MANAGING AMBIGUITY OF STRATEGIC ALLIANCES – THE ROLE OF NEGOTIATIONS

Lect. Ph.D. Luminița Vochița
University of Craiova
Faculty of Economics and Business
Administration, Romania

Abstract: Strategic alliances have become an important part of most company's portfolios. In an era of rapid technological change, the ever rapidly changing competitive landscape, and the globalization of competition more and more companies are choosing to participate in alliances. With their competitors entering into alliances, firms are often faced with few choices other than that of forming alliances to nullify the potential advantage of their rivals. The high failure rates are mirrored in the demise of some alliances that have garnered widespread publicity. This paper studies the increasing importance of negotiations in faceing and managing the ambiguity of the process of alliances and tries to formulate some rules to be followed in order to achieve the right balance in strategic alliances.

1. Introduction

There is no one simple explanation for why company's alliances fail. Some fail because of incompatibility of partners goals. Others are unable to navigate differences in national cultures among partner firms. Still others suffer from opportunistic behavior by their partner or the inability to effectively coordinate their activities. Yet others are the victims of changing environmental conditions that call into question the logic of the alliance. Still others suffer from the challenge of developing an alliance with a partner who may be their competitor. Given the diversity of causes underlying alliance failure, it is perhaps understandable as to why managers often consider alliances as an organizational form that maximizes rather than minimizes ambiguity. Ambiguity is intrinsic to alliances in that there are numerous variables that often come into play. These variables mutually influence each other and their interaction often occurs in an environment that is far from benign. For example, where the partner's objectives are or are perceived to be incongruent they may undertake actions that may surprise their partner. This, in turn, may cause the aggrieved partner to question the motivations of their partner. This will surely undermine trust and make cooperation among the partners exceedingly difficult.

The ambiguity that is characteristic of alliances is not a one time event by any means, although the sources of ambiguity may clearly be distinct at different phases of alliance evolution. Alliances go through the phases of *formation, operation, and outcome* and each of these phases poses its own unique problems about managing ambiguity. At the formation stage the alliance partners agree on the alliance and set about making their agreement operational. At the operation stage the alliance commences its operations be it a marketing arrangement, an R&D partnership, or a

manufacturing one. Finally, at the outcome stage alliance partners have to make the decision whether to continue with the alliance or to bring it to a termination, be it premature or otherwise.

At the formation stage the fundamental ambiguity surrounds the terms of the deal. Each of the potential partners to the alliance is obviously motivated to get the best possible deal, but there is clearly the recognition that they cannot push their partner too far, otherwise there will be no alliance. The critical question is: What should be the right balance between assertiveness and acceptance? In international alliances ambiguity may also be fostered by cultural differences, that while always present, are likely to be particularly salient at the onset of the interaction. Partners may not understand each other or may understand each other incorrectly. They may or may not feel comfortable with the negotiation tactics employed by their partner firms. For example, the relationship oriented negotiation strategy that is so characteristic of Asian and Latin American cultures may not sit well with the time conscious North Americans. Likewise, the Asians or the Latin Americans may be unhappy with the assertiveness of the North Americans which may cause them to loose face.

The operational stage is often marked by managerial ambiguity. There may be unclarity as to how decisions are going to be made or the basis on which decisions are made. There may be differences in how effectively the partners communicate or share information and this is likely to make matters worse. If partners are distrustful of each other they may not fully trust the information that is being given to them and surely this can only complicate matters. If these problems persist they may give rise to unfavorable process and/or outcome discrepancies and this is most certainly an unwelcome development as it is likely to lower the trust and lessen the psychological commitment of the partners to the venture. Process discrepancies mean that the partners are unsatisfied with the way that they interact with each other such as information sharing, putting in the required effort, and/or making decisions in a timely way. Outcome discrepancies mean that at the operational stage the alliance has failed to yield results that are to the satisfaction of one or all of the partners. The marketing strategy may not have yielded the desired results or progress in product development may have been slow. Clearly, these negative outcomes will put pressure on managers to either reverse course or undertake radical changes to revive the venture.

Finally, at the outcome stage the managers are faced with the issue of evaluative ambiguity. This assumes particular importance when the alliance has not fared well. The alliance partner or partners must now make the judgment as to whether they wish to continue with the alliance. At what point in time should they pull the plug on the venture? What options are available at this time to restructure or renegotiate the venture? How will their partner respond to their decision? If the alliance is with a partner from Asian or Latin American cultures might not a decision to exit be perceived as a face loss for the culturally distant partner?

If ambiguity is such a fundamental characteristic feature of strategic alliances how should managers seek to deal with it? While ambiguity cannot be done away with, managers can learn to cope with it better. The ability to cope with ambiguity requires that managers pay attention to both structural and the behavioral aspects of the alliance. By the structural aspect, the paper is referring to the contractual terms and the governance arrangements surrounding the alliance whereas by the behavioral aspect the paper is referring to the way that the managers interact with each other. The two are clearly not independent of each other, but they do impact alliance functioning in their

own unique manner. The structural dimension will determine whether the managers approach alliance management with a cooperative or a competitive frame of mind whereas the behavioral interaction will determine whether they amplify or minimize the cooperative or the competitive frame with which they deal with the alliance. The effective management of structural and the behavioral dimension of the alliance require that the managers learn to **negotiate effectively.** If the managers are able to negotiate effectively they may both succeed in **minimizing ambiguity** and or **may be able to cope with it more creatively.** This is the central theme pursued in this paper, which proposes negotiation strategies that may help alliance managers to manage ambiguity effectively at all phases of alliance evolution.

2. Forming a strategic alliance

Although all negotiations share the fundamental tension between value creation and value claiming these tensions are exaggerated in alliances for a number of reasons. First alliances are often temporary arrangements and this means that while the partners are clearly cognizant of the advantages of an alliance, they are unsure as to how long these benefits might continue. Obviously, this is likely to make the partners wary of each other. Secondly, many of the alliances are formed between companies that are potential competitors and this has the implication that the partners are often wary of sharing information, lest they give up the source of their competitive advantage. Cultural barriers can only aggravate the problem of finding common ground. Lastly, many alliances involve not just two, but often multiple partners. If negotiations are difficult even within the context of two parties, the difficulty is obviously magnified many times over when more than two parties are involved. All of this then contributes to maximizing the ambiguity in the alliance. The question is: How should alliance negotiators grapple with this problem?

Learn to accept ambiguity. Strategic alliance negotiators must learn to become comfortable with ambiguity, even if this might be often uncomfortable because ambiguity lessens their sense of control. It is not apparent to them if they will be able to successfully conclude a negotiation or the time that it will take them to broker the deal. It may not even be clear to them if the deal that they have negotiated is the most appropriate for the company concerned. Although we are all understandably wary of ambiguity, accepting ambiguity can confer on negotiators a number of significant advantages. A high tolerance for ambiguity may make the negotiators relaxed and confident in their interactions with their counterparts. This is likely to create a positive negotiation climate and may elicit favorable reactions from their counterparts. Secondly, if ambiguity cannot be avoided, why not simply embrace it? Acceptance of ambiguity may allow the negotiators to turn ambiguity to their advantage. Ambiguity implies that nothing is set in stone and that there is room for maneuvering. Ambiguity may promote flexibility, and negotiators who become comfortable with ambiguity can more readily capitalize on the benefits of flexibility. Finally, ambiguity, is also an effective tool for promoting harmony among the parties. Ambiguity implies that contested issues can remain hidden till the time that the parties are willing to more forcefully engage with them. This is advantageous, in that, it can allow the negotiators to strengthen their relationship before dealing with more difficult issues and this is surely advantageous.

Seek to develop a common vision for the alliance. Scholars have often drawn a distinction between interest based and positional based bargaining. The former is

integrative in character, in that it seeks to integrate the underlying interests of all of the parties concerned. By contrast in positional based bargaining negotiators often stake out unyielding positions leading to either a suboptimal solution or to no solution at all. Although interest based bargaining has much to recommend to it, it may be insufficient in developing an agreement that will withstand all of the turbulence that an alliance may be subject to. This is so for a number of reasons. First, interest based bargaining assumes that people are conscious of what their interests are. And yet, when ambiguity prevails, negotiators may either incorrectly perceive their interests or may have no clear idea of what their fundamental underlying interests are. Secondly, ambiguity may make it that much harder for alliance negotiators to directly deal with interest based bargaining as the negotiators may not fully know what their overall interests are and/or may be reluctant to reveal them. Given these difficulties it is imperative that the negotiators seek to develop a common vision for the alliance. This means that the alliance partners have a coherent idea about what the alliance is all about and the strategies that will need to be pursued for the alliance to achieve its goals. It is only within the context of this broad understanding that the partners can meaningfully identify their interests and act upon them.

Go with the flow. Given the inherent ambiguity of alliances it is only inevitable that negotiations will not necessarily proceed in a step wise or a linear sequence. Progress may be marked by retardation and when all hope is lost a glimmer of hope may begin to appear. There are so many variables at play here, ranging from the conflicting and often shifting strategic objectives of the partner firms to the abruptly changing environmental conditions to complex intra organizational politics that these negotiations are anything but simple. Wheeler & Morris have pointed out that even the simplest of negotiations are anything but simple and have made the interesting observation that even apparently simple negotiations can unfold in many different ways. As they point out, small events can at times break or make a negotiation. There is, as they put it, the „fog of negotiation", which would make everything possible as well as impossible at the same time. All of this has the one important implication that negotiators should be prepared for the fact that they cannot control everything. Indeed, to expect the opposite would be unwise, and may detract the negotiators from achieving their goals. Negotiators should not seek to bring their own sense of direction to the negotiation; it is only to suggest, on the contrary that even as they do that they must realize the limitations of their control. It is absolutely vital that the negotiators exhibit a high level of creativity at this stage for this, in many ways, represents their best hope for salvation. In practical terms what this means is that negotiators should not prematurely accept or reject proposals emanating from the other party. Thoughtful reflection is an absolute precondition for attaining success here.

3. Operating a strategic alliance

Assuming that the strategic alliance has been successfully negotiated the managers will now have to make certain that the alliance runs smoothly. There are a number of factors which may militate against a successful transition. First, there is the ever present possibility that the partner or the partners concerned behave opportunistically. This means that they may either not put in the requisite effort and/or may try to gain access to their partners technologies in an illegitimate way. This is clearly the most egregious of managerial conduct and will understandably enough invite swift retaliation. Alternatively, the assumptions on which the alliance has been founded

do not conform to the reality and this lack of congruence may again militate against the alliance. It may also be difficult for partners to overcome cultural barriers. Culture often influences how people share information, how decisions get made or problems are defined, and the manner in which partners seek to manage conflict. A good example of an alliance which experienced severe cultural problems is the Volvo- Renault alliance. Although cultural problems were not the only problems contributing to the demise of the alliance they certainly did play their part. The French and the Swedish cultures are rather different and some earlier work had suggested that the Swedish felt more comfortable working with their British or German colleagues than they did working with their French colleagues. Finally, all alliances have to overcome the fundamental problem that the employees of the alliance may not fully identify with it. There are several reasons underlying this dilemma. First the employees of the partner firms who are seconded to the alliance may not be appropriately rewarded for their new assignment. Relately, they also recognize that their ultimate future career progress lies within the parent company and not within the alliance. Finally, in the absence of an attempt by top management to build a new culture in the alliance the employees may seek to replicate their earlier patterns of behavior within the alliance. There is also the added problem that the alliance may be viewed very differently by top level managers, alliance level managers, and functional specialists. Each of these managers has their own unique set of concerns and reconciling them may not be that easy. Thus while top level managers are concerned about the strategic significance of the alliance, alliance managers are concerned that their partner behaves appropriately, and the functional specialists are most interested in the fact that they are able to effectively coordinate their activities.

All of these suggest one simple thing, namely that conflicts are likely to be ever present in strategic alliances. The critical question is: How should managers deal with conflicts during the operational phase of the alliance?

Learn to deal with emotions effectively. If a partner has cheated you or has attempted surreptiously to acquire critical aspects of your technology, it is only natural that you will become angry and feel frustrated. Similarly, if your partner fails to provide you the relevant information on time or provides only partial information you may become anxious and it is not unlikely that you will begin to suspect your partners intentions. Alternatively, if your partner makes a decision without consulting you, you may once again feel resentful for the way that you have been treated.

Emotions, such as anger, or anxiety, can have a powerful impact both on how we behave and how we perceive the actions of our counterpart. For example, anger induces us to behave aggressively, whereas anxiety impels us to escape or withdraw from the situation. It is not difficult to imagine what the consequences of each of these emotions are likely to be on the evolution of the alliance. When one party behaves aggressively, then the other may be induced to behave in a similar manner, thus leading to the escalation of the conflict. If, by contrast, one of the parties seeks to withdraw from the interaction, problems may remain unsolved fuelling more dissatisfaction and resentment. The problem becomes infinitely more complex when the conflict arises in the context of alliance partners that come from different national cultures. In the case of American and Japanese negotiations it has often been observed that the Americans get aggressive while the Japanese seek to withdraw from the interaction. This, in turn, increases the Americans sense of frustration, making them even more aggressive and signaling in many cases the demise of the interaction. How, then, should managers deal

with their emotions in an emotionally charged situation? First, never express your emotions in an unconscious way. In other words, do not allow the momentary situation to dictate the course of the events. In some circumstances it may be perfectly appropriate to express anger, but even this need to be done in a calm, purposeful way, with some clear objective in mind. Secondly, never rush to judgment about the causes of the event or events that have fuelled your anger. On occasions there may well be legitimate reason or reasons why the partner behaved in the way that he/she did and that kindled anger in you. It is important that you delve into the underlying reasons as to why this outcome has occurred before taking a final stance on the issue. Third, follow the principle of proportionality. Express your anger or frustration in relation to the nature of the original offense- it is not a good idea to overstep the limit. Finally, in the context of international alliances it is important that you resolve these issues with the help of a cultural mediator because norms for dealing with emotions vary across cultures. For example, in Confucian based cultures such as Japan or China, there are a strong taboo against overt expression of emotions. This may cause the parties to loose face and the damage to the relationship may be severe.

Do not allow problems to accumulate in the alliance. It is tempting to ignore the first signs of problems thinking that everything will be solved. While this may certainly happen from time to time an opposite scenario can also be visualized. This is where problems multiply and smaller problems become much larger problems. What may have been manageable at the beginning becomes much more intractable later. Most fundamentally, when the problems accumulate and not dealt with in a timely way a number of things happen. First, the employees who are most directly affected by these problems may come to feel that they are not being taken seriously. This may produce feelings of injustice/resentment and for this reason may affect their morale in the alliance. Secondly, as the problems get sidelined suspicions and rumors may take centre stage. Employees may speculate as to why management is not dealing with these problems. Alternatively, they just don't have the capability of managing the alliance or the fact that they deliberately want a negative outcome to occur. Finally, an accumulation of minor problems may lead to major problems as when the performance of the alliance falters or one of the partners seeks to exit the venture. A strategic alliance may be rescued even under these conditions but negotiations under these circumstances are likely to be tough and time consuming. It would be far better, if through their commitment, the top management prevented the emergence of these problems in the first place.

Be consistent. Consistency is most often a virtue because it creates the positive perception of predictability. In the absence of predictability, trust is compromised, and that is damage for strengthening the relationship among the partners. Consistency also facilitates the process of negotiation and conflict resolution because perceptions and reality in these cases are coincident. Further, consistency can promote planning and can help the alliance partners to implement their vision of the alliance with a maximal degree of perfection. In other words, the partners must create and strengthen the perception that they are trying to realize the goals that they had stated earlier. At the same time, the partners must also undertake initiatives that are consistent to achieve those goals. For example, it would clearly be unhelpful to the alliance if the partners erratically shifted their negotiating tactics- moving from contending approach at the one extreme to a collaborative approach at the other spectrum. In circumstances, where consistency is breached the partner or partners must seek to provide a coherent

explanation as to why events turned out the way that they did and they must do so in a timely way. Even in the event that one of the partners does not consistently, it is not helpful if the other partner reciprocates this behavior. If anything, the partner who has been acting consistently must seek to change its partner's behavior.

Consultant intervention. Although this should not be the first option, it certainly deserves to be on the table, and especially so when the parties have reached an impasse and cannot agree on either the causes of the problem or how the problem should be dealt with. The role of consultant is essentially one of a mediator who is trying to deal with both issues of relationship as well as substance in interaction among the parties. Thus, consultants can play a role in defusing the emotional intensity of the conflict and coming up with novel solutions that may help reconcile the interests of either party. They may also be instrumental in helping either party to save face and in doing so may make the task of making concessions that much easier. Consultant interventions may be particularly helpful when the alliance partners come from different cultures and have difficulties in communicating and understanding each others intentions.

4. Evaluating the strategic alliance

In the ultimate analysis, the success of a strategic alliance is going to be gauged by the degree to which it enables the partner firms to achieve their goals. Although this exercise has merit it may often be difficult to implement it for the simple reason that in an ever changing environment the metrics for assessing success or failure may not be easy to define. On the other hand, it goes without saying that evaluation is important because evaluation ultimately determines if the alliance partners seek to renegotiate the terms of the alliance, and in the event that they do so, what specific negotiation strategies they decide to pursue. The ultimate trick at the evaluation phase is to make a judgment or determination that while providing a certain benchmark as to how the alliance is doing does not preclude the possibility of striking a new bargain with the alliance partner. In other words, this is also a phase in which ambiguity is likely to reign supreme. These are a few strategies that may enable the alliance partners to more effectively cope with ambiguity.

Adopt a longer term horizon for evaluating the alliance. The longer the temporal perspective for evaluating the alliance the greater the probability that the alliance may be able to achieve its objectives. Given the imperatives of global competition this may not always be an option and we also recognize that some alliances, are by definition, formed for a short period of time. Alliances will more often than not go through a period of hiccups, unless of course the partner firms have become extremely adept in managing alliances. If, therefore, the alliance partners jump to the conclusion that the alliance is not working, it may be a tempting conclusion to draw but may not be the most accurate one. A longer term perspective allows the partners sufficient time to get acquainted with each others idiosyncrasies and in doing so there is the strong likelihood that they may be able to develop a common frame of reference for evaluating the alliance. A longer time horizon also ensures that the partners are not unusually focused on immediate results at the expense of building an organization that may have greater viability over the longer term. Finally a longer time horizon allows the partners greater opportunity for experimenting with alternative ways of making the alliance more effective. It also needs to be stressed that with a „looming shadow over

future" the alliance partners may also become more restrained in their approach in dealing with contentious issues.

Assess the alliance performance in relation to your overall strategic goals. Alliances are formed for a wide variety of motives ranging from a marketing arrangement, to R&D partnerships, to market entry. This is not an exhaustive listing of all potential reasons but is only suggestive of the diversity behind alliance formation. Most often there may well be multiple objectives behind the formation of an alliance and this most certainly complicates matters. What is important most of all is the fact that there needs to be an alignment between the overall objectives of the alliance and the metrics used for alliance assessment. This may encounter problems in practice for the simple reason that there may be a disjunction in the objectives of the top level managers, alliance level managers, and functional specialists. This means that intra organizational negotiations as vital for alliance success as are negotiations between different alliance partners. In many instances negotiating within an organization may be even more challenging than negotiating with an alliance partner. Past animosities, inter departmental rivalry all contribute to the problem. These difficulties not withstanding it are critically important that intra organizational rivalries do not impede alliance performance.

5. Conclusions

Negotiating alliances is most fundamentally an exercise in negotiating ambiguity. To some this may sound paradoxical, in that, how can one negotiate a thing whose essence is ambiguity. There is obviously merit in this view but the fact remains that alliance managers interact in a context whose major defining feature is one of ambiguity. As we have sought to argue, while negotiating ambiguity is without doubt an exercise in ingenuity management, and requires a high degree of imagination, flexibility, and criticality, we have also made the argument that these attributes are essential for alliance success. Many practical evidences serve to underscore the fact that alliances are complex social systems which require an approach that can help deal with this complexity. Although there are many facets to complexity management, the argument is that ambiguity management is clearly one vital ingredient. Ambiguity management poses unique challenges for negotiators, and most fundamentally it requires the negotiators to learn and act simultaneously. This may not be easy or for everyone but is vital if the alliance is to do well.

REFERENCES:

1. A. Arino, J. de la Torre & P. S. Ring   Relational quality: Managing trust in corporate alliances. *California Management Review,* 44, 109-131, 2001
2. R. Kumar & K.O. Nti   National cultural values and the evolution of process and outcome discrepancies in international strategic alliances. *Journal of Applied Behavioral Science,* 40:344-361, 2004
3. J.J. Reuer   *Strategic alliances: Theory and evidence.* New York: Oxford University Press, 2002
4. M. Wheeler & G. Morris   *Complexity theory and negotiation.* Boston, MA: Harvard Business School, 2002