrawals.

7. So the seventh insight produced by this study is the conclusion that development of common strategy and modes of operations by an international network could not be achieved through an administrative fiat alone, but by a combination of horizontal and vertical coordination. Horizontal coordination can involve political co-option and voluntary commitment, but foremost it involves the maintenance of trust in the benefits of collaboration. Vertical integration can include a franchise contract to protect brand rights and guide geographical expansion, in addition to joint governance structures. We have shown that the initial power asymmetry was neutralized by the EEIG structure, but also that both social and institutional engineering was used to equalize the status among partners.

Thus, institutionalization understood as formalization of a network's power structure does not necessarily imply that network organizations must be immobilized by a managerial hierarchy. Individual partner organizations may still exercise a considerable degree of autonomy in decision-making and business operations. Indeed, the retention of operational autonomy was a source of a broad array of operational skills, which were necessary to supply customized services to national markets. We have shown that the alliance's competitive strategy involved both homogeneous and heterogeneous standards for coping with service variability demanded by global and local users.

8. So, the eighth insight emerging from this study is that semi-structured networks, such as strategic alliances seem to be able to tolerate and profit more from differentiation than formal corporate systems. The virtue of complementarity in the case studied arose from the usage of context-specific knowledge and proprietary assets for creation of alliance's value chain. When managed effectively, complementarily may foster learning and cross-fertilization of ideas, and by so doing enhance the network's competitive standing.

However, having listed the advantages of international voluntary networks, we are not saying that networks or their mutations, such as strategic alliances, are problem-free, easy-to-manage organizations. The fragility of intra-network consensus, and the limited role of formal governance, can impair their functional effectiveness. They can both obstruct and delay the reaction to environmental challenges. Besides, the assemblage of autonomous organizations partially constrained by collective interdependence can easily fall prey to forces of conflict and disruption. Therefore, the pluralistic approach to power that relies on incremental partisan adjustments may breed ineffectiveness by making the decision-making process excessively complex and lengthy. Collective decision-making adds serious problems – of power, incompatible preferences (both culturally and strategically rooted), and competing partisan interests. All these may contribute to incorrect assessments, unclear procedures or outright failures of decisions and actions. In this context, it may be surmised that a single decision-maker such as corporate leadership may be better at problem solving.

Yet, a single strategic actor seldom commands sufficient competence and capacity to overview many complex international situations. So, whatever decision it makes, it will be arbitrary. Furthermore, since very few commonly accepted preferences and standards exist with respect to complex international problems, whatever decisions are made by a single unit, they will be partisan by nature. A non-participatory style of decision-making may distance the central leadership from the network members, causing the latter to sub-optimize on collective loyalty and resource contribution. So, in the end, the decisions made by the managerial elite may appear abstract, unjust and alien to the target units, consequently scoring low on these units' acceptance for implementation.

9. Thus, the ninth insight derived from this study is that the complexity of international operations and the great potential for decision failures point to the need for democratic and incremental decision-making, relying on relational fairness and consensus-building. Multiple decision-makers bring their cognitive energy, perceptual skills and different cultural values. These ingredients are extremely relevant for appropriate definition of complex issues, development of multiple solutions and assessment of the consequences of alternative actions. This procedure may not be feasible for a single decision-making agent.

This model implies that the pursuit of self-interest within a network system occurs through collective action, but only to the extent that it is permitted by the normative order. Consensus on such a normative order is achieved by the development of working rules and procedures, and even by institutions that guard adherence to agreed-upon norms of *fair play* and regulate the partners' relations. This type of "*institutionalization*" evolves through subsequent trials and errors, and is based on a long history of social attunements. Eventually, certain beneficial patterns of collaboration are discovered, then adopted, and repeated in time and space through interaction. These patterns provide the basis for gradual standardization of behavioral and managerial modalities.

Based on this argument, we conjecture that the international network, i.e. the case analyzed here, represents a different kind of economic community. Such a community can operate as a self-managed collection of diverse units engaged in common tasks. The fundamental component of such collectivity is not a formal corporation, but all network members. The economic tasks that the network performs are not assigned and controlled externally, but coordinated among the network members by a simple managerial body. Particular tasks are performed in concert by independent contractors that follow the agreed-upon standards. This form of business organization is based on network members' voluntary acceptance of the norms and mechanisms of coordination. The work of such a system is coordinated by all component units with very little centralized management, and follows a set of voluntarily adopted standards. These *rules of the game* govern the modes of participants' behavior and their transactions. Such rules can transcend the diversity of national and managerial cultures, and create a code of conduct for all players' actions. By so doing, the network system establishes a culture of its own, which regulates its management and functions.

Such an alliance cannot be defined as a super-constellation that relies on an institutional superstructure. Rather, it operates through a set of substructures that represent a corpus of values, roles, norms and procedures that the alliance members respect. These provisions create a sort of chassis onto which all partners can bolt themselves. They do lose some freedom of movement, but they gain access to considerable new capabilities, which increase their competitive resilience.

Two top executives interviewed in this study have aptly expressed the highly complex nature of network-building and management. The first was the Director of Nedlloyd LTL Operations for Europe, and the functioning CEO of "E-1 Alliance". The second was the deputy CEO of DFDS, The Danish Steamship Lines-cum-logistics supplier, and one of the top managers in the "TEAM Alliance", a rival volitional venture to "E-1 Alliance".

The Nedlloyd executive described the process of forming and developing an alliance thus: *".... I think you have to accept the fact that once you have this idea to develop an alliance... there will be many... many elements which do not fit ...and you've got to allow yourself time to deal with these [problems]. You cannot deal with them within six months, and say that's it.... So what we are trying to do is to move step by step... by eliminating double and triple presences [in the same markets]... But this is a process that takes time. So, this development of an alliance is a very tough business. You have to develop the ability to accept certain impossible situations and just live with them. I think it's not everybody's way of doing business and living".*

The DFDS director described the working conditions within the "TEAM Alliance" as follows: *"You cannot behave as an enlightened absolute power in the alliance context. ...Actually, you cannot behave as if you commanded any sort of power at all.... What matters here is your professional expertise to recognize and work out the best possible solution in collaboration with others. Sometimes...., and actually quite often, we apply others' solutions to our own problems. Some other times, our partners borrow from us. This is a cyclical process.... It rotates over time... You should always be prepared to take, but also to give."*

These statements reveal two different approaches to cultural and operational diversity that may divide the partners of an international alliance. The first expresses the need for managing diversity in order to create a uniform system and an environment where all sub-units conform to higher-order goals. The second sees cultural differences as a source of synergy. It emphasizes the valuable aspects of different operational standards, and the opportunity for cross-fertilization that may enhance the competitive standing of all partners.

These two citations indicate that in order to foster interpartner collaboration and internal fit, the networks of organizations may use a variety of methods. Furthermore, these approaches depart from the neo-classical assumption of internationalization theories by endowing individuals with objectives other than immediate efficiencies in supply of goods and services, and by treating the immediate constraints under which they operate as being subjectively perceived. The network perspective thus linked economics to other social sciences and provided a framework for analyzing the influence of culture on human action. This corroborated the plain fact that collaboration as much as competition is required for efficiency, and showed how the former depends on trust.

11.2 Theoretical Value-added

Synthesis of the findings of this study provided a basis for assessing which theories and conceptualizations were insightful, and which did not illuminate the phenomenon studied as adequately as expected. As a result, there were several instances where the theories failed to foresee and explain the complexity of empirical developments. These are listed below.

First, the three power propositions, resource dependency ((Bacharach and Lawler, 1982; Pfeffer & Salancik, 1978; Pfeffer, 1980), bargaining asymmetry (Cook, 1964; Dwyer & Walker, 1981) and network centrality (Cook & Emerson, 1978; Tichy & Fombrun, 1979), did not envisage how the network's dynamics would release countervailing forces that would equalize its members' power positions. These findings have implications for network theory because a network's functionality may depend on its internal power balance, which again may establish the groundwork for stable and long-term interunit collaboration. Power parity may create a bonding effect, contributing thus to internal fit and network longevity.

Second, the two strategic profiling theories that divide alliance firms into those with a focus on supply efficiency (Langley & Holcomb, 1992; Morash, 1986, 1990) and those who emphasize customer demands (Morash, Dröge & Vickery, 1996) failed to foresee the complexity facing firms operating in international business settings. We have established that demand heterogeneity, in addition to the operational, managerial and cultural variability of the alliance members, created a much more complex working environment than the one we originally envisioned. This complexity rendered many integration efforts void or ineffective. In addition, the rational and proactive tenor of these theories did not take into account the real-life problems created by the facts that:

- The alliance partners did not possess a clear *a priori* vision of the venture's structural development and organizational design;
- The alliance partners were fragmented and did not function in accordance with one shared business agenda; and
- In many instances alliance partners pursued a reactively agenda in response to highly dramatic changes in environment rather than a proactive strategic stance.

Third, the theories dealing with the quality of decision-making by culturally mixed groups (Gudykunst & Nishida, 1986; Kirchmayer & Cohen, 1992; Triandis, 1988, 1991) and the efficiency of intercultural communication (Hirokava, 1985; Hofstede, 1991; Hui & Traindis, 1986; Lieberman & Gurtov, 1994; Triandis et al. 1984) failed to consider intra-cultural differences between protagonists of the same idealized standards who identify to different degrees with one set of managerial values. Nor did the intercultural decision-making theories recognize that in certain circumstances, the exercise of power might cause the members of a cross-cultural group to implement the group-mandated decisions, thus mitigating substantial and relational conflicts.

Contrary to theoretical anticipations, this study has shown that effectiveness of collaborative strategy for conflict management is low when the rules of group collaboration are not well defined, and when collaborators attach different cultural valences to international teamwork. Our results indicate that conflict between members of a culturally mixed group who collaborate and disagree simultaneously may be more effectively handled when the group collaboration is concentrated in areas with large synergy potentials. This strategy will enhance the gain potentials for all group members, easing thereby tensions caused by individual sacrifices and incongruent benefit expectations. These aspects of conflict management and group decision-making are missing from cultural diversity theories.

Still another theory, which did not foresee a broad empirical manifestation of its central concept, was the social trust theory (Casson, 1990; Gombetta, 1988; Hofstede, 1980; Lustig & Spitzberg, 1995; Tushman & Romanelli, 1985). The explicit relational aspect of trust is absent from this conceptualization. A novel aspect of trust exposed by this study was related to psychological contract. The breach of interpersonal and institutional trust after painful interventions failed to produce the expected benefits, caused the partners to sub-optimize on alliance contributions. The underlying reason was a breach of psychological contract, which partners concluded with each other, and which guided their resource contribution and benefit expectations. This *"reality shock "*undermined the partners' expectations that past sacrifices will create benefits through future collaboration. This finding brought to light still another facet of trust concept that is important for sustaining organizational allegiance. Since the volitional alliance studied here was dependent on its partners' unabated allegiance, the finding that appropriation of individual benefits was important for maintaining the members' organizational commitment and prolonging the network's existence underscores the importance of psychological contract for fulfillment of an alliance's mission. Psychological contract represented an implicit accord that sacrifices made today will produce gains in the future. Psychological contract was thus a pillar of partners' trust in benefits of collaboration, which structured their alliance fidelity and beliefs in synergies of networking.

The fifth theory, which did not adequately explain the nature of alliance's competitive synergy, was the conceptualization of tasks performed in concert (Arndt, 1984; Bowersox, 1990; Gulati, 1998; Lorange & Roos, 1992; Thorelli, 1986). This proposition predicted that a simple link-up of the partners' operating strengths would generate several competitive advantages. Thus, it failed to foresee that the core of the alliance's international competitiveness would arise from integration of several proprietary networks into one Pan-Continental freight supply system. Moreover, the fact that the alliance's competitive weapons included both *multi-domestic* and *transnational* strategies, which are seldom used in parallel by multinational corporations, broadened our empirical understanding of alliance-created competitive advantage.

Further, the conditions for making consensual decisions, as conceptualized by the group decision-making theory (Moscovici & Doise, 1994) excluded the possibility that occasional use of positional power may contribute to consensus attainment. We have shown that the sense of belonging to the alliance and loyalty to collective interests were not so much fostered by free polemics and input of proprietary resources driven by desires for social acknowledgement. Rather, by revealing that feelings of group belonging were enhanced equally by unilateral power wielding and resource contribution, whose primary goal was to increase the collective welfare at the expense of temporary individual sacrifices, we have identified the empirical limitation of this proposition.

When seen from *ex post ante*, our theoretical vision has generally underestimated the scope of problems that bedeviled the alliance's evolution. It also failed to specify *a priori how* effective the social engineering measures (e.g. power wielding, cultural adjustments and consensus building) would be for managing the venture's evolution. In this context, the fact that this alliance's management was based on the EEIG blueprint that combined bureaucratic modes of governance with relational fairness and operational autonomy (missing from the conceptual model) added to our knowledge of managerial structures. The same strategy may be applied by other voluntary alliance networks.

11.3 Managerial Value-added

There are also several things to be learned from the results of this study about international managerial practice. The present study has shown that a combination of contractual/bureaucratic and social engineering measures was useful for managing the alliance in question and that reliance on trust *alone as a social structuring instrument* was insufficient. Trust is a fragile asset. It may be broken by inconsistency between intentions and actions and between actions and their outcomes, unmet benefit expectations and cultural variability of the collaborating parties. Thus, trust *per se* is not a suitable managerial tool for securing the effectiveness and durability of multi-firm international alliances.

On the other hand, we have also shown that a formal power authority alone will not stimulate alliance members to make contributions beyond the call of duty. Formal power wielding may stratify the alliance members and lower voluntary inputs to collective welfare. Instead, a combination of formal governance and trust-enhancing measures may be more functional. It may secure functional and output predictability, while at the same time protect the individual partners' interests and foster loyalty to alliance undertakings.

The issue of power wielding is closely connected to how an intercultural group of decision-makers comes to agree unanimously on a course of action. This topic is important for international managerial practice; consensus may increase social acceptance of decisions taken by a cross-cultural group and the likelihood that such decisions will be implemented. Two arrangements may enhance the chances of consensual decision-making. The first is a formal enforcement apparatus for securing adherence to common standards and delivering the output required by international clients. The second, more demanding arrangement, is the establishment of a common value platform that motivates partners to take a long-term perspective, make necessary concessions and temporarily accept individual sacrifices. This work has established that attainment of the latter goal was facilitated by managing the alliance through procedural and relational justice.

Another insight with relevance for the practicing managers is that the degree of standardization of multi-firm performance and output should be adjusted with the demand structure in the markets served. When demand varies across countries, standardization should be applied with great caution and limited to these quality parameters which are uniformly required by all users. This conclusion must be qualified, however, by observing that when service provision to one large customer requires contributions from several partners, their operations should be harmonized across multiple aspects in order to avoid performance lags and variant output quality.

Finally, the last finding with relevance for international management is that the modes of enactment of leadership function may differ broadly not only across members with collectivist and individualist orientations, but also between proponents of the same cultural mores, such as the followers of collectivist value ideology. This study registered several intra-cultural differences among the Nordic managers who all leaned towards collectivist values, but at the same time differed considerably in terms of exercising positional power, predilection for participatory style of decision-making and willingness to subjugate leadership authority to lower-level organizational agents.

The importance of this last observation hinges on the fact that economic returns from joint international projects can be jeopardized by inter- and intra-cultural frictions that may arise from in-abilities to spot, comprehend and manage differences in workplace assumptions, social value dispositions, and cross-national variability in managerial role enactment. Hence, a final deduction afforded by this study is that when designing international collaboration, contextual differences between the team members should be taken seriously, especially in Europe where the work-related co-cultures vary considerably not only among the different countries, but also within and across the geographical regions.

11.4 Methodological Considerations

Finally, we reflect on this study's limitations. One obvious drawback that reduced the ability to generalize the results from this study stems from the fact that this investigation focused on one single alliance case only. However, when we shifted the focus from the methodological approach to the object of exploration, the epistemological value of this study depended on *"What can be learned from the case at hand?"*

The answer would hinge on how the case was chosen and what analytical purpose it served. If the case represented something defined as a *"bounded system"* and its investigation has established that certain modes of behaviors occurred within such a system while others remained absent, then the *"boundedness"* of behavioral patterns of its members may serve as a key to understanding such a system's evolution.

The case in question was chosen for three reasons. The first was *intrinsic*. This case was selected for the want of understanding this particular case. It was not undertaken because it represented other cases or because it illustrated an interesting phenomenon. Rather, and in all its particularity and ordinariness, this case itself was of interest. This intrinsic feature motivated to exploring how the environmental shifts in the European transportation market created the rationale for international strategic alliances.

The second reason that determined this inquiry was *instrumental*. This particular case was examined because it facilitated insights into a broader issue of internationalization of one branch of the European service provision industry, and exhibited outcomes relevant for network theory. The case itself was of secondary interest; it played a supportive role as a mere context that facilitated our understanding of something bigger. This case was chosen because it was expected to advance our understanding of forces that transformed a loose coalition without formal managerial apparatus into an efficient business organization with three governance structures which ultimately acquired a firm position in the Pan-European market.

Lastly, the third reason for choosing this case arose from the fact that it was representative of a more general condition, which is strongly under-represented in current studies on strategic alliances. The case represented a *collective case example* of a voluntary, international, multi-firm venture and was chosen because we believed that exploration of such a case would lead to better understanding, and perhaps better theorizing, about a large collection of similar cases. With its own unique history, the case was a complex entity operating within a number of international contexts, including physical, economic, social and cultural. The case was singular, but its subsections, which focused on various groups, organizations, individuals, situations and relationships, embodied a concatenation of domains that represented universal social phenomena and ubiquitous managerial dilemmas.

The second limitation of this study emerged from the fact that not all our conceptual expectations were confirmed by the data, and that the causal effects of several variables and/or variable categories diverged from those conceptually envisioned. Why?

One reason might be that the mechanisms that structure the evolution of multi-firm alliances with perpetual aim of existence are still inadequately understood. In these circumstances the theoretical basis for forecasting how these volitional undertakings develop, are managed, and produce outcomes desired by their founders requires much more explanatory research in order to build a firm groundwork for propositional and experiential knowledge. Arranging for what we would call a *discovery learning*, the researchers would need to collect more empirical material, and perform more direct, in-depth comparisons between multiple cases. Although such studies may generate more ambiguity and conceptual pluralism, it is important that they undertake a much broader scope of exploration. Multiple ways of conceptualizing cases would ultimately further our knowledge of the phenomenon studied.

An alternative reason that not all our conceptual expectations were corroborated by the data might be that the case examined was *"special"* and hence, did not fit well with the extant theories. This again is difficult to determine without direct comparisons with other cases. In relation thereto we have to admit that in the course of this exploration we may have raised more queries than we answered. Yet, by so doing we created a powerful opportunity to learn. And, potential for learning may be a different and sometimes superior criterion to representativeness. Often, it is easier to learn a lot from an atypical case than a little from a magnificently typical one.

11.5 Directions for Future Research

As we draw to the end of our discussion, we suggest several themes for future exploration. One possibility is to explore the effects of *intervening process-variables* in the context of other volitional networks.

Because network effectiveness may be diminished by friction between collaborators from different societal and managerial cultures, we propose that issues related to demographic and operational diversity should constitute another focus of future studies. Such work should address how the differences in styles of decision-making, attitudes towards individual freedom versus group consensus and emphases on individual benefits versus collective goals affect the quality of interaction among alliance members and outcomes of their collaboration.

Thus, research on managerial power wielding in multiple international settings, especially those that include working interactions between followers of individualist and collectivist ideologies could be particularly useful. The need for more knowledge on positional power wielding gains importance in view of the sweeping wave of business consolidation, which these days takes place at both Pan-

European and inter-continental levels. Still another sub-task for such research could be exploration of intra-cultural diversity of managerial behaviors among proponents of the same idealized standards. Such research could include intra-Nordic differences and/or English-Irish managerial differences in enacting the same cultural ideology through everyday managerial practice. The following questions highlight different aspects of these possible research themes:

- How does cultural diversity in power-wielding and conflict resolution affect the quality of collaboration in interorganizational settings?

- How does cultural diversity affect consensus building among partners in multi-firm alliances?

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- What types of institutional models work effectively for managing international multi-firm alliances?

- How do the various elements of societal and business cultures affect the scope and types of payoffs created by international multi-firm networks?

- How are environmental and industry characteristics correlated with the stability of network links and formation of distinctive multi-firm networks over time?

- How do the different features of societal cultures affect the design and operations of international networks?

We hope that studies based on ideas such as these will add to our knowledge of strategic alliances and pave the way for more sophisticated network theory, in which the impact of contextual factors and the social features of network participants can be integrated. The issue of cultural variability deserves more scholarly attention despite the fact that the cultural effects were absent from the model visualizing the empirically established determinants of intra-alliance fit. The effects of cultural diversity have been offset by several other observable impacts. However, this study has also revealed that by affecting the patterns of interpartner collaboration and duration of time needed for attainment of systemic fit, the cultural variability structured the process of alliance's development.

The longitudinal analysis of alliance evolution has shown that cultural diversity actively affected several levels of alliance integration and the nature of working links between its partners. Against this backdrop it might be interesting to compare how the variability of culturally scripted management may affect the quality of professional performance in other constellations of European business firms.

Another logical expansion of the present research agenda would be a more in-depth assessment of the behavioral chains that connect the core variables at the heart of collaboration: *forbearance, trust, loyalty and opportunism*. Buckley and Casson (1988) point out that the essence of voluntary interfirm collaboration lies in "*coordination effected through mutual forbearance*". Forbearance becomes possible only when there is reciprocal behavior and trust, which in turn come about from *enlightened self-interest* and the absence of opportunism (Casson, 1995; Gulati, 1998). Building on this discussion, two timely research questions are posed:

1) How are the critical variables of trust, forbearance and reciprocity influenced by various dimensions of inter-firm diversity?

2) In turn, how do these variables manifest themselves in alliances through different effects on systemic integration and network competitiveness?

Finally, it would be useful to assess the robustness of theories and concepts used in the current study by testing their explanatory relevance in other national and business settings. A series of such studies will be valuable in establishing the generalizability of the present findings and will generate more empirically verified knowledge on several strategic international undertakings. New case studies may be more revealing in providing insights into new context-specific developments, allowing for cross-case comparisons between the conceptual universals and their empirical manifestations.

Such research, apart from a clear conceptual value, may create a template for identifying variations in management styles, sensitize managers to human costs of different organizational models, and bring to the fore tensions caused by the needs to secure economic effectiveness and moral soundness of business undertakings. Such research may help the future multicultural volitional and formal enterprises to survive and thrive in the global market. The ultimate advantage created by these studied will be a larger inventory of empirically validated knowledge on how to structure the functional and social interactions between people with different backgrounds in order to maximize the synergies from international networking.

A broad, multidisciplinary application of the network view may thus generate new knowledge in at least two ways: Positively, by advancing understanding, and normatively, by improving the odds of prescription for the increasingly ubiquitous phenomenon of international strategic alliances.

Appendices

Appendix No. 1

Environmental Factors Behind Alliance Formation

Contents

1. Introduction

The main analytical focus of this inquiry is on the alliance's transition towards a more synchronized functional pattern and formal governance mode. These developments can be traced to two types of forces. The first are exogenous, i.e. generated by the changes in the European business context. The second are endogenous, i.e. arising from the initiatives and actions undertaken by the alliance partners proactively and reactively to contextual pressures.

Exogenous determinants created a strategic rationale for alliance formation, while endogenous forces generated the impetus for its formalization and the attainment of a stronger competitive position.

Therefore, this section takes a historical view and arrays several substantial changes that took place within the European transportation industry in the aftermath of deregulation and liberalization of the EEC market.[1] The analysis of contextual circumstances that facilitated the establishment of the focal alliance explores how this volitional constellation emerged as a strategic response to Pan-European consolidation, and how the latter was in turn triggered by the growing international significance of manufacturers and merchandisers with global distribution needs.

By seeing the supply and demand sides of a market as both, socially and economically interconnected and organizationally interdependent, the present analysis confirms the *"markets-as networks"* view of exchange relationships between the market players (Johanson & Mattsson, 1992; Mattsson, 1998).[2]

The essence of the *"markets-as networks"* concept is that both, demand and supply are heterogeneous, and hence, market operators need to adapt mutually in order not only to efficiently handle the production processes and logistical flows, but also to adjust the supply behavior to demand requirements.

Transactions in the market require thus ongoing *interactions* between the various actors, which instigate mutual adaptations and institutionalization of working relationships, be it within the demand-supply interface, or the sphere of supply organization (Håkansson, 1982).[3] Hence, markets are conceived of here as clusters of interlocking networks composed of clients, suppliers, subcontractors, competitors and regulators who collaborate and compete simultaneously, and by so doing, influence each other through multiplex, positive and adversary effects.

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[1] This policy applied in the first place to the road transport industry.

[2] Johanson, J. & Mattsson, L-G. (1992):"Network Positions and Strategic Action: An Analytical Framework". In B. Axelsson & G.Easton (Eds.):*"Industrial Networks: A New View of Reality"*, London, Routledge, pp. 203-217. Mattsson, L-G. (1995): " Firms, "Megaorganizations" and Markets: A Network View". *Journal of Institutional and Theoretical Economics*, 151,4, pp. 760-766.

[3] Håkansson, H. (Ed.) (1982): "*International Marketing & Purchasing of Industrial Goods. An Interaction Approach*". London, John Wiley & Sons.

2 The Liberalization of the European Market for Transportation and Logistics

The stepwise deregulation and liberalization of the EEC transportation market, which started in the late 1980s and continued into the early 1990s, profoundly reduced the cost of service, increased the scale of service provision, and began the drive for internationalization.

Even more importantly, new services, such as pooled distribution, emerged on an international scale and led to development of new delivery concepts and value-adding logistics. These outcomes changed inventory/transportation complementary services by making it economical for manufacturers and merchandisers to consolidate inventory storage and increase the geographical scope of their distribution centers. This logistical strategy allowed many manufacturing and merchandising companies to operate with fewer inventories and, in many cases, to reduce the overall cost of distribution. Granting of cabotage rights to foreign operators enhanced the scope of freight movement for carriers who had access to foreign goods repositories and could secure full back-hauls for rolling stock. The result was further compression of the unit cost of service.

Liberalization also created a more competitive environment, as operators in the different transport modes became engaged in international rivalry. This situation resulted in a highly differentiated price structure in various market segments, which made it possible for many European manufacturers and distributors to make their activities more cost-efficient and locate production and/or distribution facilities further away from their markets, while at the same time optimizing the inventory-carrying costs by serving the customers from fewer distribution depots.

Moreover, communications technologies such as EDI, bar-coding, and satellite-based vehicle-tracing and load-tracking systems enabled manufacturers and distributors to minimize the time necessary for market reach, while serving larger geographical markets from fewer warehouses.

These developments became even more widespread after 1993 when the European Community dismantled customs barriers for freight moved within the European Single Market and (partly) the European Economic Area. The latter development created a new business environment where merchandise could flow freely throughout the European Continent.

Further, deregulation of the European transportation market coupled with removal of institutional barriers enhanced productivity through considerable cuts in inventory, larger-scale operations, slower growth in inventory investments than in service provision facilities, and dramatic improvements in the public infrastructure. In addition, a continuously increasing application of information technology boosted distribution productivity further. The widespread use of computer- and radio-based communications significantly reduced the cycle time (the time lag between order placement and final delivery) and the costs of delivery, and improved the reliability of service. It also increased the rate of picking up and shipping of products and reduced the number of order-filling errors.

However, the reduced freight rates and new operational solutions were not the only results of European liberalization. In addition, transport operators increased their market shares by offering a broad range of value-added services. First, the distinction between small package shipments, less-than-truckload shipments (LTL), and full or truckload shipments (TL) vanished. In the past, the cost structures of different shipment sizes varied by unit of weight, with TL being the cheapest, followed by LTL, and the small parcels being the dearest.

Consolidation of large numbers of LTL shipments through extension of a market's catchment area for international operators made the small shipments less costly than traditional LTL consignments, thereby changing the costing structure for all shipments.

Shipments for several customers could now be consolidated in full loads and moved in freight-carrying devices such as semi-trailers, swap-bodies, and/or containers that were transferred unopened to distant destinations.[4] As the haulage firms, shipping lines and railways adapted their equipment and operations patterns to carry these transport units, efficiency increased further. Like a package of data, an intermodal transport unit is a box with an address. Like the World Wide Web, intermodal routes have the advantages of network and density: The more users in a network, the lower the unit marginal cost of freight movement and the greater the benefits. Intermodal load carrying devices no longer carry varied cargo, but standard boxes measured in one or two TUEs-20-foot equivalent units. Large-scale intermodal operations make the content of each box irrelevant. It is the box itself that matters to crane operators, shipping lines, railways and lorry drivers that handle them. Because the intermodal transport units are standardized, each one is simply another *load unit* to be routed through the transport network and handled at terminal facilities.

These innovations created full-capacity shipping, compressed the unit shipment costs and increased the quality of service to 98-99 percent of supply reliability. In addition, many carriers extended their operations by expanding into warehousing and inventory management on top of transport supply. They offered pooled distribution services, where full loads to distant geographical locations were delivered to working partners such as carriers and/or forwarders for bulk-breaking and local distribution.

Load pooling also became a productivity-enhancing technique for manufacturers and merchandisers. By consolidating freight shipments at fewer distribution centers and outsourcing the freight carriage and supply to logistics operators, the goods shippers and/or end-users benefited from lower shipment rates, full-capacity shipments, and quicker rates of stock replenishment.

On the other hand, changes in the opposite direction also occurred, leading to an increase in unit shipment costs. This increase was caused by new logistics strategies adopted by manufacturers and merchandisers for production and inventory control. These strategies involved continuous replenishment of stocks with small and frequent shipments that put high pressures on carriers to keep the transportation costs at competitive levels. Thus, carriers had to perform full load shipping, which resulted in the need for access to large freight repositories and further extension of spatial market coverage in order to consolidate higher freight volumes and more commodity categories for integrated transfer. Replenishment logistics were imposed by a make-to-order regime for management of production

[4] In accordance with international shipping terminology, the load-carrying units such as containers, swap-bodies and heavy goods trailer vehicles are labeled interchangeably in this report as Intermodal Transport Units (ITUs) or Unit Load Devices (ULDs).

and distribution operations, and reflected the competitive pressure for lower inventory and capital holding costs.

Frequent dispatching of small freight batches increased the flow of small shipments throughout distribution channels. Higher numbers of small shipments also increased the costs of warehousing and transportation. On the warehouse side, these changes exerted pressures for automation of storage facilities in order to process larger quantities of small shipments within compressed time windows. On the production and distribution sides, the shifts in operational models triggered outsourcing of dispatch functions to external service providers. On the transportation side, the new structure of freight flows mandated further geographical expansion in order to attain economies of scale from consolidation of higher freight volumes.

In large firms, the need for consolidation has either been managed internally or through external acquisitions. In smaller firms, consolidation has often been accomplished through strategic alliances or partnerships with collaborators operating in other geographical locations and/or segments of the logistics industry. The need for consolidation coupled with a broader scope of services offered extended the working links to parties with local service provision expertise. Such parties were needed to bridge the international supply operations through access to national or regional networks and performance of local collection and distribution. The collaborative supply networks composed of firms working on a national and/or regional scale of operations were thus formed to meet the demand for highly customized logistics services. These associations were capable of coping with market idiosyncrasies in demand for service quality and supplying the globally distributed brands according to the preferences of native customers.

The shift from storage of goods towards continuous flow of goods from producer to consumer has resulted in a fourfold increase in the quantity of goods in European distribution channels over the last decade, and the increase still continues as compared to the amount of goods stored. Needless to say, this development boosted the demand for international freight movement and logistics service provision considerably.

The figure below presents the values for registered (1993) and forecasted (2000 and 2010) growth rates in demand for terminal-processed shipments, which range from small parcels (up to 30 kg) and LTL shipments (up to 2 tons). Both categories also include value-added logistics services like product assembly, product configurations, labeling, packaging, storage, inventory management, and supply to retailer outlets.[5]

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[5] The report was prepared by the market intelligence unit of Scansped, an international arm of the former BTL of Sweden, and provided input into the company's decision regarding international expansion into markets in Central and North-eastern Europe.

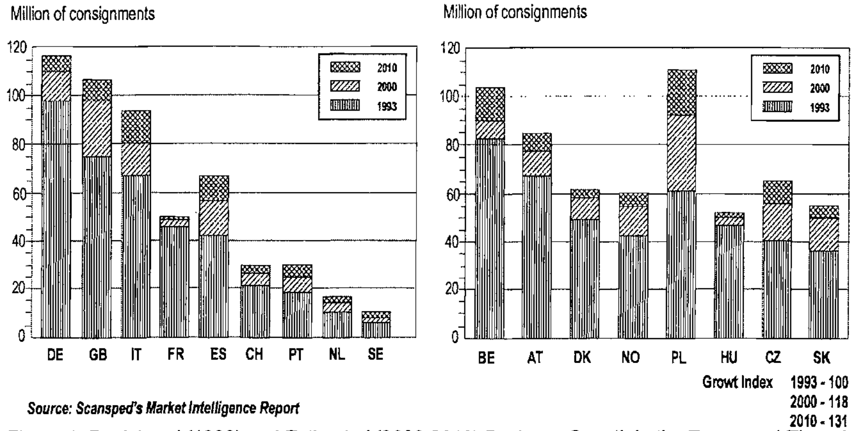
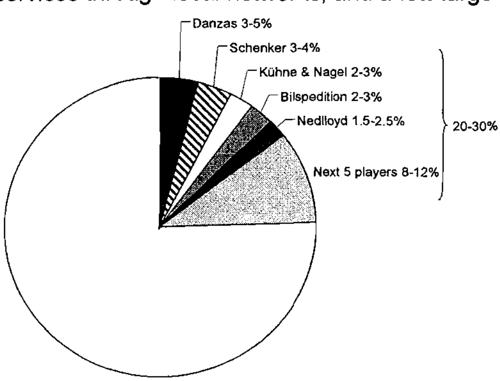


Figure 1: Registered (1993) and Estimated (2000-2010) Business Growth in the European LTL and Logistics Industry.

3.The Internalization of the European LTL and Logistics Service Provision Industry

Before liberalization, the European LTL industry was highly fragmented and financially unattractive. In terms of total output, it was fairly large, with 40 and 50 billion ECU in annual turnover during the period 1992-1993 (excluding in-house transportation); however, the industry's structure was also highly polarized. It consisted of thousands of forwarders-cum-hauliers who supplied a narrow range of services through local networks, and a few large European operators.



*Estimated total market size (1990)
Source: Interviews & Companies' Statistics

*Figure 2: Market Shares of Major Players, 1990. 100% = 30-40 Billion ECU**

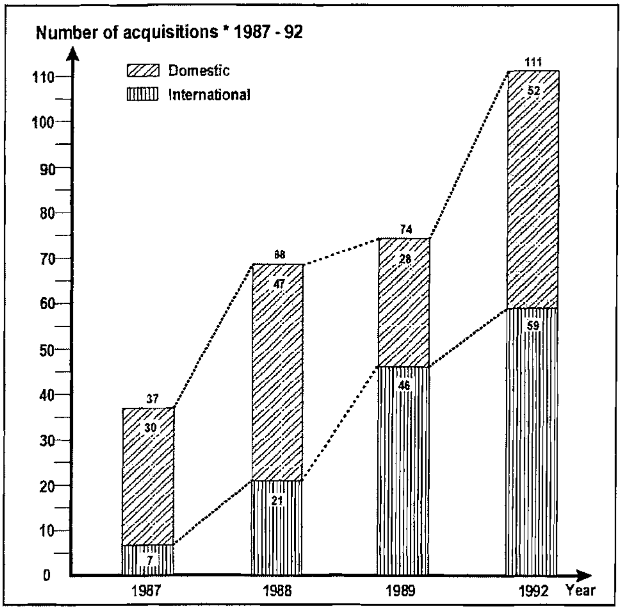
Free access to international markets and removal of customs barriers prompted consolidation of the transportation and forwarding industries, and reduced the number of market operators from approximately 3,200 in 1992 to 1,200 in 1996.[6]

[6] Eurostat, 1997.

Pan-European consolidation began in the late 1980s and continued into the 1990s. It was driven by two types of motives. The first was operational and involved the pursuit of scale, scope and density economies.[7] Desire to create large service provision systems within international and/or regional territories unleashed the quest for acquisitions of foreign operators and integration of their service provision networks with those of the acquiring companies. The second type of motive was strategic and involved the desire to attain more competitively beneficial positions, and/or to pre-empt the competitors' moves.

Consolidation led to the pooling of multiple servers' operations on the assumption that such collaboration would increase the volume of freight, the average number of customers in line, and decrease the operation time devoted to service provision. In sum, the larger scale of service was intended to create productivity gains, reduce the overall cost of operations, and improve service quality. The chart below provides an overview of the approximate number of acquisitions in the European LTL and logistics industries during the period 1987-1992.

[7] In the provision of LTL and logistics services, local distribution is a major source of scale, scope and density economies. Sound management of pick-up, consolidation, freight handling, break bulk, drayage, postponed product configuration, and delivery to end-users can generate considerable productivity gains. These benefits come from high customer density and consolidation of shipments per customer visit. Hence, wiring of several medium-sized distribution networks through an electronic data interchange (EDI) can reduce the document processing costs, the number of shipment failures, and the real time of consignment effectuation. These productivity gains can lower distribution costs for a domestic logistics operator by 20 to 25 percent. Significant economies of scale can also be attained in line-haul provided that a high load factor is achieved via consolidation of large freight volumes and high utilization of unit load devices (ULDs), and that the volumes shipped vary only marginally. Optimization of these operational parameters can take another 20 to 25 percent off the overall outlays related to freight journey. Achievement of these benefits is, however, further contingent on freight movement distances and the modes and combinations of modes used. Broadly speaking, rail is much more cost-efficient than trucking for distances exceeding 1,000 km. But, rail has considerable transit time disadvantages and requires highly aggregated traffic volumes with high frequency of full-load shipments to achieve economies of scale and density. Trucking, although much more costly for short-distance shipments, can combine flexibility and frequency of service with smaller consignment sizes. These qualities are highly appreciated by shippers in manufacturing industries due to high inventory and capital costs. In addition, application of bar coding and use of a satellite navigation system can knock an additional 15 to 20 percent off sales and administrative costs (S & AD), also cutting down the time of delivery. Vehicle routing and fleet management through a Mobile Data Communication (MDC) system improves matching of freight-carrying capacity with freight available for collection and distribution. Digital maps of distribution networks pre-program the vehicle movements according to the layout of pick-up and consolidation sites in an optimal sequence. Bar coding eliminates manual routines for notification of shipment arrivals and advises the consignors and shippers of real time for cargo delivery. Depending on the scope of use, these two electronic information measures can yield additional benefits when the size of the network is large, operations are consolidated at fewer terminals, and customers are spread over a large geographical territory. For international players, however, the scale benefits are not always visible, because the volume density on international routes is typically only one-fifth of volumes on domestic lanes, and seldom renders profitable the service of international routes. Scale economies may, however, be achieved by linking up international and domestic webs, or connecting several domestic and/or regional networks together into one larger international system. This presupposes, however, that domestic and international trade flows are integrated at fewer hubs or gateways that can support haulage of full loads over long distances. Moreover, international consolidation many generate scope benefits by broadening the range of service supplied to multiple customer segments.



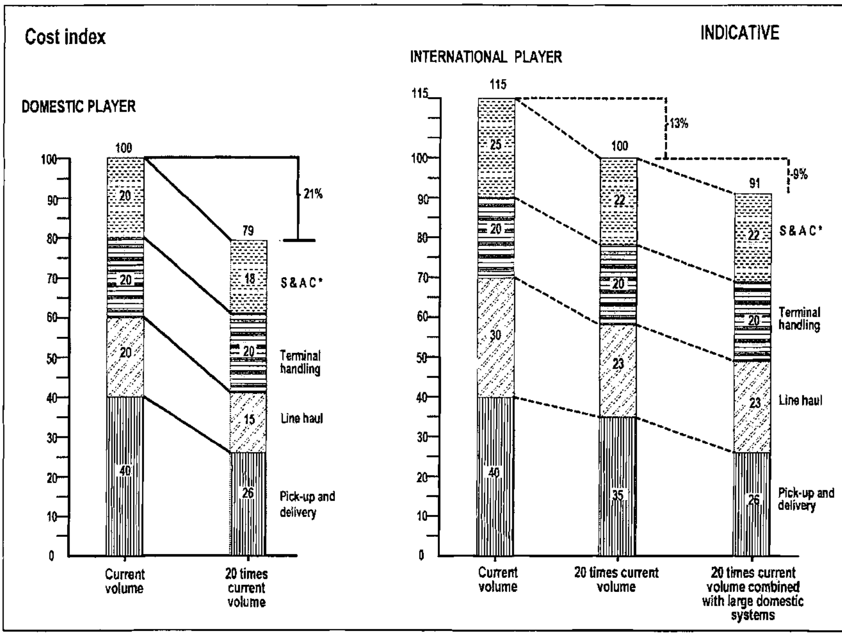
*Includes only acquisitions LTL industry by players already active in this industry

Source: Annual reports, Trade press, McKinsey analyses

Figure 3: Number of Acquisitions in the European LTL and Logistics Industries. 1987-1992.

The Royal Nedlloyd N.V. of Holland, a large maritime player, started expanding into land transportation with one eye on its *"home"* Benelux market and another on the strategically important German territory. Schenker-Rhenius of Germany expanded its domestic base in Germany by establishing a series of subsidiaries for managing overland freight transfer operations in France, Benelux, Spain, Italy, and Portugal. Bilspedition A/B of Sweden consolidated its market dominance in the Nordic region, and started investigating strategic access to several specialty networks on the European Continent by striking collaborative deals with operators in the sectors for temperature-sensitive goods and small parcels.

The reaping of post-acquisition gains presupposes rationalization of a terminal web, consolidation of volumes hauled, and shortening of the delivery cycle. Concentration of traffic at fewer service points usually improves the degree of equipment utilization and reduces uncertainty associated with the number of units arriving, and the time required to process these units. Network re-configuration may thus reduce the fluctuations in the amount of freight served, creating higher revenue levels and more stable cash flows. With time, additional productivity gains may be expected from higher-level automation of service provision, streamlining of drayage and consolidation operations, and workforce reduction. An estimated example of rewards befalling domestic and international operators from expanded market coverage, higher-level scale benefits and larger volumes of freight is displayed in Figure 4.



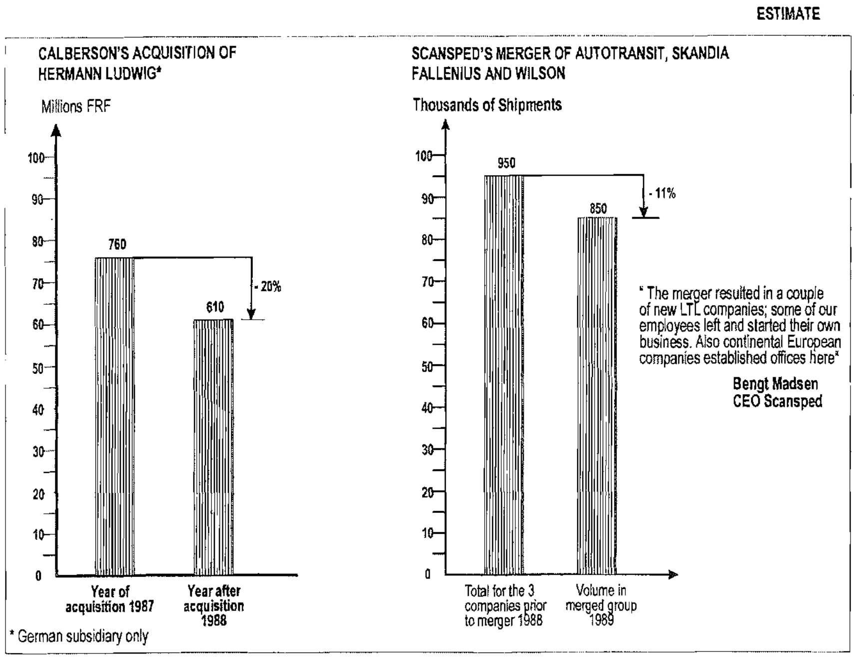
Source: Interviews; McKisey Analysis

* Sales and Administration Costs

Figure 4: Economies of Scale in LTL Industry. Cost Index.

The larger networks and higher freight volumes were required to offset the anticipated downside of acquisitions. Disadvantages of acquisitions include lost volume caused by the loss of important customers, business partners, and some key employees due to rationalization of functions and facilities, and introduction of new business strategies. Indeed, the expectation that 10-20 percent of volume would be lost compared to the pre-acquisition level was quite commonplace. And, as the volumes of freight shipped declined, so did the profit margins.

The disadvantages of acquisitions are illustrated by two cases presented in the figure below. The first case pertains to Calberson's acquisition of Herman Ludvig GmBH, and the second to Scansped's merger with Autotransit, Falenius, and Wilson.



Source: Annual Reports, Trade Press

Figure.5: Volume Loss in LTL Mergers.

The plunge in profitability could be hypothetically offset by access to new managerial skills, freight volumes handled by the parent company, and synergies arising from higher service quality, extended information systems and the new design of service provision. How this reasoning was expected to work in practice is illustrated in the chart below.

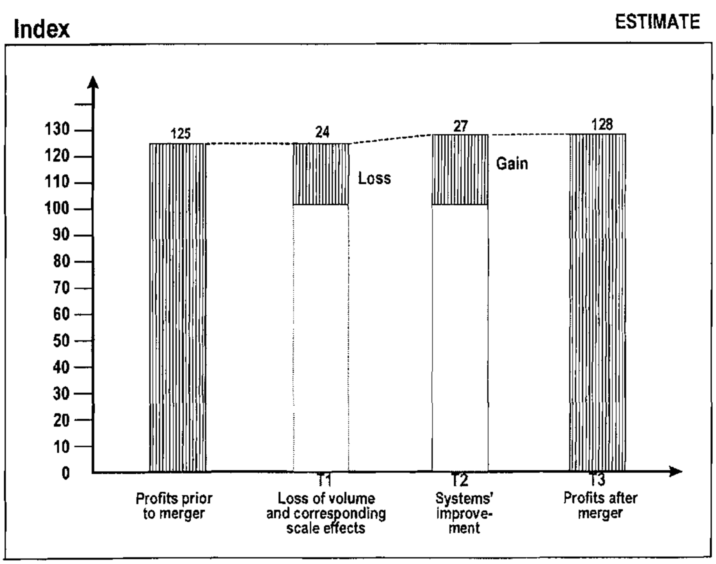


Figure.6: The Assumed Profit Loss and Profit Improvement after a Merger.

However, the problems arising from post-acquisition re-structuring and integration proved hard to solve. In many cases the assumed synergies did not materialize, at least not as quickly as expected. For example, Nedlloyd's accumulated losses over the period 1988-1992 exceeded one billion DM after the company expanded aggressively by taking over several German land transportation firms. High financial losses and an inability to realize the scale economies from a larger geographical network were the most important reasons behind the lay-offs of Nedlloyd's personnel, and precipitated in 1996 a merger of Nedlloyd's ocean shipping division with P&O. As a result, Nedlloyd lost control over its shipping business, which the company had possessed for over 200 years. Small wonder, therefore, that immense difficulty arising from successful management of foreign acquisitions prodded Nedlloyd's executives to negotiate with a group of Nordic firms, under the leadership of DanTransport of Denmark, the establishment of a strategic alliance for access to the northernmost European market.

Similarly, in 1992, DFDS, a medium-sized Danish shipping line-cum-logistics supplier, had to discontinue its green-field expansion on the European mainland when it over-stretched the company's financial and managerial resources. Instead, DFDS joined the *"TEAM Alliance"*, a voluntary collaborative venture of several continental land transport operators, in order to integrate its shipping activities with overland transit, and acquire access to the German freight market.

4 Two Paths of International Expansion

Different starting positions of the incumbent operators led to different paths of geographical expansion for internationally and domestically oriented players. The course of its strategic expansion depended on whether a given party had a strong domestic or international foothold. Domestically strong operators set off to expand their domestic and/or regional reach. Given the professional skills and functional profiles of these parties, the expansion of national and/or regional reach was less risky than crossing the national borders.

Such was the case with Schenker-Rhenius, Nedlloyd, (partly) Bilspedition, ASG, and DFDS. Managing an extended web of companies gave these operators time to hone their skills before going for wide-scale international diversification. Management of larger operations was often based on electronic information systems, which linked more functional units in a larger geographical territory. In technical terms, acquisitions were first directed at agents and/or small/medium-sized domestic LTL and logistics operators in the adjacent regions, and/or countries with whom the acquiring parties had long-standing business relations. Only seldom was expansion effectuated by establishment of wholly-owned subsidiaries in foreign markets and/or joint-stock companies with foreign investors, although such cases occurred as well.

The latter scenario was exemplified by a jointly owned subsidiary, which Nedlloyd and DanTransport established in Finland after Scansped took over Huolitakeskus, an important ally in a voluntary venture.[8]

[8] In some cases the initially domestic consolidation spilled over to foreign acquisitions and establishment of a foreign subsidiary. This occurred in Finland, where in the early 1900s one domestic company, Speditor, acquired several smaller Finnish forwarders, truckers, and warehousing companies. Subsequently, Speditor was acquired in 1993 by Scansped - an international division of Bilspedition. Shorty after that, ASG, a Swedish competitor of Scansped, opened its own office in Finland. In 1994, ASG bought 50 percent of the second-largest Finnish forwarder company, John Nurminen OY, and in 1995 acquired the rest of Nurminen's interests.

Starting with regional acquisitions rather than with green-field foreign investments was justified by the need for good knowledge of local markets and for immediate access to existing service provision facilities and new customers and their freight repositories. Table 1 illustrates the sequence of the internationalization process, which was initiated and driven by the domestic players.

Scansped responded in 1996 by purchasing Huolintakeskus, the largest Finnish forwarding, trucking, and logistics operator. In response to this move, the partners to Huolintakeskus' two alliances in Europe reacted quickly. Schenker-Rhenius of Germany merged with Huolintakeskus' domestic distributor, Kautokiito, while Nedlloyd of Holland and DanTransport of Denmark opened their own joint venture that was staffed by Huolintakeskus' former employees.

Table 1: Stages in Consolidation of the European LTL and Logistics Industries (1987 –1997) Carried out by Players with National and Domestic Market Bases

	National Consolidation		International Consolidation		Mega-Mergers	International Alliances
	Regional Networks	**National Networks**	**National with International Agents**	**National with pan-European Networks**	**Tightly Coupled National Networks**	**Loosely Coupled National Networks**
Initial Operational Conditions	Own operations in one or two cities and/or locations Rest of the country covered through co-operative agreements with agents and/or other operators	National network of own terminals Limited number of international shipments Desire to access international freight flows	Growth of international shipments thanks to cooperation with agents abroad Needs for internal skills and production apparatus to service international freight flows	Emergence of domestically strong players with international and/or Pan-European subsidiary networks	Emergence of strong international subsidiary networks controlled by parent companies of national operators	Emergence of voluntary working associations of several national operators for join service provision at international scale
Key Strategies of Change	Service of local customers through general service provision and/or some specialty services	Acquisition of smaller operators to complete national network, and/or expand into new service lines	Integration of international and domestic traffic flows in hubs and gateways with regional service coverage	Acquisitions of small and mid-sized operators to expand operational base and access international freight flows on European Continent	Mergers and acquisitions of major European competitors	Establishment of formal and informal working coalitions for joint service provision through service of domestic and international traffic
Key Outcomes	Lack of explicit competitive profile, low level of service differentiation, low profitability	Emergence of large national operators	Establishment of international business system with dedicated: - Terminals - Sales force - Operations staff	New pattern of competition within the European LTL and logistics industries. Large-scale operators acquire strong power positions	Establishment of large European logistics suppliers with Pan-Continental scale of operations intensifies the asymmetry of power positions	Emergence of network structures within the European logistics industry threatens the power of European multi-divisional internationals

In contrast, the companies with initially strong international footholds set off to build a Pan-European system of international subsidiaries and service provision points before descending to the domestic level. This strategic approach involved first increasing the number of international customers in several countries and integrating their traffic volumes. Such was the case with Kühne-Nagel, whose original service base in international shipping and airfreight operations served as baseline for diversification into overland conveyance and logistics. Given the functional skills of managing the worldwide land-sea-air bridging operations and the abundance of financial resources, this strategic expansion took place through proprietary investments in wholly owned subsidiaries.

Secondly, the international operators began to penetrate and integrate various domestic networks in order to create a vast geographical system of service provision that would feed the intercontinental ports, arrival docks, and shipping terminals. Linking of large-scale domestic networks with high-density international service provision points was necessary for consolidating the outbound and inbound freight flows shipped from/to the numerous European destinations and for achieving productivity gains in intercontinental drayage and overseas transit. The major practitioners of this strategy, apart from Kühne-Nagel, were Panalpina, Danzas, TNT, UPS, Yellow Freight, FedEx, and Maersk.

Table 2 reviews the stages in the alternative stream of internationalization, which started on the international level and sought to increase access to high-volume local and regional freight repositories.

However, these two strategies produced only moderate gains as compared to the scope of financial inputs and managerial efforts. Danzas suffered considerable financial losses over the period 1987-1991, which stopped the company's further international expansion. Despite Danzas' strong international position in such important markets as France and Benelux, Danzas encountered immense difficulties managing its wide web of wholly owned subsidiaries in countries with different societal and business cultures, and a great variety of customers. Australian TNT and American UPS lost about half a billion US Dollars each over the period 1990-1992 without acquiring access to large Pan-European freight repositories that could support the intercontinental scale of courier services. Yellow Freight and FedEx abandoned the European market after having suffering considerable financial setbacks. Maersk scaled back its land transport operations as a consequence of repeated failures to extract synergies from establishment of a global multi-modal logistics chain by linking its world wide ocean shipping with Trans-European overland container traffic.

These chilling events support the conclusion that internationalization of the European LTL and logistics service provision industries turned out to be very difficult for many companies with past records of successful operations in other business environments. An apparent reason for these difficulties lay in excessively high diversification of service provision and geographical over-stretching of operations. Excessive diversification can lead to over-expansion when the costs of governance outstrip the scope of managerial experience and skills available to the acquiring firm, thus depressing the company's performance.

Table 2: Stages in Consolidation of the European LTL and Logistics Industries (1987-1997) Carried out by Players with International Market Bases

	International Consolidation		National Consolidation		Mega-Mergers
	International with National Networks	Own pan-European Network	Pan-European Network with Domestic & Regional Coverage	Pan-European Networks with Vast National Coverage	Coupling of International and National Networks
Initial Operational Conditions	Own operations in one or two countries, regions or overseas Other countries covered through cooperative agreements with agents and/or sub-contractors	Pan-European coverage with own subsidiaries Service of limited domestic flows Need to access large domestic and national flows	Growth of international shipments thanks to cooperation with larger amount of agents abroad Need for skills related to linking international and domestic networks	International players with international and/or Pan-European subsidiary networks Need for bridging European and overseas destinations	Strong international networks integrated through strong domestic positions in most countries
Key Strategies of Change	Service of international customers through provisions of specialty service and/or multi-modal solutions	Acquisition of smaller operators to extend European network and access national and regional flows	Integration of international and domestic traffic flows in hubs and gateways. Application of systemized traffic technology for managing international freight movements	Acquisitions of small and medium-sized operators to expand national base and access national freight flows destined to international and/or overseas locations	Mergers and acquisitions of major European competitors. Creation of Pan-European networks of systemized traffic
Key Outcomes	Explicit competitive profile with high specialization level, high operational efficiency, high profitability	Emergence of large international operators with several regional networks	Establishment of domestic and/or regional business units with dedicated: - Terminals - Sales forces - Operations staff	New pattern of competition within the European LTL and logistics industries. Large-scale operators acquire strong market positions	Consolidation of several European LTL and logistics suppliers on a continental scale. Strong international presence reinforced by domestic positions in many countries. Intensification of Pan-European competition among powerful players

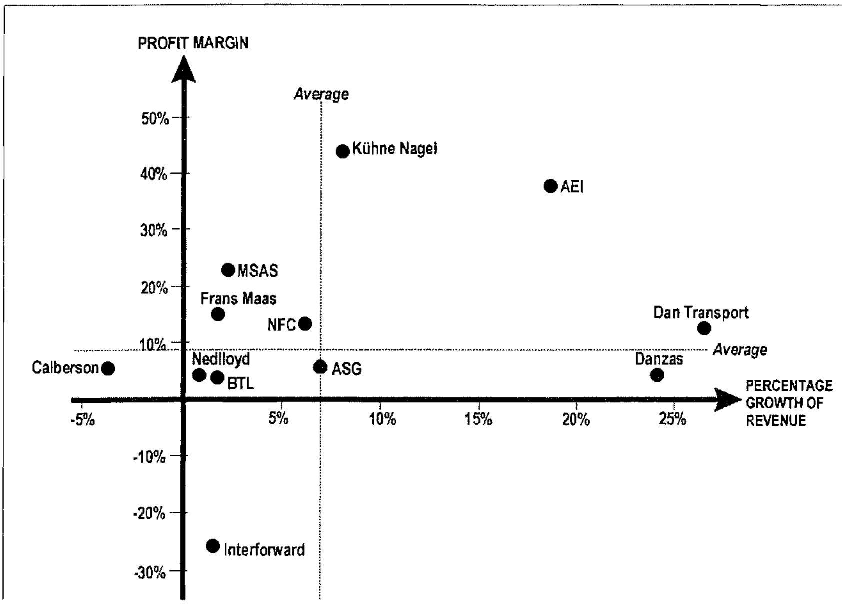
As firms had to manage broader portfolios of highly diversified services in several geographical markets, they became unable to realize scope and scale economies because performance varies with product diversity in a non-linear relation.

Performance may increase initially as in-house strategic resources become better utilized in the management of a larger market. It will, however, fall off as the range of services and the number of markets exceeds the capacity of proprietary assets, and when the need for governance of a large-scale system surpasses the available managerial skills and capabilities.

Thus, neither of these two streams of internationalization proved successful when judged in terms of the ratio of operational and financial benefits to the scope of tangible and intangible resources invested. The first strategy, the domestically initiated, but internationally oriented horizontal wave of internationalization did not create large enough scale benefits. Neither did the second wave of internationalization driven by the downward vertical consolidation of domestic networks from a Pan-European level produce large enough scale and scope gains to support high-density, intermodal and intercontinental business.

The figure below provides an overview of the financial performance of several large players in the European LTL and logistical industries. The quality of performance was measured by the profit margin and the number of percentage points in revenue growth from 1990 to 1995.

The figure shows that Kühne-Nagel was an uncontested positive outlayer, who championed on average a 45 percent profit margin during the period analyzed. On the other hand, the most conspicuous negative outlayer was Interforward, who, on average, posted 25 percent losses during the same period. The rest of the sample can be divided into three categories. The first comprises the companies who engineered growth through high profit margins. These included AEI, MSAS, Frans Maas and NFC. The second was composed of companies who grew through a combination of high increase in revenues and respectable profit margins. These were Danzas and DanTransport. Finally, the third group included firms whose growth was quite limited. These companies did not manage to grow by increasing their sales, nor by mastering a high level of operations profitability. This last category included Nedlloyd, Bilspedition, and ASG.



Source: Enskilda Securities, Internal Market Inteligence Unit, 1997

Figure 7: Financial Performance of Major Players within the European LTL and Logistics Industries. 1990-1995.

Small wonder, then, that several LTL and logistics service providers who expanded to the Pan-European level by means of FDI changed strategic orientation by forming voluntary collaborative associations, which provided the scale advantage, but did not require large financial outlays. Two working constellations, the *"E-1 Alliance"* and the *"Team Alliance"*, emerged as large-scale international ventures in the European transportation market. The first was founded by a group of Scandinavian players who first formed a regional block called the *"Inter-Nordic Alliance"*. This block has subsequently expanded into the European Continent by adding three mainland operators.

The second was founded by a group of middle-sized continental logistics service suppliers, and subsequently expanded into Scandinavian territory by inclusion of the Danish shipping line DFDS. The emergence of these two non-equity alliances modified the competitive landscape of the European market by making the traditional multinational players face a new form of rivalry from these two volitional constellations.[9]

[9] The first evolved from *"Inter-Nordic Alliance"* formed by Dan-Transport of Denmark, Fraktarna of Sweden, Toll Post Globe of Norway, and Huolintakeskus of Finland by accessing during 1992-1993 Nedlloyd's European Road Cargo Division of the Netherlands, Saima-Avandero of Italy and Eduar Dubois et Fils of France. The second, the *"TEAM Alliance"* was established in 1992 by Thyssen Haniel of Germany, Mory of France, Sifte Berti of Italy, Schier Otten of Austria, and Transnautica of Portugal and accessed in 1993 by DFDS, a Danish shipping line-cum-logistics supplier, which brought in its Scandinavian network of subsidiaries. The reason why the first network attracted our attention and became a focus for the forthcoming analysis is that over time it evolved to more advanced organizational format with higher level of internal coordination. That was not the case with the *"Team Alliance"* whose management informed that after several marginal adjustments in the core market areas, the group *"did not harbor any far-reaching intentions for deeper integration, nor has developed any common vision for systematic coordination of partners' strategic*

This change in the structure of the European logistics industry is illustrated in two diagrams of the shift in the relative strategic positions of some European competitors represented by traditional multi-divisional corporations and multi-firm alliances. The degree of strategic change is measured at two points in time, 1993 and 1997, with a benchmark in 1993. The diagrams illustrate how the relative strategic positions of these European players that started with a domestic orientation and gradually expanded their operations abroad became re-located in terms of direction and depth of international entrenchment.

The managerial skills that these players used to integrate the multiple units into large-scale service provision systems and to move westward within the *"internationalization triangle"* are specified on the left-hand side of the figures. The change occurred through expansion from predominantly domestic positions and contractual relations with agents in foreign countries, towards establishment of centrally-governed international networks for large-scale service provision.

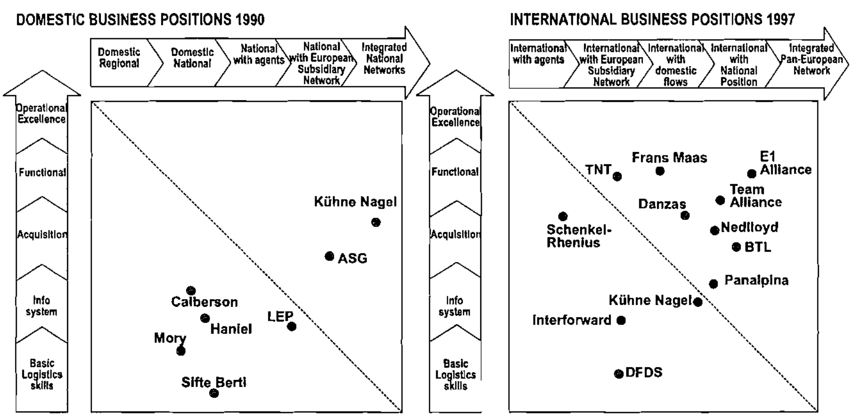


Figure 8: Changes in Mutual Positions of Some Major Players within the European LTL and Logistics Supply Industries at Two Points in Time.

endeavors". Both alliances incorporated large and mid-sized operators who covered the entire European Continent with proprietary logistical networks and performed long-distance bridging of European regional markets by combining intermodal transportation with logistics. As such, these alliances represented an advanced form of voluntary venturing whose competitive strength arose from linking of several regional networks into international systems. The scale of Pan-European service provision that these constellations attained could be compared to large European firms and thus represented an effective competitive threat to market hegemony of Schenker-Rhenius, BTL, Danzas, Kühne-Nagel and Calberson. Emergence of these volitional networks complements the picture of major strategic changes that ensued after liberalization of the European transportation market.

Appendix No. 2

High-impact Events Structuring the Life Course of the Alliance

Table.1: Time/Event Matrix of Organizational Development of "E-1Alliance". Events Map Progress in Creation of a Pan-European Distribution System. Time Period 1988-1993

Timing / Participants/ Event	1980-1987	1988-1989			1990		1991	1992-1993	
DanTransport (Denmark),Toll Post Globe (Norway).	DanTransport & Toll Post Globe develop long-lasting business relationships based on stable transactions and inter-managerial links.	Toll Post Globe & DanTransport develop common strategic vision of multi-operator, Pan-European network for supply of LTL and logistical services*).	**DanTransport & Toll Post Globe devise joint strategy for European expansion and redesigning of network for international flows.**						**Toll Post Globe incurs high operational losses. Toll Post Globe offers Dan Transport a 30 percent stake in company's equity.**
Toll Post Globe, Transportkonsulten International (TKI) (Sweden), and DanTransport, Toll Post Globe, Fraktarna AB, Polar Express AB (Sweden), and Bilspedition (Sweden).				Toll Post Globe acquires Transportkonsult International (TKI), a small Swedish transport establishment.		Negotiations between Fraktarna AB, Polar Express AB and Toll Post Globe on forming a Danish-Swedish – Norwegian network	Negotiations between PRIAP, DanTransport and Toll Post Globe on take-over of Fraktarna. Bilspedition acquires Polar Express AB	**Toll Post Globe and DanTransport acquire 85 percent of Fraktarna AB. Toll Post Globe sells TKI to Fraktarna AB.**	**Toll Post Globe and DanTransport restructure Fraktrana from full-load operator to international LTL and logistical service provider.**
Royal Nedlloyd NV (Holland) with subsidiaries: VGL-Holland, Belgium Luxemburg, Nedlloyd Unitrans – Germany, Nedlloyd Road Cargo-Switzerland, Austria, DanTransport and TollPost Globe.					**Negotiations between Nedlloyd, DanTransport and Toll Post Globe on establishment of Pan-European transportation network.**				
European Community	Development of political rationale and economic policy for free movement of people, products, and capital within the EEC area. Announcement of political and administrative measures for deregulation of the European transportation market and creation of The Common European Market for products and services.								

*) LTL transportation involves less-than-truckload door-to-door freight delivery services including freight consolidation at origin and freight distribution at destination.

Table.1 continues: Time/Event Matrix of Organizational Development of "E-1 Alliance". Events Map Progress in Creation of a Pan-European Distribution System. Time Period 1988-1993.

Timing / Participants/ Event	1980-1987	1988-1989	1990		1991	1992-1993	
DanTransport, Toll Post Globe, Transportkonsulten International (TKI), Huolintakeskus, Nedlloyd		TKI's opens access to Swedish market with larger freight volumes and more sophisticated customers for Toll Post Globe.		Toll Post Globe and DanTransport enhance their strategic position vis-a-vis Nedlloyd through channeling all south-and-northbound traffic to/from the Nordic region via DanTransport's hub at Taulov.	**DanTransport, Toll Post Globe and Hualintakeskus (Finland) negotiate formation of one Nordic-wide network (Inter-Nordic Alliance).**		**DanTransport acquires 53 percent of Toll Post Globe's shares. DanTransport buys out Toll Post Globe's holding of Fraktarna. DanTransport provides Toll Post Globe with dedicated loan that improves Toll Post Globe's solidity eroded by high costs of investments and operational losses. Toll Post Globe and Fraktarna enter into DanTransport Holding as partly-owned subsidiaries and gain status of associated alliance partners.**
DanTransport, Toll Post Globe, Fraktarna AB, Hualintakeskus, and Nedlloyd.	Nedlloyd and DanTransport develop stable business linkages and social relationships between firms' managers.		DanTransport and Toll Post Globe devise a strategy for establishment of a Nordic regional network.		**DanTransport and Nedlloyd negotiate creation of network with Pan-European market coverage.**	**DanTransport, Toll Post Globe, Fraktarna, and Huolintakeskus create a regional service provision network covering Denmark, Norway, Sweden and Finland.**	
DanTransport, Toll Post Globe, Nedlloyd, Saima SpA, Dubois et Fils.	Saima SpA and DanTransport develop stable business linkages and social relationships between their managers. Saima SpA and Dubois et Fils develop a stable principal–agent relationship for business transacted in France.				**Nedlloyd, DanTransport and Saima negotiate conditions for Saima's alliance accession.** **Saima merges with Avandero and creates the second largest LTL & logistics company in Italy.**		**DanTransport, Nedlloyd, Saima, and Dubois negotiate conditions for Dubois' alliance accession. DanTransport, Nedlloyd, Saima and Dubois agree on Alliance Accord.**

Table 1 continues: Time/Event Matrix of Organizational Development of "E-1 Alliance". Events Map Progress in Creation of a Pan-European Distribution System. Time Period 1994-1997

Timing / Participants/Event	1994	1995	1996	1997
DanTransport, Nedlloyd, Saima, and Dubois.	Bilateral collaborative agreements between partners. Consensus on core market coverage by partners operating in multiple national markets. Adoption of one partner – one market policy. Decision to gradually channel all international traffic to alliance partners.	**DanTransport, Nedlloyd, Saima and Dubois sign a Letter of Intent on May 9^{th}, 1995.** **Standardization of interpartner operations. Design of competitive strategy based on joint standards for IT, service quality, transfer pricing, customer relationships and service design.**	**Founder Meeting staged by senior management of DanTransport, Nedlloyd, Saima and Dubois results in signing of Founders' Contract and establishment of "E-1 Alliance".** **Contractual commitment to channel all Pan-European traffic to partners' networks. International market coverage based on integration of individual service supply networks in 15 countries. Development of joint service provision standards for 15 national markets.**	**Alliance's founders sign Articles of Association, which define conditions for long-term collaboration and alliance exit.** **Official launching of "E-1 Alliance" as an international consortium offering Pan-European distribution services.** **Establishment of European Economic Interest Grouping for managing "E-1 Alliance". EEIG is managed by formal administrative hierarchy including: The General Assembly, the Board of Directors and the CEO chosen from among the founder firms' senior managers. The board appoints the Nedlloyd executive to CEO position. EEIG and "E- 1 Alliance" brand name are registered in Rotterdam.**
DanTransport, Fraktarna, Toll Post Globe, Huolintakeskus, Saima, Dubois, Nedlloyd.	**Re-structuring and re-alignment of service provision among alliance partners. Partners shut down individual subsidiaries in other partners' core markets. Transfer of personnel among partners. Interpartner buy-outs of service provision facilities.**	Formation of task forces and expert committees for development of joint standards for IT, marketing, product definition, service quality and transfer pricing.	**Establishment of standing committees and working groups with experts from partners' firms for resolving issues related to:** **Business Plans & Budgets** **Corporate Sales, EDI, Systemized Traffic** **Sales & Marketing, Quality &Cost Control**	Standardization of services supplied under "E-1 Alliance's" trademark. Formulation of brand characteristics for franchise agreement and contractual conditions for transfer of franchise rights from "E-1 Alliance" to external parties.
DanTransport, Nedlloyd, Saima-Avandero, and Dubois.			**Dubois incurs large operational losses. French banks reject to float the company. Dubois faces technical bankruptcy.**	**DanTransport and Nedlloyd provide dedicated loan to Dubois and supervise restructuring of the company's domestic and international operations.**
Bilspedition, Huolintakeskus, DanTransport, Nedlloyd, Dubois, and DBN.			**Bilspedition acquires Huolintakeskus. DanTransport and Nedlloyd establish DBN, a jointly owned subsidiary for servicing the Finnish market.**	DanTransport and Nedlloyd establish joint-venture in England, which replaces their three individual subsidiaries.
DanTransport, Neddloyd, BDN, Fraktarna, Saima-Avandero, E. Dubois			**By acquiring Swedex and Fillip Lorenzen Logistikk AB in addition to Fraktarna, DanTransport creates a Swedish distribution network with three operators.**	

Appendix No. 3

List of Informants

DanTransport of Denmark

Bjarne Andersen – President and CEO

Benny Rhe Hansen – Executive Vice President

Jørgen Müller – Director, North American Operations

Frede Bertelsen – Manager, International Operations

Carsten Dalbo – Manager, IT and Domestic Operations

Bjerne Fonnesbech – Manager, Logistics & Domestic Distribution

Fraktarna AB of Sweden

Milton Karlson – Managing Director

Håkon Ericsson – Manager, Domestic Operations

Kerstin Stenberg – Manager, IT and Quality Control

DFDS of Denmark

Ola Sehested – Deputy Managing Director

Jan-Erik Nilsen – Managing Director, Norwegian Subsidiary

Bertil Rausmann – Manager, Logistics & Maritime Operations

BTL of Sweden

Stefan Eriksson – Deputy Managing Director, Scansped

Michael Holmström – Managing Director, Scansped – Norway

ASG of Sweden

Jörgen Eckberg – Managing Director

Lars Sundemann – Manager of Norwegian Subsidiary

Hans Taridomm – Manager, Logistics Operations

Saima- Avandero SpA of Italy

Gianfranco Boschetti – Managing Director

Gianfranco Levoni – Director, Overseas Operations

Renato Vilone – Director, Logistics Operations

Carlo Rossi – Director, Domestic Operations

Société Edouard Dubois & Fils of France

Patric Dubois – Managing Director

Gérard Bastian – Director, International Division

Luc Guimaraes – Manager, IT & International Operations

Royal Nedlloyd N.V. of Holland

Martin Rudolf – Director, LTL Europe

Dick Keysten – Coordinator, European Collaboration, Logistic and Land Transportation

Jacob van den Geld - Manager, European Road Cargo

TollPostGlobe of Norway

Kristian Stokke – Managing Director

Helge Gaden – Deputy Managing Director

Olav Gunleiksrud – Director, Strategy & Logistics

Jens Deunk – Manager, Inter-Nordic Alliance

Øystein Pedersen, Product Manager, Europe

Huolintakeskus OY of Finland

Heikki Laine – Managing Director

Hillevi Ekström – Managing Director of FinnTransport
(a subsidiary of European operations)

Tom Lankinen – Director, Scandinavian Operations

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