"A PROCESS FRAMEWORK FOR ANALYZING COOPERATION BETWEEN FIRMS"

by
Yves DOZ*
Amy SHUEN**

N° 87 / 33

* Yves DOZ, Professor of Business Policy, INSEAD, Fontainebleau, France

** Amy SHUEN, Research Associate, INSEAD, Fontainebleau, France

Director of Publication :

Charles WYPLOSZ, Associate Dean
for Research and Development

Printed at INSEAD,
Fontainebleau, France

A Process Framework for

Analyzing Cooperation Between Firms

Y. Doz

A. Shuen

Sept. 22, 1987

ABSTRACT

This paper proposes to develop a processual framework for analysing on-going partnerships. The conceptual framework proposed in this paper stems from a focus on outcomes and in particular outcomes that are not explicitly planned for and expected in the partnership. Three considerations are discussed as integral to this framework: First, the process of collaboration over time may have a greater impact on the outcomes than the initial terms of collaboration. Second, the partnership can act as an organizational membrane between two partners through which different types of resources can flow over time. Third, the contextual value of the partnership can significantly change over time.

These considerations are examined in light of the current literature on partnerships. The body of the paper, develops these implications into the foundation for an integrative framework of analysis.

INTRODUCTION

This paper proposes to develop a processual framework for analysing on-going partnerships. It is divided into three main sections; it starts with a simple observation about partnerships and their outcomes and briefly considers the implications which can be drawn from this observation. In the following second section, these implications are examined in light of the current literature on partnerships. Finally, the body of the paper, develops these implications into the foundation for an integrative framework of analysis.

Ongoing partnerships are the unit of analysis. The term is defined purposefully broadly in the context of this paper as two business firms who have agreed to and are involved in an established pluri-annual relationship.

This definition is intended to include structured cooperation such as coordinated R&D programs as well as equity joint ventures. Our research domain excludes fully-controlled mergers and acquisitions. While in the past, more research has been available on equity agreements such as joint ventures (Franko (1971), Berg, Duncan & Friedman (1982), Killing (1982), Harrigan (1986), Hladik (1986), Kogut (1986)); the objective in a broader partnership definition is to highlight the issues and analytical dimensions common both to joint ventures and to a wider range of cooperative agreements (Mariti & Smiley (1983)). A broader definition of partnerships also seems warranted by the frequency in which firms chose a form of cooperation other than joint ventures (Hergert & Morris (1986), Gabriella (1986), Petrella (1986), Foresti (1986)).

Furthermore, a focus on ongoing partnerships and processual factors influencing partnership outcomes could be an important next step in improving our theoretical understanding of the empirical findings of recent databases and surveys in the partnership field.

An increasing number of databases and surveys are available. (OECD review (1986), Petrella (1986), Haklisch (1986), FOR (1986), Reseau (1986), Porter (1984)). Not surprisingly, the initial literature on partnerships was concerned with describing and sizing the phenomenon; detailing the numbers and kind of firms involved, patterns of partnership activity, the extent and distribution of partnerships across industries, countries and types of firms. Correlations, empirical trends and inductive hypotheses as to motivations for these activities were made on the basis of the distinguishable patterns.

Although these studies provide the basis for gauging the extent of the partnership phenomenon as well as revealing very interesting patterns of activity and empirical correlations of factors such as size, nationality and stability, a number of researchers have questioned their coverage and comparability.(Porter (1986), Kogut (1986), OECD (1986))

The concerns about coverage center around the empirical completeness of the data available. As these studies are often based on published press sources, their comprehensivity is dependent on the completeness of the press coverage. This dependence could bias studies in three important ways. Historical studies may be biased by the more recent focus and visibility of partnerships; the increase in press mentions indicating improved coverage of the phenomenon rather than an actual increase in number. Interindustry and intercountry comparisons may be biased by more extensive or detailed coverage in one region or industry versus another. Thirdly, the coverage of larger companies in the press may exaggerate their invovlvement in partnerships relative to small or medium sized companies.

The concerns about comparability center around the varying definitions employed in analyzing these data sources. The majority of researchers have defined their database by the legal form of the agreement (i.e. joint ventures).

A more serious limitation of this survey approach in analyzing ongoing partnerships is that it provides only a snapshot of partnerships, usually at formation time when partnerships are reported in the press. As such, it

does not help explain or identify the more complex and perhaps more significant set of factors which influence the outcomes of ongoing partnerships.

Thus, databases and surveys are limited in their depth and quality of information on agreements since microanalytical and qualitative data is often not available in published sources used. As a result these survey results may mask critical strategic and management issues and dimensions. The initial empirical findings are "not well explained by simple relationships" and point out the need for more rigorous theoretical reasoning and empirical testing. (Kogut, 1986).

A FOCUS ON PARTNERSHIP OUTCOMES

The conceptual framework proposed in this paper stems from a focus on outcomes and in particular outcomes that are not explicitly planned for and expected in the partnership.

Typically, a partnership is initially established when two companies join together to pursue a set of joint tasks perceived as mutually advantageous. This set of joint tasks is typically **explicitly stated** in the initial agreement. However, over time, the organizational interface between the two partners and the partnership itself becomes a **vehicle for company-specific planned and unplanned outcomes, not explicitly part of the initial agreement,** as well as joint outcomes that result from the performance of joint tasks.

Such a focus on outcomes, planned and unplanned, is justified by three major considerations:

1. **The process of collaboration over time** may have a greater impact on the outcomes than the initial terms of collaboration. Most often the initial agreement establishing the partnership does not fully constrain the changes occurring both within and through the partnership as it evolves over time. Strategic and organizational adjustments put in

place can have a greater influence on goals and outcomes than the original starting point of the agreement.

2. **The partnership acts as an organizational membrane** between two partners through which different types of resources can flow over time. The characteristics of this membrane determines the performance of explicit joint tasks as well as creates the potential for company-specific outcomes, not explicitly planned for in the original agreement.

3. **The contextual value of the partnership** can significantly change over time. Partners value outcomes quite differently according to their perception of their scope for leveraging both the outcomes of their joint tasks as well as their ability to influence the creation of company-specific outcomes. Additionally, each partner has a unique and evolving evaluation of his contribution and gain as well as his partner's. Thus, relative and differential perceived value within the framework of the partnership may be more significant than absolute value. For example, in partnerships between competitors, the perception of the relative gain of the competitor versus one's own gain, can be an important source of conflict, even if both are positive in sign.

These three considerations form the basis for specifying a processual approach to analyzing on-going partnerships. The next section explores their consistency with concepts emerging from a wide range of management literature in the partnership, joint venture and network area. However, the relevant concepts have diverse intellectual roots and thus have not been developed and applied in an integrated framework with partnership processes and outcomes as the unit of analysis.

SECTION II SPECIFICATIONS FOR AN INTEGRATED FRAMEWORK

In this second section, the three major considerations outlined in the introductory section are further discussed and placed in the context of their intellectual roots. Each consideration leads to a specification for an integrated framework to be described in the third and final section.

SPECIFICATION 1 Process-oriented rather than static view of the partnership.

To explain the actual outcomes of partnerships, the initial governance structure of a partnership is not enough. In fact the initial structure and agreement may actually be misleading in documenting a situation which has dramatically changed over time through the very partnership process.

Partnerships, like other organizational processes. undergo an iterative, on-going feedback and adjustment process (Normann (1984), Mintzberg (1985)). Partners test implementation of initial goals or plans and react, respond and learn from the interim outcomes. These interim outcomes clarify their environment and their own and partner's capabilities and lead to revisions of collaborative processes and reassessments of expectations. Additionally, information, initially restricted by formalized transaction and bargaining situations, changes in quality and quantity due to factors such as proximity and trust levels. Often a stated agreement does not make explicit the existence of unspoken partner's expectations which later become more apparent or more tightly formulated, as they gain experience with the partner.

This suggests that a framework for analyzing on-going partnerships should focus on the

* changes in the partnership relationship away from initial formational motivations and structure; a process rather than choice view. (Jemison (1986)).

* shifts in the relative position of partners in the relationship influencing the power (Harrigan (1986), Thorelli (1986), dependence (Doz, Hamel & Prahalad (1986) or resources (Pfeffer (1981)) available and thus their range of strategic options.

* evolution in the "enacted environment" of each partner (to reflect that the task domain now includes both an external environment as well as the partnership relationship as input.

* reaction, response and learning from the on-going process of feedback within the relationship. (Argyris and Schon (1978), Quinn (1980), Normann (1985), Westney (1986), Lyles (1986))

However, the majority of the literature reviewed focused either on initial formational motivations for partnerships or on guidelines for structuring or characterizing the partnership at the outset (Lorange (1985), Killing (1986), Contractor & Lorange (1986), Root (1986), Harrigan (1985), Tyebjee (1986)). Kogut (1986), in his review of the joint venture literature concluded that most statements on motivation could be reduced to evasion of small number bargaining (transaction cost minimization) and enhancement of competitive positioning (strategic or market power maximization).

In comparison, fewer studies focus on how to monitor or assess the process changes occurring after the initial agreement although several researchers have pointed out that underlying management dilemnas exist (Koot (1986)), that organizational learning does take place (Lyles (1986), Westney (1986)) and that stability is influenced by partner asymmetries (Harrigan (1986)), competitive pressures (Kogut (1986)), control-dominance issues (Lyles (1986)) and national or cultural differences (Jaeger & Baliga (1985), Pucik (1986)).

Surprisingly few authors have examined the changes in the partnership relationship, relative position and enacted environment over time. This may be due to the fact that these changes have not been viewed as an expected and perhaps controllable evolution.

In contrast, researchers have often referred to these changes as either uncontrollable sources of instability or management problems. For example, Hennaert (1986) in examining joint ventures as a first-best option under certain transaction cost situations suggests that the "advantages traded in JVs such as knowledge, firm-specific goods, decay over time" and thus this should affect the relationship. Lorange (1985) refers to the "erosion" of joint ventures over time and the multitude of problems this creates. Kogut in the same review cited earlier, examined the work on the stability of joint ventures and tested a number of hypotheses empirically to conclude that the primary issue in instability may be partner conflict rather than parent/joint venture conflicts and the that the survival of joint ventures is not well explained by simple relationships and requires more rigorous theoretical reasoning and empirical testing. The few longitudinal studies done in the joint venture field (Lyles (1986)) have focused on parent/venture management conflicts and issues of dominance.

A framework for analyzing on-going partnerships based on the premise that process changes, shifts and feedback are to be expected should help partners monitor the predictable change and evolution of the relationship, relative position and enacted environment. A related hypothesis would be that there are intermediate milestones or stages in the partnership evolution or life cycle which are identifiable. These stages could be seen as dynamic equilibrium points, partnership balances which exist between initial formation and dissolution which are relatively stable and which should not be considered the results of decay, instability or management neglect.

In fact our analysis suggests that partners have controllable ways to move and adjust the partnership balance over time. The partnership process is seen as reiterative learning system and not unilateral or uncontrollable in nature.

In a fairly distinct body of literature on interorganizational network theory which more often researches non-profit organizations, Thorelli (1986) has focused on linkages between firms as a conduit for "power", the ability to influence the decisions or actions of other. Power, information, money and utilites are seen as flows along the links of a network. Other

researchers (Walker (1986), Hakansson & Johanson (1986), Miles & Snow (1986)) have described and analyzed the implications of certain structures and forms of interfirm and industrial networks on the involved firms' cooperative interactions and strategies. In contrast, Thorelli considers the changes as well as the structure of a network over time and develops a number of dimensions for examining networks: Division of labor, position in the network and links and relationships in the network. The division of labor is the basis for conflict or cooperation, the position in the network the basis of power or differential advantage and the links the way of building or drawing on differential advantage and interdependence.

Many of the concepts developed are relevant to the study of ongoing partnerships. In particular, Thorelli points out that over time, linkages act as instruments for differential advantage particularly in long-term person-specific resources--power, influence and trust. His network paradigm suggests that the quality -- the intensity and strength of customer and supplier relations (and by extrapolation, partner relations) -- of a position may be just as important a dimension as its quantitative expression in terms of sales volume or market share.

2. SPECIFICATION 2 Partnership as Interorganizational Membrane

Partnerships over time act as vehicles or conduits between the two partners. When two business firms agree to and become involved in a long term relationship, not just a series of transactions, they are agreeing to an interface being estabilished between their two existing organizations.

What flows through this interface and with what speed and direction -- knowhow, resources, people, information, equipment--is highly dependent on the partners intent and on the capacity and type of interface and organizational linkages they structure.

This suggests that a framework for analyzing on-going partnerships should take into account

* nature of the organizational interface

* structure of linkages created by the partnership

* what kind of resources can flow throught this interface and with what speed and direction?

* how controllable and regulatable is this organizational interface?

Technology transfer literature provides a number of insights into how partnerships could be used as a means of transferring key technology, especially knowhow which was tacit and embedded in either complex organisational routines or residing only in people and systems (Teece (1981, 1986)).

Technology transfer literature explains how significant information is communicated and affects performance in R&D laboratories (Allen (1986)), how communication networks influence diffusion of innovation (Rogers (1962)) and how technology is transferred across national and cultural borders (Stobaugh & Wells, ed. (1984)). These studies are a fundamental basis for understanding how to increase the capacity, diversity and content of information flow within organizations and thus can be readily applied to interorganization communication. Furthermore, although this paper does not explore the large body of literature on technology transfers to lesser developped countries, this research may prove applicable to future partnership studies.

The key difference in partnership information-based flows over time is that they must be regulated during the partnership process to allow both effective contribution and reciprocity but also effective barriers to proprietary and exclusive information leakage and bleedthrough. This implies that certain linkage mechanisms and communication channels used to facilitate communication within a firm will not be as appropriate in certain interfirm partnership contexts. Additionally, although it is possible to influence the linkages and the capacity of communication channels, it still

remains to be researched as to whether information channels are selective or can be made selective in nature and whether it is possible to regulate certain kinds of information and not others. Clearly, the selectivity of information channels has an important influence on the ability to withhold proprietary information in a partnership relationship.

Another issue pointed out by Allen is that information is often "codified" in firm-specific ways and the transfer of information across firm boundaries suffers from this semantic noise. As such, linkage mechanism and communication channels in partnerships must take into account a necessary translation process and communication overhead in the short term. Doz (1986) has analyzed many of the communication and managerial issues arising from technology partnerships between large and small firms having disparate organisational structure and cultures. Additionally, he highlights the problems of vertical communication within the larger partner aggravating the lateral communications between the partners.

Thus, technology transfer literature concepts can be readily applied to structuring linkages and partnerships where information of all kinds needs to be facilitated. It does not provide as much guidance for the more common situation where both partners have highly proprietary knowhows which they wish to keep separate from the pooled resources in the partnership.

3. SPECIFICATION 3 Contextual Value of Partnership

The third specification one can draw from our simple observation is that an accurate framework must take into account the fact that partners may value outcomes quite differently according to their perception of their scope for leveraging both the mutually advantageous joint outcomes as well as their ability to generate company-specific outcomes. Secondly, each partner makes an independent and noncomparitive assessment of the cost-benefit of the partnership; his contribution and his gain in the partnership. Thirdly, each partner evaluates his relative benefit in the partnership as compared to his perception of his partner's benefit. This last evaluation is a

critical factor for partners who compete; the differential gain may be perceived as far more important that the actual benefit.

This suggests that a framework for analyzing partnerships should include

* each partner's perception of the value of the mutual outcomes and company-specific outcomes

* assessment of each partner's contribution and gain--cost-benefit analysis

* perception of the distribution of outcomes as related to company environment, strategy, resources, flow over time and structure of relationship.

Lorange (1985) highlighted the importance of understanding partners' perspectives when developing a cooperative venture. He hypothesized that partners must acknowledge their complementary know-hows in order for the partnership to be stable, although the perception of each of the partners of a balance value exchange may not correspond with one another. He noted that there may be misperception or misunderstandings among partners about the potential cost-benefits of the relationship due to accidental and/or intentional causes. In two examples cited, one partner accrued considerable benefits without acutally giving away much control of its knowhow while the other partner received less in return for giving considerable more. Both partners, in these cases, according to Lorange, may have perceived that the value exchange was balanced due to differences in judgment, skills, risk-evaluations and random developments.

Lorange's examination of partner's perceptions of value creation and value exchange in a cooperative network focuses on the complementary nature of the partners' knowhows in creating tangible outputs in a value chain. Thus, the interaction described is a kind of "barter", one partner gives a certain knowhow in exchange for receiving a partner's knowhow. The exchange is balanced if each partner is satisfied with his side of the bargain and his increased ability to improve his value chain.

The framework proposed in this paper considers a somewhat different concept of partnership exchange. This is because Lorange's transaction, having the characteristics of a barter trade, implies that the trade taking place in a partnership is measurable and controllable in exchange. In contrast, the view taken in this paper is that an emphasis on an outcome set consisting of both mutual and company-specific outcomes is more consistent with the concept that there is a "pooling" of partners' contributions and resources in a partnership relationship. Thus, each partner has both the ability to create value and to appropriate value from this "pool" of knowhow and resources. However the "flow" of contributions and extractions is hard to measure in strictly quantitative terms and is difficult to control in quantity and quality, i.e. bleedthrough.

Each partner values the outcome set according to that prtner's perception of how well he can leverage the joint outcomes flowing from the partnership and whether he can generate company-specific outcomes through the partnership as well. Thus, Lorange's concept of complementary "value-exchange" is expanded to partnership value "pooling" where partners have differential value-creating and value-appropriating abilities and differential perceptions of the value and distribution of joint and company-specific outcomes.

To summarize the main implications of this partner-specific contextual evaluation process:

a. Through the partnership, values and capabilities are "pooled".
b. Each partner has different value-creating and different value-appropriating abilities.
c. Each partner has a different perception of the value and distribution of joint and company-specific outcomes, often dependent on their context and strategy definition.
d. Perceived relative cost-benefit may be a higher priority than absolute value.
e. In measuring outcomes in a process framework, two equally important dimensions must be considered - (1) the net "stock" or the traditional cost-benefit at a point of time and (2) the rate and direction of the "flow" of resources and skills. (Dierickx & Cool (1987))

4. THE SPECIFICATIONS OF SECTION 2 SUMMARIZED

In summary, Section 2 further expanded the three major considerations outlined in the introduction and placed them in the context of their contemporary literature roots.

In the following section, Section 3, these considerations become building blocks in developing a processual framework for analyzing ongoing partnership and their outcomes.

SECTION III PROCESSUAL FRAMEWORK FOR ANALYZING ONGOING PARTNERSHIPS

The framework is proposed in a stepwise fashion:

First, how can we design a framework that focuses attention on the **process** of collaboration over time and the reiterative learning and changes occurring through the partnership?

Second, how can we integrate into this framework our view of the partnership as an **interorganizational membrane** regulating both the flow of resources and the distribution of joint outcomes and company-specific outcomes.

Thirdly, how can the **contextual value** of the partnership be incorporated into this processual framework.

A Process-Oriented Framework

A process oriented perspective helps explain how and why partnerships achieve or fail to achieve their intended goals over time. The limitation of examining pre-partnership motivations, context, selection criteria and overall partnership "fit" at initial formation time is that these critical factors change and evolve over time. Furthermore, these critical factors are influenced by the relationship process itself.

Thus a more realistic but complicated model needs to recognize both the **elapsed time element** and the **feedback processes** occurring within the system. An initial framework would show the partnership as a open process system involving two partners interacting through the partnership and where feedback of interim outcomes and information through many linkages occur over time and influence the state of the overall system.

This dimensions of this framework could more appropriately describe a more dynamic "strategic balance of power" than a static strategic "fit". In particular, over time, the strategy of companies with regard to their partners change. This evolution is due to a number of dynamic factors including some of which are independent of the partnership relationship and others which are tied to the relationship.

In the framework featured in Figure 1, partner A and partner B influence their own strategy and the strategy of their partner in an interactive way. This interaction and feedback process is depicted by the double-faced arrows linking the strategies and the outcomes.

As noted previously, authors in the joint venture literature have largely viewed the shift in partnerships over time as a management problem or an uncontrollable "erosion". Certainly, these changes can take place in a unpremeditated manner and upset a very productive and stable relationship.

The more interesting issue is whether a partner in an ongoing partnership can constructively influence the flow or stream of outcomes from its partnership by actively monitoring, adjusting, renegotiating its strategic balance of power in the relationship.

If so, this process of strategic adjustment or "strategic balance of power" would also be an important and controllable lever in determining the outcomes of partnerships over time.

INTERORGANIZATIONAL MEMBRANE

This section focuses on how **structuring of interaction and linkages as well as organizational learning** can determine the flow of resources and how this evolution influences the nature of the final outcomes.

The term "organizational fit" has been used to describe the selection criteria used in choosing an appropriate partner and the degree of match at the time of selection.

An extended descriptor for the dynamic and on-going interaction between two partners might be "interorganizational membrane". This term focuses attention on two process-oriented organizational features.

First, how do the two companies link and adjust their two separate organizations to perform new and jointly interdependent tasks necessary to accomplish their desired outcome set (joint and independent). How do they balance their new commitments and their existing ones in managing communications, decision-making, conflict resolution, resource management? How should their linkage change over time to reflect learning, different stages of interdependence, trust or concern? How could the linkage adjust to better reflect changes in strategy and the strategic balance of power (discussed in the following section)?

In other words, in the framework depicted in Figure 1, this first process-oriented organizational feature concerns the linkage between the two organizations (Organization A and Organization B) and the linkage between the organization and its strategy over time .

Second and quite separately, how do the two partners organize the structure of the partnership as a vehicle for channeling and distributing the contributions and resources of the partners? How has the day-to-day implementation of the partnership evolved from the original structure and what influenced this change? How capable and effective is this structure in achieving the mutual outcomes? Finally, how does the organization of the

partnership and the governance structure compare to an effective internal structure within one of the partners? What are the necessary protections against leakage and bleedthrough; is there a hidden but necessary transaction overhead? The interaction between the partners and the partnership is depicted in the framework of Figure 1 through the multiple linkages between Strategy A and B, Organization A and B and the Partnership.

Furthermore, as mentioned in the previous sections, there seems to be two distinct areas of outcomes that are of interest in the partnership. The first area of outcomes is quite **explicit**. It is the joint outcomes or mutual goals originally agreed to in the initial agreement and which were designed to benefit both companies.

However, there appears to be a second area of outcomes that are not quite as explicit and may be planned or unplanned. These outcomes are **independent** and distinct outcomes expected as byproducts or "sidepayments" outside of the stated mutual goals but received through the partnership relationship. These company-specific outcomes may be very important motivations to entering the partnership in the first place but may not be at all visible either to the other partner, external observation or publicized sources.

A conceptual model of partnerships needs to take into account the 2 sets of outcomes, the agreed upon **joint outcomes** which are linked to mutual goals and the company specific **independent outcomes** which are linked to company specific motivations. In Figure 1, the set of outcomes are distinctly separated into joint outcomes and independent outcomes.

This modified model is helpful in looking at collaborative agreements between competitive companies--the project undertaken by both is cooperative in the mutual project outcomes, but the companies in the partnership may be intending to benefit independently and competitively from the relationship through technology acquisition, increased scale economy, access to markets or distribution. These benefits are often not explicit in the recognized mutual agreement.

Additionally, at times, the perceived competitive exclusive outcomes on one side, can outweigh the value of the joint outcomes for company A (perception of being taken advantage of) and this would be a source of partnership failure or dissolution despite an adequate and continued stream of joint outcomes and an unchanged strategic and organizational context.

Additionally, the company-specific outcomes may be in the form of "invisible assets", a term recently coined by Itami and Roehlto describe information-based resources and to highlight the fact that assets which are not "measurable" are often invisible to managers although certain strategies could be used to accumulate or control these assets for long-term benefit.

Understanding the existence of this type of outcome in the outcome set makes defining a "successful" outcome more complicated but opens the door to a richer set of options for influencing the direction and significance of non-tangible outcomes in the partnership.

The model which appears in Figure 1, is a resource flow model or systems model (Ginsberg & Venkatraman (1985)). It is designed to emphasize the resource flow and information system feedback nature of the partnership process. Each of the arrows in this partnership model acts as a **channel or conduit for resources to flow between partners and the partnership in a way that influences the distribution of outcomes.**

The capacity and content of these channels vary widely with different partnerships. In following sections we discuss how the **capacity and direction** can be influenced by the partners and controlled by the relationship structure. In addition, the **kind of resources** which flow can be information-based and non-tangible resources such as technology/sales information or market reputation, people with specialized knowledge or very tangible assets such as money and plant equipment.

Perceiving partnerships as a feedback system incorporating multiple resource conduits and directing differential flows toward outcomes is helpful in explaining what happens to a partnership structure over time.

For example, the partnership can start at what appears to be a stable equilibrium state at formation as measured by equal contribution of resources towards the partnership and dominant flow towards joint outcomes. However, over time, this partnership can move to another equilibrium state but one in which one partner is consistently contributing more resources (but perhaps non-tangible ones) and the dominant flow has shifted towards the independent outcomes of the other partner.

The irony of the situation is that this flow system may be perfectly stable over time, the form or actual letter of the agreement may remain unchanged, joint outcomes are continuing at a similar level. Externally viewed this partnership is a success; from the point of view of one of the partners there are serious problems.

CONTEXT DEFINITION

This third section introduces a third lever in influencing the outcomes of a partnership. It is entitled context definition to focus attention on the proposal that how a partner defines his partnership context can influence the nature of the outcomes, the relationship, timeframe and valuation of outcomes over time.

This concept borrows from traditional game theory which demonstrates that in simple price negotiations, the first bid can establish the bargaining range and therefore influences the anticipated outcome. Additionally, in more sophisticated negotiating theory, the wider the scope of bargaining chips, concessions and threats a negotiator can bring to the table, the more he can gain.

In partnerships, the broader the perceived scope of applicability of partnership-gained resources, the higher the overall synergy and benefit. Another way to put it, if one partner can apply and reap synergistic benefits out of more of the partnership-based flow of resources that the other partner, it has increased the relative productivity of what may be quantitative equal flows of the partnership outcomes.

Over time, the accumulation of more productive outcomes results in substantial advantage. The return may be higher for equal levels of contribution as well, leaving one partner having a difficult time in keeping up with its promised contribution level, the other funding the effort easily from the increased strength of related functions which have benefited from the partnership.

The context definition is partly under a company's control and partly tied to its background and resources.

For example, let's consider a small computer company in partnership with a widely diversified electronics giant.

One scenario might look like this, based on context definition:

The small computer company may narrowly define its context and its desired outcomes due to lack of resources or lack of vision. It ends up with a short term partnership agreement, adhoc application of resources, concentration on benefits which apply to its existing industry and marketplace and a set of measurable tangible unit volume forecasts. The electronics giant having a number of industries to play in, takes a longer term technology viewpoint and integrates the advanced technology developed through the partnership to improve processes and products in several global markets.

However, a just as probable scenario might entirely turn the tables:

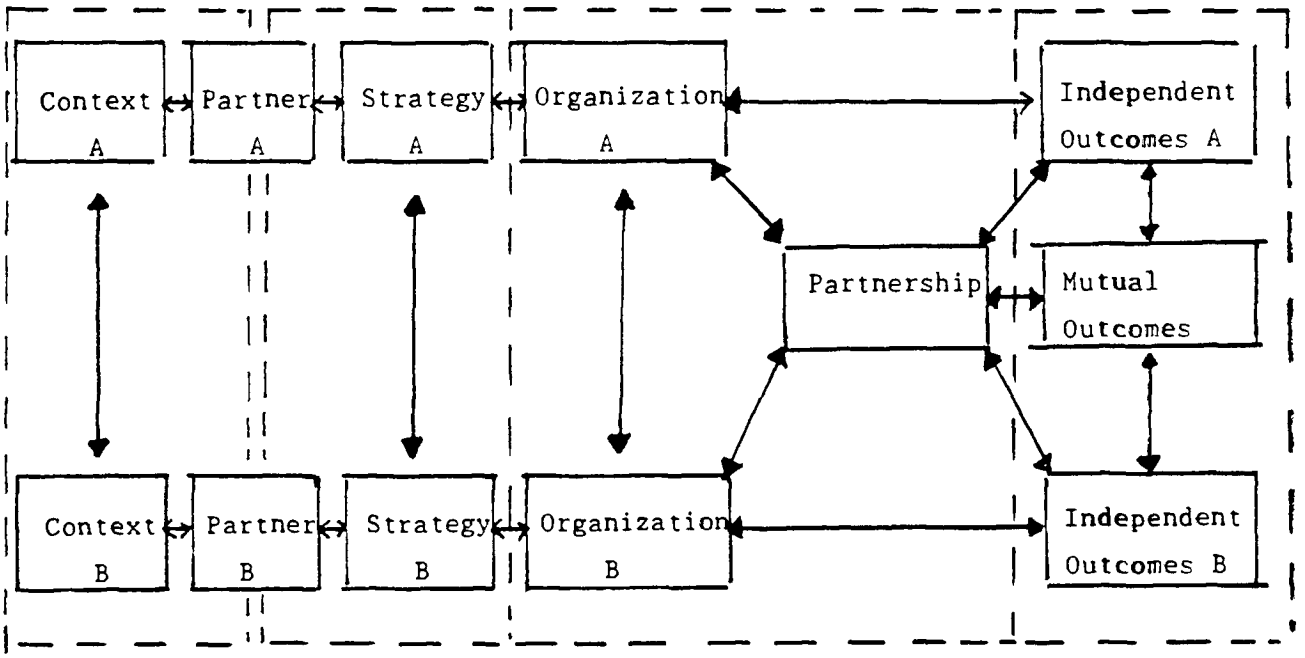
The small computer company is strongly visionary and opportunistic. It actively courts a large electronics giant that has an immense technology scope and market access. Though its partnership starts as a supplier relationship, through the window it acquires into new markets and technology, the smaller company develops several successful private label products which is then distributes through its partner into new and hitherto difficult to access markets.

To incorporate context definition into the partnership model, the linkages between the context of company A and company B have been designated by a darkened arrow. Additionally, the interactive link between context and strategy A has been highlighted.

The resulting model looks like this:

Figure 1

A FINAL PARTNERSHIP MODEL:

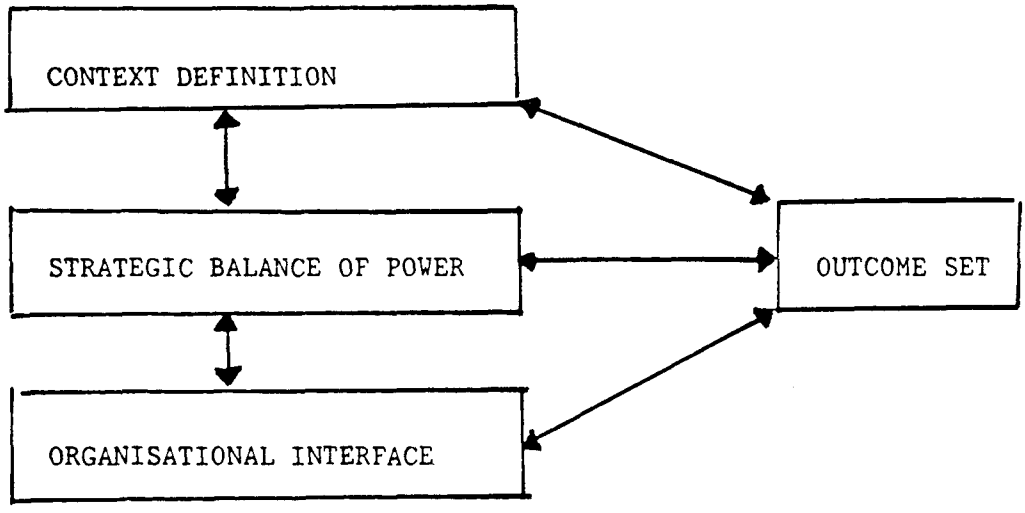


Context Definition | Strategic Balance of Power | Organizational Interface or Membrane | Outcome Set

<----------TIME---------->

A SUMMARY OF THE FRAMEWORK

This can now be redrawn in a simpler manner:



In summary, this framework was intended for two audiences. First, as an integrated research approach to measuring and empirically studying partnership processes over time and thus the determinants of partnership outcomes. Second, it is the beginning of a implementation methodology for partnership managers; how to evaluate and monitor the effectiveness of ongoing partnerships over time and what means can be applied to better controlling the oucomes of these partnerships.

It is hoped that the ideas introduced in this framework will provide new directions and challenges to these two audiences.

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