



TRANSFORMATION OF STRATEGIC ALLIANCES IN EMERGING MARKETS

VOLUME I

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Transformation of Strategic Alliances in Emerging Markets

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Transformation of Strategic Alliances in Emerging Markets, Volume I

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INVESTOR IN PEOPLE

To the memory of

*My parents Ato Abraha Ghebrekidan and Weyzero Jeddah Tesfazghi
and my brother Engineer Kubrom Abraha whom I remember for their
never ending love and care
Desalegn Abraha*

*My parents Syed Abdul Halim and Salema Begum and my brother
Syed Azmal Hyder whom I miss for guidance and inspiration
Akmal S. Hyder*

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Foreword

This book is published in two volumes titled *Transformation of Strategic Alliances in Emerging Markets, Volume I* and *Transformation of Strategic Alliances in Emerging Markets, Volume II*. Volume I contains eight chapters which are the Overview of the Authors' Strategic Alliances Studies, Alliances Transformation in Emerging Markets, Strategies in Emerging Markets, Institutional factors in Emerging markets, the Journey of Strategic Alliances in Emerging Markets, Theoretical Background, Research Methods, and Emerging Markets: European Transition Economies. Specifically, Volume I defines the research problem, the justification of the research problem, the theoretical framework, the research methods, the strategies, institutional factors, journey of strategic alliances, and the classification of emerging markets.

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Preface

The appropriateness and timeliness of publishing this book is beyond doubt as it deals with how the long-term business relationships and networks have changed over time in emerging market alliances. Initially, the alliances were established among Swedish firms and firms in Eastern and Central Europe (ECE). There have been several differences among the alliance partners, i.e., the Swedish and their local partners. Specifically, the Swedish and the local partners have experienced different attitudes, beliefs, ways of thinking, cultures, traditions, ways of conducting business, concept of time, modes of communication, negotiations, etc.

In early 1990s, many Western firms entered into the complexity of ECE, which we introduce in this study as European emerging markets, without having the necessary preparations. Many promising business ideas failed due to lack of knowledge about the ECE emerging markets in regards to social, cultural, political, legal, and human features. It became clear to Western managers that adequate preparation is a prerequisite for success in the region. However, there has been good sign that networks of relationships and competence in dealing with those networks are gradually developed. This study focuses on the changes that have taken place in motives, resource contributions and exchanges, learning, in relationships and networks development, performances, and the general environmental factors within which the alliances function.

Initially, all European transition markets followed the socialist ideology and had almost the same economic structure, but during the last 30 years of transition, things have undergone many changes. Success in adopting market economy and changing policies have created several gaps among these emerging markets. It has therefore become important to know why some countries have done so well, while others fallen behind. This study sees the collaborations as a clear step to reduce the risk of investment by foreign firms and to gradually get accepted by the local governments and the people in the transitional economies. There has been a basic difference in the management style between the Western and Central and Eastern Europe, and therefore issues such as how these dissimilar companies make things go, what result they achieve, and what they really contribute to the development and transformation process are stressed in this book.

Many research works have concentrated on different characteristics of alliances, but surprisingly, no fruitful attempt has yet been made to focus on the dynamic aspect of this form of collaboration. In the case of European emerging markets, this absence is crucial as partners have a totally different background

and consequently have different ways in doing business. In fact, the ECE region is not only different from the Western countries but also from the other developing countries. Development and conducting relevant research to study alliances in these emerging markets has been set as one of the main objectives of this book. To fulfill this goal, a conceptual framework from a process perspective has been designed to describe and analyze the formation, development, and functional mechanism of strategic alliances in the transition region. This conceptual framework has been used in this work to go into depth for capturing fundamental issues, functional patterns, and changes of the alliance activities.

One of the main reasons for alliance formation is exchange of complementary resources among the partners. We argue that no alliance study can be complete and justified unless this vital issue is duly considered. Moreover, commitments of the partners in regards to formation and operation of alliances are vital to the fulfillment of the partners' motives. Exchange of resources has to be defined and understood as a part of a dynamic and ongoing process, which means that things can change from time to time depending on the partners' understanding and the environment in which alliances operate. Partners' learning is essential and important for the alliance operations and performance. Changes in the partners' behavior can be a consequence of learning that takes place in the alliance.

In contrast to Hyder and Abraha (2003), which contains 20 cases, this book consists of 10 cases. Out of the 10 cases, eight are discussed in three phases and two in two phases. The current empirical study analyzes and presents 28 mini-cases. Compared to the previous book, the current work deals with two categories of countries, namely "fast complete adapting countries," i.e., Poland and Hungary and "medium complete adapting countries," i.e., Estonia and Lithuania.

The foreign partners faced many challenges. The first challenge was the scanty knowledge of the markets and the local partners. The second challenge was the process of transformation from central planning to market economy. The third challenge was the law and regulations to accommodate and support the new kind of business not practiced earlier in the region. The last challenge related to the local culture and the challenge of changing people's attitudes. However, the challenge for the local partners was to adjust to the changes and to quickly get back on track. The first opportunity the foreign firms took advantage of was the early entrance in the market. Their other opportunity concerned access to capable partners with wide distribution networks in the region. The local partners, on the other hand, could learn modern marketing and dealing with better technology to increase their competitiveness.

Environmental and institutional factors have been found to play a substantial role in the formation, organization, operation, and finally dissolution of the alliances in the European emerging markets. The speed of change has been rapid in the fast complete-adapting countries compared to medium complete-adapting countries, which is noticed in the change of ownership structure and increased level of competition. The fast complete adapters have quickly accepted the Western standard and opened their markets for free investment. Many of the foreign firms have expressed their satisfaction over

the changes and see virtually no difference in these countries compared to many countries in the West in doing business.

Vital changes came in relation to regulations and business law to ease the business process. The financial institutions became more professional and the foreign firms gradually experienced less difficulty to borrow locally. Things also improved in the Baltic states (medium complete adapters) as more Scandinavian banks operated in this region. This book offers an in-depth knowledge and understanding of the dynamic challenges and opportunities in emerging markets for the academics and the global business actors.

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Acknowledgments

We have come in contact with various people in carrying out this challenging task. Our curiosity in emerging markets and involvement in MBA programs motivated us to initiate and write this book. Particularly, it was a tedious job to follow the alliance process from a long-term perspective.

We would like to express special thanks to Professor Jan Johansson from University of Uppsala, who introduced us to the subject of international business. From the University of Skövde, we thank Mikael Wickelgren, head of the School of Business, Peter Wallström and Joachim Samuelsson (head of divisions), and Jan Sedenka for collaboration and support in the research work. Thanks also go to Andrea Castello Diao and Gisela Fernández Rego for collecting data in the later part of the research process. We have received technical support from Natasa Facol, University of Skövde, for which we are thankful.

From the University of Gävle, we received support from many colleagues. Particularly we like to thank Daniella Fjälström for her support and encouragement in the research process. We extend our thanks to Michelle Rydback, Maria Fregidou-Malama, and Nina Daskalova for intellectual and professional support when we needed it. Our special thanks go to Jaana Kurvinen who as the Dean of the business school understood the importance of the work for education and research.

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Desalegn Abraha
Akmal S Hyder

Part I

Introduction and Foundation

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Chapter 1

Overview of the Authors' Strategic Alliance Studies

Abstract

In this chapter, the authors provide an overview of the results of their research on the subject of strategic alliances until 2001. Specifically, they summarize their findings published in *Strategic Alliances in Eastern and Central Europe* (2003). The authors conducted 20 case studies of Swedish firms involved in strategic alliances with firms in Eastern and Central Europe. This chapter also presents a brief account of the authors' other research on the same phenomenon which resulted in several conference papers and journal articles. The theoretical framework developed and applied in the 2003 book is also briefly presented in this summary chapter. The method applied in writing the book and the justification for applying this specific method are also discussed. Following this, an updated review of the literature of strategic alliances is conducted to discuss the research work covered and the issues examined after 2003. The overview of the authors' strategic alliances studies and the updated review of the literature together highlight the overall logic behind this new book, *Transformation of Strategic Alliances in Eastern and Central Europe*.

The Logic behind the Book

This introductory chapter summarizes the authors' earlier study, *Strategic Alliances in Eastern and Central Europe*, a book with 11 chapters (Hyder and Abraha, 2003). Chapter 1 discusses the background of the study. Chapter 2 covers the existing literature. Chapter 3 presents the methodological approach. Chapter 4 discusses the general overview of eight Eastern and Central Europe (ECE) countries, while Chapter 5 develops the theoretical (conceptual) framework. Chapters 6, 7, and 8 discuss 20 strategic alliance cases in three groups of ECE countries, i.e., fast-adapting, medium-adapting, and slow-adapting countries. Chapter 9 presents the discussion and comparison of the 20 cases. Chapter 10 compares and contrasts the research findings and the existing knowledge of

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strategic alliances in the literature, and the final Chapter 11 covers the conclusions and implications of the study.

Even after the liberalization of the ECE region, it was still difficult for many firms from the West to do business successfully in that region as their knowledge of the structure and functioning mechanisms of those markets was scanty and inadequate. Moreover, knowledge of the macroenvironmental factors, how they are related to each other and change over time, and their impact on those markets was also insufficient, which was an obstacle for firms to conduct business successfully. Consequently, several firms from the West which started to do business hurriedly in the ECE region could not achieve the awaited satisfactory results.

Many of those firms had promising business ideas, yet they failed to develop appropriate market positions and to achieve their motives. Success was taken for granted as the concerned firms assumed that there was a wide variety of opportunities without giving due consideration to the challenges and problems, and how to deal with them. No doubt there were many opportunities and lucrative markets in the region, but there were also constraints and problems that firms had to deal with if they were going to conduct business successfully. Thus, firms had to develop appropriate strategies to deal with the constraints, challenges, and problems they encountered and to make use of and maximize the opportunities to achieve their motives. The above-mentioned firms' failures, market complexities and variations, the need to properly analyze and understand macroenvironmental factors, the need to understand the interrelationships of those factors and their impact, the need to properly understand the challenges, constraints, obstacles, problems, and opportunities, and the need to develop appropriate strategies and mechanisms to operate with success in those markets were some of the main factors behind conducting the study.

Another reason for conducting this study was to develop a dynamic conceptual framework to study alliances as a process over a certain period of time. Researchers such as [Ring and Van de Ven \(1994\)](#), [Harrigan \(1986\)](#), and [Hennart \(1988\)](#) have conducted research both theoretically and empirically and highlighted the dynamic nature and characteristics of alliances. However, none of them has addressed the knowledge gap in the literature to fill the absence of a comprehensive and dynamic theoretical framework that can be applied to examine strategic alliances in a broader, process perspective. The gap is identified by [Hyder and Abraha \(2003\)](#) based on a literature review which found that the existing theoretical frameworks of alliances could be used to study alliances at one point in time only, which does not enable us to get a holistic view of the dynamics of alliances in real-world situations. Two main reasons made [Hyder and Abraha's \(2003\)](#) study an essential and current issue which deserves an in-depth study. The first reason was the lack of a dynamic conceptual framework, which can be applied to examine strategic alliances over a period of time. The second reason was the fact that the ECE region was believed to differ in many aspects from the West and even from the markets in other developing countries which made it reasonable to conclude that it deserved due consideration as an area of study. Moreover, the ECE markets are heterogeneous as there are considerable differences among the various countries' markets and identifying those differences and analyzing their impacts on alliance formation,

operations, and their implications on marketing approaches and strategies was yet another reason to conduct the study.

Following the fall of the Berlin wall, the ECE countries decided to follow the capitalist ideology abandoning socialism. The decision had a tremendous impact on the business and economic policies including the economic path of the ECE countries and resulted in the transformation of the socialist economy to a market economy. The transition had a strong impact on the market structure, its functioning mechanisms, and on the firms' operations and the results that they could achieve. As the ECE countries' degree and pace of adaptation to the EU and the transformation from a socialist to a market economy differed greatly, [Hyder and Abraha \(2003\)](#) categorized the ECE countries into three groups, i.e., the fast-, medium-, and slow-adapting countries. The differences in the degree and pace of adaptation had an impact and the aim of the book was to identify and analyze how the differences in the adaptations of the countries affected the operations and performance of alliances.

Another reason for conducting the study was to assess the changes which took place in those markets, how learning takes place, how the changes impacted alliances' operations, how firms handle the impact of the changes, and whether the firms achieve their objectives or not and how to handle failures if there are any. The other logic behind the book was that in the ECE region the macroenvironmental factors differ from the West and firms need to have a comprehensive knowledge and understanding of those differences and their impact so that they will be able to handle those factors and their impact to achieve success. Thus, the study was expected to deepen and broaden knowledge and understanding of the infra-structural, cultural, social, political, legal, economic, and financial conditions of the ECE. Moreover, the study was also expected to enhance knowledge of developing, maintaining and consolidating relationships with the various actors and how to develop a strong position in the ECE markets, which is also a vital requirement for conducting successful marketing operations in any market whether it is foreign or domestic, developed or underdeveloped, and loosely or tightly structured.

The Research Issues

In contrast to earlier studies, one of the main assumptions of this study was that if firms in alliances are going to achieve success by fulfilling their obligations, they have to mobilize their network partners in order to acquire complementary skills and resources. Thus, alliance partners' relationships should be understood and analyzed from a process perspective. Considering this fact, the research problems were formulated in a way that alliances can be examined systematically from the early to the final stages of their operations. The research questions addressed in the book are as follows:

- What are the main motives in forming strategic alliances in the ECE markets and to what extent do these motives get realized? Do the motives change over time and if so, why and how?

- How do alliance partners exchange resources and cope with constraints and opportunities? The focus was on the identification and description of critical events.
- How does learning take place in relation to partners' resource contributions and expectations?
- How does the network develop and contribute to individual partners' competitive strength and competence development and also to the overall performance of strategic alliances?
- How does the general environment affect the operations and functioning mechanisms of the alliances and how do the partners deal with its impacts?

The Applied Method

Why Eastern and Central Europe?

There were four reasons for the selection of ECE as an area of study. First was the lack of knowledge as to how the ECE markets are structured, function, and how they change over time. Second, the ECE region was shifting from a centrally planned to a market economy and the transition and current situation in the region were believed to affect the market structure and functioning mechanisms of the alliances. Thus, understanding the ECE market structures and their functioning mechanisms including their impact on the alliances' performance was the second reason for selecting the ECE region as the area of study. Third, considerable changes took place in the ECE region and moreover the selected firms had different backgrounds. The differences among the firms' backgrounds and the changes that took place in the region were significant factors that could affect the operations and results of the alliances. It was thus deemed necessary to examine and to find out the obstacles and opportunities created by the changes and the differences in how firms handle the situations and what results they achieve. The fourth reason for the selection of the ECE region was to investigate how Western firms with the various forms of collaboration explore the opportunities in such a huge market.

Selection of Countries

The starting point was the classification of the eight ECE countries into two categories by [Quelch et al. \(1991\)](#), i.e., those adjusting rapidly to a market economy and those more slow to adjust. The rapid adapters were Hungary, Czechoslovakia, Poland, and East Germany, while the slow adapters were Bulgaria, Romania, Yugoslavia, and the USSR. Considering the changes and developments which took place, [Hyder and Abraha \(2003\)](#) classified the ECE countries into three groups. A group of medium adapters was identified as it became obvious during the course of the study that there were some countries which are slower than the fast adapters while faster than the slow-adaptor countries. The other factor that influenced the decision to include a third category was the work of [Tietz \(1994\)](#), which categorized ECE countries into three groups. Hungary, Slovakia, Poland, Slovenia, and the

Czech Republic are classified as fast adapters, the medium adapters are Estonia, Latvia, Lithuania, and Croatia, and the slow-adapter group included Bulgaria, Romania, Albania, Macedonia, Russia, and Serbia. Initially, the aim was to select one alliance from every country. However, the final choice was influenced by the existence of a Swedish firm's alliance in those countries. In the end some countries had to be excluded due to the absence of a strategic alliance. Hungary and Poland from the fast-adapter countries, Lithuania, Estonia, and Croatia from the medium-adapter countries, and Russia and Serbia from the slow-adapter countries were finally selected as areas of study.

The Research Approach

Relating the research problem and purpose to the characteristics of qualitative and quantitative research it was decided to apply a qualitative approach. The seven characteristic features of qualitative research (see [Bryman, 1995](#)) had a major impact on this study of strategic alliances, and their impact can be clearly observed on the research process and the results achieved. Emphasis was made on the interpretation of the information collected to develop a wider knowledge of the phenomenon under consideration. Moreover, focus was also done on the context, i.e., the general environment within which the alliances operate. Environmental factors which impact the alliances were identified and incorporated in the applied conceptual framework.

Development of the Theoretical Framework

The theoretical framework is developed combining four perspectives. The first step was recapitulating the authors' knowledge of alliances, which resulted in a sketch of the preliminary framework and preliminary research problems were developed without reviewing any secondary data. The second step was a literature review to further develop the preliminary research problem and the sketch of the framework. Attempt was made to adapt the preliminary framework and research problem to the existing body of knowledge of "strategic alliances." Next, the preliminary theoretical framework was applied in Hyder and Abraha (1999). It was observed to be a useful tool for collecting and analyzing data. This helped to further develop the preliminary framework and to enrich it with network concepts. The fourth step is the empirical data. The theoretical framework (model) was developed after the empirical data collection, as it was noted that "General Environment" had to be added to the conceptual framework. As a result, the macro-environmental factors which impact the alliances were incorporated into the model.

Case Study as a Research Method

If the subject (phenomenon) to be studied is complicated and involves interorganizational relationships, the case study is an appropriate research method. In this

study, relationships are developed among the partners and moreover it is complicated for at least three reasons. One, human relationships over national boundaries are in focus. Second, the alliances involved local partners from ECE countries with distinct differences in social, political, entrepreneurial, and cultural backgrounds in comparison to Western firms. The third reason which makes the study complicated is that the theoretical aspects of alliances were under development. The other issue regards the processual approach of the study, i.e., considering relationships over time. Moreover, a case study offers a holistic view and can reveal reasons why certain decisions were made, the process of their implementation and with what results (Chetty, 1997). Considering the problem as well as the purpose, the brief discussion, and the exploratory nature of the research, a qualitative case study method is applied in this study.

The flexibility of the case study method is essential to conduct a study from a process perspective. The researcher does not need to stick to the initial interview questions, but can add follow-up questions depending on the results of the interview to develop further insights into the events and the overall situation. This flexibility also applies to modifying the research design. Flexibility is very helpful in the process perspective as significant events and totally new insights can crop up during the interview and the research process which can then easily be grasped and dealt with.

Case Selection

The case selection was both challenging and time-consuming. First, it was not easy to identify the Swedish firms that had alliances in the ECE. Moreover, most of the sources contacted had difficulty understanding the concept of strategic alliances. It was sometimes discovered during the interview that a selected firm had no alliances. The authors had to start the firm identification process over again on two or three occasions, which made the research method lengthy and complicated. In the firms' identification process, in the first step the Swedish Export Trade Council (SETC) was contacted which gave us a list of small Swedish firms in the Baltic states. However, it was not easy from the list to know if the firms were fully owned enterprises or had some sort of collaboration. To find out whether the firms had alliances or not the authors contacted each firm and found out that five firms had some sort of collaboration in one of the three Baltic states. These five firms were selected and included in the study.

The second step was to find the addresses of Swedish embassies in the ECE, which was done by contacting the Ministry of Foreign Affairs. Upon receipt of the addresses from the Ministry, 15 embassies were contacted to provide us with a list of Swedish firms operating in their respective countries. Seven of the 15 embassies contacted provided us with a list of firms operating in their respective countries. To find out in which form they operated, the firms were asked if they had any form of collaboration in the ECE. From the list provided by the embassies, three firms having alliances were identified, bringing the number of firms suitable for the study to eight.