"FROM INTENT TO OUTCOME: A PROCESS FRAMEWORK FOR PARTNERSHIPS"

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From Intent to Outcome:

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ABSTRACT

Partnerships receive a great deal of attention at the time of formation and dissolution. However, not as much focus has been placed on ongoing partnerships and the outcomes, both expected and unexpected which result over time from the partnership. This paper offers a conceptual framework with which to understand ongoing partnerships. It suggests that three dynamic processes of adaptation during ongoing partnerships influence and change the initially formulated and expected outcomes into a more complex set of outcomes characterized by different values and risks.

The first dynamic process of adaptation is the process of learning that takes place over time in a partnership. Partners learn about each other and each other's organization, business and environment. On an operational level, partners tend to adjust their organization and "ways" to working with a partner, clarify through experimentation and interim feedback, the tasks to be performed. The second dynamic process of adaptation is the bargaining and balancing process that takes place in adjusting the perception and sharing of outcomes in the partnership. The third dynamic process of adaptation is the leveraging of values created in the partnership. This third dimension--leverage--does not affect the set of outcomes, but the value to each partner, individually, of this or that outcome. Thus, the partners' utilities and their assessment of "fairness" of outcomes is influenced.

Partnerships receive a great deal of attention at the time of formation. Many authors have described the structure of different partnerships, the type of companies who have entered into partnerships and the initial motivations of these companies. Partnerships also receive a great deal of attention when they fail or cease to exist. Recent studies have related the stability and longevity of partnerships to environmental factors and management issues. The research in these areas is briefly reviewed in the first section of this paper.

However, not as much focus has been placed on ongoing partnerships and the outcomes, both expected and unexpected which result over time from the partnership. This paper offers a conceptual framework with which to understand ongoing partnerships. First, it suggests that the process of collaboration over time may ultimately have a greater impact on the outcomes than the initial terms of the collaboration and considers the implications of the process of mutual adaptation which takes place within the partnership. Second, it highlights the value and risks of outcomes which are not explicitly planned for and expected in the partnership. Third, it analyses how the way in which partners can leverage the results from partnerships affects their valuation of partnership outcomes.

A BRIEF REVIEW OF THE LITERATURE

Ongoing partnerships were chosen as our 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 which was formed to achieve cooperative and strategic objectives.

This definition is intended to cover a broad range of institutional forms including 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, much 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)).

Although an increasing number of databases and surveys of partnerships are available (OECD review (1986), Petrella (1986), Haklisch (1986), FOR (1986), Reseau (1986), Porter (1984)) these studies are concerned with describing and sizing the aggregate 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.

This survey approach is of limited applicability in analyzing ongoing partnerships because it provides only a snapshot of partnerships, usually at formation time or at termination time when partnerships are reported in the press. Microanalytical and qualitative data is often not available in the published sources used. As such, the survey approach does not help explain or identify the more complex and perhaps more significant set of factors which influence the outcomes of ongoing partnerships.

The clinical or longitudinal studies of partnerships often focus on the initial formational motivations for partnerships or on guidelines for structuring 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). Hennart (1986) summarized the four main objectives for joint ventures as being economies of scale and diversification of risk, overcoming new market entry barriers, pooling of complementary knowledge and reducing political risk for multinationals.

Several studies have linked the initial structuring of the alliance to its chances for success. The type of alliance and its complexity as a function of business activity and degree of integration, has been related to how difficult the alliance is to manage successfully. (Killing, 1986). The importance of agreement in perception of the "mission-mix", that is, the dominant and subordinate missions of the partners has been suggested as a key requirement for the success of international cooperative agreements (Root, 1986). The correlation between the strategic importance of a joint venture to a partner's global strategy and the degree of strategic control retained has been examined as a key factor in structuring successful cooperative ventures. (Lorange, 1985).

Several clinical researchers have studied joint ventures and cooperative strategies as a mechanism for organizational learning (Jelinek, 1980). Westney (1980) distinguished two types of organizational learning which took place in cooperative agreements which were studied under conditions of changing industry boundaries: learning as an output where the partner firm adds value internally to enhance its competitive advantage and learning by the partners of how to manage the processes of cooperative linkages. Lyles (1986) explored the role of organizational learning in four firms with over 30 years of joint venture experience. This study suggested that "initial contracts, legal statements or agreements focused attention on the wrong set of issues. This came as a surprise to the parents firms management. It also created conflicts in their relationship with their partner firm."

These research observations seem to support the approach taken in this paper which shifts attention away from a static and formational view of partnerships towards dynamic processes in the ongoing partnership and the value and risks of outcomes which are not explicitly planned for at the outset.

SOME STARTING POINTS

Expected vs. Unexpected Outcomes

When two business firms negotiate a partnership agreement, they have a concept of fairness in sharing and in relative benefit. Each expects a certain set of benefits within a foreseen range of environmental circumstances. A number of these expected outcomes are clearly known to both parties and may be reflected in fixed terms in the contract or agreed-to objectives. These outcomes will be referred to as explicit outcomes.

Other outcomes expected by one partner or the other, may not be explicitly shared, they constitute the hidden agenda of each partner as it enters the partnership.

The expectation of partners is that they will get what they bargained for given the environment they had predicted and that they will satisfy at least part of their hidden agenda. Not surprisingly, one source of unexpected outcomes is environmental change; if the environment becomes dramatically different from the predicted one and likely outcomes fall outside the range of scenarios foreseen, then a more radical restructuring of the partnership and drastic revision of its expected outcomes may be needed. This is a cause of instability in partners' expectations, partnership structure and possibly, partnerships themselves. Conditional contract terms are helpful in managing environmental change if the partners can accurately reduce uncertainty to known risks and thus, predict the range of scenarios which may occur.

Diagram 1:

Environmental Change	Most likely	Predictable	Unpredictable
Management Tools	Contract Fixed Terms	Conditional Contract	Renegotiation Flexibility

Beyond restructuring triggered by unanticipated environmental change, partnerships evolve even when their environment is stable: the partners, the partnership task and the outcomes evolve over time.

However, partners tend to measure their success as a function of their initial negotiated agreement, on the explicit and fair sharing of outcomes they bargained for and on the implementation of hidden agendas. Consequently, unexpected outcomes can be an underlying cause of dissatisfaction or conflict in the partnership, because both the value of what they obtain, and their perception of "fairness" in the partnership are affected.

A Partnership Outcome Matrix

To illustrate these points more graphically, the outcomes of partnerships can be divided into two main categories, expected outcomes and unexpected outcomes. Expected outcomes may also be explicit or hidden. This is

depicted as the horizontal axis in Diagram 2. The sharing of outcomes by the partners can be perceived as "fair" or not. This is depicted as the vertical axis.

The explicit, planned or contractual outcomes may occupy only one small part of the outcome matrix, the "shaded" upper left box characterized by explicit outcomes perceived as "fair". As such, this paper focuses its attention on the value and risks of outcomes in the other five boxes, shown as unshaded areas in the matrix.

A study of partnerships that would focus only on the expected and explicit outcomes of partnership might miss the critical elements in the relationship around issues such as how the partners perceive and measure "success", how they assess "fairness" and "balance" in the relation, how they behave over time, how the adjustment of expectations vis-a-vis the partnership takes place in their partners' organization, etc.

Two kinds of unexpected outcomes can shift a partner's perception of the partnership over time. Differential outcomes are those which are seen to be more advantageous to one partner than another; that is, what is my gain vs. yours. Company-specific outcomes are those which have company-specific value, exclusive of mutual or joint partnership value, that is, what is my gain vs. ours.

Differential and company-specific outcomes, as well as the unfolding of unexpected outcomes over time, are critical to the ongoing valuation of partnerships by the partners. They can tip the balance between the perception of a "fair" sharing of outcomes given circumstances, to the perception of an asymmetric outcome set. Too rational a view of the partnerships--the implementation of a specified explicit contract--may thus be misleading for managers and researchers alike.

Given the potential importance of unexpected outcomes, this paper attempts to identify the dynamic processes which drive or hinder the evolution of partnerships over time and which thus, produce these unexpected outcomes.

It suggests that three dynamic processes of adaptation during ongoing partnerships influence and change the initially formulated and expected outcomes into a more complex set of outcomes characterized by different values and risks.

The first dynamic process of adaptation is the process of learning that takes place over time in a partnership. Partners learn about each other and each other's organization, business and environment. On an operational level, partners tend to adjust their organization and "ways" to working with a partner, clarify through experimentation and interim feedback, the tasks to be performed. Both top managers and business and project-level managers continue to formulate and reformulate their expectations and valuation of the partnership outcomes.

This process of learning moves the recognizable range of outcomes from the limited initial and expected outcomes towards the direction of unexpected outcomes. This can be illustrated more graphically on the partnership outcome matrix of Diagram 2 as a directional arrow on the horizontal axis

moving from the leftmost box to the rightmost box. The risk which attends this evolution of outcome set is that the unexpected outcomes which have not been bargained for and agreed to, may be of substantial value and may be unequally shared by the partners.

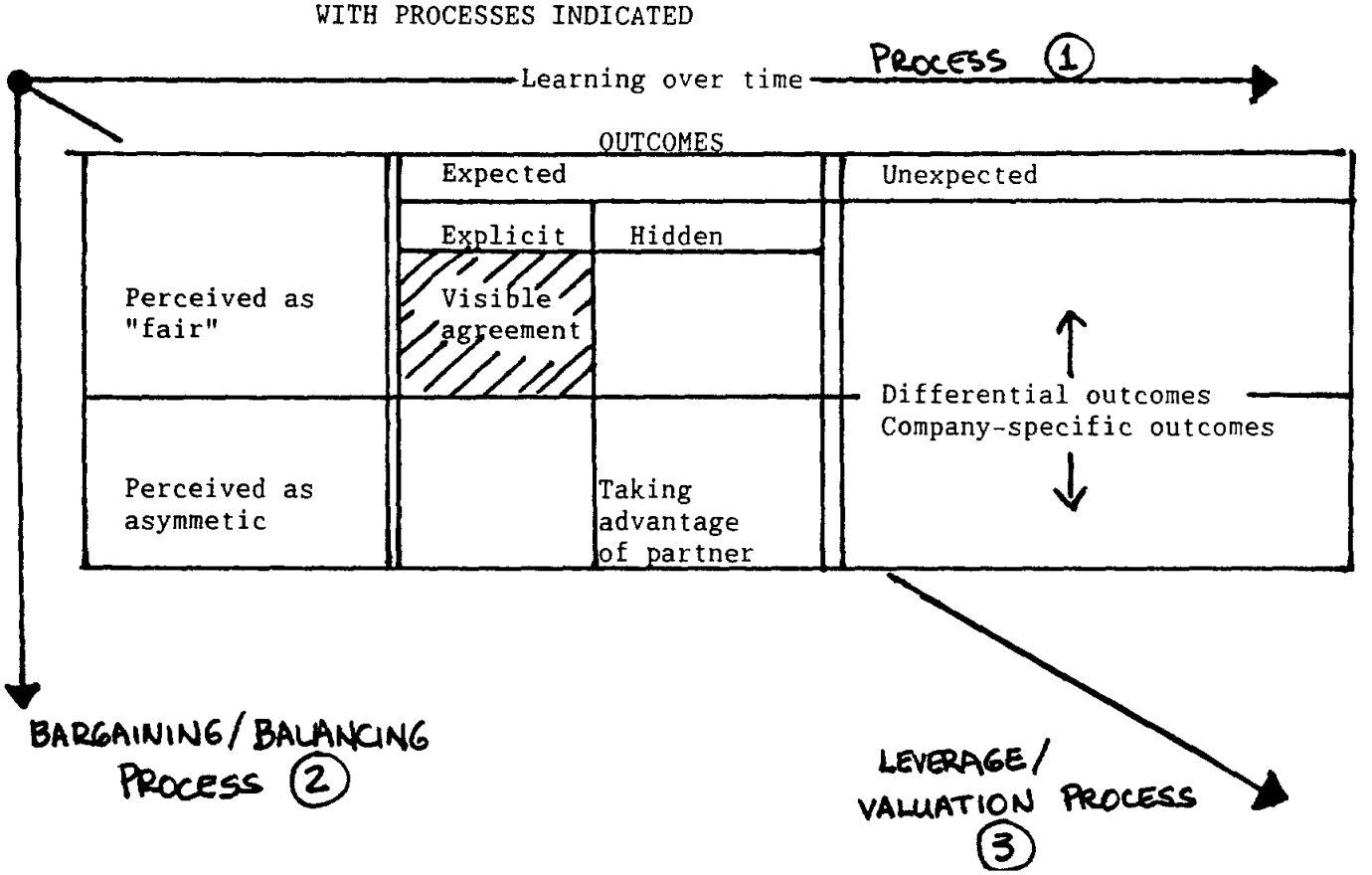
The second dynamic process of adaptation is the bargaining and balancing process that takes place in adjusting the perception and sharing of outcomes in the partnership. This dynamic balancing process is reiterative and is not independent of the first process of learning. It allows the partners, depending on their evolving bargaining position inside the relationship and their options outside the relationship, either to renegotiate an acceptable "balance" or sharing of outcomes over time or to adjust expectations of actual outcomes. A dysfunction in this second process of adaptation can lead to dissolution or termination of the partnership.

This process of balancing is depicted in Diagram 2 as a bidirectional arrow moving in the vertical direction between the top and bottom rows of the matrix.

The third dynamic process of adaptation is the leveraging of values created in the partnership. This third dimension--leverage--does not affect the set of outcomes, but the value to each partner, individually, of this or that outcome. Thus, the partners' utilities and their assessment of "fairness" of outcomes is influenced.

This third dimension is critical to an understanding of partnership outcomes because partnerships cannot be dissociated from the partners' other operations. Valuation of partnership outcomes also depends heavily on the partners' respective ability to leverage what they obtain from the partnership through their own organization. What may look "fair" to one partner may not look so to another given what they see as the leverage value. The ability to leverage partnership outcomes outside of the partnership also influences the value of the outcome set.

Diagram 2 PARTNERSHIP OUTCOME MATRIX
WITH PROCESSES INDICATED



THE LEARNING 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. In some partnerships, this learning process may take the form of logical incrementalism (Quinn 1980) where provisional plans are revised and reworked according to the demands of the situation.

Both single-loop learning, the acquisition of knowledge through operations as well as double-loop learning, learning how to learn, seems to take place to a lesser or greater extent in ongoing partnerships (Lyles, 1986; Westney, 1986) although some categories of cooperative strategies are specifically and explicitly motivated to obtain "learning" and knowhow as distinguished from "concrete output" (Westney,1986). Given that there may be fundamental and recurring dilemnas in partnerships (Koot, 1986), this implies a learning curve in how to manage partnerships.

In the following sections, we identify and discuss three kinds of learning processes in ongoing partnerships: learning about the partner, learning about the task and learning about the outcomes.

Learning influences the partnership outcome matrix in several important ways. First, for both partners, over time the recognizable range of outcomes evolves from the limited initial and expected outcomes towards the direction of unexpected outcomes. However, as pointed out by Doz et.al (1986), often partners have asymmetric abilities to learn organizationally. The partner with the relatively greater learning capability could evolve or develop its outcome set more quickly and perhaps more advantageously than its partner. This greater learning capability would directly influence that partner's relative bargaining power in the relationship and shift the perceived balance of partnership outcomes.

1. Learning about the partner

Partnerships may take place between firms which do not know each other well. There is often a lack of knowledge about the partner's business and organization; this information gap is enlarged for firms that lack a common environment or industry experience. In any case, the most relevant organizational information is tacit in nature, while strategic information is kept carefully proprietary. So, unless they have already had partnerships between them, partner companies are unlikely to know each other well at the outset.

Furthermore, information about the partner is initially restricted by formalized transactions, negotiating situations and concerns for hidden agendas. Deliberate or accidental misrepresentations may occur.

Yet, through the partnering process itself and even through the negotiation process, more and better information becomes available over time.

Proximity, informality and deliveries against commitment can build trust and reputation, or hinder their development. Further, informality, exchange and joint work may allow the partners to learn about each others "ways", about the tacit cultural norms and the power exchanges that make the day to day life of the partner organization.

Organizational learning requires at least three steps: first, to capture or impound individual and subjective insights into objective knowledge; second, to elaborate and generalize this information; third, to institutionalize this response by making appropriate organizational changes. (Jelinek, 1980) A critical fourth step may be discriminate and adapt past success programs to fit with changing environments and situational conditions. (Lyles, 1986)

Thus learning about the partner may be impeded at any one of these necessary steps by perceptual or action-oriented factors; the information necessary to advance to the next stage is either not conveyed to or acted on by the partners.

For example, individual learning about the partner may take place at the operational management level without relevant and strategic information being communicated or acted on by top management. Doz (1986) has discussed the problems of vertical communication within larger firms and commented on how this communication problem can complicate the lateral communications between the partners. This vertical or horizontal "blockage" affects the ability of the partners to process individual and subjective insights at the appropriate organizational level to generalize the information and institutionalize it.

Even if the information flow is not actively impeded, information is often "codified" in firm-specific ways and the transfer of information across firm boundaries suffers from this semantic noise. (Allen, 1985). A prerequisite to organizational learning may be a certain level of familiarity with the partner so as to correctly translate and interpret the information and actions of a partner firm. Furthermore, the translation might be highly firm-specific and thus, hard to generalize appropriately to other situations or other partners.

As such, partnership learning may be more difficult in cases where the organizational structures of the partners are very different and the overlap of common understanding and similar organizational ways of doing business is small. 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. On the other hand, an "eclectic atmosphere" of joint development may bring out innovations not likely in a "monoculture" context. (Contractor & Lorange, 1986). Westney (1986) hypothesizes that cooperative agreements may lead to increasing isomorphism between the firms in the partnership. Certainly, a partner may deliberately or not, start to emulate the success programs of its partner.

2. Learning about the task and how to perform it

Partnerships are often formed to achieve a project or task which the partners cannot accomplish solely. Many studies in the partnership field have categorized the motivations for formation; entry into a new technology or market, geographic expansion, increased global competition, industry conditions requiring the acquisition of new skills, knowhows, resources, equipment and capabilities not available internally in the necessary timeframe.

However, the very conditions that motivate the partnership often make the task or project envisioned difficult to plan precisely at the outset. The partners are dealing with areas unfamiliar to them in one or more aspects, the environment may be hostile, the task not yet well specified and neither of the partners have the full complement of capabilities or skills to complete the task on their own.

Through the partnership, the partners learn more about the task requirements and clarify the achievable outcomes and their timing. Learning about the partner facilitates a better understanding of the actual capabilities of the partner and how those fit the task requirements. Increased specification of the task allows the partners to organize the partnership more effectively, for instance, to change the level of interdependence and the structure of the partnership or its relationship with the existing organizations.

Learning about the partnership task may be the most measurable and transferable type of learning of the three identified. Most of the explicit and expected outcomes directly result from the performance of the partnership task and thus the expected outcomes and their timeliness provide visible and measurable feedback. Individual insights in this project-oriented area and task governance structures which have proved effective in facilitating past partnership tasks may be generalized and institutionalized over time to other tasks and other partners.

3. Learning about possible and potential outcomes and options

Partners initially start off with a too rosy picture of the expected outcomes. This over-expectation can result from the bargaining process, where each partner is encouraged to oversell its advantages and capabilities and undersell its weaknesses. Such bargaining process takes place not only between the partners, but also within their own organizations, where advocates of the partnerships tend to oversell its merits to top management.

Additionally, at the formation time, the partnership often enjoys a high level of top management commitment; this top management attention is often not sustained over time. Consequently, management at the operational levels are confronted over time with the gaps between the intended outcomes and the probable ones. Sometimes perceived top management commitment is so high that individual managers are afraid to "blow the whistle". This situation is complicated by multipart agreements, in which more than one organization within the firm could be jeopardized by issues in the partnership. In other cases, managers renegotiate what they believe to be feasible goals. In both cases, the reassessment which takes place as a result of this type of

learning about the partner changes and "obsoletes" the initial top management expectations of outcomes.

However, the parallel learning about task and increased task mastery and the reassessment which takes place at the task and working level may act in a counter direction by augmenting and increasing the recognizable range of outcomes and options.

For example, the process of adaptation and learning which takes place in the ongoing partnerships tends to make the initial expected outcomes a relatively small subset of the actual range of outcomes that should be evaluated in the ongoing partnership.

This consideration explains the relative change in value of the initial reasons for the partnership referred to by other researchers. In some cases, the original reasons for the partnership become "obsolete" over time. (Harrigan, 1985). In other cases, "advantages traded in JVs such as knowledge, firm-specific goods, **decay over time"** and thus this should affect the relationship, (Hennaert, 1986). Lorange (1985) refers to the "**erosion**" of joint ventures over time and the multitude of problems this creates. The strategic rationales which prevailed when a cooperative venture was formed may shift over time from external or environmental sources or from internal erosion, as when one partner learns from the other and the other partner then has nothing new to contribute. (Contractor & Lorange, 1986).

Not surprisingly, if partners do not continue to expand and reevaluate the actual set of outcomes and options in the partnership versus a limited set of outdated initial outcomes, this can cause conflicts. As pointed out by Hamel et al.(1986), not renewing one's portfolio of skills ina partnership may lead to a "dependency spiral" in which the partner who renews its skills the least has to deplete an existing inventory of skills faster and faster to keep his partner interested. Additionally, certain firms may have a greater capability to learn within partnerships and to take advantage of expanding outcomes and opportunities (Doz et.al, 1986).

THE DYNAMIC BARGAINING PROCESS

The second dynamic process of adaptation is the bargaining and balancing process that takes place in adjusting the perception and sharing of outcomes in the partnership. It allows the partners, depending on their evolving bargaining position inside the relationship and their options outside the relationship, either to renegotiate an acceptable "balance" or sharing of outcomes over time or to adjust expectations of actual outcomes.

The risk is that the burden of responsibility for renegotiating an acceptable "balance" typically falls upon the partner who perceives himself shortchanged but has either the weaker bargaining position inside the relationship or has more limited options outside the partnership.

In considering "balanced value exchange" in partnerships, Lorange (1985) suggested 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 balanced 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 actually 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, seems to imply that the trade taking place in a partnership is measurable and controllable in exchange.

In contrast, the process-oriented view taken in this paper focuses on the difficulty in controlling and regulating the transfer of resources and skills in an ongoing partnership. Once organizational interfaces are established, they form an "organizational membrane" (Doz, et.al., 1986) by which intended and unintended transfers take place.

The Interorganizational Membrane

Partnerships over time act as channels 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 established 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.

Doz et.al (1986) has used the analogy of a biological membrane to illustrate the processes which takes place at a partnership interface. Three dimensions determine the movement across this interface and the relative distribution of power between partners.

First, the relative strength of strategic intent creates a directional force similar to a pressure differential and thus influences the direction and speed of the flow across the partnership interface. Second, the relative receptivity or ability to learn determines the permeability of the interface and thus, the capacity of the channels between the partners. Third, the relative appropriability of contribution is analogous to the relative size of the molecules which are being pushed through the membrane; discrete and

quantifiable resources are transferred more easily than knowhow which is tacit and embedded in either complex organizational routines or residing only in people and systems (Teece, 1981).

The 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)). Additionally, it 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 applied to communication between organizations such as partnerships.

The key difference in partnership information-based flows over time is that ideally, they should be regulated during the partnership process to allow both effective and intended contribution and reciprocity while at the same time providing effective barriers to unintended transfers of proprietary and exclusive information.

However, information channels tend to be either open or closed. The capacity of a channel once established can be increased or decreased but choice of the information which flows in the channel is more difficult to regulate. 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 resources in the partnership.

Thus, this interorganizational membrane complicates the process of balancing the value exchange between partners. The flow and subsequent accumulation of resources and skills over time may depend more on the nature of the partnership interface and its structure than on the negotiated and expected "fair" sharing of outcomes. Furthermore, the actual flow and distribution of non-explicit outcomes is difficult to measure and to value. Information about the kind and quantity of "invisible assets" being transferred in both intended and unintended transfers may not be easily attained.

THE LEVERAGING PROCESS: MEASURING THE VALUE OF UNEXPECTED OUTCOMES

The third dynamic process of adaptation is the leveraging of values created in the partnership. This third dimension -- leverage -- does not affect the set of outcomes but the value to each partner, individually of this or that outcome. Thus, the partners' utilities and their assessment of "fairness" of outcomes is influenced. Partners differ in their judgment of "fairness" depending on their valuation approach.

Different Yardsticks

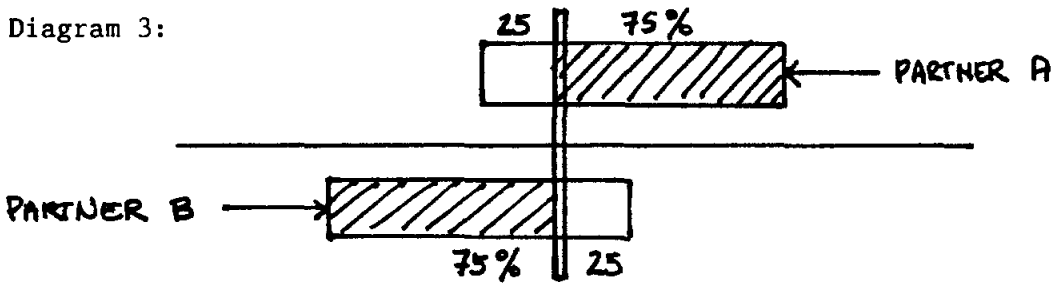
Lorange (1985) has pointed out that each partner applies his own subjective perception to the value jointly created in the partnership and that each

partner's assessment is influenced by judgment, skills, risk evaluation and random developments. This paper suggests that this fundamental concept of subjective evaluation of gains in a partnership can be expanded into a more detailed approach to assessing the cost-benefit of partnership outcomes.

First, there are four interesting and complementary "yardsticks" to consider when assessing the cost-benefit of partnership outcomes; outcomes may be measured on an absolute, relative, differential or company-specific basis.

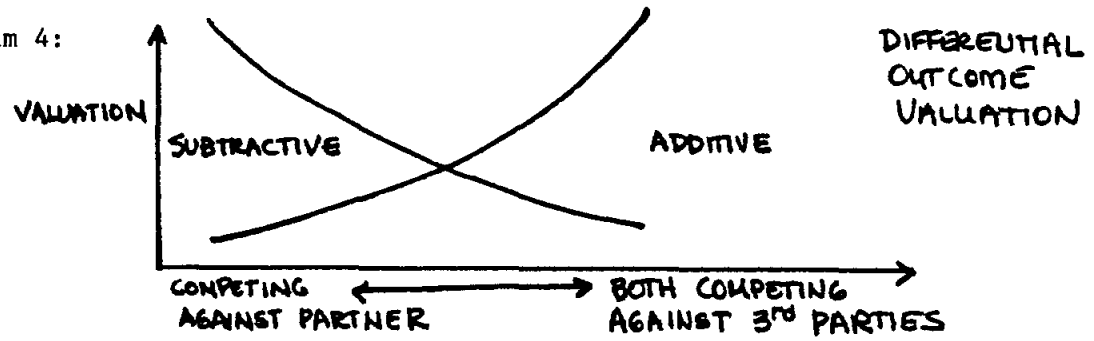
Each partner can evaluate his relative benefit in the partnership as compared to this perception of his partner's benefit. This evaluation is subjective and as such, can lead to the situation where partner A is happily smug that his perceived share of the outcomes is disproportionately larger than what partner B receives while at the same time partner B is similarly content with what he perceives to be an advantageous sharing. Clearly, the key to this seeming paradox is the different evaluations and visibility of the outcomes made by each partner. Using a relative basis for evaluating gains and losses in the partnership can be critical for partners who compete in the same industry; the relative advantage provided by the partnership may be weighed as being far more important than the absolute benefit.

Diagram 3:



Measuring partnership outcomes on a differential basis is relevant when each partner needs to consider both its relative position vis a vis its partner but also third party competition. In the extreme left-hand case of two very strong and large competitors the outcomes are divided in a zero-sum game and the measurement is very similar to the relative or subtractive value between the two. However, in the extreme right-hand case of two weaker industry partners combining against the industry leader, benefits accruing to the either partner are seen as additive and positive gains vis a vis the common enemy. In this case, the sum can be more than 100%

Diagram 4:



The fourth yardstick which can be used is the company-specific one. In this case, the outcomes which are measured are the ones which have value to one partner only, and is exclusive of jointly shared value.

Second, partnership outcomes can vary in their "strategic character"; the benefit or asset being gained or lost through the partnership may not be obtainable or acquired through any other means or markets.

Strategic Outcomes

Dierickx and Cool (1987) have proposed a framework for analyzing business strategy and competitive advantage which focuses on the nontradeability of certain kinds of strategic assets which constrains firms to "building and accumulating stocks of critical assets" over time to gain competitive advantage and potential profitability.

However, partnerships may be a vehicle for transferring strategic assets which are usually non-tradeable and cannot be purchased in some input factor market. Hennart (1986) pointed out that there was empirical support for the idea that equity joint ventures are chosen as a way to transfer non-codified technological knowhow as well as country-specific skills difficult to transfer through contracts.

As a vehicle for transferring strategic assets, partnerships could be more effective than outright acquisition or merger because the dynamic partnership learning process and balancing of value transfer between unlike partners can have a stimulating effect on partnership outcomes. Certainly, one of the reasons large firms partner with small firms is to allow the small firm to maintain its often successful innovative culture and organisational routines (Hennart, 1986). As quoted in Hennart (1986) and Williamson (1985), a General Motors executive explained the firm's purchase of 11% of Tecknowledge, "If we purchased such a company outright, we would kill the goose that laid the golden egg."

The concept of "strategic assets" proposed by Dierikxx and Cool implies that a number of the outcomes, expected or not, such as transfer of R&D knowhow, sharing of partner's already established dealer and brand loyalty, enhanced reputation by association, future manufacturing or market share advantages, coopting a potential competitor and learning how to partner may be more valuable and "leverageable" long-term to a firm's competitive position than the more visible and quantifiable short-term gains such as financial flows or lower manufacturing cost.

Higher Leverage Value

Third, some partners may be able to use more effectively or productively the outcomes they obtain from the partnership and thus can "leverage" their share of the outcomes.

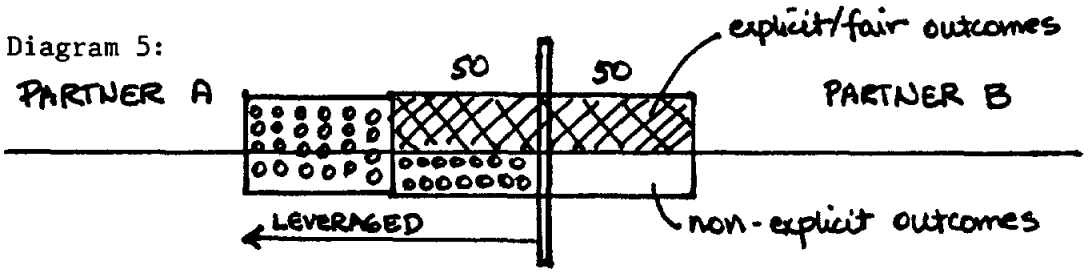
This enhanced use or "leveraging" of partnership gains may take place when the partner firm has a very broad range or scope of business activities and geographic markets. As in traditional game theory, the wider the scope of bargaining chips, concessions and threats a negotiator can bring to the table, the more he can gain.

In partnerships, the broader the scope of applicability of partnership-gained resources, the higher the potential 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.

"Leveraging" of partnership gains is facilitated when one of the partners already has a substantial advantage or existing knowhow in a strategic function requiring critical mass; breakthroughs may be more likely for R&D leaders than for firms playing "catch-up". Additionally, strategic gains may be interdependent and achieving an advantage in one area may be dependent on a sufficient level of skill in one or several other functions or areas. (Dierickx and Cool, 1987).

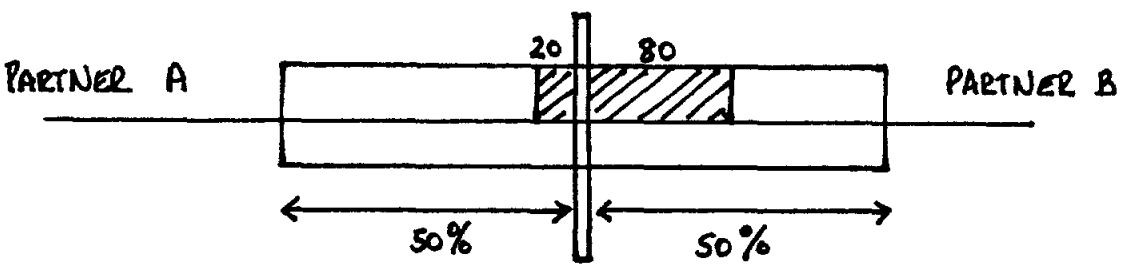
Diagram 5:



In this example, the cost benefit of each partner is 50% each and the explicit outcomes are fairly shared. However, partner A may be able to leverage both the explicit and the non-explicit outcomes more effectively than partner B. In this case, is the real measurement of the sharing of partnership outcomes, 50%-50% or 4:1.

Leveraged outcomes may also explain why both partners can seem satisfied with a sharing of explicit outcomes in a partnership which seems patently asymmetric. One of the partners can be measuring his outcome on a broader range or timeperiod than the other. In some cases, this asymmetry in scope or time-scale can lead to difficult-to-resolve conflicts in setting operational priorities in the partnership.

Diagram 6:



To summarize the main implications of this leveraged cost-benefit evaluation process:

a. Through the partnership, values and capabilities are transferred.

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 outcomes.

d. Partnership outcomes can be measured with at least four relevant yardsticks.

e. The weighing of the value of outcomes may be dependent on their "strategic character" and nontradeablility on the open market.

f. The ability to leverage outcomes is often dependent on the context, strategy definition and time scale of the partners.

A CONCEPTUAL FRAMEWORK FOR ONGOING PARTNERSHIPS

The purpose here has been to construct a conceptual framework to better identify and understand the processes taking place in ongoing partnerships.

The Initiating Phase

As a first step, we have suggested that the initial agreement tends to document the expected and explicit outcomes which are perceived by the partnering firms as "fair" at the time of the agreement.

As such, the initial agreement and negotiations are driven by the perceptions, expectations and value assessments formulated independently by each of the firms, most often in the absence of prior interaction or relevant confidential knowledge.

Figure 1 shows a series of initiating activities, marked 1,2 and 3, taking place independently and in parallel in business firm A and business firm B before the interactive activities and negotiations which leads to an acceptable agreement. The key initiating activities include (1) perception of enacted environment and strategic context creating a basis for (2) development of an initial partnering plan or strategy and for (3) assessment of the outcomes and value of a particular partnership. These activities can lead to an interactive activity (4) which balances the expectations of firm A and firm B. Often this initial balance is documented in the form of a partnership agreement.

Partnership Process

However, the focus of this paper has been on the evolutionary processes directly influencing each partner's perception of outcomes. Through this

perceptual change, each firm modifies in a reiterative manner, its initial perceptions of environment and strategic context (arrow A), partnering strategy (arrow B) and assessment of outcome and value (arrow C).

Additionally, two important delayed effects occur in the partnership process. The evolutionary process activates reciprocal partner assessment, creating a feedforward interaction to the reformulation of expectations and value assessment (dotted lines). Both the reciprocal partner assessment and the reiterative modification of outcome perception influence each partner's concept of fairness and acceptable balance within the partnership.

Multiperiodicity

The feedback and feedforward arrows described in the previous section emphasize the iterative and dynamic nature of the partnership process. The model as drawn however, does not capture the fact that activities take place simultaneously as well as sequentially.

Furthermore, the flow and rapidity of the process in one firm may be substantially different from the other. Thus, after a number of timeperiods, partner firm A may have reiterated and adjusted its perceptions and valuation many times, and partner firm B only once. This asymmetry in reiteration and adjustment cycles and timing can result in firm A developing a different partnership learning curve over time than firm B and can influence relative bargaining power in the relationship.

CONCLUSIONS AND IMPLICATIONS

The insights gained from focusing on expected and unexpected outcomes and the dynamic processes occuring in partnerships are recapitulated below and some implications are highlighted.

First, the explicit, planned or contractual outcomes of partnerships can be only a small part of the set of outcomes which have value in an ongoing partnership. Differential and company-specific outcomes, as well as the appearance of unexpected outcomes over time may be overlooked but critical elements in partners' measurement of "success" and the assessment of relative cost-benefit in a partnership.

Second, a number of dynamic processes influence the evolution of partnerships over time, even when the external environment remains stable. Three processes were identified and discussed: (1) the process of learning; (2) the bargaining and balancing process and (3) the leveraging of values process.

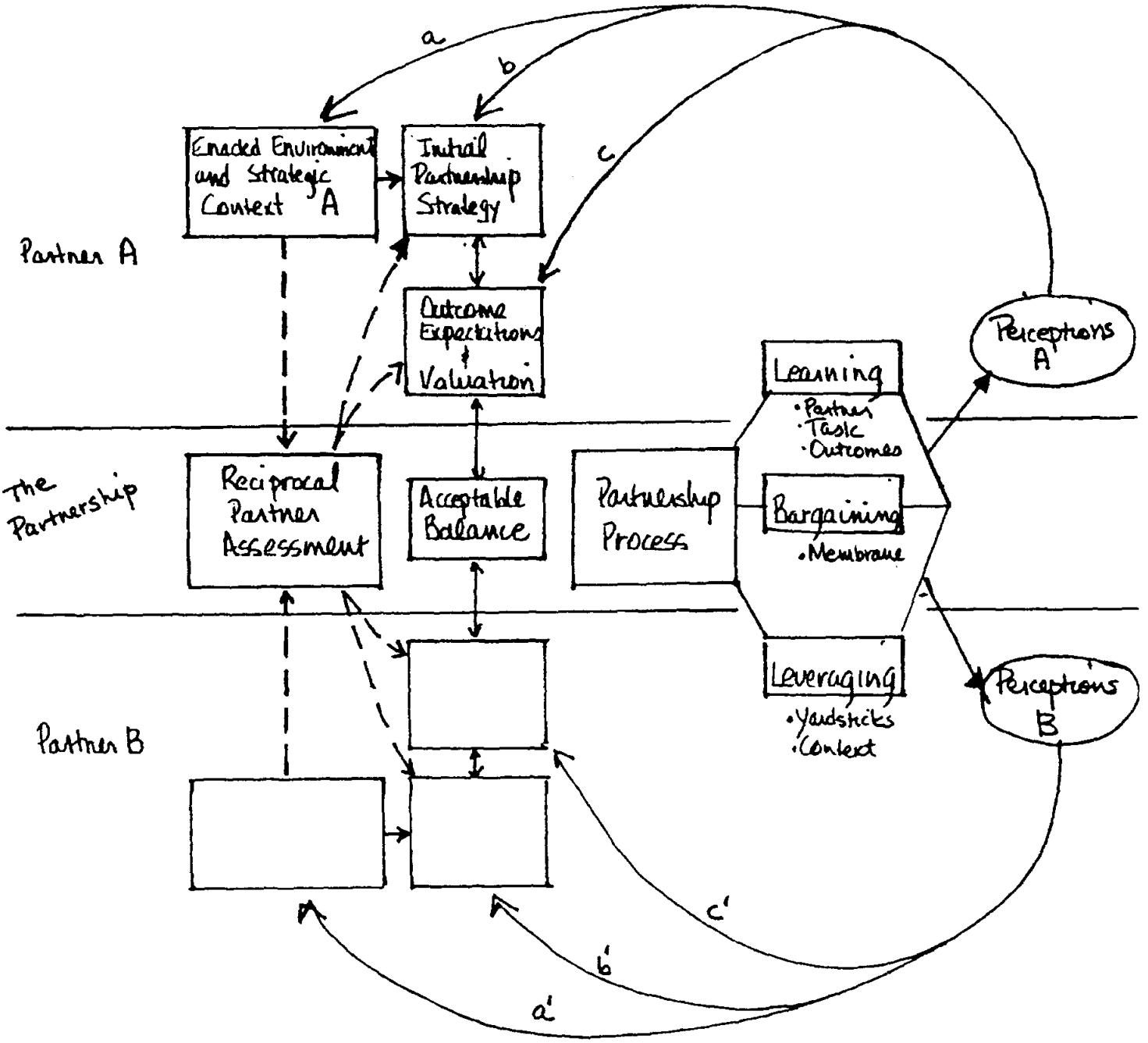
The process of learning in a partnership takes place due to more and better information about the partner, the task and the potential outcomes becoming available over time due to interaction and feedback. As pointed out, the value of this process is that the actual set of outcomes and options to be gained or lost in the partnership can be different or expanded versus the initial expectations. The risk is that one partner has a greater capability than the other to learn within the partnership and to take advantage of partnership changes. Another risk is that the unexpected outcomes which

have not been bargained for and agreed to initially, later dominate the partnership and create irresolvable conflicts.

The bargaining and balancing process takes place as each of the partners adjust their individual perceptions and expectations of the partnership. Depending on the bargaining position inside the partnership and the options outside, changes are made to reach an acceptable "balance" or sharing of outcomes over time. The risk is that contractual mechanisms such as contract renegotiation may not be effective in shifting the actual sharing. Due to the interorganizational membrane established between the two partners, the transfer of skills and invisible assets may be more influenced by the nature of the exchange than the explicit contract. Rebalancing could imply redefinition or reorganization of the structure of the partnership interface and its governance structure. Also the burden of responsibility for redressing a perceived asymmetric sharing might fall on the partner with a weaker bargaining position or few external options.

The leveraging of values process results from the two partners measring the value of the expected and unexpected outcomes within a company-specific context. The yardsticks which are employed inside the partnership are dependent on factors outside of the relationship such as synergy with other company operations, third-party competition, corporate timeframe. These factors influence both the valuation process and changes in the perception of relative cost-benefit as well as the capability within each partner to make effective use of partnership outcomes and skills transfers.

Finally, the framework which integrates this process thinking incorporates a number of important features. It emphasizes the reiterative, multiperiodic nature of the partnership process. It distinguishes and separates the activities which take place independently and thus subjectively within each of the partner firms and on the activities which are interactive and thus drive the two firms to test their perceptions and assessments in a reciprocal way. These features imply that the independent activities can take place at a different pace and different order in each of the firms and thus generate significant mismatches and asymmetries at the interfaces.



Partnership as a multiperiod, iterative dynamic balancing process.

FIGURE 1

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