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Co-evolution of strategic alliances

An extensive Co-Evolution model and a study on opportunistic behavior

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Doctoral Thesis

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<u>Declaration</u>

This is to certify that I am responsible for the work submitted in this thesis, that the original work is my own except as specified in acknowledgements or in footnotes.

Neither the thesis or nor the original work contained therein has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

Dedication

This thesis is dedicated to my family…

Alexandros Charalampopoulos

Panagiota Charalampopoulou

Nikolaos Charalampopoulos

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My humblest apologies for any errors or omissions.

Thank you,

George A. Charalampopoulos

Abstract

This thesis deals with an issue that is fundamental to strategic alliances. The issue is the tension between competition, the normal state of companies, and cooperation, the essence of alliances.

The concept in that paradox is Co-Evolution model of strategic alliances, developed by ul-Haq (2005), that suggests three developmental pathways. From the literature we have, however, formalized a number of additional variables that we have co-joined with the ul-Haq's pathways, so as to develop the Extended Co-Evolution model.

This model is the ongoing product of our research. By introducing new variables and configuring them in different ways we have accounted for different alliance outcomes, and demonstrate that sometimes similar outcomes are produced by different variables or configurations thereof. We see the Extended Co-Evolution model as a purposeful diagnostic tool and as having some explanatory value in alliance's behavior.

The thesis as well examines two propositions; the paradox of confidence, trust and control and the notion of balance of trust. Trust and control issues have been identified by scholars and practitioners as critical success factors for the evolution of strategic alliances.

Nonetheless we have executed a questionnaire survey of the relevant banking personnel across a number of European countries as well as conducted interviews with senior banking executives in Greece. These operations show a widespread recognition of our concepts,

linkages and outcomes. This empirical endorsement, we feel, gives credence to the heuristic and diagnostic value of the Extended Co – Evolution model.

Key words: Strategic Alliances, Alliances, Trust, Opportunism, Co-Evolution Model, Extended Co-Evolution Model, Strategic Intents, Banking, Europe

List of Contents

Declaration **i**

Dedication **ii**

Acknowledgements **iii**

Abstract **iv**

List of Contents **vi**

List of Figures **xiii**

List of Tables **xiv**

List of Tables in Appendix **xv**

Chapter 1
Introduction, Structure and Subject **1**

1.1 Introduction to Thesis Propositions **1**
1.2 Structure **2**
1.3 Introduction to Alliances **3**
1.4 Introduction to the European and the Greek Banking Sector **5**
1.5 The European Banking Sector **5**
1.6 The Greek Banking Sector **11**
1.7 Summary **17**

Chapter 2
Strategic Alliances – The Theory and the Literature **18**

2.1 Introduction **18**
2.2 What are strategic alliances? **19**
2.3 Types and forms of alliances **21**
2.4 Strategic Alliances Governance Modes **30**
2.5 Instabilities of alliances **34**
2.6 Explanations of alliance instabilities **36**
2.7 Opportunism and alliances **39**
2.8 Types of opportunism **41**
2.9 Sources and Motivations of Opportunistic Behavior **43**
2.10 Summary **46**

Chapter 3
Alliances, Trust and Control **47**

3.1 Introduction **47**
3.2 Trust and control **47**
3.3 Confidence between partners **48**
3.4 Trust **50**
3.5 "Balance" of trust and time **52**
3.6 Control **53**
3.6.1 Control mechanisms **54**
3.7 The paradox of confidence – trust – control **55**
3.8 Summary **58**

Chapter 4
The Co-Evolution Model **60**

4.1 Introduction **60**
4.2 Co-evolution Model **61**
4.3 Extending the Co-evolution Model **65**
4.4 "Size" of the partner **66**
4.5 Number of players –"Crowdness" of alliances **67**
4.6 Intra-alliance – alliance inside an alliance **67**
4.7 Internal and External Strategic intents **68**
4.7.1 Pragmatical Strategic intents **69**
4.8 Summary **70**

Chapter 5
The extended Co-Evolution Model **72**

5.1 Introduction **72**
5.2 Permutations of the extended Co-evolution Model **73**
5.3 Co-Evolution of strategic alliances with external and internal strategic intents **81**
5.3.1 Parallel Co-Evolution of strategic alliances with external and internal strategic intents **84**
5.3.2 Convergent Co-Evolution of strategic alliances with external and internal strategic intents **84**
5.3.3 Divergent Co-Evolution of strategic alliances with external and internal strategic intents **85**
5.4 Multi-party Co-Evolution of strategic alliances **86**
5.4.1 Parallel Multi-party Co-Evolution of strategic alliances **86**
5.4.2 Convergent Multi-party Co-Evolution of strategic alliances **88**
5.4.3 Divergent Multi-party Co-Evolution of strategic alliances **88**
5.5 Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **90**
5.5.1Parallel Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **90**
5.5.2 Convergent Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **91**

5.5.3Divergent Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **91**
5.6 Uneven Co-Evolution of strategic alliances **92**
5.6.1 Parallel Uneven Co-Evolution of strategic alliances **93**
5.6.2 Convergent Uneven Co-Evolution of strategic alliances **95**
5.6.3 Divergent Uneven Co-Evolution of strategic alliances **95**
5.7 Uneven Co-Evolution of strategic alliances with external and internal strategic intents **96**
5.7.1 Parallel Uneven Co-Evolution of strategic alliances with external and internal strategic intents **96**
5.7.2 Convergent Uneven Co-Evolution of strategic alliances with external and internal strategic intents **99**
5.7.3 Divergent Uneven Co-Evolution of strategic alliances with external and internal strategic intents **99**
5.8 Uneven Multi-party Co-Evolution of strategic alliances **100**
5.8.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances **100**
5.8.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances **102**
5.8.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances **103**
5.9 Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **103**
5.9.1Parallel Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **104**
5.9.2Convergent Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **104**
5.9.3Divergent Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **106**
5.10 Multi-party Co-Evolution of strategic alliances with intra alliance **107**
5.10.1 Parallel Multi-party Co-Evolution of strategic alliances with intra alliances **109**
5.10.2 Convergent Multi-party Co-Evolution of strategic alliances with intra alliance **109**
5.10.3 Divergent Multi-party Co-Evolution of strategic alliances with intra alliance **110**
5.11 Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **111**
5.11.1 Parallel Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **111**
5.11.2 Convergent Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **113**
5.11.3 Divergent Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **114**
5.12 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance **114**
5.12.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances with intra alliance **115**
5.12.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance **117**
5.12.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance **118**
5.13 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **118**

5.13.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **120**
5.13.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **122**
5.13.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **123**
5.14 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance **124**
5.14.1 Parallel Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance **126**
5.14.2 Convergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance **127**
5.14.3 Divergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance **129**
5.15 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **130**
5.15.1 Parallel Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **132**
5.15.2 Convergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **134**
5.15.3 Divergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **136**
5.16 Summary **138**

Chapter 6
Methodology and Theory Testing **141**

6.1 Introduction **141**
6.2 Testing obstacles and Measurement Theory **141**
6.3 Philosophical Underpinnings **144**
6.4 Questionnaire based postal and email survey **147**
6.5 Thematic, Semi – Structured Interviews **155**
6.6 Summary **162**

Chapter 7
Questionnaire Survey Research Results **163**

7.1 Introduction **163**
7.2 Research Findings **163**
7.3 Is your firm a member of a strategic alliance? **164**
7.4 How many alliance partners exist in the strategic alliance including your company? **164**
7.5 Has ever your firm's best interest came in conflict with the alliance's best interest? **165**
7.6 In order to serve your firm's best interests that were in conflict with the alliance's best interest please explain briefly your company's actions and strategic behaviour **166**

7.7 What was the effect of your actions in the life and continuation of the strategic alliance as well as the effect on the relationship with the alliance members? **167**
7.8 In the above scenario (7.5) would you characterize your behaviour as: 1) Non-opportunistic due to alliance's regulation, 2) Opportunistic, 3)Defensive reaction against a partner's possible future opportunistic behavior 4) Aggressive reaction against an opportunistic behavior of a partner 5) None of the above **168**
7.9 Do you believe that your strategic alliance allies are: 1) Making good faith effort to behave in accordance with any commitments 2) Are honest with negotiations with the rest of the alliance members 3) Will take advantage of the other partner firms even when an opportunity is available. **169**
7.10 In the above question (Q7 – 7.7), the characteristics that you choose for your allies, do exist for all the parties of the alliance? **170**
7.11 Identify one of the following components (Dependability – expectations that the partner will act in the alliances best interest / Predictability – consistency of actions by the partner / Faith – belief that the partner will not act opportunistically even in unforeseen or novel situations) that you believe is more important for the existence of your strategic alliance. **171**
7.12 In the case that your firm exists in an alliance with three or more parties do you believe that the bonds and the level of trust are equally distributed between all the partner firms? **172**
7.13 Do you believe that your firm is more connected (in terms of trust) with one of the partner firms more than the others? **172**
7.14 In a situation where your firm have higher levels of trust with one the allies and that this relation creates a relative advantage against the other allied firms, would you, if the opportunity arose, with the cooperation of the closest firm behave opportunistically against the other allies? **173**
7.15 As soon as the level of your firm's personal interest exceeds the level of trust and confidence between the partners (and that your firm is able to overcome all protective measures and limitations) would your firm behave opportunistically? **174**
7.16 Under which circumstances in the above scenario would you consider your firm to behave opportunistically? **175**
7.17 Do you believe that a partner can change its behavior and even behave opportunistically as a reaction to its ally after a miss-evaluation and miss-understatement of the ally behavior? **176**
7.18 Do you believe that the above scenario can exist even in cases of high levels of trust between allies? **176**
7.19 Co-Evolution of Strategic Alliances **177**
7.19.1 We argue that not all the partners in a strategic alliance have the same size and relative power inside the alliance compared with the other allies. Do you believe that this difference in size and relative power has a significant effect on the alliance evolution? **178**
7.20 Do you believe a firm that has greater relative power against the rest of the alliance partners will make use of its power and affect the alliance according to its own best interest? **179**
7.21 Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the alliance's evolution over time? **180**
7.22 Do you believe a firm that has greater relative power against the rest of the alliance partners is able to affect the evolution of the weak partners, able to change its strategic intents and even able to pull them towards and acquire them according to its own firm interest? **181**

7.23 Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the strategic intents of the rest of the partners and hence the evolution of the alliance over time? **182**
7.24 In the scenario that the strong partner in the strategic alliance is making use of its power, do you believe that the rest of the weak allies can create an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner **182**
7.25 Would you consider the above reaction of the weak firms as an opportunistic behavior? **183**
7.26 Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and even pulls them towards itself resulting a hostile acquisition. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the above scenario and hence able to change the hostile acquisition to a merger of the new companies? **184**
7.27 Would you consider the above reaction of the weak firms as an opportunistic behavior? **185**
7.28 Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intents? **186**
7.29 Would you consider the above reaction of the weak firms as an opportunistic behavior? **187**
7.30 Summary **187**

Chapter 8
Discussion **190**

8.1 Introduction **190**
8.2 Balance of Trust and Time **192**
8.2.1 Conclusion **197**
8.3 The Paradox of Confidence – Trust – Control **198**
8.3.1 Conclusion **205**
8.4 The extended Co-Evolution Model **205**
8.4.1 Co-Evolution of strategic alliances with external and internal strategic intents **212**
8.4.2 Multi-party Co-Evolution of strategic alliances **213**
8.4.3 Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **214**
8.4.4 Uneven Co-Evolution of strategic alliances **215**
8.4.5 Uneven Co-Evolution of strategic alliances with external and internal strategic intents **217**
8.4.6 Uneven Multi-party Co-Evolution of strategic alliances **218**

8.4.7 Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents **218**
8.4.8 Multi-party Co-Evolution of strategic alliances with intra alliance **219**
8.4.9 Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **220**
8.4.10 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance **220**
8.4.11 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents **221**
8.4.12 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance **222**
8.4.13 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external, internal and pragmatical strategic intents **223**
8.5 Summary **225**

Chapter 9
Conclusion **228**

9.1. Introduction **228**
9.2. Opportunism or Opportunity **228**
9.3. Aggressive – Defensive and Passive Strategic Management **229**
9.4. Pre – Alliance Extended Co-Evolution Model **233**
9.5. Contribution to knowledge **235**
9.6. Conclusion **241**

Appendix **243**

References - Bibliography **270**

List of Figures

3.7 Figure 1: Firm's interest VS trust and confidence **57**

4.2 Figure 2: Schema for Classifying Co-Evolution of Firm Level Strategic Intents in Strategic Alliances **64**

5.3 Figure 3: Co-Evolution of strategic alliances **82**

5.3 Figure 4: Co-Evolution of strategic alliances with external and internal strategic intents **83**

5.4 Figure 5: Multi party Co-Evolution of strategic alliances **87**

5.5 Figure 6: Multi party Co-Evolution of strategic alliances with internal and external strategic Intents **89**

5.6 Figure 7: Uneven Co-Evolution Model with internal and external strategic intents **94**

5.7 Figure 8: Uneven Co-Evolution Model with internal and external strategic intents **97**

5.8 Figure 9: Uneven Multi party Co-Evolution of strategic alliances **101**

5.9 Figure 10: Uneven Multi party Co-Evolution of strategic alliances with internal and external strategic intents **105**

5.10 Figure 11: Multi party Co-Evolution of strategic alliances with intra alliance **108**

5.11 Figure 12: Multi party Co-Evolution of strategic alliances with intra alliance and internal and external strategic intents **112**

5.12 Figure 13: Uneven Multi party Co-Evolution of strategic alliances with intra alliance **116**

5.13 Figure 14: Uneven Multi party Co-Evolution of strategic alliances with intra alliance **119**

5.14 Figure 15: Uneven Multi party Co-Evolution of strategic alliances with intra alliance **125**

5.15 Figure 16: Uneven – Even Multi party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents **131**

8.3 Figure 17: Firm's interest VS trust and confidence **200**

List of Tables

1.5 Table 1: Analysis of main European banking segments **7**

6.4 Table 2: Analysis of study sample, postal and email questionnaire volume **150**

6.4 Table 3: Analysis of study sample, postal and email questionnaire volume with response rate **152**

6.5 Table 4: Analysis of interview and the responsibility level/position of the interviewee **159**

9.5 Table 5: Co-Evolution model vs Extended Co-Evolution model **236**

List of Tables in Appendix

Table 6: Postal and email questionnaire responses of question 1. Is your firm a member of a strategic alliance? **262**

Table 7: Postal and email questionnaire responses of question 2. How many alliance partners exist in the strategic alliance including your company? **262**

Table 8: Postal and email questionnaire responses of question 3. Has ever your firm's best interest came in conflict with the alliance's best interest? **262**

Table 9: Postal and email questionnaire responses of question 4. In order to serve [...] and strategic behaviour. (Tier 1 – Yes, Tier 2 – No) **262**

Table 10: Postal and email questionnaire responses of question 5. What was the [...] dissolution of the alliance) **263**

Table 11: Postal and email questionnaire responses of question 6. In the above [...] a partner, Tier 5 - None of the above **263**

Table 12: Postal and email questionnaire responses of question 7. Do you believe […] opportunity is available. **263**

Table 13: Postal and email questionnaire responses of question 8. In the above […] the parties of the alliance? **264**

Table 14: Postal and email questionnaire responses of question 9.) Identify one of […] unforeseen or novel situations **264**

Table 15: Postal and email questionnaire responses of question 10. In the case […] the partner firms? **264**

Table 16: Postal and email questionnaire responses of question 11. Do you believe […] more than the others? **264**

Table 17: Postal and email questionnaire responses of question 12. In a situation […] against the other allies? **265**

Table 18: Postal and email questionnaire responses of question 13. As soon as […] behave opportunistically? **265**

Table 19: Postal and email questionnaire responses of question 15. Do you believe […] of the ally behavior? **265**

Table 20: Postal and email questionnaire responses of question 16. Do you believe […] of trust between allies? **265**

Table 21: Postal and email questionnaire responses of question 17. We argue that […] the alliance evolution? **266**

Table 22: Postal and email questionnaire responses of question 18. Do you believe […] own best interest? **266**

Table 23: Postal and email questionnaire responses of question 19. Do you believe […] evolution over time? **266**

Table 24: Postal and email questionnaire responses of question 20. Do you believe [...] own firm interest? **266**

Table 25: Postal and email questionnaire responses of question 21. Do you believe […] alliance over time? **267**

Table 26: Postal and email questionnaire responses of question 22. In the scenario […] initial strong partner **267**

Table 27: Postal and email questionnaire responses of question 23. Would you consider the above reaction of the weak firms as an opportunistic behavior? **267**

Table 28: Postal and email questionnaire responses of question 24. Assuming the […] of the new companies? **267**

Table 29: Postal and email questionnaire responses of question 25. Would you consider the above reaction of the weak firms as an opportunistic behavior? **268**

Table 30: Postal and email questionnaire responses of question 26. Assuming the […] strategic intents? **268**

Table 31: Postal and email questionnaire responses of question 27. Would you consider the above reaction of the weak firms as an opportunistic behavior? **268**

Table 32: Bank List of participants of the thematic Semi – Structured Interviews **269**

Chapter One

Introduction, Structure and Subject

1.1 Introduction to Thesis Propositions

Existence of alliances is correlated with the existence of firms. These alliances are now considered as a strategy implementation process. Strategic alliances are being used to access know how, products and markets. In the middle of the 'organic growth strategic alliances mergers and acquisitions' continuum they provide a method of rapidly addressing business opportunities that arise whilst sharing know how, costs and risks, as well as reward, with partners (ul-Haq 2005). There is no question as to the popularity of strategic alliances, while the key questions exist on the evolution of strategic alliances and on the behavior of firms inside an alliance.

The thesis examines the evolution of strategic alliances and proposes an extended Co-Evolution model based on the ul-Haq's (2005) Co-Evolution model. It also proposes and examines the notion of 'balance of trust' between alliance partners and the paradox of confidence – trust and control between allied partners.

1.2 Structure

The thesis consists of nine Chapters. Chapter One is an introduction to the thesis subject, an introduction to European and Greek Banking structure, and suggests the proposed extended Co-Evolution model as well as concepts that the thesis examines ('balance of trust' between alliance partners and the paradox of confidence trust and control between allied partners). Chapter Two, considers the nature, type and forms of alliances. It discusses the issue of instabilities of alliances, the phenomenon of opportunism of strategic alliances, as well as sources and motivations of opportunistic behavior. Chapter Three raises the issue of trust between strategic alliance partners and control of strategic alliances. It identifies the thesis's propositions of 'balance of trust' between alliance partners and the paradox of confidence trust and control between allied partners. In Chapter Four we introduce the Co-Evolution model. It sets the basic framework of the original model and identifies additions that will lead to the extended Co-Evolution model that is the target of the thesis. Extensions such as the notion of 'size of partners', 'crowdness' of alliances, intra – alliances and the differentiation of internal, external and pragmatical strategic intents are the issues discussed in the chapter.

Chapter Five uses these additions introduced in Chapter Four and presents the Extended Co-Evolution model. It discusses the thirteen permutations of the Extended Co-Evolution model, and provides an analytical description of every permutation. Chapter six discusses the desk, postal and email survey and thematic interview research methods used in gathering of the analyzing data. Chapter Seven sets out the analysis of the postal and email survey responses and reports the findings and offers some tentative conclusions. Chapter Eight discusses the findings of the postal and email survey and the responses and the findings of the semi – structured interviews, relating them to the research propositions and the proposed Extended

Co-Evolution model. Finally Chapter Nine offers some reflection on the thesis and summarize the way the Extended Co-Evolution model differs from its predecessor.

1.3 Introduction to Alliances

According to the Booz Allen and Hamilton report, the number of alliances increased at a rate of 25 per cent per year in the period 1987-1997 (Harbinson & Pekar, 1997). The major reasons, offered by Nooteboom & Noorderhaven (1997) are widespread competition in world markets, also the increasing importance of fixed costs (Ohmae, 1998), rapid technological development and the rising complexity of input and output markets (Zuscovitch, 1994). All these have made market competition increasingly like a race. The best option in these circumstances is, according to Prahalad and Hamel, (1990), the concentration of their core competencies through alliances.

As many researchers have noted, the creation of an alliance can provide companies with an opportunity to share costs (of, for instance, R&D, production, distribution, and sales), to share the risks of development, enhance their own competencies (Nooteboom & Noorderhaven, 1997), acquire access to complementary competencies (Porter & Fuller, 1986), increase speed of market entry (Lei & Slocum, 1991), and access to know-how, products and markets (ul-Haq, 2004). As Gray (1989: 6) notes, what binds alliances is that "each needs the others to advance their individual interests".

The term "alliance" has been broadly defined in the literature and covers several governance modalities ranging from relational contracting, to licensing, to logistical supply-chain

relationships, to equity joint ventures (Gulati and Singh, 1998). It captures many forms of interfirm cooperation that go beyond market transactions (Nooteboom and Noorderhaven, 1997). That cooperation involves the coming together of two or more firms so as to achieve the desired strategic plan. Possibly the most successful definition of partner cooperation is made by Das and Teng (1993). "Partner cooperation is the willingness of a partner firm to pursue mutually compatible interests in the alliance rather than act opportunistically" (Das and Teng, 1993).

The importance of cooperation can be explained easily since it is obviously superior to individual action at achieving virtually all goals (Maitland, Bryson and Van de Ven, 1985) but apart from the initial cooperation that will lead to two or more firms entering into an alliance structure it is also important that there is the ongoing element of interfirm cooperation (Buckley and Casson, 1988, Teece, 1992, Doz 1996, Arino, 1997) that will be discussed later in this thesis. It is essential to state the basic definitions and implications of partner cooperation that according to the current literature are honest dealing, commitment, fair play, and complying with agreements. Explanations of alliances in the literature focus on the trade-off between the perceived advantages of full ownership, market contracts and intermediate positions (Contractor and Lorange, 1988, Osborn and Baughn 1990, Hagedoorn, 1993).

Before proceeding to the conventional literature review in Chapters 2 and 3 we thought it might be helpful to offer an overview of European banking, particularly the key developments of recent decades. Our thinking is that thesis may attract readers whose interest is in the dynamics of strategic alliance development in general rather that in the banking industry specifically. After this European overview we will give a snapshot of the banking

industry in Greece, the one country in which we were able to interview senior banking executives whose testimony has made a big contribution to the later development of our thesis. Greece after all is one of the smaller European economies whose institutions and practices are not well known outside its borders.

1.4 Introduction to the European and the Greek Banking Sector

The European banking system has experienced a number of new developments and major structural changes over the last decades. Widespread deregulation, liberalization and globalization, accompanied by technological development and consolidation have fundamentally transformed the European banking landscape towards a more concentrated form of a European financial market. Regulation and supervision of the European banking institutions by the European Union, as well as the current economic crisis and the increasing rates of competition of the European banking sector, has significant effect on the behaviour of European banks (Goddard *et al.* 2001; Goddard & Molyneux, 2007).

1.5 The European Banking Sector

The European banking system has suffered fundamental changes over the past two decades, while trying to adjust to the new conditions in the European financial sector. The driving forces of these structural changes are the current trends of globalization, deregulation, European integration and technological change (Goddard & Molyneux, 2007) As a result of

these forces and pressures, European banks geared to new strategies aiming for expansion and product diversification in order to remain viable and competitive.

Consolidation efforts as manifested through strategic alliances, mergers and acquititions is a key element of European bank reaction against the increasingly competitive conditions formed in banking markets (Goddard *et al.* 2001). Depending on their strategic orientation and based on the circumstances of their current economic and financial envirornment, European banks have adopted strategic behaviour embracing strategic alliances and strategic management. Creating partnerships with other financial institutions domestically so as to improve and strengthen their "national basis", cooperating through strategic alliances with international banks that share mutual interests, or engaging mergers and acquisitions with banks that are simultaneously active in more than one European country. Many European banks have followed such practices so as to exploit economies of scale and range, entering new markets, and reducing their operational costs by eliminating their inefficiency.

The European banking sector was directed into the context of changes in scale, quality and range of products as well as changes in delivery channels. Thus, banks exploiting possibilities offered by new technologies have extended into other markets and a large percentage of their turnover is now in off-balance sheet activities. In order to adapt to the new elements and need of the European banking industry, European banks followed an active strategic planning and hence strategic implementation through the practice of strategic alliances, mergers and acquisitions. Moreover technological advantages and deregulation have promoted a process of de-specialization, reducing the differences among sectors.

Main European Banking Segments		
EU - 15	**EU- 10**	**SSE**
Austria	Cyprus	Albania
Belgium	Czech Rep.	Bosnia - Herzegovina
Denmark	Estonia	Bulgaria
Finland	Hungary	Croatia
France	Latvia	FYROM
Germany	Lithuania	Romania
Greece	Poland	Serbia - Motenegro
Ireland	Malta	
Italy	Slovak Rep.	
Luxembourg	Slovenia	
Netherlands		
Spain		
Sweden		
UK		

Table 1: Analysis of Main European Banking Segments.

In the European banking sector we can identify the three main banking markets; the banking segment of the old EU countries (EU-15), the new EU Member states (EU-10) and of the South Eastern European (SEE) region.

- The EU-15 Banking segment

European banking had to proceed to fundamental changes over the last decades so as to adjust and respond to the needs and requests of the economic and financial environment. The implementation of a single market in banking (1993) and the introduction of the single currency (2001) accelerated the integration of the market for financial services. The EU – 15 banking segment is characterized by high levels of competition, structural deregulation and technological innovation competition, as well as structural changes by consolidating activities in order to increase in size and scope (Vives, 2000). The consequences of these structural changes lead to a decrease in the number of financial institutions in this segment through mergers and acquisitions. The trend began in the early 1990s and affected all types of banks and increased concentration levels not only in domestic markets but also across European banking markets (Marques and Molyneux, 2001). Barriers to market entry are constantly being overcome by new entrants offering financial services, while the pressure for innovation in products, services and procedures appears to have strengthened.

The EU – 15 banks have reacted to intense competitive pressures in their home markets by expanding their activities internationally, particularly in to business and areas and countries which offered higher profit margins. Therefore the EU – 15 banks have expanded their presence in the EU – 10 countries in order to exploit the high growth potentials of these economies.

- The EU-10 Banking segment

The EU-10 banking segment was formerly characterized as a centrally planned economy banking system. Because of the nature of the countries that belong to that segment, Central and Eastern European countries that have in recent years, joined the EU, had to move away from a centrally planned economy to a free market system. The establishment of a viable, sound and efficient banking sector that was able to support the economic growth of these countries after they joined the EU has been a fundamental issue of the transition to a market economy and one of the most challenging ones.

The introduction of a two tier banking system, the abolition of sectoral restrictions on specialized banks, the entry of new private banks, the liberalization of interest rates, and the establishment of the legal and supervisory framework were the main structural changes of the EU-10 banking segment (Kager. 2002). Despite the fundamental changes in the segment, governments of these countries appeared determined to develop competitive and efficient financial systems, based on market forces through large scale privatization programs that substantially diminished the state ownership in banking.

However, during the current economic crisis, the vulnerability of the EU-10 banking segment raises issues of concern regarding the strength of the banking sector as well as liquidity and solvency issues, largely owing to forceful interventions by central banks, governments and international institutions. Therefore this banking segment will remain vulnerable to shifts in global market sentiment and potential growth reversals and risks of a double dip in the global economy materializing (Piatkowski and Zalduendo 2010).

- The SEE Banking segment

Over the past few years, the banking region of the South Eastern European (SSE) countries have undergone substantial changes aiming at performance improvement but mainly at enhancing the sector's solvency and credibility. The transformation of the banking industry in SEE countries has turned on the most vulnerable and unstable parts of the economies of the transition countries into one the most advanced sectors. (Kraft 2004)

The process of transition and transformation of the banking sector in that region, the effort of building a healthy and sound banking system, faced the difficulty task of embarking on prudent macroeconomic stabilization efforts and transforming their financial system. The transformation process lead to a series of banking crises in the mid and late 1990s, since that process of transformation meant tackling inefficient regulatory and supervision standards, lax accounting and disclosure standards, soft budget constraints and so on.

The result of that process offered a regional banking sector that lately enjoys favourable growth prospects, solid economic growth, progress with macroeconomic stabilisation, prospective EU/EMU membership and very low levels of financial intermediation underscore the great potential (Deutsche Bank Research, 2007). The nature of the banking sector of the SSE countries has caused attraction of strategic behaviour through alliances, mergers and acquisitions for banks outside the SSE banking segment. Most banks in SEE are foreign – owned, with 75% of banking sector assets owned by foreign banks and only 7% of assets remaining in state hands. The SSE banking segment is particularly interesting in the process of researching strategic alliances, and strategic behaviour of banks.

1.6 The Greek Banking Sector

An important era for the Greek banking sector was the period starting in 1996. It was in that general climate of restructuring the Greek banking sector has made a significant turn towards strategic alliances, mergers and acquisitions. It was a period when Greece was aiming at its entrance into the Euro zone and hence Greek banks were aiming for repositioning themselves, restructuring their current sector and strengthening their strategic position. A boost of the strategic behaviour of the Greek banking system can be seen in the surprisingly large number of strategic alliances, mergers and acquisitions in a period of about 15 years. We can identify the major merger and acquisition activity of the Greek banking sector by the following cases;

- National Bank of Greece

- National bank of Greece acquires the Ktimatiki Bank (1998) one year after Ktimatiki Bank has been merged with Ethnini Stegastiki Bank in 1997.
- National bank of Greece has also acquired ETEBA bank in 2002

- Emporiki Bank

- Emporiki bank had a strategic alliance with Piraeus Bank, Attica Bank and Ioniki Bank
- In 1992 sells its share of Piraeus bank and breaks up its alliance
- In 1997 sells its share of Attica bank and breaks up its alliance
- In 1999 sells its share of Ioniki bank and breaks up its alliance

- Alpha Bank

- Alpha Bank acquires Ioniki Bank in 1999
- In 2011 Alpha bank merges with Eurobank

- Piraeus Bank

- Acquires Chase Manhattan's branches in Greece in 1997
- Acquires Macedonia and Thrakis Bank in 1998
- In 1998 acquires Credit Lyonnais Greece and changes its name into Prime Bank in which it forms a strategic alliance
- In 1999 acquires Chios Bank
- Acquires in 1999 Nat. Westminster's branches in Greece
- In 2001 acquires ETBA

- E.F.G. Eurobank

- E.F.G. Eurobank started an aggressive M&A activity by acquiring InterBank in 1997, Athens Bank in 1998, Cretan Bank in 1998 and Ergasias Bank in 1999
- In 1997 has also acquired the network of Credit Lyonnais in Greece
- Acquires Telesis Investment Bank in 2001

- Egnatia Bank

- In 1998 acquires the Bank of Central Greece

- Telesis Bank

- Merges with Doriki Bank 1999

- Societe Generale

- In 2003 acquires a share of Geniki Bank and forms an alliance with Geniki Bank

- Marfin Financial Group

- Acuires in 2001 Piraeus Prime Bank which it reforms and renames as Marfin Bank
- Merges with Laiki Bank, Egnatia Bank in 2007 and forms Marfin Egnatia bank

Trying to evaluate the tension of the increased strategic reformation of the Greek banking sector we can see that this high level of strategic activity took place in the period of 1996 – 2002 mainly due to the upcoming entry of Greece into the Euro zone and the economic growth that came after entry. Despite that the tension of strategic behaviour of alliances, mergers and acquisitions still exists in high levels but has a different character. The early movements had as a major parameter in their strategic intents, strengthening their market position, increase of market share, growth, increase of asset power and size while lately the strategic intents of Greek banks have as main characteristic expansion and concentration. The current economic crisis, of course was also an important force that changed strategic behaviour of Greek Banks.

In particular we have seen that strategic movement domestically has been reduced while on the other hand there has been an increase of interest in international and especially European expansion via strategic alliances, mergers and acquisitions. The increased level of banking competition, internationally and domestically, indicates cross - border strategic agreements as a mean of facing completion and surviving the current economic crisis. Cross – border strategic agreements offer to the banking institutions the ability of responding to the new economic reality. Another important factor that effected not only Greek banks but also European banks is the importance of economies of scale as well as the ability to spread their business over more than one market, hence reducing and hedging risk of economic difficulties of one nation as well as responding to the need for international customer services – an element that is increasingly important.

Greek banks have established and expanded their international presence especially in the countries of South East Europe, based on the fact that these countries will develop further and grow economically and financially since they do have the potential to enter the European Economic Community. Proof of their strategic behaviour and interest for the markets of South East Europe, is the fact that, despite the current economic crisis and the current instability of the Greek economic and financial system, there has been an increase of presence, strategic establishment, and interest of Greek banks into that area. A phenomenon that began in 2008 and is still growing, despite the current economic situation.

Based on the data of the Hellenic Bank Association (2009), Greek banks since 2008 are active in 16 countries through 49 subsidiaries (financial institutions, banks and branches). Over the past few years, more Greek banks are active in the Balkan area. We can identify that their strategic activity serving intents such as;

- Reinforce Greek banking activity into the Balkan area following and supporting the Greek business activity in other economic sectors that started in 1990. Greek corporations have started spreading their business in South East Europe in 1990 and hence Greek banks were aiming to get benefits from that behaviour. It is important to note that in the area of South East Europe, 8000 Greek business exist, which implies a significant amount of clients in that region.
- Seize opportunities in countries that over the last few years, expect development and growth rates that are higher than the European average rates.
- Supporting the effort of Greek economy to assume a more international profile of business and services, even in a period of economic crisis and political instability, in areas of finance, tourism and insurance.
- Support their economic profile as well as their client's economic profile with international orientation. A joint effort of supporting the Greek economy with particular interest into areas of trading and exports. Currently 27% of Greek exports are aiming for the region of South East Europe, a percentage that tends to increase over the years. In order to understand the volume of the business conducted in that region let us consider that only 4% of Greek exports are to the US (Hellenic Bank Association, 2010).

For that reason Greek banks in the end of 2009, according to the Hellenic Bank Association have reached a total asset value of 87,6 billion Euros, mainly based on domestic deposits (37,8 billion Euros), which corresponds to 18% of the total assets of Greek banks. On the other hand, Greek banks did only focused their business activity in the South East Europe. They have developed in total a network of more than 3.400 braches employing more than 50,000 staff, returning pre-tax profits of 607.3 million Euros. Greek banks over that period

have supported Greek household and businesses by investing 61.9 billion Euros into the Greek market (Hellenic Bank Association 2009)

Continuous strengthening of the existence and establishment of Greek banks internationally is responsible for the increasing profit rates of the Greek banking sector even in the period of the latest economic crisis. The strategic importance of the international presence of Greek banks had significant implications over the last years, during the Greek, European and global economic crisis, in which Greek banks have managed to survive. The strategic intents alteration from domestic to international, as discussed earlier, has given the advantage to Greek banks to support the survival of their institutions as well as to support their existing business, their client's benefits and mainly create investment opportunities in countries of South East Europe that are already part of the European Union or countries that will become members of the European Union, and hence being able to unitize and benefit from their increase of growth rates.

The thesis will focus its research on the European and the Greek banking industry. The characteristics of the European and Greek banking systems, focusing on their strategic behaviour and their tendency towards strategic alliances, mergers and acquisitions, suggests that the European banking sector is an ideal site in which to conduct research to seek answers to the questions raised in these thesis.

1.7 Summary

This Chapter was an introduction of the thesis structure and an overview of strategic alliances and the European banking sector. It aimed to prepare the reader on the fundamental and basic principles of strategic alliances, and provided a brief synopsis of the structure of European banking and of the Greek banking sector, a market in which the thesis will focus its research seeking answers for its propositions. The following Chapter will provide a discussion of the literature on strategic alliances, analyzing their basic framework of types and forms of strategic alliances and investigating the literature regarding alliance's instabilities.

Chapter Two

Strategic Alliances – The Theory and the Literature

2.1 Introduction

Business is not static but dynamic evolving over time. Setting long term and sort term targets in an environment that is altering and evolves over time, leads to the creation of a vast number of strategic alliances. A number that faced a boost not only for the past decades (Harbison and Perkar, 2004), but also based on the new needs for survival during the latest economic crisis. Since we cannot stop time and analyze subjectively any given situation and business activity, scholars and practitioners require a tool that describes and analyzes strategic alliances.

This chapter discusses existing literature and understanding in the area of strategic alliances. In order to deeply understand the basic principles of strategy and alliances the chapter focuses on analyzing basic framework of types and forms of strategic alliances, and using this framework and the existing literature presents and explains the alliance's instabilities. From the literature the notion of opportunism emerges as one of the basic reasons for the instabilities of alliances and this chapter therefore focuses on investigating in depth the phenomenon of opportunism and alliances, types of opportunism as well as motivations of opportunistic behavior.

Our goal is to pinpoint the literature that could contribute to this research and the research gaps that challenged the design of the conceptual model which is presented in Chapter 5.

2.2 What are strategic alliances?

A strategic alliance is defined as a long-term cooperative arrangement between two or more independent firms that engage in business activities for mutual gain. In other words, a strategic alliance is characterized as a "partnership" that offers businesses the ability to sustain competitive advantage by joining forces for a mutually beneficial opportunity (Yi Wei, 2007). The main reason for the creation of a strategic alliance is the implementation of a strategic plan. The contribution of the alliance to the successful implementation of the firm's strategic planning implies that "the relationship has to be supported by executive leadership and formed by lower management at the highest macro level" (Isoraite, 2009). The alliance does not only establish relationship between organizations but serves the purposes of implementing a strategic plan, hence alliances are strategic in nature. A strategic alliance involves mutual exchange, sharing or co-development of partners' organizations assets such as capital, technology resources and human assets with the objective of enhancing the competitive position of each partner.

Trying to identify the benefits of creation of strategic alliances Bernadette (2007), presented four potential categories in which organizations may benefit. These are ease of market entry, shared knowledge, shared risks and expertise and synergy and competitive advantage.

- Ease of market entry

Globalization and entrance into foreign markets, in other words the creation of international firms, based on technology, telecommunications and internet as well as ease of transportation, has eliminated the geographical ability of where to conduct business. The cost of entering foreign markets such as economies of scale and scope in marketing and distribution may be beyond the capabilities of an organization. The creation of a strategic alliances and the ability of having a strategic partner as "Trojan horse" may not only overcome the previous obstacles but may also eliminate entrenched competition and hostile government regulation and hence achieve the entrance into foreign markets (Bernadette, 2007; Isoraite, 2009).

- Shared Knowledge and expertise

It is common sense that most firms are competent in some areas and lack experience and expertise in others. The formation of strategic alliances not only allows access to knowledge and expertise but creates a "team" that enables both allies to succeed in areas in which they previously had limited or no knowledge and expertise at all. With the use of a strategic alliance an organization is able reduce research and development costs for areas in which the allied partner is already experienced with. As Isoraite (2009) suggests, a learning organization is growing organization (Bernadette, 2007; Isoraite, 2009).

- Shared risks

Uncertainty and instability of a entering a new or an existing market implies high risk and limited control of an economic situation. The creation of a strategic alliance, the cooperation with other organizations that are interested in that particular market or exist in an existing unstable market is a means of reducing or controlling risk. In situations of uncertainty and

unstable markets, the hedging of risk becomes particularly important (Bernadette, 2007; Isoraite, 2009).

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- Synergy and competitive advantage

Business activities such as risk of market entry, international expansion and research and development, can be minimized through the formation of strategic alliances. Competition becomes more effective when partners, by bringing synergy into the process, leverage off each other's strengths and therefore manage to achieve easier strategic targets such as entering a new market or reducing the investment in research and development (Bernadette, 2007; Isoraite, 2009).

2.3 Types and forms of alliances

The choice of the structure and form of a strategic alliance has a significant effect on the successful evolution of the company's strategic intents as well as the overall success of the company's targets. The type and form of a strategic alliance determines the way in which partners correlate, co-relate and co-operate as well as establishes the ground rules in which each partner has access and control into various aspects of the strategic alliance such as information, R&D, market sharing and knowledge. Hence the choice of a particular form and structure of a strategic alliance will serve the firm's best interest and strategic intents (Yoshino and Rangan, 2006)

There is a vast variety of alliance classification that differs among researchers and scholars. At the functional level, strategic alliances are divided into the following segments (Lynch,

1993); marketing and sales alliances, product and manufacturing alliances and technology and know-how alliances. While marketing and sales alliances are basically joint marketing agreements with value added resellers, product and manufacturing alliances incorporate the functions of procurement and manufacturing and are formed between suppliers and manufacturers. On the other hand technology and know-how alliances, most commonly referred in the literature as strategic technology alliances, between technology providers or between technology providers and business users, aiming at exploring new technologies and exploiting technology based products and services.

Strategic alliances include a wide range of cooperative relationships (Grand *et al. 2004)* covering a variety of contractual forms. Over the last two decades there has been unprecedented growth in the number of these inter-firm alliances. Some of this change towards co-operative structures has been stimulated by the increased globalization of markets, decreasing product life cycles and increasing rate of technological development (Hynes and Wislson 2012). Despite these changes the classification, formation and creation of strategic alliances is based on transaction cost economics, recourse based theory and social structural explanations.

Ghemawat *et al.* (1986) classifies all alliances on two different axes; the vertical and the horizontal. On the vertical axis, they position alliances between partners that carry out different activities in the value chain and on the horizontal axis, they position alliances between partners that carry out activities in the same part of the value chain. This classification by Ghemawat *et al.* was supplemented 6 years later by Bronder and Pritzl (1992) with a third variety; the diagonal alliance. This was the case of alliances between partners that belong to different industries. In is important to note that Bronder and Pritzl's

classifications lacks accuracy since for some industries it is quite impossible to classify them into types of industries.

Ghemawat *et al.* (1986) extended alliance classification according to the legal nature of the alliances and according to their functional areas of concern. Using that type of classification Ghemawat *et al.* (1986) distinguish the following categories; for the first case (legal nature) joint ventures, license and supply agreements and for the second case (functional areas of concern) technological, operations and logistics, marketing, sales and services.

The next type of classification was presented by Pucik (1988). According to Pucik, classification of alliances is separated into different types that are created to serve firms needs to respond to the speed of technological change and to adjust to the rapidly growing competitiveness of global markets. He then divided alliances into the following categories:

i) alliances for technological change reasons, for example, cross-licensing;
ii) co-production and OEM agreements
iii) sales and distribution ties
iv) joint product – development programmes
v) creation of joint ventures.

Kanter (1989) uses a different classification:

i) multicompany service consortia, for example, for R&D e.g. into industry
ii) opportunist alliances set up to take advantage of a specific situation, that is, most joint ventures

iii) stakeholder alliances: vertical alliances or alliances between companies at different parts of the value chain, i.e. supply/producer complementary coalitions.

A very resourceful categorization was made by Collins and Doorley (1991) that suffered from a common problem that scholars face when trying to categorize alliances; i.e. there are cases of alliances that could belong to more than one category. However Collins and Doorley's categorization names six types of alliances:

i) strategic partnerships between large companies
ii) collaborative R&D alliances
iii) relationships with suppliers
iv) venture – capital – backed joint ventures normally in new technology areas
v) value – added distribution alliances, customizing for local markets
vi) partial mergers, often in mature markets to organize phased withdrawal from a market by one partner

The next important type of classification was made by Cravens, Piercy and Shipp in 1996. According to them, there are four types of cooperation, or as they say, four types of networks. The four types of networks that Cravens, Piercy and Shipp have identified are:

i) Virtual network
ii) Flexible network (strategic alliance)
iii) Value added network (outsourcing)
iv) Hollow network

Cravens, Piercy and Shipp's dichotomy is based on two criteria; the level of collaboration, which is separated into collaborative and transactional degree and the environmental volatility which is divided into low and high. Referring to environmental volatility, Cravens *et al.* imply characteristics such as speed, degree, unpredictability and uncertainty of radical change in the markets addressed. The creation of the four types of networks is as follows:

i) low environmental volatility and collaborative collaboration – Virtual network
ii) high environmental volatility and collaborative collaboration – Flexible network (strategic alliance)
iii) low environmental volatility and transactional collaboration – Value-added network (outsourcing)
iv) high environmental volatility and transactional collaboration – Hollow network.

In case of virtual network, the members of the virtual network conceive themselves as forming a long term enterprise not merely subcontracting on an arm's length basis (Child *et al.* 2005)

A flexible network is "what we call a strategic alliance or alternatively a "keiretsu". It comes about in environmentally volatile conditions but involves real collaboration. It has intraorganizational links that tend to be long term in duration, and requires the development of considerable depth of knowledge, technological competence, and response capability" (Child *et al.* 2005)

"The value added network is much more transactional in nature and develops in environments that are fairly stable. It is the product of the subcontracting, outsourcing

movement. The core organization typically may retain responsibility for R&D and product design but then outsource many of the other functions such as production and sales to low-cost suppliers. It is largely transactional in nature because the subcontracting companies do not need to make large product-specific investments and can be relatively easily replaced by other subcontractors if quality is unsatisfactory." (Child *et al.* 2005)

A hollow network is a large transaction based network and hence not a pure strategic alliance, since it is in constant need of other organizations in order to present and produce its products. "It represents a buffering mechanism against the vagaries of the environment by providing the flexibility to shift rapidly to new opportunities and sources of contribution" (Child *et al.* 2005).

Faulkner (1995) has also made an effort to classify alliance types according to scope, legal nature and size of membership and hence his taxonomy is presented on three axes:

i) scope represented on a focused/complex continuum

Focused alliance, "is a collaborative arrangement between two or more companies, set up to meet a clearly defined set of circumstances in a particular way" (Child *et al.* 2005). A complex alliance, involves large parts and/or complete value chains of each partner since the companies have understood that with that type of cooperation they can have a more powerful competitive entity than as separate companies. That does not imply that the firms lose their individual identities and overall aspirations, but cooperate in a large range of activities for mutual advantage.

ii) corporate legal entity shown on a JV/collaboration dimension

A joint venture (JV) is the creation a new separate entity/company created by two or more firms that are simply the shareholders of the new firm. "A collaboration is an alliance form that has no JV company to give it boundaries. It is therefore both the most flexible form, and potentially the least committed form, at least at the outset" (Child *et al.* 2005).

iii) number of partners shown on a two-partner/consortium axis

Faulkner (1995) used the number of partners as an indication to distinguish strategic alliances based on a dyadic mode or on a multi party basis.

A broad classification of strategic alliances can also be made in terms of functionality. At a functional level, strategic alliances are divided into the following groups: marketing and sales alliances, product and manufacturing alliances and technology and know-how alliances (Lynch 1993). As marketing and sales alliances literature identifies the formation of joint marketing agreements with value added sellers. On the other hand product and manufacturing alliances incorporate the functions of procurement and manufacturing and are formed between suppliers and manufacturers. The third type of strategic alliances, as suggested by Lynch (1993), refers to technology and know-how alliances, most commonly referred in the literature as strategic technology alliances. These are agreements between technology providers or between technology providers and business users, aiming at exploring new technologies and exploiting technology-based products.

Having so far presented some of the major classifications of alliances, it is our belief that the most accurate and valuable classification has been made by Dussauge and Garrete (1999). Dussauge's and Garrete's taxonomy is between non competitive and competitive firms.

In the case of competitive firms, they have distinguished the following types:

i) complementary alliances

ii) shared supply alliances

iii) quasi concentration alliances

In the case of non-competitive firms, they have distinguished the later types:

i) international expansion

ii) vertical integration

iii) diversification

Complementary alliances: Firms involved in complementary alliances have different contributions to make to the production of the final product. In other words there is a difference in the nature of assets that each firms offers to the alliance.

Shared supply chains: "Shared supply alliances generally come together to achieve economies of scale in regard to a specific component or at particular stage in the production process … such alliances are generally between equals and involve the production or R&D activities" (Child *et al.* 2005).

Quasi-concentration alliances: Similar to shared supply alliances, with the only difference that they produce and market together only one final product.

International expansion: Alliances made by firms that wish to expand to new geographic areas.

Vertical integration: Alliances made by firms that wish to secure their supply line or distribution outlets without for example the larger expenditure of an acquisition of their competitors. It is the case of alliance that is made in order to transform competition to cooperation.

Diversification: Alliances that are being made by companies to explore and enter totally unknown and unfamiliar markets.

Summarizing the above we have seen that the literature offers a large variety of alliance form type and classification. One of the major problems of not having on unique classification is that in most of the cases of taxonomy, researchers and scholars face the problem that there are types of alliances that lie in and between of two or more categories.

However the literature shows that there are cases of alliance classification that cannot be identified by a specific classification but do have a more complex character. For example research has shown that the focus of alliances in emerging industries to be only partially focused on technology, with access to new markets and finance being equally important (Hynes and Mollenkopf 2008). The desirability of accurate classification of strategic alliances based on its structure and character has been accepted by scholars and literature, therefore we identify numerous approaches of different types of formation and classification of strategic alliances. The complexity of the character of strategic alliances causes the existence of different variations and classifications of strategic alliances.

Having reviewed the typology and categorization of strategic alliances as derived from the literature, we should note that significant attention has been given by scholars to the fragility

of strategic alliances. This notion has been called "instabilities in strategic alliances". Alliances have proved to be extremely unstable. "Alliance instabilities refer to major changes or dissolutions of alliances that are unplanned from the perspective of one or more partners" (Inkpen and Beamish, 1997; Das and Teng, 2000). The establishment and creation of strategic alliances is the implementation of strategic planning and strategic intents. Hence the mode of organizing the transactions inside a strategic alliances needs to be examined. Therefore the later part of the Chapter examines and analyses the strategic alliance's Governance Modes based on the existing literature

2.4 Strategic Alliances Governance Modes.

As 'mode of organizing transactions' we can broadly define strategic alliances governance (Williamson and Ouchi, 1981). In other words, "alliance governance defines how an alliance is managed, how it is organized and regulated by agreements and processes and how the partners control and influence its evolution and performance over time" (Das T. K. 2012). The term of alliance governance is more used as an indication of interdependence that partners wish to maintain via the selection of a specific governance mode. Based on the set of mechanisms that the collaborating parties of strategic alliance employ, in order to protect, control, coordinate and secure exchanges among them, the literature indentifies two types of governance modes. Control mechanisms are used to resolve conflicts and mitigate opportunism between partners, while coordinating mechanisms determine how parties incorporate their diverse contributions (Jones *et al.,* 1997).

The dichotomy of equity versus non-equity alliances has been the base of most studies in the alliance governance literature. Equity alliances include Joint Ventures and minority equity alliances, non-equity alliances refer to all other contractual arrangements (Goblerman 2007). "Equity alliances are conceived as quasi-hierarchies, since they rely more on hierarchical governance mechanisms, while non-equity alliances are conceived as quasi markets" (Pateli 2009).

The most popular governance mode the literature identifies is the informal relational contract; strategic alliances may involve contractual agreements and ownership links (Todeva 2005). Therefore a typology of alliance structures that differentiates them according to the degree of embedded hierarchical control is proposed. The literature identifies the following categories;

- Joint Ventures

A Joint Venture involves an equity agreement in which partners agree to jointly create a new entity and each of them owns a share of the entity to which each partner contributes its own relative expertise to the new entity expecting that the combination of skills will produce benefits for the parties involved. Under this agreement partners do create a separate company in which the founding partners have an equity share, and are usually governed by its own board of directors. Since the new entity has its own administrative body that oversees its operational functions, it has an autonomous command structure that defines responsibilities for each partner. Since the management of the new entity is independent by the founding firms, all the decisions are internalized, but partners define standard operating and dispute resolution procedures. Due to the significant extent to which partners are committed,

involved and exposed to each other, a Joint Venture offers high levels of tacit knowledge transfer between partners. (Pateli, 2006)

- Contractual agreements

Contractual agreements are further decomposed into relational contracts, which imply a moderate to long-term social-embedded relationship between the collaborating parties (Wang and Wei, 2007) and recurrent contracts, concerning collaborative relationships of rather moderate duration (Pateli 2009). The major difference between the two types of contracts is trust in partner's relationship, as a result of their lasting contract and collaboration.

Acting as a substitute for more formal, equity based governance mechanism, relational contracts, also referred to as bilateral contract-based alliances, concern long-term relationships founded on a level of 'trust' that develops over time and reduces the propensity for partner's opportunistic behavior (Ring and Van de Ven, 1992). That type of governance mechanism requires recurrent bargaining on the production and transfer of property rights between partners. An internal mechanism that controls and preserves the relationship between partners, acting constantly as resolution for any disputes, insures that each member of the alliance realizes the strategic outcomes. This high level of implied interdependence and interaction is often considered as too risky since Joint Ventures by nature offers information and knowledge transfer. The phenomenon of Joint Venture formation, aiming only for information and knowledge transfer is common, with partners competing to learn more from each other, and thus drive the alliance to its end when the learning purpose is completed. Therefore, relational contracts, which are easier to dissolve but involve trust as a safeguard against partners' opportunism, are preferred over Joint Ventures (Pateli, 2006).

Recurrent contracts on the other hand also referred to as unilateral contract-based alliances, concern non-equity agreements requiring low levels of involvement by partners. The low level of partner engagement implies lack of any element of hierarchical control, such as shared administrative structure, and incentive systems. Compare to relational contracts, recurrent contracts also lack of standard operating and dispute resolution procedures. Therefore any ongoing activities are jointly coordinated and decisions are made in common when necessary (Pateli, 2006). This mode of alliance governance includes mainly bi-directional agreements, such as licensing and outsourcing. Since in such alliances, the transfer of tacit knowledge is difficult, they are preferred compared to relational contracts, when both partners intent to contribute property-based resources such as capital or patents or distribution channels to a prospective alliance (Das and Teng 2000).

- Minority Investments

Regarding Minority Investments the literature identifies partnerships in which firms agree to share equity in each other without creating any new entity. That type of alliance is characterized by a weaker form of control, compared to Joint Ventures, which is exerted by the participation of the investing firm on the administrative board of the firm that received the investment (Todeva 2005). As an operational control mechanism, the investor may be able to place personnel within the partner company for oversight and controlling purposes, and in cases where disputes appear, resolution is through board member intervention. Board interactions enable partners to exchange information and make decisions not only on management but also on an operational level (Pateli, 2006)

According to Das and Teng (2000), such governance modes are preferred by firms that contribute knowledge to the alliance and are thus subject to their partners' opportunistic

behavior, but expect to get access to the other firm's property-based resources such as capital or human resources (Pateli, 2006). For instance, in many turbulent industries, small innovative firms offer promising new technologies and exceptional know how. Large firms can get access to that technology by investing in these small innovative firms, in the form of minority investment (Duysters and Hagedoorn, 2000).

Alliance governance defines how an alliance is managed, how it is organized and regulated by agreements and processes and how the partners control and influence its evolution and performance over time. Despite the fact that the alliance sets a common strategy for the allies the differentiation of organizations as well as the differentiation of each of the partners strategic planning renders the alliances into a fragile relationship hence creates instabilities of alliances.

2.5 Instabilities of alliances

Alliances are complex organizational forms that are usefully viewed as incomplete contracts. The trade press sometimes refers to alliances in this fashion, e.g., "alliances are incomplete contracts (which) leave all sorts of room for maneuver and interpretation" (Alliance Analyst, November 25, 1996). Anand and Khanna (2000) support this view commenting that an alliance can be viewed as an incomplete contract between firms, in the sense that detailed interactions between the alliance partners can rarely be fully perspecified. The up to date literature suggests that alliances prove to be difficult to manage and numerous studies (Hamel, 1991; Gullati, Khanna, and Nohria, 1994; Khanna, Gullati and Nohria, 1998;

Khanna, 1998; Anand and Galetovic, 1999) spotted the tension between competition and cooperation.

Accepting Parkhe's (1993) statement, we argue that "some alliance structures are inherently more likely than others to be associated with high opportunity to cheat, high behavioral uncertainty, and poor stability, longevity and performance" (Parkhe, 1993). Parkhe (1993) also continues that strategic alliances are voluntary interfirm cooperative agreements, often characterized by inherent instability arising from uncertainty regarding a partner's future behavior and the absence of a higher authority to ensure compliance (Parkhe, 1993). Mutual cooperation is desirable by the cooperative firms but it is not automatic (Williamson, 1985) and in most of the cases is not secured. This will lead to actions that are individually rational and hence will produce a collectively sub-optimal outcome (Parkhe, 1993).

Many researchers and articles have named the problems that alliances face including instability and poor performance, which lead to mortality of alliance and collapse at the rate of 70% (Parkhe, 1993; Business week, 1986; Geringer and Herbert, 1991; Porter and fuller, 1986). Opportunism, (Hennart, 1991; John, 1984; Provan and Skinner, 1989; Williamson, 1983; Williamson, 1983; Wathne and Heide, 2000; Hill, 1990), behavioral transparency (Axelord, 1984; Bendor, Kramer and Stout, 1991; Spence, 1987), trust (Das and Teng, 1998; Nootemoom and Berger, 1997; Wicks, Berman and Jones, 1999; Currall and Inkpen, 2002; Aulakh, Kotabe and Sahay, 1996; Bromiley and Cummings, 1991; Thorelli, 1986; Barber, 1983; Killing, 1988; Lorenz, 1988; Palay, 1984) interfirm conflicts (Mohr and Spekman, 1994) and interpersonal relationships (Faulkner, 1995) have been examined as reasons for the failure of alliances. The literature might be extensive and growing but the phenomenon of

alliance instabilities needs further examination. Ouchi has successfully named the summary of the above problems of alliances as the "fundamental problem of cooperation" (1980: 130).

Despite the fact that in the later years the number of alliances has significantly increased, studies and surveys have showed that the level of failure and termination is high. Das and Teng (2000) define unstable alliances as liquidations, acquisitions and reorganizations, and using this definition, scholars and researchers have measured the instability rate which lies between 30% and 50% (Beamish, 1985; Killing, 1988; Kogut, 1988; Park and Ungson, 1997; Stuckey, 1983). On the other hand reviewing these findings researchers suggest that alliances are highly unstable and unsuccessful, but it is important to note that the termination of an alliance (unsuccessful alliance) does not imply the failure of the alliance (Inkpen and Beamish, 1997). That phenomenon can be easily explained since a strategic alliance, after the completion of its specific objectives can be terminated by the alliance partners naturally or planned.

2.6 Explanations of alliance instabilities

Numerous explanations exist in the literature, explaining the phenomenon of instabilities in strategic alliances. In this thesis we will present briefly some of the major and most important ones.

The first possible explanation can be given using relational contracting theory and transaction cost economics. According to relational contracting theory (Macneil, 1974, 1980) the notion of trust is the vital element for the maintenance of a strategic alliance. The firms then have to

rely on mechanisms that ensure trust, such as long-term contracts, the offering of mutual hostages, such as assets specific to the collaboration and the development of mutual trust. On the other hand transaction cost economics, also give the importance of a negative effect of opportunistic behavior for the health of the cooperation. As we have already mention, firms try to impose different types of trust and control mechanisms, which in turn will increase the cost of maintaining the alliance, and hence its dissolution could be a possible solution.

Another possible explanation can be found using the game theory. "Because many alliances are structured in a way that the firms can expect more payoffs from cheating or exploiting the partner, it seems inevitable that those alliances will eventually fail" (Das and Teng, 2000). Using this approach we can apply a simple two player prisoners dilemma but in that case the question that is going to be asked is if the partner firm will cooperate or not.

Strategic behavior theory also gives explanations for alliances instabilities. According to this theory, firms develop strategies that will enable them to obtain advantageous competitive positions against their competitors (Porter, 1980; 1985). Goals and targets such as gaining access to technologies or markets, reduction and sharing the cost of R&D, minimizing the effects of economies of scale and scope in production, synergy and jointly attacking industry leaders can be achieved through an alliance. The case here is that firms sometimes impose targets and goals additional to the ones we have named above and hence are unrealistic. These unrealistic goal expectations and a lack of overlap with the goals of partners will have a significant effect on alliance stability (Hartfield and Pearce, 1994). Furthermore, Stafford (1994) argues that partner firms are often not patient enough to achieve their goals in an alliance and hence can lead to an unstable alliance with possible outcome, the failure the cooperation.

Agency theory can also explain the phenomenon of instability of a strategic alliance. Geringer and Woodcock, (1995) as well as Ramanathan, Seth and Thomas (1997), have studied the effect of agency theory on strategic alliances. According to this theory, agents in exchange relations may pursue self-serving goals and collective economic activities can be advantageous due to the benefits of teamwork (Das and Teng, 2000). More specific agency related to strategic alliance motive implies that:

i) managers behavior is self-interested, subject to bounded rationality

ii) cooperation of firms contains a degree of conflict between the goals that the partner members set

iii) there is an asymmetry of information between the managers of the partner firms

Agency theory is possibly the best answer to the general problem of opportunism. Managers have the tendency to make decisions that benefit themselves rather than the firms, as well as to move the alliance to their own firm so as they can control their own compensation or employment risk. The results are unavoidable, in which most of the time leads to the termination of the alliance or the acquisition of the partner firm with the use of opportunistic behavior.

The last approach that we present is based on a resource dependence and bargaining power perspective. "The resource dependence model indicates that firms rely on certain resources owned by others and manage interorganizational relationships to control and minimize such dependence. Strategic alliances enable firms to produce others' resources and thus reduce the level of dependence on the environment" (Das and Teng, 2000). The problem that this approach reveals is that it increases the level of dependence of one firm from its partner and hence there is a significant change of the bargaining power between partners. Power

imbalance has been found to be inversely related to perceived effectiveness in co-marketing alliances (Bucklin and Sengupta, 1993). As in other cases this will affect the stability of the alliance and hence it will be eventually terminated or one partner will acquire the other.

It is important to note that in almost all the theories presented above the underlying problem was the problem of opportunism and trust. It is the main reason that alliances exhibit a high instability rate as well as the reason that alliances move from just being unstable to failure and dissolution.

2.7 Opportunism and alliances

In strategic alliances, cooperation is maintained as each firm compares the immediate gain from 'cheating' with the possible sacrifice of future gains that may result from violating an agreement (Telser, 1980). This implies that the balance in an alliance is not only maintained by the trustworthiness and the honest cooperation that has been building over time in an alliance but a continuous measurement of immediate and longer term gains and losses from an opportunistic movement. Telser's (1980) statement shows that once the gains of the opportunistic movement are greater that the costs of this movement, it is likely that the ally will proceed to that opportunistic movement. This behavior is also supported by number of scholars and researchers (Granovetter, 1985; Barney, 1990; Hill, 1990; Bromiley and Cummings, 1991, Parkhe, 1993) that assume that managers have the underling propensity to behave opportunistically.

Strategic alliances have been recognized as arenas with potential for opportunistic behavior by partners (Das and Teng, 1998). The incentive to cheat or behave opportunistically in alliances occurs because each partner finds it "advantageous to maximize his own gains at the expense of the venture" (Hennart, 1991: 486), and has been proved that all parties involved have an "inalienable de facto right to pursue their own interests at the expense of others" (Buckley and Casson, 1988: 34). These motivations can create high instability (Kogut, 1989; Parkhe, 1993b) and a situation isomorphous to the game of prisoner's dilemma (Parkhe, 1993). One of the initial definitions of opportunism and possibly the most accurate one was given by Williamson (1975) – "Opportunism is defined as self interest seeking with guile" (Williamson, 1975). Williamson describes "guile" as lying, stealing, cheating and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse". If we analyze this definition we can see that that human beings are only "weakly morals" (Douglas, 1990) and cannot be counted on to honor contracts or fixed rules of interaction (John 1984; Williamson, 1993). This definition is acceptable but we can argue about the term "guile" that Williamson (1975) has used.

We can argue that guile is not always present in opportunistic movements but can rather be characterized as seizing business opportunities that may arise. Since we later argue that opportunistic actions occur after a cost measurement of gains and losses, it is our personal belief that guile is a "heavy" definition of opportunism. It is a result of accurate cost measurement, fast and capable managerial movements and basically it can be explained sociologically with the tendency of managers to perform opportunistically. After all, an opportunistic movement has at the same time two different results; gains for one firm and loses for the other. Many sociologists express their research on opportunism by giving explanations of ethics and social behavior. On the other hand, pure economists and managers

may see an opportunistic movement as hiding gains and success for the firm that they represent. The complexities of opportunism as we have discussed above, as many scholars agree (Das and Rahman, 2002; Ghoshal and Moran, 1996; Wathne and Heide, 2000) cannot be described precisely from Williamson's definition that we would characterize as parsimonious.

2.8 Types of opportunism

Williamson provides a second and more precise definition of opportunism; "opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson, 1985). Based on that definition, scholars such as Parkhe (1993) and Das and Teng (1998) were able to give numerous examples of opportunistic behavior based on survey research. They have found that opportunistic behavior is exemplified by cheating, shrinking or failing to fulfill promises or obligations, withholding or distorting information, misleading partners, providing substandard products and services and appropriating partners' critical resources, appropriation of the partner firm's technology or key personnel and late payments.

As we have argued above these are the basic and major types and actions that exemplify an opportunistic movement. Apart from that, researchers have identified other types of behavior that can be classified as opportunistic. They are quality shrinking (Hadfield, 1990), falsification of expense claims (Phillips, 1982), breach of distribution contracts (Dutta, Bergen and John, 1994), violation of promotion agreements (Murry and Heide, 1998) and bait and switch tactics (Wilkie, Mela and Gundlach, 1998).

It is important to note that there can be the possibility of classifying behavior as opportunistic, but in the end it can be proved that it was not. Scholars and researchers characteristically refer to some types of behavior that are not considered as being opportunistic, but have a significant effect on the "life" of the alliance. For instance, hard bargaining, intense and frequent disagreements and similar conflictual behaviors do not constitute opportunism (John, 1984). Another example of action that is, according to Wathne and Heide (2000), excluded from opportunism occurs when the parties jointly agree to modify an agreement or one party receives compensation in some form. Wathne and Heide (2000) also exclude situations in which parties adjust contract terms *ex ante* in anticipation of shrinking.

Hence we can see that it is almost impossible to provide an accurate definition of opportunism. Based on the current situation inside an alliance, based on the business environment, as well as the timing of the movement can either be characterized as opportunistic or not. We must also mention at this point, the notion of opportunistic propensity, which implies the firm's general willingness and tension for opportunistic behavior. It is generally accepted that all firms have opportunistic propensity. The major difference of opportunistic propensity and opportunist behavior is that the first is impossible to observe. Baring in mind that major difference and reviewing the literature we identify a key problem in the research of this topic: most of the research that has been done is primarily focused on explaining the factors triggering opportunistic behavior instead of explaining the content of opportunistic propensity.

Combining the latter with the fact that almost all firms tend towards opportunistic behavior, we must refocus on the topic and explain from another perspective such as the motivations

and incentives, what will force the opportunistic propensity to become opportunistic behavior. We must never forget that business strategies obey to the initial law of economics – profit maximization.

2.9 Sources and Motivations of opportunistic behavior

Revising the literature we can find four major types and motivations of opportunistic behavior that arise from the four different perspectives, from which opportunism has been studied: economical, relational, temporal and managerial.

The most important, at our point of view, are economic motivations. "Even among the less opportunistic, most have their price to give in to opportunism" (Williamson, 1979). The explanation of this motivation is more than simple. The firm tries to be economically better off and hence is willing to act opportunistically in order to advance its economic self interest. Even in firms with a low opportunistic propensity, it is proved that their level of opportunistic propensity will be increased by economic incentives.

The second motivation that is going to be discussed is relational. "When concern for the alliance or the other alliance members is low, a partner firm would feel few restrains in being opportunistic. A lack of attachment to the alliance or relational solidarity with alliance members would contribute to the opportunistic propensity (Das and Rahman, 2002). This increase in opportunistic propensity will eventually lead to opportunistic behavior since no major relational connection exists between the firms and hence apathy for the affects of opportunistic behavior to the partner. Moschandreas (1997) has made a very interesting

comment on the topic of relational motivations; “Human behavior is too complicated to be adequately summarized by opportunism. Cultural influences, group dynamics, considerations of trust, and human dignity do have an impact on economic behavior and the environment in which exchange can take place” (Moschandreas, 1997). Furthermore lack of relational feelings for the alliance and the focal firm will lead to “infidelity” (Griesinger, 1990). Infidelity occurs when one partner gets involved in deals that vary from its counterpart, despite an exclusive clause. This phenomenon might be worst in cases where one partner is engaged in other alliances with direct rivals of the focal firms, and hence will create major conflicts of interest.

Moving on, it is important to present the dimensions of time relating to opportunism inside an alliance. Possibly one of the most important factors of opportunistic propensity is “time limits” that a firm has for its performance, targets and strategic planning. For example, in cases that the firm requires quick results, or short-term performance, it is highly likely that it will sacrifice long-term possibilities through the alliance and hence will behave opportunistically. Another issue is the so called “shadow of the future” (Axelrod, 1984; Heide and Miner, 1992). Referring to the shadow of the future is the firm’s beliefs about the continuation of the current alliance with the current firm as well as the anxiety about the future gains and success of the current alliance. Thereafter the longer the perceptions of the long term gains from the alliance the less the opportunistic propensity will exist. On the other hand when the future with the counterpart is believed to be short then the level of opportunistic tendency will increase. “When the partner is seeking a quick return on its investment in the alliance, it may feel inclined to steal or misrepresent results to garner part of the profits. Partner firms perceiving a weak shadow of the future would also feel fewer restrains to behaving opportunistically” (Das and Rahman, 2002). We can then argue that it

according to firm's believes and plans about time and gains that will create the tendency of opportunistic behavior. "The length of the interaction should be indeterminate to prevent endgame defections that can lead to the unraveling of cooperation" (Heide and Mines, 1992). The effect of time in cooperation and alliances will be further examined in this research later on.

The last source of motivation that is going to be discussed is the managerial one. The characteristic example of Provan and Skinner (1989) fully explains the meaning of managerial motivations. "The management of a powerful supplier may behave opportunistically in relations with its dealers because it can readily exploit these weaker members of its organizational set and thus gain further advantage. On the other hand, relatively weak dealers may … behave opportunistically. Lacking more traditional bases of power, the management of these organizations may view opportunism as the only viable way of ensuring that their needs are adequately met in relations with a powerful supplier" (Provan and Skinner, 1989). In other words a partner may behave and act opportunistically when it feels controlled or dominated by its partners or because there is the desire to dominate and/or control its partners. Both cases will increase the rate of opportunistic propensity and hence opportunistic behavior. Another form of managerial motivations of opportunistic behavior exists when there is not a balance of information about the alliance situation and hence one or more of the partners is being "kept in the dark". Furthermore a very important managerial opportunistic propensity that will also be investigated in this research occurs with the existence of unfair or secret attempts to acquire the other member/members.

2.10 Summary

In this chapter we have investigated and analyzed the basic principles of strategic alliances based on the existing literature. Structuring our investigation of strategic alliances this chapter presented a definition of strategic alliances and the benefits of their existence. Significant attention was given to the typology and formation of different forms of strategic alliances based on the categorization by scholars. Literature as well as reality indicated the problematic perspective of strategic alliances. Strategic alliances tend to be instable. This chapter focused the instabilities of alliances to opportunism and the sources and motivations of opportunistic behavior by allied organizations. It is generally accepted by scholars and practitioners that all firms have opportunistic propensity. One of the most vital and crucial factors of the existence as well as the evolution and establishment of strategic alliances is trust between allied organizations and confidence between partners. The following chapter based on the existing literature draws the basic principles of trust inside strategic alliances and examines the balance between confidence, trust and control within a strategic alliance.

Chapter Three

Alliances, Trust and Control

3.1 Introduction

In this chapter we are going to draw further on the literature of strategic alliances, in this case the literature on trust and control. This literature not only demonstrates the central importance of those variables –trust and control, but also shows them to be composite, interactive and dynamic, rather than static. Thus we enrich the case for the central role of trust and control so as to generate a valuable addition to the of the Co-Evolution model enabling us to deliver our model, the Extended Co-Evolution model of strategic alliances. This chapter investigates the literature behind trust and control of strategic alliances, confidence between partners, balance of trust and control mechanisms and raises the paradox of confidence – trust – control.

3.2 Trust and control

There has been a high level of attention by scholars to the importance of trust inside the alliance. Trust between the alliance partners has been proposed as one of the critical success factors. The high levels of uncertainty and interdependence that characterize strategic alliances make trust particularly important (Candace, 2009). It has proved to be a vital ingredient that effects the success, the life and the effectiveness of alliances. Confidence between partners prepares the ground so that the alliance will be created as well as the

dimensions and functionality that the alliance will adopt. A low level of confidence will discourage the formation of a strategic alliance, but it will also lead the partners to view each other with suspicion, with obvious and significant effects on their working relationship, if the alliance should be formed (Das and Teng, 1998). If we need to define confidence in partner cooperation, the definition that was introduced by Das and Teng (1998) is probably the most appropriate: "We define confidence in partner cooperation as a firm's perceived level of certainty that its partner firm will pursue mutually compatible interests in the alliance rather that act opportunistically" (Das and Teng, 1998). Hence it is obvious that the existence of satisfactory cooperation inside the alliance is vital for its success (Kanter, 1994, Doz, 1996) and that includes confidence for the partner, trust and ability to control the alliance. Literature has proposed that the success of a strategic alliance requires flexibility and open sharing of information (Hagedoom and Duysters, 2002, De Jong and Woolthius, 2008). Due to the increase in the competitiveness of the economic environment, alliances are characterized by uncairtainty (Hagedoom and Duysters, 2002, Krishan *et al.,* 2006), high levels of interdependence (Hagedoom and Duysters, 2002) and frequently involve existing or potential competitors. A number of authors have proposed that these factors increase the risk of opportunism in an alliance (Krishnan *et al.,* 2006, Oxley and Sampson 2004, Ybara *et al.,* 2009)

3.3 Confidence between partners

We can argue that confidence that allied partners inside an alliance will act based on the alliance's best interest and not against the benefits of the allied partners, is grounded on trust and control. It is important for the survival of the alliance that confidence for satisfactory

cooperation exists based, as Arino (1997) stated, on veracity (being truthful) and commitment (making efforts.). Trying to define confidence in partner cooperation we can see it "as a firm's perceived certainty about satisfactory partner cooperation" (Das and Teng, 1998). Although that is not always the case since too often alliance partners are caught in infighting, as each of them attempts to get ahead in a manner that hurts partner firms (Hamel, Doz and Prahalad, 1989).

Thus there is a thin line that separates as well as connects cooperation and competition. The optimal situation is a balance between cooperation and competition (Teece, 1992) but that faces the problem that firms initially have to aspire to achieve their own interests, but at the same time they have to consider the alliance and partner's beneficial interest, so that the alliance can work. Much of the time, the firm's best interest comes into conflict with the alliance's best interest and that boosts the tendency towards competition inside the alliance, which in turn boosts the tendency of the firm to move towards opportunistic behavior. "After all, if cooperation and competition are at odds with each other, one cannot take for granted that a satisfactory level of cooperation will be sustained in alliances (Koot, 1988; Park and Russo, 1996; Das and Teng, 1997)" (Das and Teng 1998).

So the need for optimal or satisfactory cooperation implies that the partner firms must have confidence in each other. The case is that despite each firm's hidden agenda, there is a concern about the partner firm's opportunistic behavior as well as uncertainty about the level and quality of cooperation between the firms.

It is important to note some other implications of the importance of confidence in partner cooperation. Lack of confidence may abort the potential creation of an alliance (*ex-post*) or

even lack of confidence in an existing alliance may lead to riskier strategies adopted by the firms or opportunistic actions that will lead to a problematic and less effective alliance (*ex-ante*) behavior and hence to the weakening of cooperation. It has been proved that high levels of confidence in partner cooperation will easily lead to the creation of an alliance but that does not imply that confidence is static and automatic. That does not imply that confidence will exist during the life of the alliance and hence has to be constantly reproduced and maintained. The key source of reproduction and maintenance of confidence of cooperation is trust and control.

3.4 Trust

Behavioral scholars have assumed that most exchange partners are trustworthy and that trust will exist in exchange relationships even if economic safeguards against opportunism are not in place. According to Yabara (2009) an economic exchange is a transaction resting on a formal contract that prescribes specially the nature and extent of the favors exchanged. In others words trust is not neccecary because everything is specified, it is a type of expectation that alleviates the fear that one's exchange partner will act opportunistically. Trust has been viewed as the glue that keeps business partners together (Barber, 1983; Palay, 1984; Killing, 1988; Lorenz, 1988). According to Aulakh *et al.* (1996), we can define trust in interpersonal relationships as the willingness of one person to increase his/her vulnerability to the actions of another whose behavior is not under ones' control (Zand, 1972) in economic exchanges as the expectation that parties will make a good faith effort to behave in accordance with any commitments, be honest in negotiations, and not take advantage of the other, even when the opportunity is available; and in society as a collective attribute based upon the relationships

in a social system (Aulakh et al., 1996). Many researchers and scholars have connected trust with confidence and have defined it as the "firm's belief that the another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes" (Anderson and Narus,1990).

Aulakh *et al.* (1996) have recognized three roles of trust in interorganizational exchanges:

i) Trust in organizational exchanges is an important barrier to opportunistic behavior (Bradach and Eccles, 1989).

ii) Trust is considered to be a substitute for hierarchical governance, thus accomplishing organizational objectives in inter-firm partnerships when ownership-based control is not strategically viable or economically feasible (Aulakh *et al.* 1996)

iii) Trust as a behavioral deterrent of opportunistic behavior and as an alternative to ownership control.

Zaheer *et al.* (2002) on the other hand have given another dimension on trust based on the assumption that trust is composed by three components:

i) Dependability - expectations that the partner will act in the alliance's best interest

ii) Predictability - consistency of actions by the partner

iii) Faith – belief that the partner will not act opportunistically, even in unforeseen or novel situations.

As we can see trust is a multidimensional concept and has a vast variety of angles that a researcher can examine. Child (2005) comments that "trust is an essential component in cooperation, and its value is widely appreciated by the managers of strategic alliances. Yet it remains a complex, even elusive, phenomenon" (Child, 2005).

3.5 "Balance" of trust and time

Anderson and Narus (1990) suggested that once trust is established, firms learn that joint efforts will lead to outcomes exceeding what the firm would achieve if they had acted solely in their own best interests. Doz (1996) on the other hand has found that alliances that have developed trusting relationships over time are more likely to be adaptable and to survive for longer periods of time. Furthermore Das and Teng (1998) argue that organizations develop close bonds over time and form a positive attitude regarding each other's reliability.

The existing literature offers extensive research and a variety of arguments distinguishing the relation of trust and time, suggesting that trust increases over time. What has never been argued is if trust is increased in balance over time between all partners. Unbalanced level of trust between partners of a strategic alliance may lead to opportunistic behavior against the least trusted partner. To illustrate our proposition, let's imagine an alliance that involves three corporations; Firm A, Firm B and Firm C. After a period of time t, trust has increased between firms A, B and C. Is that increase the same between all the relations inside the alliance? In other words is the level of trust the same for the relationships A and B, A and C, and B and C? Let's assume that the level of relationship between firms B and C is greater than the level of trust between those two firms and firm A. After time t that has passed, as

many researchers argue, transaction costs are lower (Gulati, 1995), desirable behavior (Madhok, 1995) reduces the extend of formal contracts (Larson, 1992) and facilitates dispute resolution (Ring and Van de Ven, 1994). If we consider all these changes inside the alliance and combine them with the fact that alliances are unstable (i.e. agency theory) then we can argue that an opportunity is created for firms B and C to behave opportunistically against firm A and to enjoy a higher rate of immediate gains by cheating against firm A or acquiring firm A using opportunistic methods. That case will be also examined later in the thesis under the assumption of intra-alliance.

Proposition: If the level of trust is not balanced between all the members of an alliance, then even if high levels of trust exist or even sufficient time has passed making the bonds between the firms stronger, then the firms that have a higher levels of trust between them will have a relative advantage against the other firms in the alliance and hence the propensity to opportunistic behavior increases.

3.6 Control

Firms in alliances tend to be more confident about partner cooperation when they feel they have an adequate level of control over their partners (Beamish, 1988; Sohn, 1994). A valuable definition of control was given by Leifer and Mills (1996); "a regulatory process by which the elements of a system are made more predictable through the establishment of standards in the pursuit of some desired objective or state" (Leifer and Mills, 1996). Control as we will argue later can be imposed in a different ways, but all these methods serve a single purpose; to organize the cooperation between two or more firms according to some regulating

behaviors and a specific organizational outcome and to manage the alliance's activities in accordance with expectations so that the ultimate goals of the alliance can be achieved.

3.6.1 Control mechanisms

In order for cooperative firms to achieve a significant level of control over their partners so as they can feel more confident, they can use a number of control mechanisms according to Child (2005) that are going to be presented briefly in this section:

i) Input control - Facilitates actions on grounds of controlled conditions

ii) Behavioral control – specifies the correct way to do the work

iii) Output control – specifies intended results, monitors and rewards their achievement

iv) Value socialization – defines and creates common values

v) Adaptation socialization – makes people familiar with each other values and practices

vi) Personal involvement – signals what partner managers think is important

vii) Hierarchical structure – emphasizes and supports partner and alliance goals

viii) Lateral structure – influences people to interact across formal boundaries.

Recent researchers and scholars have hound that excessive concern and control can be counterproactive (Lorange and Roos, 1992; Nooteboom and Berger, 1997)

3.7 The paradox of confidence – trust - control

There is paradox regarding the relation of confidence, trust and control that also affects opportunistic propensity. As we have already discussed confidence for an optimal cooperation between partners is not static and automatic. It needs to be created and re-built over time. We have produced several ways and precautions that firms can use so as to ensure the level of confidence and/or avoid any chances of opportunistic behavior. The paradox that lies between these actions, is that confidence is virtual and never really exists since at the same time "the shadow of the future" creates subconscious uncertainty. The existence of all these measures for minimizing uncertainty implies that trust, confidence and opportunistic behavior exist and have to be controlled as closely as possible, so as not to be activated. No one can argue the existence on non-opportunistic firms. Even firms with the minimum level of opportunistic propensity, subconsciously under specific circumstances and under the lack of partner firm's control will behave opportunistically since we have already argued that the vast majority of managers have the underling propensity to behave opportunistically.

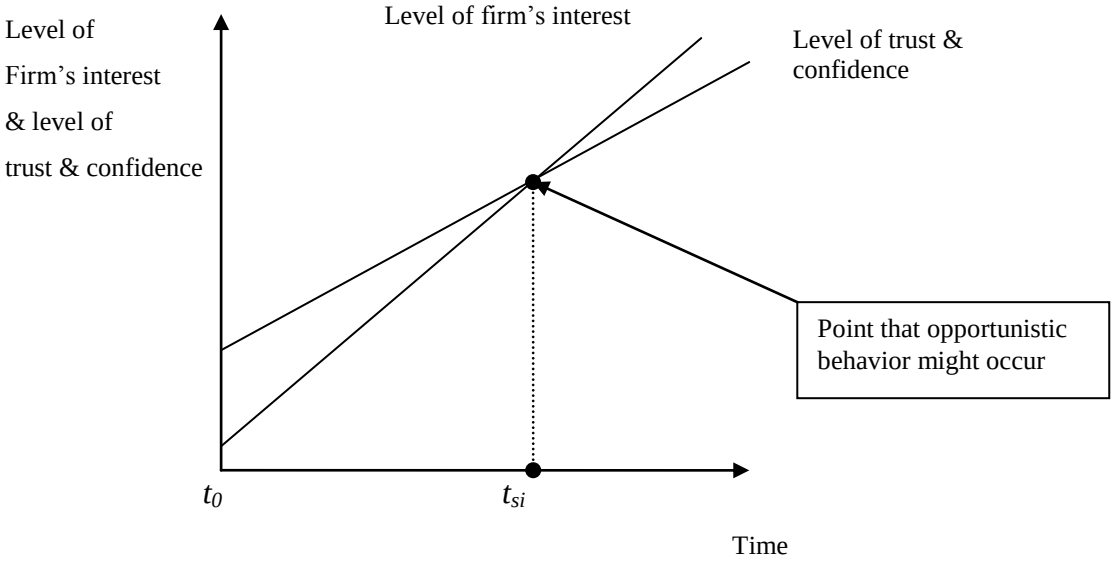
Hence the paradox underlies the assumption, that despite the fact that there is a general tendency towards opportunism, despite that there exist uncertainty and lack of confidence in the optimal cooperation by the firms, all the measures and precautions against these tensions are based and being created under each firm's "opportunistic thoughts" as well as previous experiences. For instance the construction of a contract covers all the possible ways that the firm that imposes the contract is able to use if there were the case of an opportunistic movement.

Moreover, control in an alliance is based on the same assumption, which implies that the firm will try to be protected from any possible actions that the firm itself will use if there is a case of opportunistic behavior. Hence we can argue that the firm that will eventually resign under the maximum benefit of its interests is the firm that will under certain circumstances – i.e. profit maximization, pressure for immediate gains, be one step in front of all these measures.

As we can see in Figure 1, while confidence can increase over time, just as personal interest can also increase due to in-company pressures (e.g. shareholders, business cycle, wrong managerial movement etc.). The point that opportunistic behaviour might occur is when the level of personal interest exceeds the level of trust, even though, high levels of trust exist.

Proposition: As soon as the firm is able to overcome all protective measures and limitations imposed by the partner firm, even if there is no level of opportunistic propensity and high levels of trust, under certain circumstances it is inevitable that the firm will behave opportunistically.

Having already given some insights from the existing literature about notions of trust and opportunism in strategic alliances related with time, it would have been useful to apply these notions on a model that is not static but represents and explains the reactions of alliances through time. This research uses the Co-Evolution model, developed by ul-Haq (2005).



key: t_{si} = time of start of instability of alliance

Figure 1: Firm's interest vs trust and confidence

3.8 Summary

In the foregoing pages we have drawn on the trust and control literature to illustrate the composite value of these concepts, to illustrate their importance as determinants of member firm behavior within strategic alliances and to demonstrate their interdependence. Finally we have reformatted these variables into what we call the Confidence Trust and Control paradox. It is a paradox in the sense that the importance attached to the means of control and to the importance of trust are always predicated on the important drive for opportunistic behavior within the strategic alliance.

The thesis in chapters two and three explored the literature regarding the basic principles of strategic alliances. Our path of analysis and introduction into the strategic alliances started by exploring and presenting the typology and formation of strategic alliances as well as their governance modes. That lead to the investigation of instabilities of strategic alliances and the presentation and exploration of opportunism and opportunistic behavior. Basic principles of opportunism and opportunistic behavior are the issues of trust and control. Chapter 3 was dedicated into the analysis of trust issues as drawn by the literature as well as control and control mechanisms within the strategic alliances. We have analyzed all the prementioned elements so as to set the basic principles for the development of the Extended Co-Evolution model, a diagnostic tool for the examination and presentation of the behavior of firms inside a strategic alliance.

It is the major aim of this chapter to show the determinants of opportunistic tendencies and the combinations of factors that predispose their opportunistic actions. But in the following chapter, we offer an analysis and presentation of the Co-Evolution model, as originally

formulated by my former supervisor Dr. Rehan ul-Haq and then signal the possibility of elaborating the ongoing model by introducing some new factors.

Chapter Four

The Co-Evolution Model

4.1 Introduction

Although alliances are known to be highly unstable it is still relatively unclear how and why change within alliances occurs and whether theories such as Co-Evolution would provide a better explanation of this change. Forming and competing using strategic alliances may change the way in which firms change and compete, as well as change the unit selection from single firm to possibly including the strategic alliance partner (Hynes and Wilson 2012). This Chapter aims to clarify how and why the changes within the Co-Evolution of strategic alliances occur. Early work in the field of the Co-Evolution of Strategic alliances, using Co-Evolution as an explanatory factor for change focused solely on the interaction between a firm and the environment (Lewin *et al. 1999*, Baden – Fuller *et al.* 2001, Volberda *et al. 2003,* Hynes *et al. 2012*). This chapter acknowledges the complexity of strategic alliances. The existence of various elements within a strategic alliance implies that each element is evolving separately as well as Co-Evolving interactively and therefore Co-Evolution occurs by mutual influence of heterogeneous partners (Das and Teng 2002, Volberda *et al. 2003).* Understanding and identifying the existing literature, the following Chapter aims at filling the missing links in the co-evolution of strategic alliances. The Chapter presents the Co-Evolution model (ul-Haq 2005) but adds dimensions to it that are aim analyze the complexity of interaction between strategic partners within the alliance. Our aim here is to identify these

dimensions and show that the co-evolution of strategic alliances is influenced not only by the external environment but also, by the behavior of its partners.

4.2 Co-evolution Model

This thesis presents and extents the Co-Evolution model developed by ul-Haq (2005). Our aim is to identify, and present aspects of the model that will help to enhance its dynamics and usefulness. It is also important to highlight the dimensions of opportunistic movements by the alliance partners as well as extending the model to embrace multiple (more than two partners).

The model is based on the fact that during a strategic alliance, firms that participate in the alliance co-evolve over time. The original Co-Evolution model introduces the three main forms that the evolution of an alliance is having – parallel co-evolution, convergent co-evolution and divergent co-evolution. These three major forms are presented diagrammatically in Figure 2.

As ul-Haq (2005) explains, parallel co-evolution "is where the strategic intents of the two firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. The initial matching of intents continues and evolves over time at the same rate, in a similar direction" (ul-Haq, 2005). Parallel co-evolution may also cover any minor changes in the speed of evolution of the individual intents or the degree of parallel evolution, since, according to ul-Haq (2005) this can be adjusted by the "springiness" or flexibility of the strategic alliance. Following the later statement, ul-Haq (2005) argues that

in case these changes of strategic intents are in a greater degree, then the later two cases will occur as described by the model, as well as being shown diagrammatically in figure 2.

In the case of Convergent Co-Evolution, the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened (ul-Haq, 2005). In cases when Convergent Co-Evolution occurs in an alliance, that will lead to the merger of the firms or the acquisition of one firm from the other and hence to the dissolution of the alliance. It is important to note that in cases of Convergent Co-Evolution the alliance will move to a "hierarchical" nature and hence to the dissolution of the alliance.

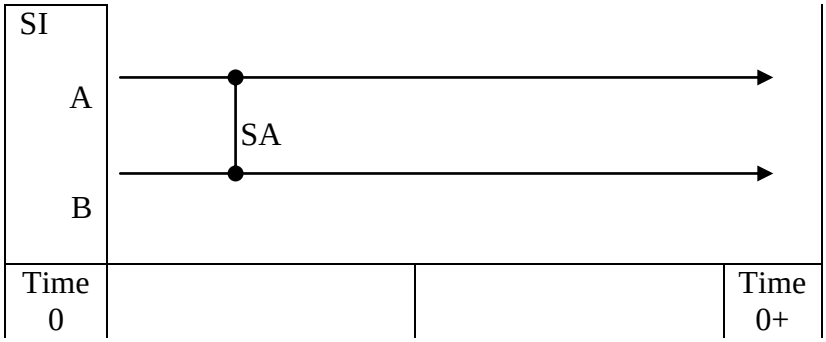
The exact opposite case occurs in Divergent Co-Evolution. That means that the strategic intents of the two firms diverge over time and the rationale behind the strategic alliance is weakening (ul-Haq, 2005). In that case, as well as in the Convergent Co-Evolution, the alliance will break down. In the divergent classification the alliance will move to a "market" nature.

Ul-Haq (2005) has also introduced a modification of the model according to the rate at which the strategic intents of the partner firms will co-evolve in the alliance. Based on that concept, ul-Haq (2005) proposed three modified categories that are as follows – Differential Parallel Co-Evolution, Differential Convergent Co-Evolution and Differential Divergent Co-Evolution. These three differential categories imply that "each firm's strategic intent co-evolves at different rates and that this will have an impact on the nature, propose, importance, form and validity of the strategic intent" (ul-Haq, 2005).

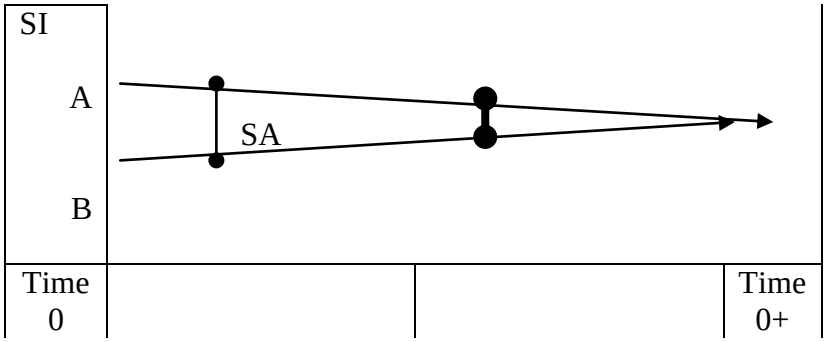
Applying the differential extension to the model, the Differential Parallel Co-Evolution is "where the evolution of the strategic intents of the two firms are at different rates but in a broadly similar direction:" (ul-Haq, 2005). As in Parallel Co-Evolution the alliance will continue to exist but the faster evolving firm will pull the slower evolving firm and hence the alliance as a whole in a new joint direction.

The second case, in Differential Convergent Co-Evolution, exists when the partner firms evolve at different rates according to their strategic intents in a convergent direction. In that case the alliance will dissolve until the faster evolving firm will "internalize the alliance and the slower involving firm, inside its boundaries" (ul-Haq, 2005).

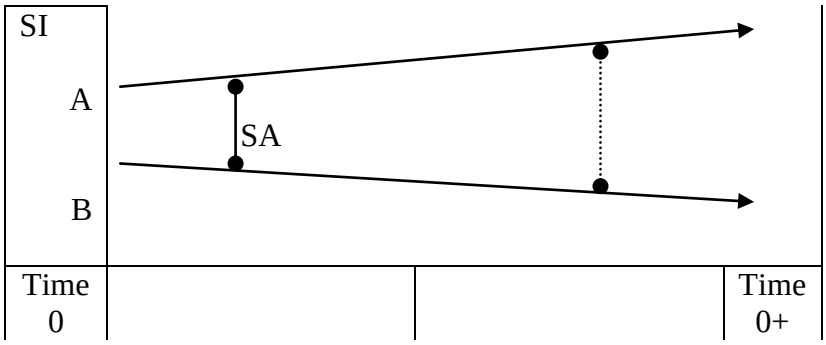
The case of Differential Divergent Co-Evolution will occur when the partner firms evolve at different rates according to their strategic intents but in a convergent direction. As in the Differential Convergent Co-Evolution, the alliance will dissolve



Parallel Co-Evolution



Convergent Co-Evolution



Divergent Co-Evolution

Key:
SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

Figure 2: Schema for Classifying Co-Evolution of Firm Level Strategic Intents in Strategic Alliances
Source: ul-Haq 2005

4.3 Extending the Co-evolution Model

The aim of this research is to extend the Co-Evolution model, to generate new academic dimensions and insights as well as the possibility of practical application. As ul-Haq (2005) states, this model throws light on alliance persistence and alliance termination. As his model is new, taken from the academic literature, it can benefit from development by others. We will add to the model the dimensions of opportunistic movements by one of the partners, and we will increase the number of companies that are allied in the original model so as to examine the co-evolution of the alliance as well as any possibilities of opportunistic behaviour. Furthermore we will add the element of "size" of the allied companies, in order to determine any possible effects on the nature and "health" of the alliance as well as the dimension of differentiation of the strategic incentives that cannot be compensated by the flexibility of the alliance, which will be created by the differentiation of "size" of the firms. Another important dimension that will also be introduced is the notion of "intra-alliance" inside the alliance.

The effect of combining all the above extensions will be to produce a number of variations to the Co-Evolution model which will hopefully enrich our understanding of the evolution of an alliance. Numerous cases will then be produced so as to be able to categorize any possible variations of movement within an alliance over time.

4.4 “Size” of the partner

In the of Co-Evolution model, it is important to consider the notion of the relative power of partner firms. In collaborative relationships, the “size” of the partner has a significant effect on the way the partnership co-evolves. The size of the partner can be examined in two different ways; the one is by sales, profits, assets or number of employees, and the other is in a qualitative manner with respect to power, leadership and the other variables that characterize the culture of the organization. If we try to adopt the notion of the “size” of the partner in the Co-Evolution model, we can see that it has an important effect on the evolution of alliance.

The notion of size implies yet another important factor within the alliance. The strong partner is not only the partner that is ‘greater in numbers’. There are possibilities where a strong partner (by size and assets) can be powerless in cases such as global scale alliances. An alliance may be created so a company can gain access to a foreign market. The local player, though smaller in economic terms may be considered as the dominant player within the alliance since it has significant advantage in the local market compared with the ‘external player’.

In the later figures in our analysis we will denote the “strongest” firm with a thick black line and the weakest firm with the thin line. The slope of the line shows the change of level of strategic intent for each firm related to their initial strategic intents. The difference of power between the partners inside an alliance may differentiate the original strategic intents. In cases such as global alliances in which the element of a new foreign market is included differentiation of strategic intents and variations regarding the element of size may occur.

4.5 Number of players –"Crowdness" of alliances

Axelrod and Keohane (1986) and Oye (1986) identify the importance of the number of players as one of the three structural dimensions that serve both as proximate explanations of cooperation and as targets of higher-order strategies to promote cooperation. The other two dimensions that were named are the pattern payoffs and the "shadow of the future" –future uncertainty- (Axelrod, 1984: 124). Knowing the importance of the number of players in cooperative agreements, a possibly important extension of the co-evolution model is the introduction of more than two players-firms. This will give the model the benefit of examining cases that are further than the dyadic mode and hence be able to expand its applications to a significantly larger number of cases.

4.6 Intra-alliance – alliance inside an alliance

By intra-alliance we imply the creation of an alliance between *some* of the partners in an already existing alliance. In other words in a three party alliance two partners may create an alliance which will lead to the transformation of a three party alliance to a dyadic alliance. It is important to note that the notion of 'intra-alliance' can occur in a multi-party alliance and not in dyadic alliance. There are various cases in which a number of players can be forced or choose to act in such way. Cases in which those players need to protect their interest against a powerful partner, cases in which two or more of the players decide to act opportunistically against their allies as well as cases in which partners of an alliance join for their best interest with no intention against their allies or no intentions to affect the balance of the primary

alliance. All those scenarios and cases will be explained in the later parts so that the notion of intra-alliance can be easily understood.

4.7 Internal and External Strategic intents

The Co-Evolution model sketches the strategic intents of each player within the alliance through time. Applying the model to real time situations implies that we have to consider the differences and variations of the strategic intents. The expression 'the manager's hidden agenda' is well accepted. Following that trend we can differentiate strategic intents into internal and external.

External strategic intents refer to the strategy, vision and targets that a firm sets when joining the alliance. Using a metaphor to describe the notion of external strategic intents, we can relate them to the open cards that each party of an alliance shows prior to and during the alliance.

On the other hand internal strategic intents refer to the secret strategy, vision and targets that each firm has prior to and during the alliance. In other words we are referring to the secret agenda of each player. Internal and external strategic intents do not always match. There are cases in which the external strategic intents were only used as a means of cover up for the internal strategic intents. Internal strategy may be unacceptable by partners or may be in conflict with the alliance's strategic intents.

4.7.1. Pragmatical strategic intents

We have identified the differentiation between the external strategic intents and the internal strategic intents. If we try to combine both external strategic intents and internal strategic intents into a strategic movement of a firm we will eventually realize the existence of the "pragmatical intent" or in other words the actual strategic intent.

Trying to realize and explain the notion of the "pragmatical strategic intent" let us first remember the underpinning assumptions of the external and internal strategic intents.

As we have mentioned before in the case of external strategic intents we refer to the strategy, vision and targets that a firm sets before joining an alliance as a clear view of the firm's targets for the future. Despite the fact that a firm can have its internal strategic intents, a secret strategy or a hidden agenda. Since therefore internal and external strategic intents do not always match but they do exist at the same time firms follow a line which is the pragmatical strategic intent. Hence as "pragmatical strategic intents" we recognize the actual strategy of a firm in an alliance. We can realize that each partner has its internal, external and at the end of the day pragmatical strategic intents.

The above differentiates the strategy of the firm into the following three dimensions;

I. The strategic intent that the firm sets prior to alliance to attract its partner (external strategic intent)
II. The strategic intents that the firm has as a hidden agenda and uses the alliance as a mean to succeed its goals (internal strategic intents)

III. The strategic intents that the firm follows while being in the alliance that can be either a match for its internal and external strategic intents or they have differentiated according to the dynamics of the alliance.

If internal, external and pragmatical strategic intents match at the same time during the alliance then the firm is loyal to its 'prior to the alliance strategic intents'. If on the other hand internal and pragmatical strategic intents do match but they differ from the external strategic intents then the firm is behaving opportunistically against its partners. On the other hand in the case that internal and external strategic intents do match but they differ from the external strategic intents then we do realize that the firm is behaving opportunistically against its partners.

4.8 Summary

The chapter focused on the presentation of the Co-Evolution model presented by ul-Haq (2005). The proposition of the Co-Evolution model is a description of the evolution of strategic alliances over time presenting the three basic scenarios of Parallel, Convergent and Divergent Co-Evolution. Based on the existing literature the model lacks parameters such as the "size" of partners, the number of allies inside the alliance, intra-alliances (alliances inside the alliance) and the differentiation between the direction and notion of strategic intents.

Based on the above addition the thesis in the following chapter proposes the Extended Co-Evolution model. A proposition that keeps the basic structure of the Co-Evolution model but examines in depth the behaviour and alteration of a strategic alliance over time, based on the effects and influence that the above parameters have on the alliance. The literature had shown

that these parameters do have effect on the evolution of the alliance. The initial proposition of the evolution of a strategic alliance into Parallel, Convergent and Divergent, does not alter the evolution of an alliance between the creation of the alliance (starting point) and the end result of the evolution of the alliance (end point) but the additional factors discussed here do have an effect. This idea is elaborated in the next Chapter.

Chapter Five

The extended Co-Evolution Model

5.1 Introduction

In the previous chapters, Chapter 2 and Chapter 3 of the thesis, we have examined the literature behind strategic alliances and we have presented the Co-Evolution model (ul-Haq 2005) as well as its limitations in Chapter 4. A discussion of how to overcome the limitations of the original Co-Evolution model (ul-Haq 2005) and how to enrich its abilities and applications was analyzed in the previous chapter. In the following pages we are aiming at applying this model of the dimensions of opportunistic movements by one of the partners; and the increase in the number of companies that are allied in the original model so as to examine the evolution of the alliance as well as any possibilities of opportunistic behaviour. Developing further the Extended Co-Evolution model we will add the element of "size" and of the "relative power" of the allied firms, in order to determine any possible effects on the nature and "health" of the alliance as well as the dimension of the differentiation of the strategic incentives that cannot be compensated for, by the flexibility of the alliance, which will be created by the differentiation of "size" of the firms. Another important dimension that will also be introduced is the notion of "intra-alliance" inside the alliance. Finally the differentiation of strategic intents into internal, external and pragmatical will complete the additions to the original Co-Evolution model and create the Extended Co-Evolution model that is developed in this Chapter.

The creation of the Extended Co-Evolution model is based on the analysis of the literature underlying strategic alliances. The differentiations of the type of strategic alliances, issues of trust and trust differentiation between allied partners, as well as opportunism and opportunistic behaviour inside strategic alliances, has triggered the innovative additions to an existing model. Combining the academic literature with personal experiences in the areas of banking and alliances since both supervisor and researcher (personal assistant of the CEO of Hellenic Postbank) belonged to the banking sector we have produced the 39 permutations of the Extended Co-Evolution model.

The Extended Co-Evolution model shares the basic principles with the Co-Evolution model based on the start and end point of the alliance. What is analyzed further is the evolution of the alliance and the behaviour of the alliance's partners between these two significant points; the establishment of the alliance – starting point and the end of the alliance – end point. We believe the Extended Co-Evolution model adds value to the existing literature since with the 39 permutations examines all the possible combinations, outcomes and behaviours of the allied partners of a strategic alliance. This model is designed as a diagnostic tool for the analysis of the behaviour and evolution of a strategic alliance in an academic context as well as a practical tool by practitioners and strategists for practice, training, identification and analysis of a strategic alliance.

5.2 Permutations of the extended Co-Evolution model.

Having established the environment of strategic alliances, the framework of the Co-Evolution model and its proposed extensions we are going to present the extended version of the Co-

Evolution model created by its permutations. In this chapter we present and describe the extended Co-Evolution model;

1. Co-Evolution of strategic alliances with external and internal strategic intents

Co-Evolution model presents diagrammatically (p.63) the evolution of strategic intents by the alliance's partners. The differentiation of a partner's strategic intents into internal and external as explained in Chapter 4 created the first permutation of the Extended Co-Evolution model.

- Parallel Co-Evolution of strategic alliances with external and internal strategic intents
- Convergent Co-Evolution of strategic alliances with external and internal strategic intents
- Divergent Co-Evolution of strategic alliances with external and internal strategic intents

2. Multi-party Co-Evolution of strategic alliances

The initial Co-Evolution model described the evolution of a strategic alliance that had only two member firms. With the addition of more than two allied partners we are able to examine real life business alliances that do have more than two members.

- Parallel Multi-party Co-Evolution of strategic alliances
- Convergent Multi-party Co-Evolution of strategic alliances
- Divergent Multi-party Co-Evolution of strategic alliances

3. Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

Combining the differentiation of strategic intents of the allied partners into internal and external with the progression from a two party alliance mode to a multi-party alliance we reach the third permutation of the Extended Co-Evolution model.

- Parallel Multi-party Co-Evolution of strategic alliances with external and internal strategic intents
- Convergent Multi-party Co-Evolution of strategic alliances with external and internal strategic intents
- Divergent Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

4. Uneven Co-Evolution of strategic alliances

The notion of notion of the "relative power" of partner firms, of size differentiation between partners, has been discussed in Chapter 4. The fourth permutation of the Extended Co-Evolution model sketches the evolution of a two party strategic alliance in which allies have differences in "relative power" and size.

- Parallel Uneven Co-Evolution of strategic alliances
- Convergent Uneven Co-Evolution of strategic alliances
- Divergent Uneven Co-Evolution of strategic alliances

5. Uneven Co-Evolution of strategic alliances with external and internal strategic intents

The differentiation of "relative power" and size between two allied partners has been presented in the previous permutation of the Extended Co-Evolution model. In our sixth permutation we combine size and "relative power" differences, with the differentiation of strategic intents into external and internal.

- Parallel Uneven Co-Evolution of strategic alliances with external and internal strategic intents
- Convergent Uneven Co-Evolution of strategic alliances with external and internal strategic intents
- Divergent Uneven Co-Evolution of strategic alliances with external and internal strategic intents

6. Uneven Multi-party Co-Evolution of strategic alliances

The existence of alliances with more than two members makes adds importance to the notion of size and "relative power" differentiation between the partners. The sixth proposed permutation examines the evolution of strategic alliances with more than two partners with differences in size and "relative power".

- Parallel Uneven Multi-party Co-Evolution of strategic alliances
- Convergent Uneven Multi-party Co-Evolution of strategic alliances
- Divergent Uneven Multi-party Co-Evolution of strategic alliances

7. Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

As in the sixth permutation of the Extended Co-Evolution modelthe existence of alliances with more than two members makes adds importance to the notion of size and "relative power" differentiation between the partners. The seventh permutation of the Extended Co-Evolution model uses the principle of the Uneven Multi-party Co-Evolution of strategic alliances in combination with the differentiation of strategic intents into internal and external.

- Parallel Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents
- Convergent Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents
- Divergent Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

8. Multi-party Co-Evolution of strategic alliances with intra alliance

As discussed in Chapter 4, differentiation between the balance relationship between partners of Multi-party alliances may lead to the creation of an alliance between *some* of the partners in an already existing alliance, or in other words as we noted the creation of an intra alliance. The eighth permutation of the Extended Co-Evolution represents diagrammatically the above scenario.

- Parallel Multi-party Co-Evolution of strategic alliances with intra alliance
- Convergent Multi-party Co-Evolution of strategic alliances with intra alliance

- Divergent Multi-party Co-Evolution of strategic alliances with intra alliance

9. Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Adding more than two allied partners we are able to examine real life business alliances that do have more than two members. This permutation of the Extended Co-Evolution model enables us to examine the evolution of a strategic alliance with more than two players in combination with the effect of the differentiation between internal and external strategic intents.

- Parallel Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents
- Convergent Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents
- Divergent Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

10. Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

The existence of alliances with more than two members makes importance to the notion of size and "relative power" differentiation between the partners. The tenth permutation of the Extended Co-Evolution model examines the evolution of strategic alliances with more than two partners with differences in size and "relative power" in combination with the creation of an intra alliance. Using this permutation we are able to present the evolution of a strategic alliance and the differences and effects of trust issues that lead to the creation of alliances inside the alliance.

- Parallel Uneven Multi-party Co-Evolution of strategic alliances with intra alliance
- Convergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance
- Divergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

11. Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

By adding the notion of differentiation of internal and external strategic intents we can extend even further the tenth permutation of the Extended Co-Evolution model that enables us to present diagrammatically the evolution of a strategic alliance and the differences and effects of trust issues that lead to the creation of alliances inside the alliance. With the use of internal and external strategic intents we are able to understand even further the evolution of a multi party alliance.

- Parallel Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents
- Convergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents
- Divergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

12. Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

The effects of the evolution of strategic alliance in relation to the differentiation of "relative power" and size between the allied partners has been presented in previous permutations of the Extended Co-Evolution model. In this permutation size and "relative power" differences, are combined with the notion of the creation of an intra alliance so as to minimize and control the effects that the size differentiation has on the evolution of the strategic alliance.

- Parallel Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance
- Convergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance
- Divergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

13. Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents

As discussed in the twelfth permutation of the Extended Co-Evolution model size and "relative power" differences, are combined with the notion of the creation of an intra alliance so as to minimize and control the effects that the size differentiation has on the evolution of the strategic alliance. In order to extend even further the underlying assumptions of the creation of intra alliances as a means of eliminating size differentiation between partners, this permutation presents diagrammatically and examines the effects of strategic intents differentiation into internal external and

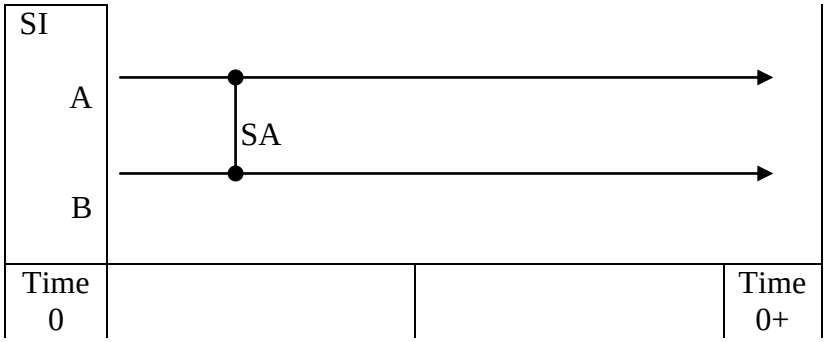
pragmatical as explained in Chapter 4. With the addition of the differentiation of strategic intents this last permutation completes the Extended Co-Evolution model.

- Parallel Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents
- Convergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents
- Divergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents

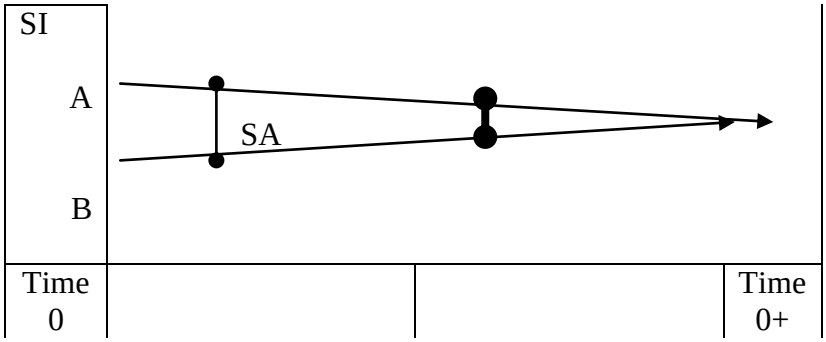
Let us now examine each of these permutations in detail, so as to reveal the rationale behind each one of them.

5.3 Co-Evolution of strategic alliances with external and internal strategic intents

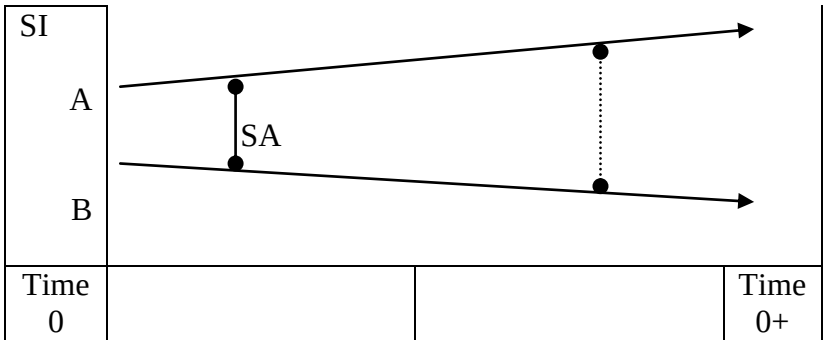
As we have seen in Chapter 4, the initial Co-Evolution model by ul-Haq (2005) was a classification of firm level Co-Evolution of strategic intents in two party strategic alliances as seen in Figure 3. Each firm was described over time based on their strategic intent but there was no differentiation and clarification of the nature of these intents. As we have explained earlier there can be a differentiation between the external strategic intents of a firm and its hidden and actual strategic intents. Therefore let us re-examine the Co-Evolution of strategic Alliances with external and internal strategic intents. In order to present diagrammatically the differentiation between the internal and external strategic intents we have used green and red



Parallel Co-Evolution



Convergent Co-Evolution



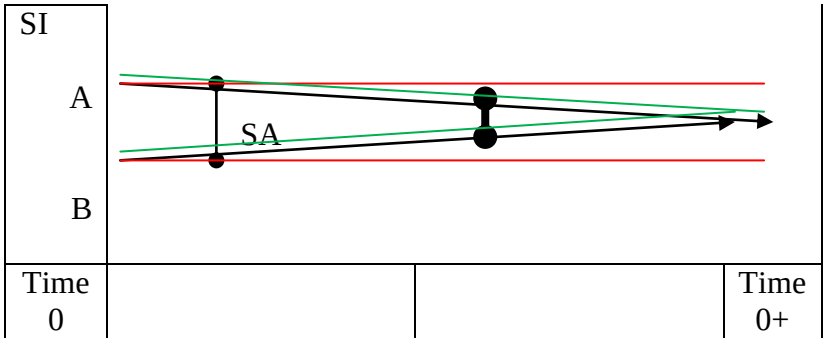
Divergent Co-Evolution

Key:
SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

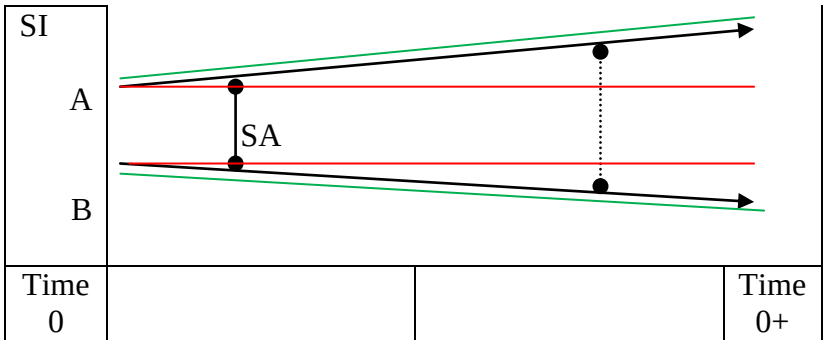
Figure 3: Co-Evolution of strategic alliances (ul-Haq 2005)



Parallel Co-Evolution withexternal and internal strategic intents



Convergent Co-Evolution with external and internal strategic intents



Divergent Co-Evolution with external and internal strategic intents

Key:
SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 4: Co-Evolution of strategic alliances with external and internal strategic intents

line graphics on the figures.Green lines present the internal strategic intents and red lines present the external strategic intents as seen in Figure 4.

5.3.1 Parallel Co-Evolution of strategic alliances with external and internal strategic intents

As shown in Figure 4, internal and external strategic intents do match and hence the strategic intents of the two firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at the time of its establishment. The initial matching of intents continues and evolves over time at the same rate, in a similar direction (ul-Haq, 2005). The continuation of the strategic alliance in a parallel co-evolution implies that there are no changes in the strategic intents of the allies as well as that the internal and external strategic intents do match and hence there are no changes in their involvement over time. In other words, none of those players has a hidden agenda that can affect the continuation of the strategic alliance.

5.3.2 Convergent Co-Evolution of strategic alliances with external and internal strategic intents

Changes within the strategic alliance imply that there are differentiations and changes, which do not accord with the original pre-alliance agreement. Firm A and Firm B establish a strategic alliance by setting their original strategic intents that are shown in Figure 4 with the red lines. As the alliance evolves over time there are significant changes in the strategic

intents of the two firms and hence they converge over time, as seen in figure 4. The rationale behind the strategic alliance is strengthened leading to the merger of the firms or the acquisition of one firm from the other and hence to the dissolution of the alliance.

We can distinguish two different scenarios within the convergent co-evolution. The first scenario is that both firms had different internal strategic intents compared to their original external strategic intents and hence use the alliance as cover to serve their internal strategic purpose. The second scenario is that both firms were initially aiming for a merger (internal strategic intents) but their external strategic intents had to be differentiated so as to be able to fulfill the strategic alliances aims. Reasons for such a decision can be found in the economic environment of a specific period that might not be suitable for a merger at the moment.

5.3.3 Divergent Co-Evolution of strategic alliances with external and internal strategic intents

A dissolution of the strategic alliance is the result of divergent Co-Evolution. That means that the strategic intents of the two firms diverge over time and the rationale behind the strategic alliance is weakening. Let us now examine the reasons that lead to such a result. As shown in figure 4, internal and external strategic intents of firm A and firm B do not match. Following that trend we can argue that both firms enter the alliance aiming for strategic intents that are shown by the green line but in order to achieve those intents the creation of a strategic alliance was necessary. A strategic alliance based on strategic intents, shown in red color, is impossible. Therefore firm A and firm B, as seen in Figure 4, create alliance with their external strategic intents while aiming for their internal strategic intents, or in other words, for their hidden strategic agenda. While the alliance evolved over time, none of firm's

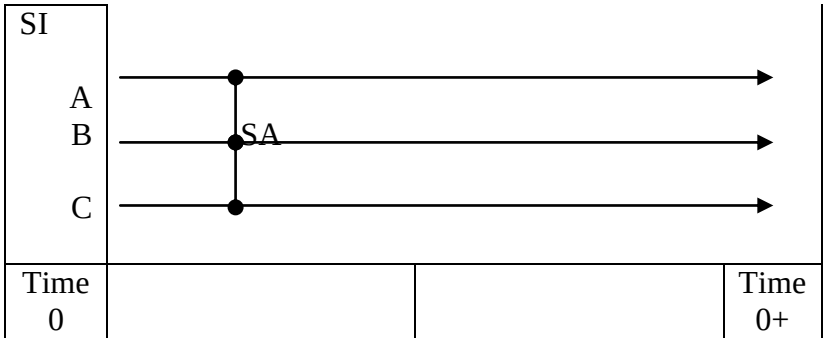
A and B internal strategic intents were fulfilled and hence both firms diverge over time leading to the dissolution of the alliance.

5.4 Multi-party Co-Evolution of strategic alliances

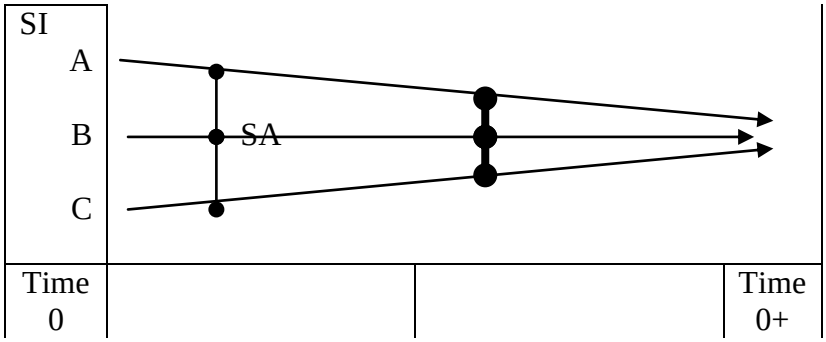
Applying the two party Co-Evolution model to real economic environments implies that we have to adjust the model from a dyadic mode to a multi-party mode so as to be able to examine and cover any type of strategic alliances regardless of the number of partners. For reasons of simplicity in the analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C, as seen in Figure 5.

5.4.1 Parallel Multi-party Co-Evolution of strategic alliances

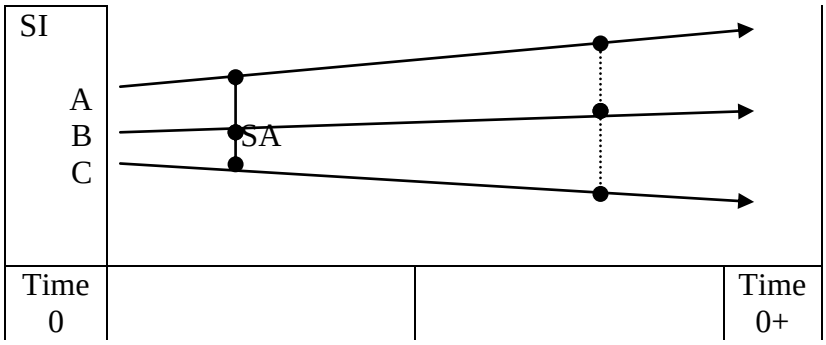
Following the logic of the dyadic parallel Co-Evolution of strategic alliances, the strategic intents of the three firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at its inception. The strategic intents of all three firms evolve over time at the same rate and in a similar direction. In multi party Co-Evolution the same assumptions apply as in the two party initial Co-Evolution model.



Multi party Parallel Co-Evolution



Multi party Convergent Co-Evolution



Multi party Divergent Co-Evolution

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

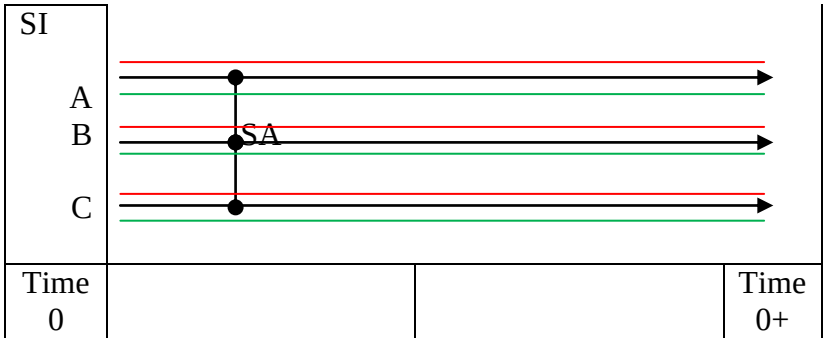
Figure 5: Multi-party Co-Evolution of strategic alliances

5.4.2 Convergent Multi-party Co-Evolution of strategic alliances

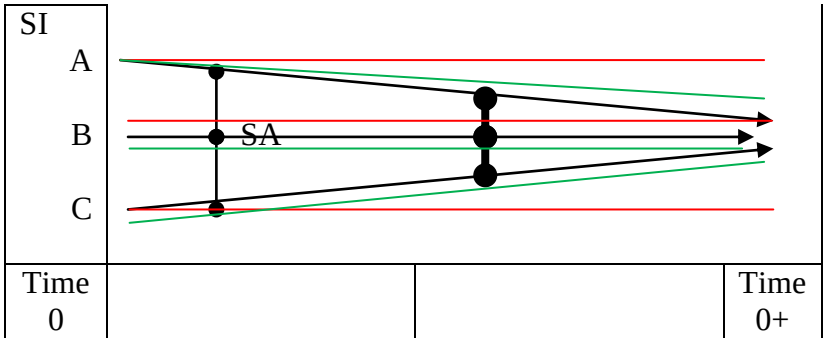
As stated above in the case of converged co-evolution, the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened. The same scenario applies to the convergent multi party Co-Evolution of strategic alliances. The strategic intents of all three parties converge over time which leads to the merger of all strategic alliance participants or the acquisition of two firms from the third partner and hence to the dissolution of the alliance. As before, it is important to remind ourselvesthat in cases of convergent co-evolution the alliance will move to a "hierarchical" nature.

5.4.3 Divergent Multi-party Co-Evolution of strategic alliances

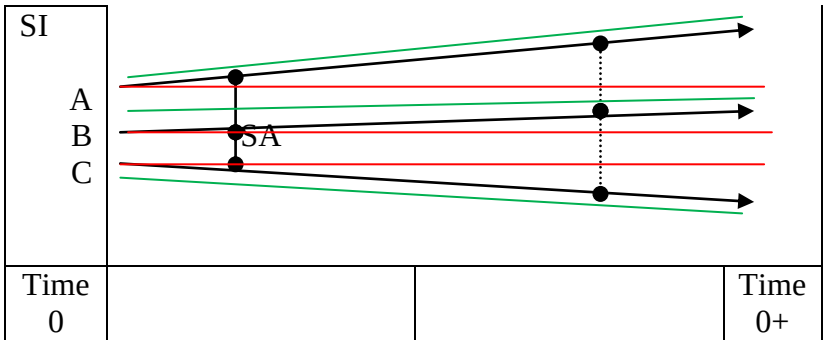
Continuing our analysis of the multi party Co-Evolution of strategic alliances in the case of the divergent Co-Evolution of strategic alliances, the strategic intents of the three firms diverge over time and the rationale behind the strategic alliance is weakening. As shown in Figure 5, strategic intents of the three participants are moving at different rates and in different directions. The rationale in the strategic alliance is weakening and that leads to the alliance's break down. As in the dyadic Co-Evolution of strategic alliances, the alliance will move to a "market" nature.



Multi party Parallel Co-Evolution with internal and external strategic Intents



Multi party Convergent Co-Evolution with internal and external strategic Intents



Multi party Divergent Co-Evolution with internal and external strategic Intents

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 6: Multi-party Co-Evolution of strategic alliances withinternal and external strategic Intents

5.5 Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

The permutation of multi party Co-Evolution of strategic alliances with internal and external strategic intents follows the logic and analysis of the two previous permutations. The multi party Co-Evolution of strategic alliances and the Co-Evolution of strategic alliances with internal and external strategic intents. For reasons of simplicity in our analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C and as before in order to diagrammatically present the differentiation between the internal and external strategic intents we have used green (internal strategic intents) and red line (external strategic intents) graphics, as seen in Figure 6.

5.5.1 Parallel Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

As shown in Figure 6, the strategic intents of all three participants evolve over time at the same rate, in a similar direction that allows the continuation of the strategic alliance on the same terms as when established. This implies that the internal and external strategic intents of all three participants do match and there is no evidence of differentiation. The non existence of a hidden agenda for any participant of the strategic alliance implies the continuation of the alliance in a parallel co-evolution

5.5.2 Convergent Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

As explained earlier, changes within the strategic alliance imply that there are differentiations and changes according to the original pre-alliance agreement. The establishment of a strategic alliance between Firm A Firm B and Firm C was based on their original external strategic intents that are shown in Figure 6 with the red lines. As the alliance evolves over time there are significant changes in the strategic intents of the three firms and hence converge over time and the rationale behind the strategic alliance is strengthened leading to the merger of the firms or the acquisition of two firms from the third one and hence to the dissolution of the alliance. Exactly as in case of Convergent Co-Evolution of strategic alliances with external and internal strategic intents we can identify the same two different scenarios within the convergent co-evolution. As before, the first scenario is that all firms had different internal strategic intents compared with their original external strategic intents and hence use the alliance to hide and fulfill their internal strategic purpose. The same assumptions exist as previously with the second scenario in which all three firms were initially aiming for a merger or an acquisition (internal strategic intents) but different external strategic intents were presented so as to fulfill the needs of the creation of a strategic alliance.

5.5.3 Divergent Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

As seen in Figure 6, the strategic intents of the two firms diverge over time and the rationale behind the strategic alliance is weakening. The reason for the movement and the shift of all

participant's strategic intents is that the internal and external strategic intents of all of them, firm A, firm B and firm C, do not match. Using the same argument as in Divergent Co-Evolution of strategic alliances with internal and external strategic intents, we can see that all three firms enter the alliance aiming for different strategic intents, i.e., internal strategic intents, rather than the original external strategic intents that they have stated in the beginning of the strategic alliance. It is important to note that the same results can occur even though two of the three allies have different internal and external strategic intents. In that case we will lead to the following two scenarios. Let's assume that only Firm A and Firm B have different external and internal strategic intents. This will lead to divergent strategic intents, as shown in figure 6 and the alliance will break down since only firm C will remain with the initial strategic intents that created the strategic alliance. The second scenario refers to differentiation of internal and external strategic intents by only one member of the strategic alliance. Assuming that Firm A has different internal and external strategic intents will lead to divergent Co-Evolution of firm A in relation to firms B and C since firm A will be pulled away from the alliance while on the other hand. Firms A and B will continue in parallel Co-Evolution.

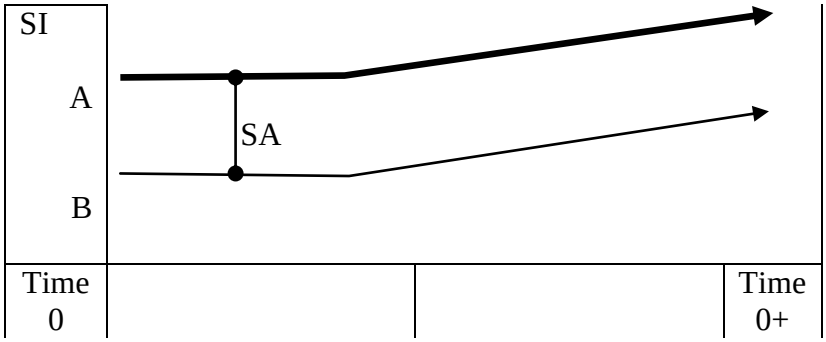
5.6 Uneven Co-Evolution of strategic alliances

The scenario of uneven Co-Evolution of strategic alliances refers to a dyadic strategic alliance. There are only two partners in the alliance in which they have different sizes. But when we combine a strong and a weak partner as shown in Figure 7, the strong partner is firm A, diagrammatically represented with the thick black line and the weak partner is firm B, diagrammatically shown with the thin black line. As it will be shown later, the size of the

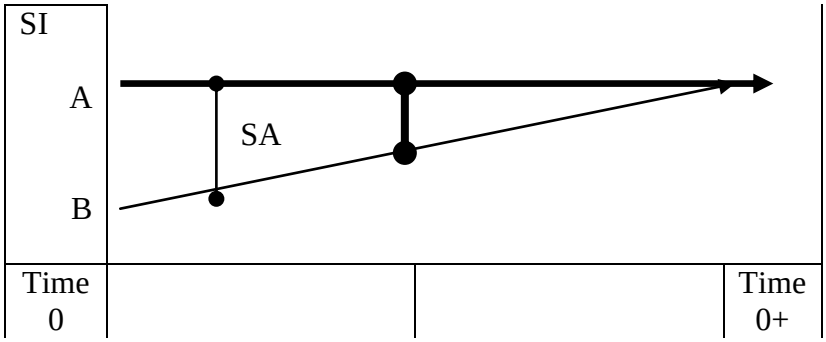
partner can affect the evolution of the alliance, and give it a relative advantage for opportunistic behaviour, since the strongest can "move" the alliance to its individual best interests. The notions of size, and "relative power" have been clarified in Chapter 4.

5.6.1 Uneven Parallel Co-evolution

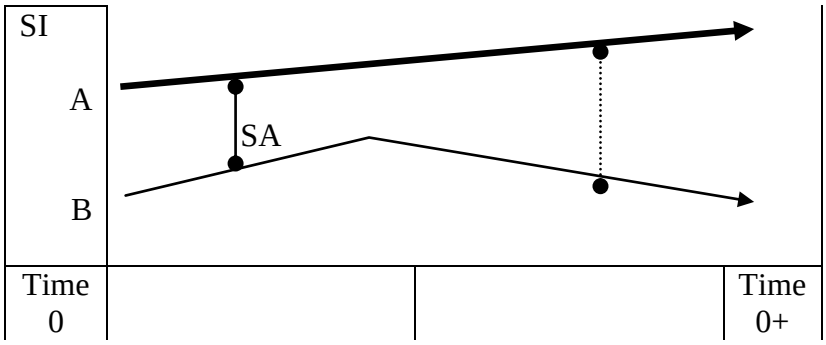
Following the logic of Figure 7, we can argue that the strategic intent of the weak firm can be affected by the strong firm. This implies that the initial strategic intent of the weak firm is being affected under the relative power of the strongest firm resulting in a change that is not always accepted by the weak firm or does not serve its initial strategic intents. The weak firm, we suggest, can be "imprisoned" to serve the stronger firm's strategic intents that can be proved to be costly and inefficient for its targets. As we have already discussed a stronger firm can impose a higher level of control inside the alliance. It is more that obvious than a stronger firm is able to impose better and sometimes severe control mechanisms on the weaker firm but on the other hand the weak firm has no relative power to resist to the application of these mechanisms. The stronger firm has a relative competitive advantage against its weak partner and hence can lead the evolution of alliance according to its organisational best outcome for its strategic intents. This phenomenon can be extended in cases where the relative power and size of the partner firms has greater difference. There are also cases in which the stronger firm has greater level of freedom for an opportunistic behaviour. For the purpose of this research we propose that any changes in the initial strategic intents of the alliance, that are not mutually agreed by the partners, are considered to be opportunistic behaviour since they serve the amelioration of one of the partner firm's targets and goals.



Uneven Parallel Co-Evolution



Uneven Convergent Co-Evolution



Uneven Divergent Co-Evolution

Key:
SI = Strategic Intent
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A = Alliance Member A
B = Alliance Member B
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 7: Uneven Co-Evolution Model with internal and external strategic intents

5.6.2 Uneven Convergent Co-evolution

In the case of uneven convergent co-evolution we can see from the figure that the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened. In other words we face the case of a merger or acquisition of one firm by the other. The question that lies beneath this assumption is whether this convergent co-evolution serves the best strategic intents of both partners (weak and strong) as well as the alliance's best strategic intents. There is a high possibility that this convergent movement (merger or acquisition) might hide an opportunistic behaviour against the weak firm. In other words the strongest firm, since it has the relative power to maintain its initial strategic intents, may force or pull up the weak firm (merge or acquire). The strong firm as Figure 7 indicates is able to maintain its strategic objectives, while on the other hand the weak firm is forced to change its initial strategic objectives. If that change of the initial strategic objectives for the weak firm is being made without the firm's approval, and the event of merger and acquisition without mutual consent then, (for the purpose of this research) we consider the behaviour of the strong firm opportunistic.

5.6.3 Uneven Divergent Co-Evolution

In our last case,the strategic intents of the two firms diverge over time and the rationale behind the strategic alliance is weakening (ul-Haq, 2005). In that case as well as in the convergent co-evolution the alliance will break down. The underlying problem in this case, having added the factor of size, is that the strong firm is pulling the weak firm towards its own personal strategic intents, ignoring the effect that this movement has on the weak firm.

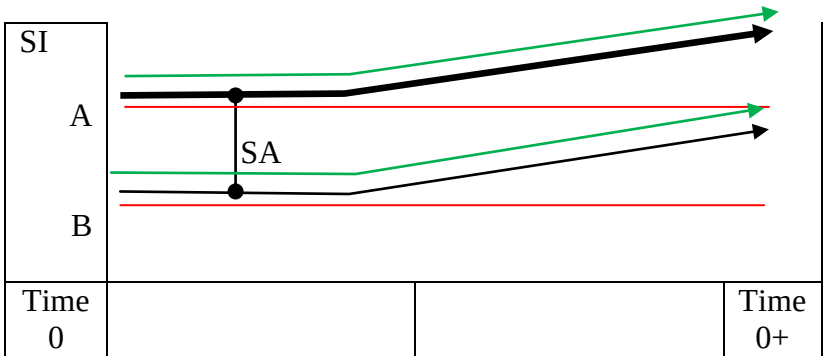
In that case the weak firm is following the strategic intents of the strong firm, (the reasons are as we have already described above) up to the point that the weak firm manages to release itself from the alliance and hence the dissolution of the alliance ensues.

5.7 Uneven Co-Evolution of strategic alliances with external and internal strategic intents

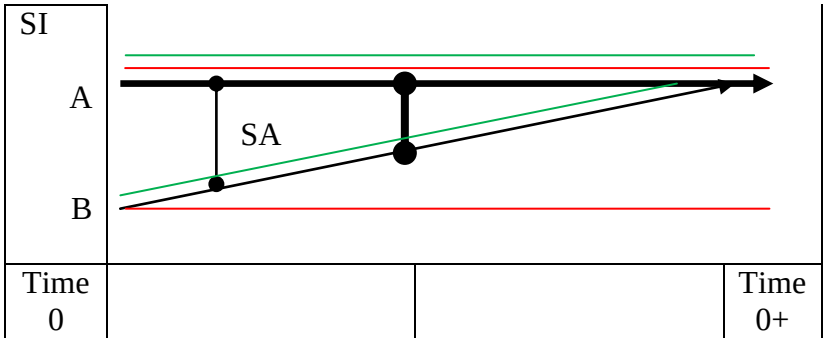
Moving to the permutation of uneven Co-Evolution of strategic alliances with external and internal strategic intents we combine the assumptions of two other permutations. The 'Uneven Co-Evolution of strategic alliances' and the 'Co-Evolution of strategic alliances with internal and external strategic intents'. Referring again to the dyadic mode of strategic alliances we examine the case of two partners as seen in Figure 8, where they do have different sizes with Firm A being the strong partner and Firm B being the weak partner. Furthermore, we add the notion of internal and external strategic intents of those two partners so as to examine the effects of size and differentiation of strategic intents in the Co-Evolution of a strategic alliance.

5.7.1 Parallel Uneven Co-Evolution of strategic alliances with external and internal strategic intents

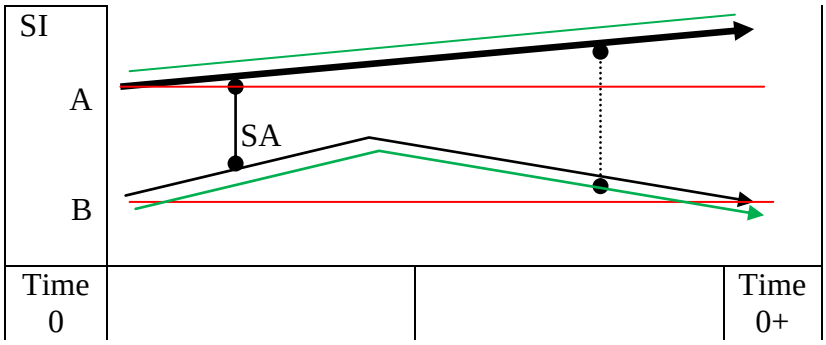
As seen diagrammatically (Figure 8), the strategic intents of the weak firm B are affected by the strategic intents of the strong partner A, but despite that firm A follows firm's A new strategic intents at the same rate and towards the same direction and continues to co-evolve in



Uneven Parallel Co-Evolution with internal and external strategic intents



Uneven Convergent Co-Evolution with internal and external strategic intents



Uneven Divergent Co-Evolution with internal and external strategic intents

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Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 8: Uneven Co-Evolution Model with internal and external strategic intents

a parallel co-evolution. Analysing the scenario from firm's A perspective, we can see that Firm A has different internal and external strategic intents. Entering the strategic alliance with firm B, firm A was aiming for its internal strategic intents despite the fact that for the creation of the alliance firm A had set different external strategic intents. Knowing that it is the strong partner between the two allies, firm A was able in the future to take advantage of its power and shift the alliance from the external strategic intents to its internal strategic intents and hence impose its hidden agenda. Looking at the same scenario from firm's B perspective, firm B joined the alliance with its internal and external strategic intents being the same. After the change of firm's A strategic intents, firm B being the weak firm was being affected under the relative power of the strongest firm resulting in a change to its initial strategic intents. Since firm B is the weak partner of the alliance as explained in the Uneven Co-Evolution is "imprisoned" to serve the strongest firm's strategic intents since the difference in relative power limits the weak partner to the application of control mechanisms and hence the direction of the new strategic intents can be proved to be costly and inefficient for firm B's targets. Extending our investigation firm B may also follow firm A not only because it is imprisoned to the strategic alliance but simply because the new direction of strategic intents that the strong partner has imposed can be acceptable and profitable to the weak partner. It is therefore a reason that the weak firm B evolves over time with the same rate and the same direction as its weak partner but in different direction as was imposed prior to the existence of the strategic alliance.

5.7.2 Convergent Uneven Co-Evolution of strategic alliances with external and internal strategic intents

As described in the convergent co-evolution of strategic alliances, the two partners, firm A and firm B, converge over time. The differentiation with convergent Co-Evolution is that instead of a merger we do have the case of an acquisition. The strongest firm, since it has the relative power to maintain its initial strategic intents, can force and pull up the weak firm and instead of a merger that will follow both partners strategic intents we have an acquisition that only follows the strong partners strategic intents, as seen in Figure 8. The strong firm as the figure indicates is able to maintain its strategic intents, while on the other hand the weak firm is forced to change their initial strategic intents eventually being acquired by the strong partner.

5.7.3 Divergent Uneven Co-Evolution of strategic alliances with external and internal strategic intents

Considering the cases of Divergent Co-Evolution and Co-Evolution with external and internal strategic intents we have the same assumptions regarding the nature of the evolution of the alliance over time. The strong firm is pulling the weak firm towards its own strategic intents, ignoring the effect that this movement has on the weak firm. Firm A, the strong partner has different internal and external strategic intents. The establishment of the strategic alliance was based on the external strategic intents of firm's A and the strategic intents of firm B in which both external and internal match. Evolving though time firm A takes advantage of its relative power within the alliance and differentiates its external strategic

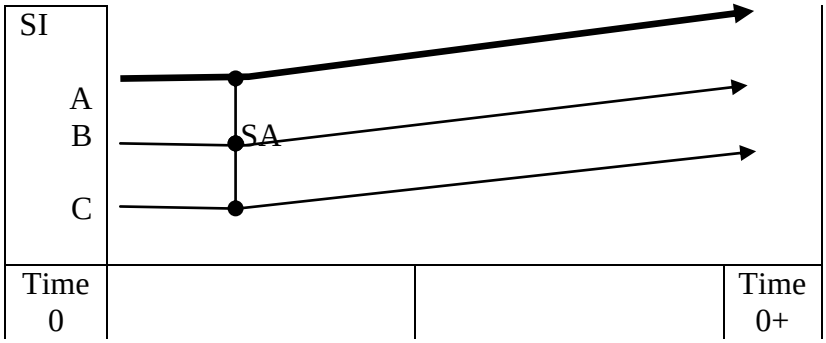
intents following and its internal strategic intents. As in parallel uneven Co-Evolution the weak firm B is forced to follow the new direction of the strategic alliance. Firm B is moved away from its strategic intents and suffers from that change up to the point in which firm B manages to release itself from the alliance and hence having the case of dissolution of the alliance.

5.8 Uneven Multi-party Co-Evolution of strategic alliances

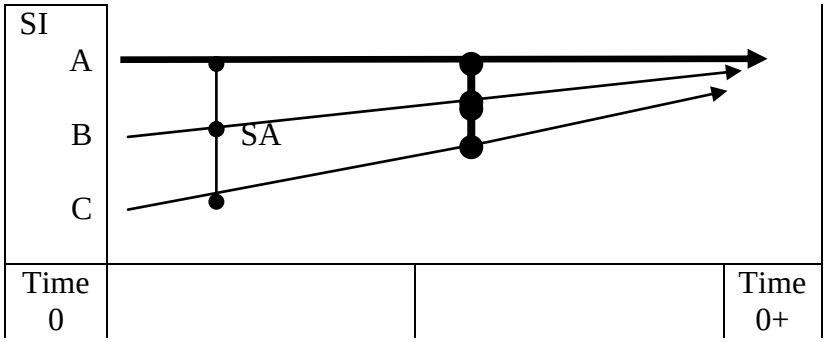
Having already extended the Co-Evolution model from a dyadic mode to a multi party mode it is important to go one step further and add the notion of size between the partners. If we consider the type of alliances that exist in real economy we can identify that none of the parties of an alliance is equal to each other. Inside an alliance there are strong and weak partners. Once again for the reason of simplicity in our analysis, we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C. Firm A will be the strong partner represented in Figure 9 by the thick black line and Firm B and Firm C will be the weak partners represented by the thin black line.

5.8.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances

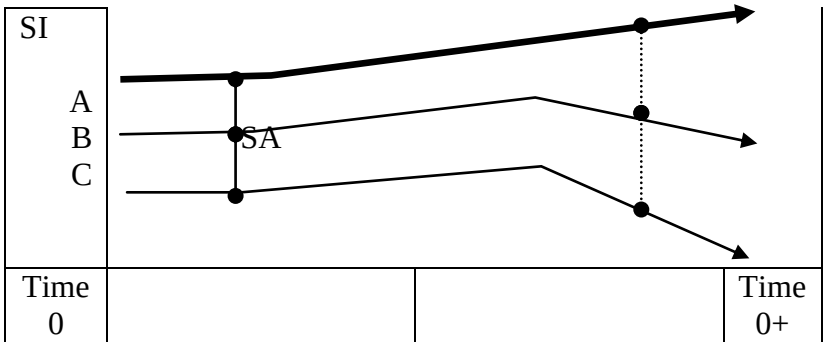
Following the logic of the dyadic parallel Co-Evolution of strategic alliances, the strategic intents of the three firms are evolving along paths that allow the continuation of the strategic alliance through time. Adding the assumptions that we have stated in the Parallel uneven Co-Evolution the weak firm is been pulled away from its original strategic intents since as a



Uneven Multi party Parallel Co-Evolution



Uneven Multi party Convergent Co-Evolution



Uneven Multi party Divergent Co-Evolution

Key:

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C = Alliance Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

Figure 9: Uneven Multi-party Co-Evolution of strategic alliances

weak partner there is limited ability of reacting to such changes. Therefore in our case the two weak firms are being pulled away from their initial strategic intents following the strong partner's new direction. Firm A being the strong partner takes advantage of its power and changes its strategic intents by setting new ones that give firm A greater benefits. Using the dual explanations of the shifting of the direction of the weak partners A and B as in uneven parallel Co-Evolution the strategic intents of the two weak firms evolve over time at the same rate and in a similar direction towards firm's A new strategic intents.

5.8.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances

During convergent Co-Evolution, strategic intents of all three parties converge over time, the rationale behind the strategic alliance is strengthened which leads to the merger of all strategic alliance participants or the acquisition of two firms by the third partner and hence to the dissolution of the alliance. In our case (see Figure 9), having a strong partner inside the strategic alliance changes the balance of the converged Co-Evolution scenario from a merger to strictly acquisition. Strong partner, firm A remains true to its strategic intents while weak partners B and C are being pulled away from their strategic intents towards the strong partner A. That affects the balance of a convergent Co-Evolution and leads to a hostile acquisition of the weak firms by the strong partner. Firms B and C being the weak firms have no relative advantage against partner A and hence they cannot negotiate on equal terms for a beneficial merger. They are forced to be acquired by partner A on less attractive terms compared to a merger between the three partners.

5.8.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances

As shown in Figure 9, we have a situation of a three party strategic alliance. Firm A is the strong partner and firms B and C are the weak partners. Firm A being the strong partner has the relative power and control over the strategic alliance. Using that control shifts its strategic intents towards its best interest. Firms B and C being the weak partners, as in case of uneven parallel Co-Evolution are forced to move towards the direction of firm's A strategic intents. This change in the strategic intents of Firm B and Firm C is against their benefits and against their initial strategic intents. Firms B and C manage to react to that change by pulling out of the strategic alliance. This results in the dissolution of the alliance.

5.9 Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

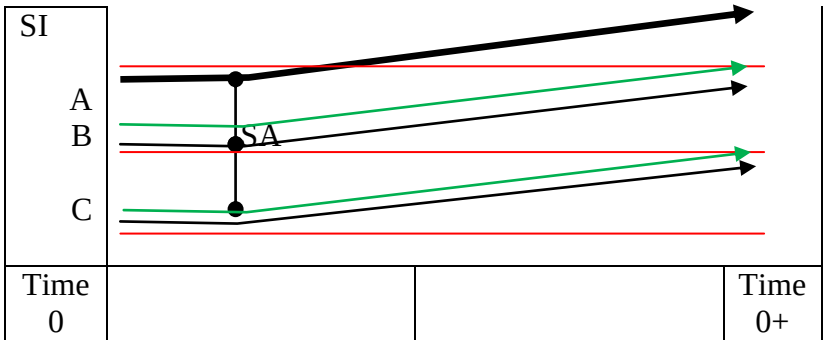
Trying to investigate deeper the Uneven multi-party Co-Evolution of strategic alliances as we have done in previous cases we should add the notion of the internal and external strategic intents so as to examine the differentiation of actions between the three partners of the alliance. Following Figure 10, we will examine the later three cases. As before, for the sake of simplicity of our analysis a three party alliance will be examined where firm A, the strong partner shown diagrammatically with the thick black line and firm B and firm C as the weak partners will be shown in Figure 10 with the thin black lines.

5.9.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

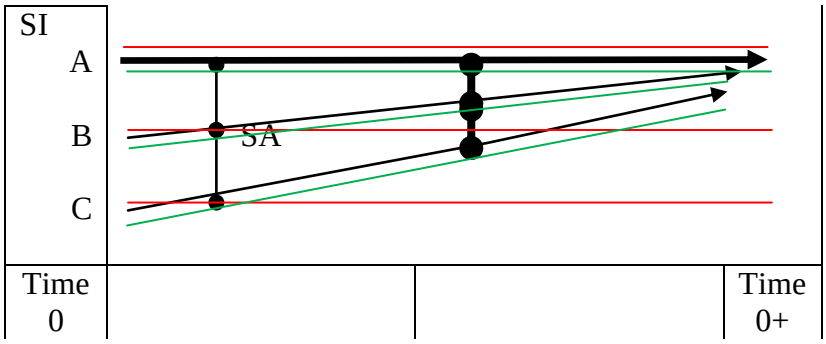
As in the uneven parallel Co-Evolution scenario the three firms A, B, and C, establish an alliance. Firm A as the strong partner can be seen in Figure 10 with the thick black line and firms B and C with the thin lines so as to distinguish their size differentiation. Using the notion of internal and external strategic intents we are able to reveal the underpinning assumptions of the behaviour of firms A, B, and C in the scenario of Uneven Parallel Co-Evolution. With the establishment of the alliance the external strategic intents of all firms were to evolve in a parallel Co-Evolution path as shown in Figure 10 (red lines). Firm A, being the strongest partner has differentiated is internal and external strategic intents (green lines). That differentiation of strategic intents combined with the difference of size inside the alliance force firms B and C, the weak partners, to alter their internal strategic intents and follow the strong partner A, in a parallel Co-Evolution. Firms B and C being unable to respond to the differentiation of internal and external strategic intents by their powerful partner A are imprisoned and follow firm's A strategy. Partners B and C continue to follow the strategic intents of strong partner A and evolve over time at the same rate, in a similar direction.

5.9.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

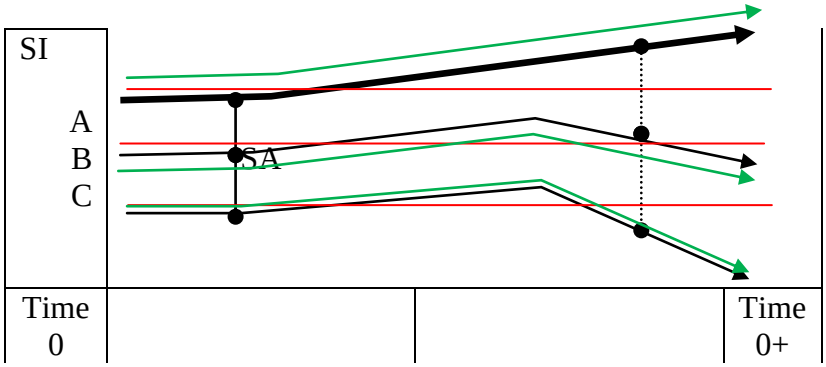
Having a strong partner inside the strategic alliance changes the balance of converged Co-Evolution scenario from a merger to a strictly a hostile acquisition. As previously discussed,



Uneven Multi party Parallel Co-Evolution with internal and external strategic intents



Uneven Multi party Convergent Co-Evolution with internal and external strategic intents



Uneven Multi party Divergent Co-Evolution with internal and external strategic intents

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 10: Uneven Multi-party Co-Evolution of strategic alliances with internal and external strategic intents

during convergent Co-Evolution, strategic intents of all three parties converge over time, the rationale behind the strategic alliance is strengthened which leads to the merger of all strategic alliance participants or the acquisition of two firms from the third partner and hence to the dissolution of the alliance.

Using the internal and external strategic intents we are able to understand the behavior of all the partners further. As seeing in Figure 10, strong partner firm A, remains true to its strategic intents while weak partners B and C are being pulled away from their initial strategic intents towards the strong partner A. Partners B and C being the weak partners are forced to differentiate their internal and external strategic intents. The existence of a strong partner inside the alliance alters the balance of the alliance and the level of influence of each partner to the evolution of the partnership. Firms B and C being the weak firms have no relative advantage against partner A and hence they cannot negotiate on equal terms for a beneficial merger leading to a hostile acquisition. They are forced to be acquired by partner A on less attractive terms compared to a merger between the three partners. Revealing the differentiation between internal and external strategic intents we are able to look deeper in that process and reveal the assumptions of every movement.

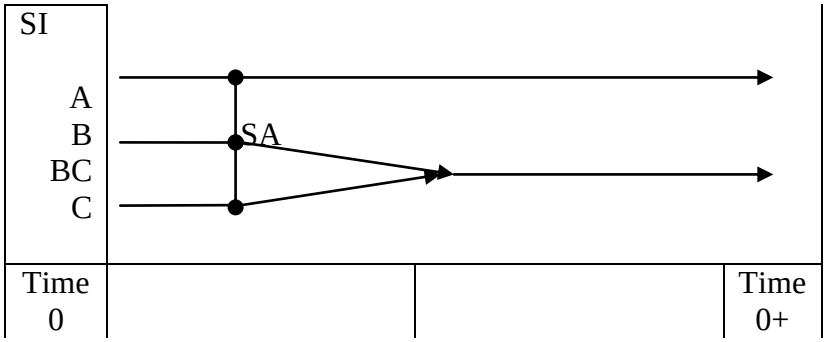
5.9.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

Giving further insights in the uneven divergent multi party Co-Evolution with the use of internal and external strategic intents let us examine further the assumptions of this scenario. A situation of a three party strategic alliance with firm A is the strong partner and firms B and

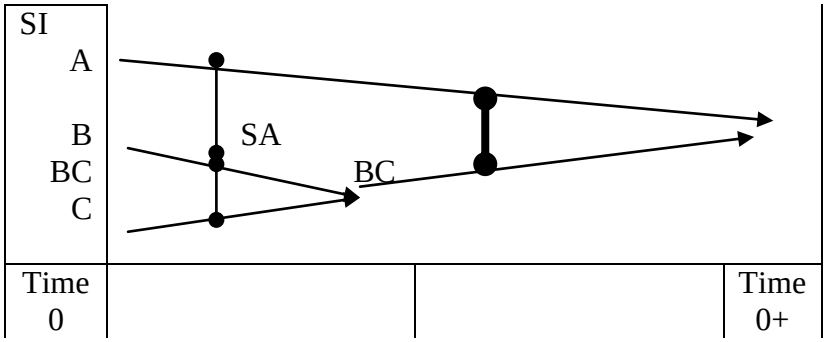
C are the weak partners. Firm A being the strong partner has the relative power and control over the strategic alliance. Its external strategic intents are differentiated from its internal strategic intents. Firm A is taking advantage and uses its power to alter its strategy towards its best interest. Firms B and C being the weak partners, are forced to move towards the direction of firm's A strategic intents and follow firm's A internal strategic intents. The alternation and differentiation of the strategy of firm B and firm C, is now against their interests and against their initial strategic intents. Having lack of power over the alliance firms B and C are initially imprisoned to follow the new trend of the strategic alliance imposed by firm A. Following that trend will lead to the previous scenario of Uneven multi convergent Co-Evolution and hence to a hostile acquisition by the strong partner. In order to avoid the hostile acquisition firms B and C, react to that change by altering their internal strategic intents into a pulling out strategy from the strategic alliance which results in the dissolution of the alliance.

5.10 Multi-party Co-Evolution of strategic alliances with intra alliance

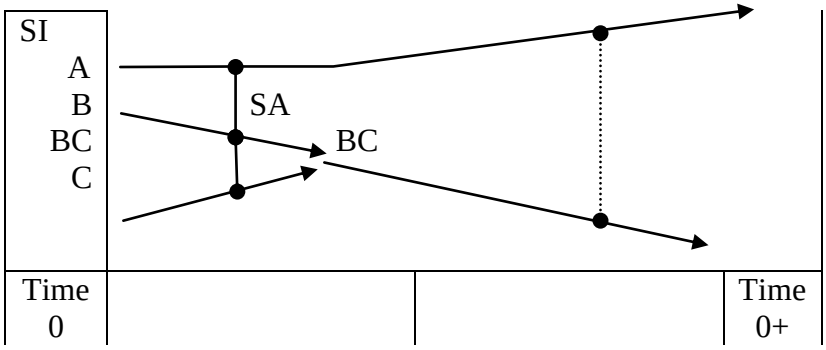
As we have already discussed above in order to apply the Co-Evolution model to real economic environments we have to adjust the model from a dyadic mode to a multi-party mode so as to be able to examine and cover any type of strategic alliances regardless of the number of partners. For reasons of simplicity in our analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C as seen in Figure 11. The same logic follows the description of alliances with more than three partners. In the case of a multi party strategic alliance with intra alliance we will discuss the situation in which two of



Multi party Parallel Co-Evolution with intra alliance



Multi party Convergent Co-Evolution with intra alliance



Multi party Divergent Co-Evolution with intra alliance

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
BC = Alliance Member from the intra alliance of Member B and Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

Figure 11: Multi-party Co-Evolution of strategic alliances withintra alliance

the partners form an intra alliance, (alliance inside the alliance). Using Figure 11 let us examine each scenario of the Co-Evolution of a strategic alliance with an intra alliance.

5.10.1 Parallel Multi-party Co-Evolution of strategic alliances with intra alliance

Following the logic of the dyadic parallel Co-Evolution of strategic alliances, the strategic intents of the three firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. Strategic intents of all three firms, (firm A, firm B and firm C) evolve over time at the same rate and in a similar direction. As seen in Figure 11, firms B and C create an intra alliance inside the alliance. Their merger creates firm BC. The creation of firm BC has no effect on the Co-Evolution of the alliance in regard with partner A. Firms A and BC evolve over time at the same rate and in a similar direction. The alteration from a multi party alliance to a dyadic mode alliance has no effect to the balances and evolution of the alliance. Therefore the same assumptions as in parallel Co-Evolution apply to this scenario.

5.10.2 Convergent Multi-party Co-Evolution of strategic alliances with intra alliance

As analyzed before in the case of multi party converged co-evolution, the strategic intents of all the firms converge over time and the rationale behind the strategic alliance is strengthened. Strategic intents of all three parties converge over time which leads to the merger of all strategic alliance participants or the acquisition of two firms from the third partner and hence to the dissolution of the alliance. In the scenario of multi convergent Co-

Evolution with intra alliance as seen in figure 11 we face a differentiation in the process of conversion between the allied partners. Firms B and C converge over time and merge towards the creation of firm BC. That leads to the transformation of a multi party alliance to a dyadic party alliance but with no other affect in the balance of the alliance with partner A. This results in the scenario of convergent Co-Evolution between firm A and firm BC. This leads to the merger of the firms or the acquisition of one firm from the other and hence to the dissolution of the alliance. Once again in cases of convergent co-evolution the alliance will move to a "hierarchical" nature.

5.10.3 Divergent Multi-party Co-Evolution of strategic alliances with intra alliance

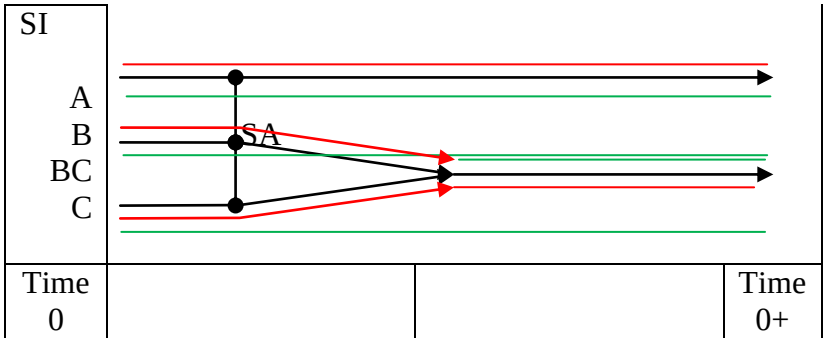
Examining the last case of multi-divergent co-evolution with intra alliance, as in the case of multi convergent co-evolution with intra-alliance, firms B and C, merge in an intra-alliance forming firm BC.Once again moving from a multi party alliance to a dyadic mode in which the strategic intents of the new firms, firm A and firm BC, diverge over time and the rationale behind the initial strategic alliance is weakening. Both partners of the alliance, after a period of time t, having already acquired sufficient resources from the alliance (knowledge, market share, assets) diverge over and the rationale behind the strategic alliance is weakening. Once again this results in the dissolution of the strategic alliance.

5.11 Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

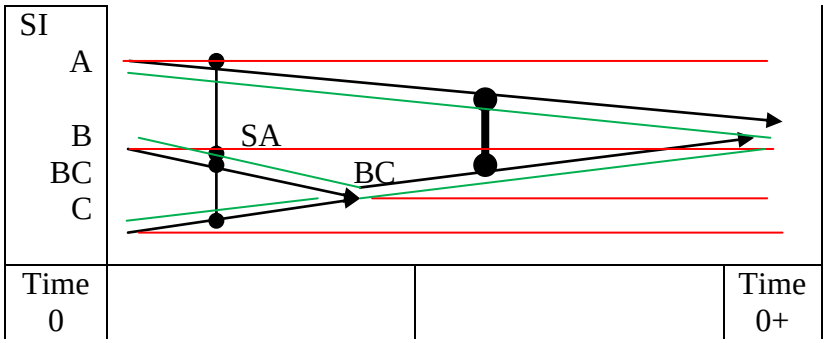
Moving one step further our examination of the multi party Co-Evolution of strategic intents with intra alliance, let us add the notions of internal and external strategic intents. Using internal and external strategic intents we will be able to investigate further the underlying assumptions for the behaviour of the allied partners in the scenario of multi party alliance with intra alliance. Once again for reasons of simplicity in our analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C. Using Figure 12 let us examine each scenario of the Co-Evolution of a strategic alliance with an intra alliance and internal and external strategic intents. Green lines represent the internal strategic intents and red lines represent external strategic intents.

5.11.1 Parallel Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

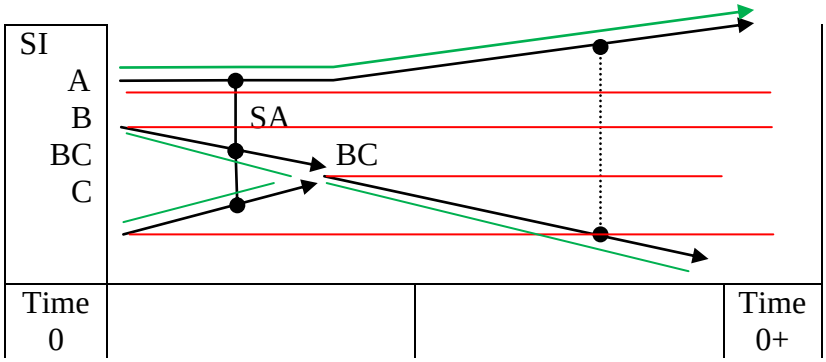
As seen in Figure 12, prior to the intra alliance the strategic intents of the three firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. Internal and external strategic intents of all three firms (firm A, firm B and firm C), do match and evolve over time at the same rate and in a similar direction. When firms B and C create the intra alliance and as a result firm BC, the internal and external strategic intents of BC match and follow the parallel Co-Evolution of internal and external strategic intents of firm A. That has no effect on the Co-Evolution of the alliance in regard



Multi party Parallel Co-Evolution with intra alliance and internal and external strategic intents



Multi party Convergent Co-Evolution with intra alliance and internal and external strategic intents



Multi party Divergent Co-Evolution with intra alliance and internal and external strategic intents

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
BC = Alliance Member from the intra alliance of Member B and Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 12: Multi-party Co-Evolution of strategic alliances withintra alliance and internal and external strategic intents

with partner A. Firms A and BC evolve over time at the same rate and in a similar direction. The alteration from a multi party alliance to a dyadic mode alliance has no effect to the balances and evolution of the alliance. Therefore the same assumptions as in parallel Co-Evolution apply to this scenario.

5.11.2 Convergent Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

In order to analyze further the case of multi party converged co-evolution with intra alliance, we have added the internal and external strategic intents of the allied firms as seen in Figure 12. As in the case of convergent multi party Co-Evolution all the firms converge over time and the rationale behind the strategic alliance is strengthened. Examining the behavior of the firms using the internal and external strategic intents as seen in Figure 12, firms B and C have different internal and external strategic intents. Their internal strategic intents converge over time and merge towards the creation of firm BC. Once again the multi party alliance moves to a dyadic party alliance. Under the new circumstances, with the creation of firm BC, the internal strategic intents of firm A have altered and lead to convergent Co-Evolution with the new partner and therefore the scenario of convergent Co-Evolution between firm A and firm BC is created. This leads to the merger of the firms or the acquisition of one firm by the other and hence to the dissolution of the alliance

5.11.3 Divergent Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

In this last case scenario internal and external strategic intents add new insights to the understanding of the behaviour of the allied firms. In divergent multi party Co-Evolution with intra alliance we do face two different actions; convergent Co-Evolution and Divergent Co-Evolution. As seen in Figure 12, firms B and C as in the case of multi convergent co-evolution with intra-alliance, merge in an intra-alliance forming firm BC. Internal strategic intents of firms B and C differentiate from their external strategic intents which lead to the creation of firm BC and once again move the alliance from a multi party alliance to a dyadic mode. After the intra alliance of firms B and C and the creation of firm BC, firm A differentiates its internal and external strategic intents. The equilibrium inside the alliance has altered which lead to divergent Co-Evolution of firms A and BC as shown in the figure. The strategic intents of the new firms, firm A and firm BC, diverge over time and the rationale behind the initial strategic alliance is weakening. Once again this results in the dissolution of the strategic alliance.

5.12 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

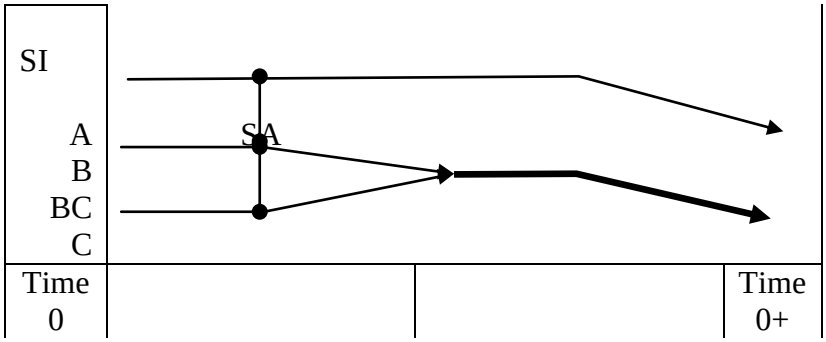
Adjusting the Co-Evolution model from a dyadic mode, to a multi-party mode we are able to examine and cover any type of strategic alliances regardless of the number of partners. Considering the type of alliances that exist in the real economy we can see that none of the parties of an alliance is equal to each other and therefore inside an alliance there are strong and weak partners. In the case of uneven multi-party Co-Evolution of strategic alliances with

an intra alliance we examining the scenario in which two out of a three equal size and power-wise members of an alliance create an intra-alliance and form a new firm that changes the balance of power in the alliance.

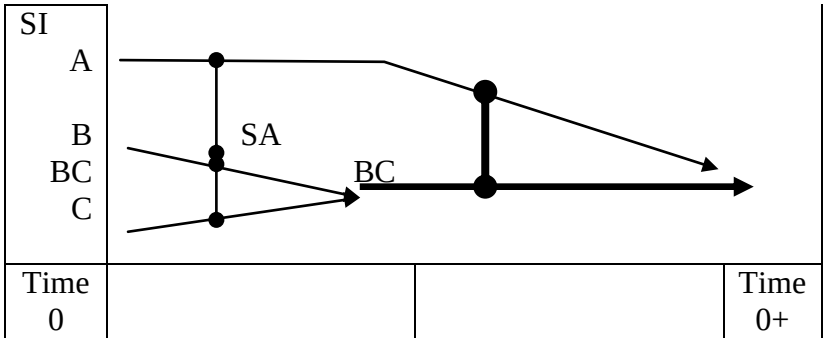
For reasons of simplicity in our analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C. In the case of multi party strategic alliance with intra alliance we will discuss the situation in which two of the partners form an intra alliance, (alliance inside the alliance) and create firm BC. Using Figure 13, let us examine each scenario of uneven multi-party Co-Evolution of strategic alliances with intra alliance.

5.12.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

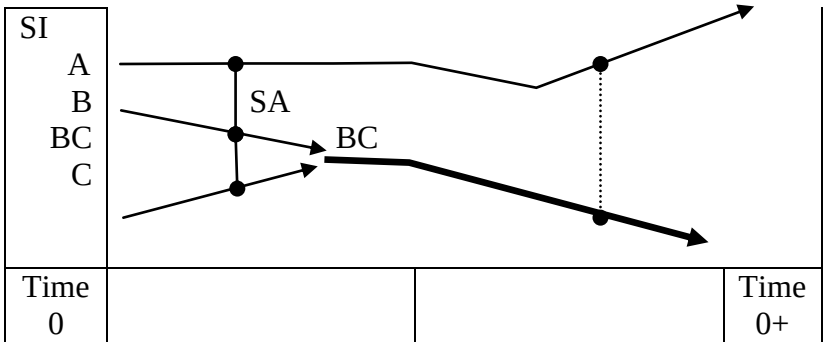
As in the dyadic mode of parallel Co-Evolution of strategic alliances, the strategic intents of the three firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. The strategic intents of all three firms, (firm A, firm B and firm C) evolve over time at the same rate and in a similar direction. As seen in Figure 13 firms B and C create an intra alliance inside the alliance. Their merger creates firm BC. The new formatted firm, BC, has the added power and size of firms B and C and therefore changes the balance of the alliance. Firm BC becomes the strong partner of the alliances and firm A the weak partner of the alliance, moving the alliance into an uneven Co-Evolution. The alliance now behaves and follows the same assumptions as in the scenario of uneven parallel Co-Evolution.



Uneven Multi party Parallel Co-Evolution with intra alliance



Uneven Multi party Convergent Co-Evolution with intra alliance



Uneven Multi party Divergent Co-Evolution with intra alliance

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
BC = Alliance Member from the intra alliance of Member B and Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

Figure 13: Uneven Multi-party Co-Evolution of strategic alliances withintra alliance

The strategic intent of the weak firm A, are affected by the strong firm BC (see Figure 13). As in uneven Co-Evolution, the strategic intents of the weak firm are being affected under the relative power of the strongest firm BC, resulting in a change that is not always accepted by the weak firm or does not serve its initial strategic intents. The weak firm is "imprisoned" to follow the strongest firm's strategic intents in a parallel Co-Evolution at the same rate and direction.

5.12.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

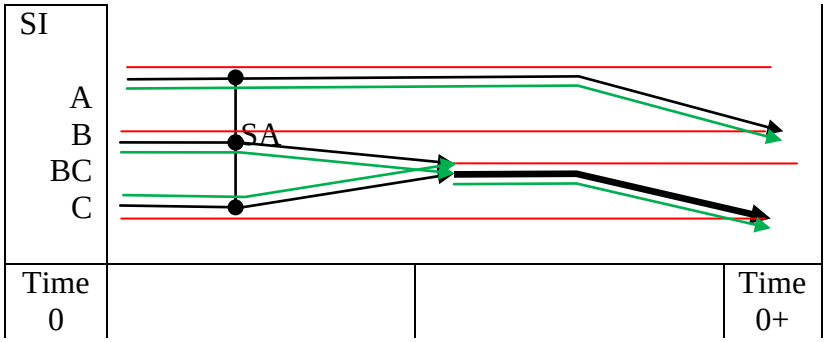
The strategic intents of firms B and C converge over time and merge creating firm BC (see Figure 13). That leads to the transformation of a multi party alliance to a dyadic party alliance but alteration of power and size between firm A and firm BC affects the balance of the alliance. Strategic alliance has moved from a multi party alliance to an uneven dyadic mode strategic alliance with firm A, being the weak partner and firm BC the strong partner. The same assumptions, as in uneven convergent Co-Evolution apply in this scenario. The strong firm BC, as the figure indicates, maintains its strategic objectives, while on the other hand the weak firm A, is forced to change its initial strategic objectives. This leads in a hostile acquisition of firm A by firm BC as in cases of uneven convergent Co-Evolution that we have discussed above.

5.12.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

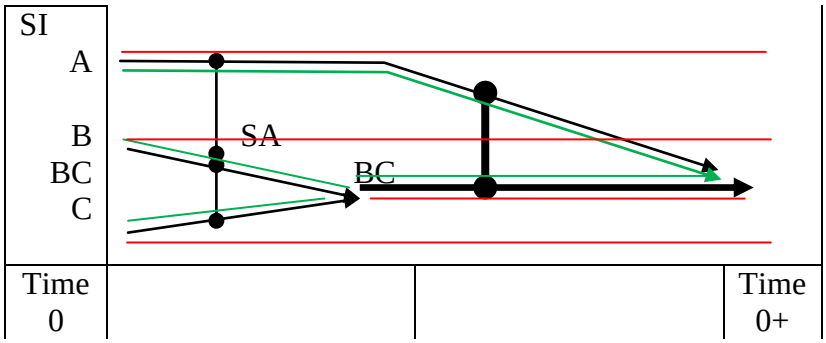
Examining the last case of divergent uneven multi-party Co-Evolution with intra alliance, as in the case of multi convergent co-evolution with intra-alliance, firms B and C, merge in an intra-alliance forming firm BC. Considering the case of Divergent uneven Co-Evolution, the strong firm is pulling the weak firm towards its own strategic intents. Firm BC, as the strong partner, takes advantage of its relative power and controls the evolution of the alliance. As in parallel uneven Co-Evolution the weak firm A, is forced to follow the new direction of the strategic alliance. Firm A is moved away from its strategic intents and suffers from that change in the balance of power between the partners of the alliance. Firms BC, control the alliance taking advantage of their size and alters the strategic intents and evolution of the alliance (see Figure 13). Firm A is imprisoned to follow firm BC, up to the point in which firm A manages to release itself from the alliance and hence having the case of dissolution of the alliance.

5.13 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

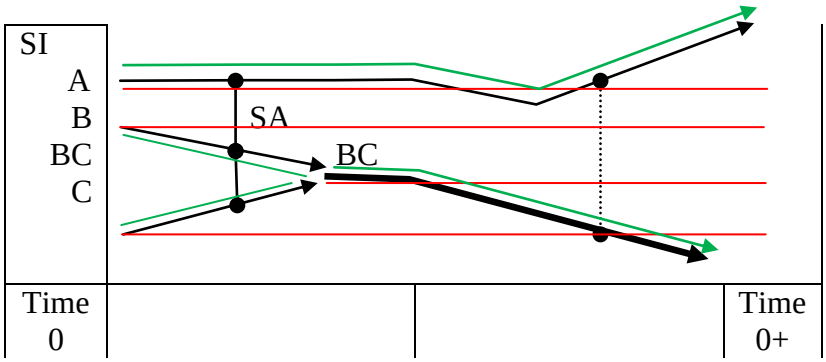
In the previous case of uneven multi-party Co-Evolution of strategic alliances with intra alliance we have examined the scenario in which, two out of a three equal size and power wise members of an alliance, create an intra-alliance and forming a new firm that changes the balance of power in the alliance. In this case we add the notion of internal and external



Uneven Multi party Parallel Co-Evolution with intra alliance and internal and external strategic intents



Uneven Multi party Convergent Co-Evolution with intra alliance and internal and external strategic intents



Uneven Multi party Divergent Co-Evolution with intra alliance and internal and external strategic intents

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
BC = Alliance Member from the intra alliance of Member B and Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents

Figure 14: Uneven Multi-party Co-Evolution of strategic alliances withintra alliance

strategic intents of those two partners so as to examine the effects of size and differentiation of strategic intents in the Co-Evolution of a strategic alliance.

Once again, for reasons of simplicity in our analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C. In the case of multi party strategic alliance with intra alliance we will discuss the situation in which two of the partners form an intra alliance, (alliance inside the alliance) and create firm BC. In order to present the differentiation between the internal and external strategic intents diagrammatically we have used green and red line graphics on the diagrams. Green lines present the internal strategic intents and red lines present the external strategic intents. Using Figure 14, let us examine each scenario of uneven multi-party Co-Evolution of strategic alliances with intra alliance and internal and external strategic intents.

5.13.1 Parallel Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Using the same analysis as in Parallel Uneven Multi-Party Co-Evolution of strategic alliances, we would examine the case of Uneven Multi-Party Co-Evolution of strategic alliances with internal and external strategic intents. The strategic intents of the three firms, firm A, Firm B and Firm C, are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. Strategic intents of all three firms, (firm A, firm B and firm C) evolve over time at the same rate and in a similar direction. External strategic intents of all three firms follow the path of parallel Co-Evolution of their strategic alliance.

As seen in Figure 14, firms B and C create an intra alliance inside the alliance. Their merger creates firm BC. The newly formatted firm, BC, has the added power and size of firms B and C and therefore changes the balance of the alliance. Since firm BC becomes the strong partner of the alliance, it uses its power and changes its external strategic intents from the parallel Co-Evolution of the alliance that favors both firm BC and Firm A to new strategic intents that favors and serves firm's BC best interest. Following Figure 14, firm's BC internal strategic intents do alternate from the initial external strategic intents, moving the alliance into an uneven Co-Evolution. The alliance now behaves and follows the same assumptions as in the scenario of uneven parallel Co-Evolution.

The external strategic intents of the weak firm A, are affected by the strong firm BC. Firm BC is imposing, using its power, its internal strategic intents and pushes firm A to alter its internal strategic intents as well. As in uneven parallel Co-Evolution, the strategic intents of the weak firm are being affected under the relative power of the strongest firm BC, resulting in a change that is not always accepted by the weak firm or does not serve its initial strategic intents. Following Figure 14, we can see the differentiation in internal and external strategic intents of both firm A and firm BC. The weak firm A is "imprisoned" to follow the strongest firm's internal strategic intents, in a parallel Co-Evolution at the same rate and direction by altering its own internal and initial external strategic intents.

5.13.2 Convergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Using the notion of internal and external strategic intents we are able to investigate the underlying assumptions of Convergent Uneven Multi-Party Co-Evolution of strategic alliances. Firm B and firm C, alter their initial external strategic intents and converge over time and merge creating firm BC. That leads to the transformation of a multi party alliance to a dyadic party alliance but alteration of power and size between firm A and firm BC affects the balance of the alliance. Firm BC using its relative power against the weak partner A sets its new internal strategic intents.

Strategic alliance has moved from a multi party alliance to an uneven dyadic mode strategic alliance with firm A, being the weak partner and firm BC the strong partner. Since firm BC has differentiates its internal and external strategic intent Firm A, being the weak partner, is affected by that alternation. Firm A's external strategic intents were set into a parallel Co-Evolution with partners B and C. The new internal strategic intents of firm BC affect the weak partner A and force its firm to differentiate its internal strategic intents by its external strategic intents as seen in Figure 14. Firm's A internal and external strategic intents were the same until the formation of firm BC and its alteration of its internal and external strategic intents.

The same assumptions as in uneven convergent Co-Evolution apply in this scenario. The strong firm BC, as the diagram indicates, maintains its strategic objectives, while on the other hand the weak firm A, is forced to change its initial strategic objectives. Firm BC with the use of its power matches its internal and external strategic intents, while on the other hand

firm A, being the weak partner has to change its internal to its external strategic intents. This leads to a hostile acquisition of firm A by firm BC as in cases of uneven convergent Co-Evolution that we have discussed above.

5.13.3 Divergent Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Examining the last case of divergent uneven multi-party Co-Evolution with intra alliance and internal and external strategic intents, we are following the logic divergent uneven multi-party Co-Evolution with intra alliance, by adding the notions of internal and external strategic intents so as to further understand the assumptions of the proposed scenario.

Once again firms A, B and C, are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. The external strategic intents of all three allied partners do follow and serve the parallel Co-Evolution of the strategic alliance. Partners B and C alter their internal strategic intents from their external strategic intents as seen in Figure 14, and merge in an intra-alliance forming firm BC, which concentrates the power of firm B and firm C. External strategic intents of new firm BC are evolving parallel to external strategic intents of Firm A. Despite the fact that firm BC uses its relative power against its allied partner A and alters its internal strategic intents into a direction that serves firm BC's best interests. Considering the case of Divergent uneven Co-Evolution, the strong firm is pulling the weak firm towards its own strategic intents. Firm BC, as the strong partner, takes advantage of its relative power and controls the evolution of the alliance. Partner A,

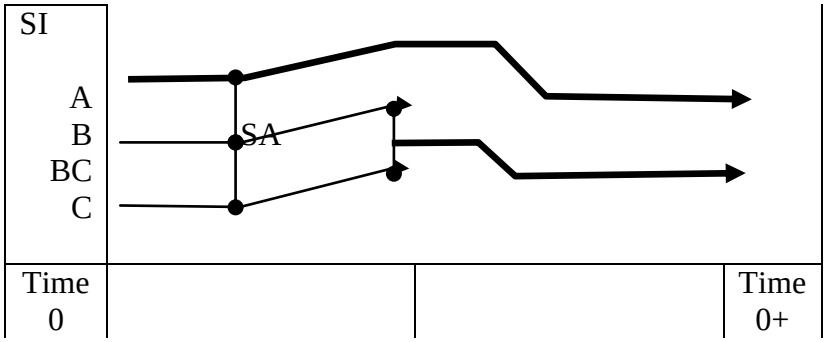
being the weak partner is forced to alter is internal strategic intents and follow strong partner BC.

Firm A is moved away from its external strategic intents, is forced to follow its new internal strategic intents and suffers from that change in the balance of power between the partners of the alliance. Firms BC, controls the alliance taking advantage of their size and alters the evolution of the alliance. Firm A is imprisoned to follow firm BC's new internal strategic intents, up to the point at which firm A manages to release itself from the alliance, by differentiating its internal strategic intents and pulls away from the control of firm BC. As in all cases of divergent Co-Evolution we face the case of dissolution of the alliance.

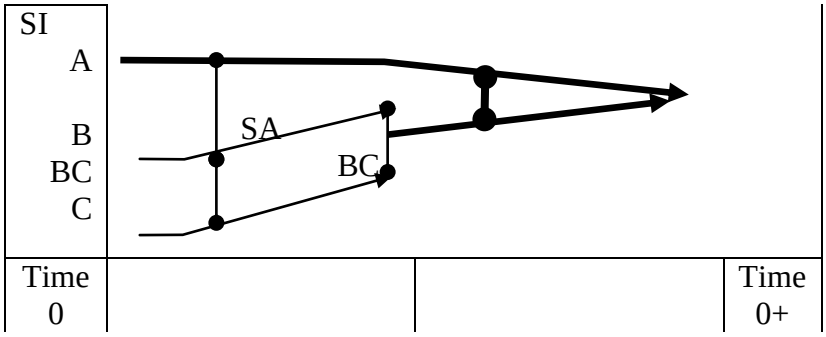
5.14 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

The next scenario of the extended Co-Evolution model refers to the case of Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance. In order to insert perspectives such as the number of partners inside an alliance and the differentiation of size between partners we have adjusted the Co-Evolution model from a dyadic mode, to a multi-party mode in order to examine and cover any type of strategic alliances regardless of the number of partners, while considering the differentiation of partners sizes and its effect on the evolution of the alliance.

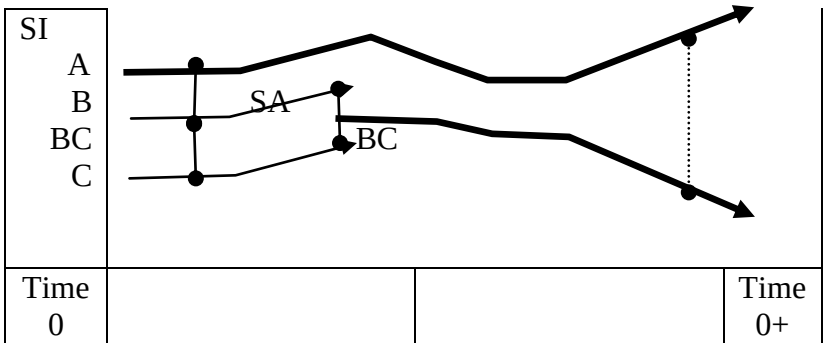
In the case of Uneven - Even Multi-party Co-Evolution of strategic alliances with intra alliance we are examining the scenario in which, two of the weak partners of the alliance



Uneven – Even Multi party Parallel Co-Evolution with intra alliance



Uneven – Even Multi party Convergent Co-Evolution with intra alliance



Uneven – Even Multi party Divergent Co-Evolution with intra alliance

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
C = Alliance Member C
BC = Alliance Member from the intra alliance of Member B and Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future

Figure 15: Uneven Multi-party Co-Evolution of strategic alliances withintra alliance

react against the strong partner which uses its relative power to control the alliance. The scenario of Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance, can be divided into two parts. The first part is a scenario of Uneven Multi-party Co-Evolution of strategic alliances in which after the creation of the intra alliance becomes the case of Co-Evolution of strategic alliances and follows its basic assumptions.

For reasons of simplicity in our analysis we will examine and discuss situations that involve three parties; Firm A, Firm B and Firm C. In the case of multi party strategic alliance with intra alliance we will discuss the situation in which two of the partners form an intra alliance, (alliance inside the alliance) and create firm BC. Using Figure 15, let us examine each scenario of uneven multi-party Co-Evolution of strategic alliances with intra alliance.

5.14.1 Parallel Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

Following the logic of the dyadic parallel Co-Evolution of strategic alliances, the strategic intents of the three firms are evolving along paths that allow the continuation of the strategic alliance through time. Firm A being the strong partner is using its relative power against firms B and C in order to serve its best interest and this alters the evolution of the strategic alliance (see Figure 15). The two weak firms, firm and Firm C are being pulled away from their initial strategic intents following the strong partner's new direction. This implies that the initial strategic intent of the weak firms are being affected by the relative power of the strongest firm A, resulting in a change that is not always accepted by the weak firms or does not serve their initial strategic intents. The weak firms are "imprisoned" to serve the strongest

firm's strategic intents that can be proved to be costly and inefficient for its targets. The stronger firm has a relative competitive advantage against its weak partners and hence can lead the evolution of alliance according to its personal best for its strategic intents. Weak partners B and C alter their strategic intents so as to follow firm A's strategic intents and evolve over time at the same rate and in a similar direction towards firm's A new strategic intents.

The alternation and movements of the strategic intents of firm B and Firm C does not serve both firms best interests and the alliance is costly instead of beneficial. Therefore firms B and C form an intra alliance in order to create firm BC. The new firm BC since it has the relative power of both partners it changes the balance of power inside the alliance and creates stability between the two new partners; firm A and firm B. Firm BC having now greater control inside the alliance manages to pull partner A back to its initial strategic intents. The reaction of firms B and C is to form firm BC with an intra alliance, changes the strategic alliance from a multi party alliance to a dyadic mode of strategic alliances with the same implications such as in parallel Co-Evolution. As in parallel Co-Evolution, strategic intents of the two firms are evolving parallel along paths that allow the continuation of the strategic alliance in the broad nature as at establishment

5.14.2 Convergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

Considering the scenario of convergent multi party Co-Evolution of strategic alliances, strategic intents of all three parties converge over time, the rationale behind the strategic

alliance is strengthened which leads to the merger of all strategic alliance participants or the acquisition of two firms from the third partner and hence to the dissolution of the alliance. In our case, the existence of a strong partner inside the strategic alliance alters the scenario of converged Multi party Co-Evolution from a situation of merger of the three firms to strictly a hostile acquisition of the weak firms by the strong partner. As seen in Figure 15, the strong partner A, remains true to its strategic intents while weak partners B and C are being pulled away from their strategic intents towards the strong partner. That affects the balance of a convergent Co-Evolution and leads to a hostile acquisition of the weak firms by the strong partner. Firms B and C being the weak firms have no relative advantage against partner A and hence they cannot negotiate on equal terms for a beneficial merger. They are forced to be acquired by partner A on less attractive terms compared to a merger between the three partners.

As a reaction weak firms B and C, create firm BC with an intra alliance. The new firm BC since it has the power of both partners and therefore greater relative power against former strong partner A, changes the balance of power inside the alliance and creates stability between the two new partners. Therefore firms B and C with an intra alliance and the creation of firm BC differentiated the case of uneven convergent multi party Co-Evolution of the strategic alliance into a case of convergent Co-Evolution. In that case, the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened. With the creation of firm BC firms B and C manage to avoid a hostile acquisition by partner A and transform it into a merger between firms A and BC with equal terms since firm BC had greater relative power against firm A and therefore could negotiate the terms of the convergent Co-Evolution and alter them from an acquisition to a merger.

Once again as in all cases of convergent co-evolution the alliance will move to a "hierarchical" nature.

5.14.3 Divergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

As shown in Figure 15, we have a situation of a three party strategic alliance while firm A is the strong partner and firms B and C the weak partners. Firm A being the strong partner is using its relative power against firms B and C in order to serve its best interest and alters the evolution of the strategic alliance. The two weak firms, firm and Firm C are being pulled away from their initial strategic intents following the strong partner's new direction. Since the stronger firm A, has a relative competitive advantage against its weak partners, leads the evolution of alliance according to its personal best for its strategic intents resulting in a change that is not always accepted by the weak firms or does not serve their initial strategic intents. Weak partners B and C alter their strategic intents so as to follow firm's A strategic intents and evolve over time at the same rate and in a similar direction towards firm's A new strategic intents.

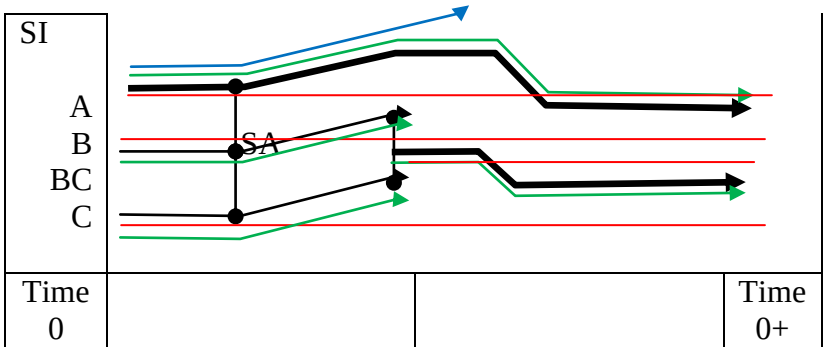
Once again firms B and C form an intra alliance in order to create firm BC. The new firm BC since it has the relative power of both partners it changes the balance of power inside the alliance and creates stability between the two new partners; firm A and firm B. Firm BC having now greater control inside the alliance manages to pull partner A back to its initial strategic intents. The formation of firm BC was aiming for the creation of a stronger firm that will be able to control strong partner A. As seen in Figure 15, firm A was forced by firm BC

to return to its original strategic intents. Firm A lost its 'power' advantage that it had enjoyed against partners B and C and under the pressure of firm BC was forced to reposition itself in its original strategic intents.

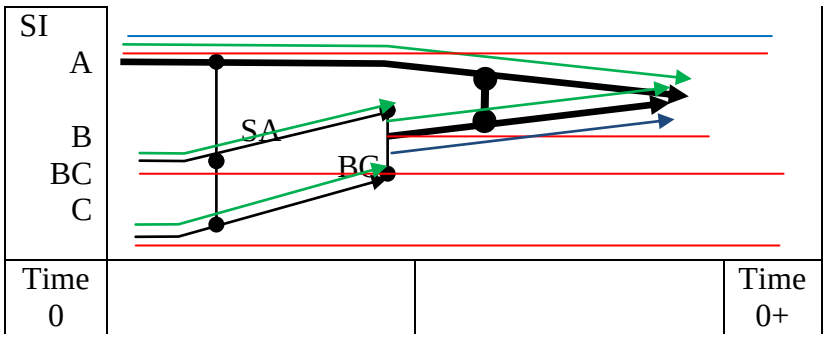
The reaction of firms B and C is to form firm BC with an intra alliance, changes the strategic alliance from a multi party alliance to a dyadic mode of strategic alliances. Firm A and firm BC evolve over time in parallel Co-Evolution for a period of time. The new strategic intents of firm BC and the repositioned strategic intents of firm A were not serving their best interests. Therefore, as seen in Figure 15, firms A and BC diverge over time. The rationale behind the strategic alliance is weakening. In that case as well as in convergent co-evolution the alliance will break down. In divergent classification the alliance will move to a "market" nature.

5.15 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

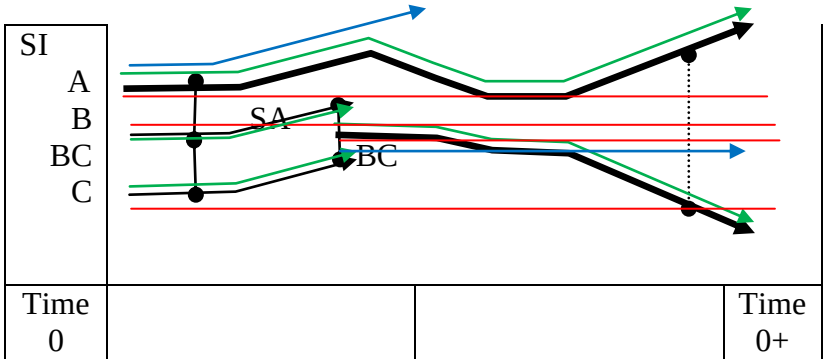
Let us now introduce the notions of internal and external strategic intents in the scenario of Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance. In our analysis we would also use the notion of pragmatical strategic intents so as to reveal all the underlying assumptions of that scenario. As already presented in Chapter 4 the differentiation of strategic intents has been made on a three dimensional level. The strategic intent that the firm sets prior to alliance to attract its partner (external strategic intent), the strategic intents that the firm has as a hidden agenda and uses the alliance as a means to secure its goals (internal strategic intents) and finally the strategic intents that the firm follows while being in



Uneven – Even Multi party Parallel Co-Evolution with intra alliance and internal, external and pragmatical strategic intents



Uneven – Even Multi party Convergent Co-Evolution with intra alliance and internal, external and pragmatical strategic intents



Uneven – Even Multi party Divergent Co-Evolution with intra alliance and internal, external and pragmatical strategic intents

Key:

SI = Strategic Intent
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C = Alliance Member C
BC = Alliance Member from the intra alliance of Member B and Member C
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
Green Line = Internal strategic intents
Red Line = External Strategic Intents
Blue Line = Pragmatical Strategic Intents

Figure 16: Uneven – Even Multi party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents

the alliance that can be either a match for its internal and external strategic intents or they have differentiated according to the dynamics of the alliance.

In the case of Uneven - Even Multi-party Co-Evolution of strategic alliances with intra alliance and internal, external and pragmatical strategic intents we examining the scenario in which, two out of the weak partners of the alliance react against the strong partner which uses its relative power to control the alliance. We will proceed to our description, using as guideline, the scenario of Uneven - Even Multi-party Co-Evolution of strategic alliances.

For reasons of simplicity in our analysis we will examine and discuss a situation that involves three parties; Firm A, Firm B and Firm C. Firm A being the strong partner and firms B and C being the weak partners. The intra alliance, (alliance inside the alliance) between weak partners B and C creates firm BC. In order to present the differentiation between the internal and external strategic intents diagrammatically, we have used green and red line graphics on the diagrams. Green lines present the internal strategic intents and red lines present the external strategic intents. The blue line represents the pragmatical strategic intents of the strong partner A. Using Figure 16, let us examine each scenario of uneven multi-party Co-Evolution of strategic alliances with intra alliance and internal and external strategic intents.

5.15.1 Parallel Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external internal and pragmatical strategic intents

As seen in Figure 16, a three party alliance is evolving over time. As in cases of uneven Co-Evolution, Firm A being the strong partner is using its relative power against firms B and C

in order to serve its best interest and alters the evolution of the strategic alliance. The two weak firms, firm and firm C are being pulled away from their initial strategic intents following the strong partner's new direction.

Let us analyze that behavior as presented in Figure 16. Firm A joined the alliance with two weak partners. Its external strategic intents were set to evolve parallel with the external strategic intents of firms B and C. Despite the fact that that the pragmatical strategic intents of firm A were differentiated from its external strategic intents into a direction that would favour its firm's best interests in a greater level.

Since the weak firms were "imprisoned" and serve the strongest firm's strategic intents, their internal strategic intents differentiated by their external strategic intents since they were forced to follow the pragmatical strategic intents of partner A, which can be proved to be costly and inefficient for their strategy.

The alternation and movements of the strategic intents of firm B and Firm C does not serve both firms best interests and the alliance is costly instead of beneficial. Therefore firms B and C form an intra alliance in order to create firm BC. Firm BC's pragmatical strategic intents were set in parallel direction with the initial external strategic intents of firm A. The internal strategic intents of firm BC were set in a direction in which they would eventually match their pragmatical strategic intents as seen in Figure 16.

The new firm BC having the relative power of both partners changes the balance of power inside the alliance and creates stability between the two new partners; firm A and firm B. Firm BC now having greater control inside the alliance manages to pull partner A back to its

initial strategic intents. Partner A had to abandon its pragmatical strategic intents and alter its internal strategic intents so it would match the internal strategic intents of firm BC. Firm A's internal strategic intents, as we can see from Figure 16, are evolving in a parallel direction with the internal strategic intents of firm BC. The outcome of the movement was the reposition of firm A's internal strategic intents at the same rate as its original external strategic intents which in turn match the pragmatical and internal strategic intents of firm BC.

As before the reaction of firms B and C so as to form firm BC with an intra alliance, changes the strategic alliance from a multi party alliance to a dyadic mode of strategic alliances with the same implications such as in parallel Co-Evolution. As in parallel Co-Evolution, strategic intents of the two firms are evolving along parallel paths that allow the continuation of the strategic alliance in the broad nature as at establishment.

5.15.2 Convergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Considering the scenario of convergent Uneven Even Multi party Co-Evolution of strategic alliances, the existence of a strong partner inside the strategic alliance alters the scenario of converged Multi party Co-Evolution from a situation of the merger of the three firms to a strictly hostile acquisition of the weak firms by the strong partner

As seen in Figure 16, the strong partner A, remains true to its strategic intents while weak partners B and C are being pulled away from their strategic intents towards the strong partner. That affects the balance of a convergent Co-Evolution and leads to a hostile acquisition of the

weak firms by the strong partner. Firms B and C being the weak firms have no relative advantage against partner A and hence they cannot negotiate on equal terms for a beneficial merger. They are forced to be acquired by partner A on less attractive terms compared with a merger between the three partners.

The rationale of the above scenario can be revealed by using the notion of internal, external and pragmatical strategic intents. Analyzing the behavior of strong partner A as seen in Figure 16, its pragmatical strategic intents do match its external strategic intents. Strong partner A, was aiming, with the use of its power, inside the alliance, to alter the strategic intents of firms B and C and lead them to be the victims of a hostile acquitition. Therefore the internal strategic intents of partners B and C as we can see in Figure16, are forced to change and alternated from its original external strategic intents, or in other words their strategy and their intents that were agreed prior to the creation of the strategic alliance.

As a reaction, weak firms B and C, create firm BC with an intra alliance and set the new internal strategic intents that do serve both firms A and B but the pragmatical strategic intents as seen in Figure 16, were set to avoid their hostile acquisition by partner A and set the ground rules of a merger between A and BC. The new firm BC since it has the power of both partners and therefore greater relative power against former strong partner A, changes the balance of power inside the alliance and creates stability between the two new partners.

Internal strategic intents of firm BC do match its pragmatical strategic intents and force partner A to abandon its pragmatical strategic intents, to alternate its external strategic intents and shift its internal strategic intents towards the internal strategic intents of firm BC and hence towards their merger. Therefore firms B and C with an intra alliance and the creation

of firm BC change the case of uneven convergent multi party Co-Evolution of the strategic alliance into a case of convergent Co-Evolution. In that case, the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened.

As before with the creation of firm BC firms B and C manage to avoid a hostile acquisition by partner A and transform it into a merger between firms A and BC on equal terms since firm BC had greater relative power against firm A and therefore could negotiate the terms of the convergent Co-Evolution and alter them from an acquisition to a merger. Using the notions of internal, external and pragmatical strategic intents we were able to further analyze the behavior of firms in the scenario of convergent uneven even multi party Co-Evolution. Once again as in all cases of convergent co-evolution the alliance will move to a "hierarchical" nature.

5.15.3 Divergent Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Using the description of the previous case of Divergent Uneven Even Multi-party Co-Evolution of strategic alliances we would examine and describe the assumptions of the behaviour of the three partners with the notions of internal external and pragmatical strategic intents.

Examining Figure 16, firm A joined the alliance with two weak partners. While its external strategic intents were set to evolve in a parallel direction with the external strategic intents of

firms B and C, its pragmatical strategic intents were differentiated from its external strategic intents into a direction that would favour its firm's best interests.

As in previous cases weak firms were "imprisoned" and serve the strongest firm's strategic intents, their internal strategic intents differentiated by their external strategic intents since they were forced to follow the pragmatical strategic intents of partner A, which can be proved to be costly and inefficient for their strategy.

The alternation and movements of the strategic intents of firm B and firm C does not serve both firms best interests and the alliance is costly instead of beneficial. Therefore firms B and C form an intra alliance in order to create firm BC. Firm BC sets its external strategic intents in a direction that serves the strategic intents of forms partners B and C but in parallel direction with the external strategic intents of partner A. Moreover firm's BC pragmatical strategic intents were set to match its external strategic intents and with the use of its power alter their internal strategic intents in a direction that will force partner A to follow so as their internal strategic intents will match their external and pragmatical strategic intents.

As mentioned firm BC having now greater control inside the alliance manages to pull partner A back to its initial strategic intents. Partner A was forced to abandon its pragmatical strategic intents, alter its internal strategic intents in a way that will lead its firm to its initial external strategic intents, as seen in Figure 16. Since firm A lost its 'power' advantage that it had against partners B and C and under the pressure of firm BC, was forced to reposition itself in its original strategic intents.

Once again the reaction of firms B and C so as to form firm BC with an intra alliance, changes the strategic alliance from a multi party alliance to a dyadic mode of strategic alliances. Firm A and firm BC evolve over time in parallel Co-Evolution for a period of time. The new external strategic intents of firm BC and the repositioned strategic intents of firm A in its original external strategic intents were not serving their best interests. Therefore, as seen in figure 16, firms A and BC alter their internal strategic intents and diverge over time. The rationale behind the strategic alliance is weakening and as in convergent co-evolution the alliance will break down. In divergent classification the alliance will move to a "market" nature.

5.16 Summary

This chapter is an analytical presentation of the extended Co-Evolution model. The presentation of the thirteen permutations of the model, compose the Extended Co-Evolution model. A model that was based on ul-Haq's Co-Evolution model framework and with significant additions and extensions such as, internal external pragmatical strategic intents, size of partners, balance of trust and intra alliance, produced a detailed model of strategic alliances evolution and firm behaviour. The foregoing pages showed these variables create the reality effect that the model needed. It maps the understanding of a complex reality using a variety of elements that are not only based in the theory and literature, but also in practice and empirical experiences. The Extended Co-Evolution model of strategic alliances addresses fundamental issues of strategy co-operation and strategy co-opetition.

This exercise is being a response to the fundamental issue in strategic alliances, namely the tension between the instinctive competition that drives all profit making companies and the presumption of co-operation on which all strategic alliances are based. The Extended Co-Evolution model uses its non static ability to describe any possible behavioural scenario of a firm inside a strategic alliance. Both the literature and our experience of reality indicate that a company at any given point is aiming at profit maximization. It is the basic principle for the creation of a firm. The behaviour of a firm inside the alliance is driven by the ability to maximize its profits. The differentiation of internal, external and pragmatical strategic intents, the creation of intra alliances and the reaction to size differentiation between allied companies provided the evidence and characteristics for developing the Extended Co-Evolution model. A diagnostic tool that can be used for practice, training and identification of strategic alliance behaviour.

Our typology thus clarifies the configuration of variables and the probable outcomes. Thus we feel we have created and developed a diagnostic base that has the usefull purpose of flagging up a link between configuration and outcomes. By keeping the basic principles of the original Co-Evolution model – identical starting and end points – we have presented a more analytical journey of the evolution of a strategic alliance. A journey that is based on every possible scenario that can be created by the addition of the elements of reality as introduced in Chapter 4. Dimensions of opportunistic movements by one of the partners; increase of the number of companies that are allied in the original model so as to examine the evolution of the alliance as well as any possibilities of opportunistic behaviour. Additions of the element of “size” and “relative power” of the allied firms, in order to determine any possible effects on the nature and “health” of the alliance as well as the dimension of differentiation of the strategic incentives that cannot be compensated by the flexibility of the

alliance, which will be created by the differentiation of “size” of the firms. The notion of “intra-alliance” inside the alliance and the differentiation of strategic intents into internal, external and pragmatical have created the Extended Co-Evolution model.

This suggests that the foregoing does have a training, even a coaching value for those involved in the setting up and administration of strategic alliances. A useful tool for practitioners and strategists that predicts, indicates and analyses scenarios of behaviour inside a strategic alliance. This implies that the value of the originality of the typology the Extended Co-Evolution model lies in its creation rather than in its testing, although we do address the issue of empirical confirmation in the next Chapter.

Chapter Six

Methodology and Theory Testing

6.1 Introduction

A key issue for this research is the level of verification to which we should aspire. There is a case for saying that textbook scientific verification is a possibility. The dissertation so far has developed the Extended Co-Evolution model. This has been achieved by generating additional variables inspired by the relevant literature and then crossing them with those derived from the pioneering work of ul-Haq (2005).

From this model it is possible to derive hypothesis specifying casual relationships between sets of variables and the end – states that ensue over time. In principle these hypotheses should be testable but the question has to be asked; are there any obstacles to doing this?

6.2 Testing obstacles and Measurement Theory

As previously stated we have to address the issue of obstacles in deriving hypothesis on a model that is based on sets of variables and the end – states that ensue over time. The 39 permutations of the Extended Co-Evolution model involve compilations of interactive variables. Testing would have to be able to disaggregate these sets, so as to determine their separate contribution to the end – state.

The issue of determining and measuring casual actions is a recognized phenomenon in the social sciences. The problem is where there are several combined causes for a given effect, any one of which could be a sufficient condition of a given effect.

In the hope of obtaining instruments of measure that are more reliable, valid, sensitive and interpretable, increases the need for analytical tools beyond what traditional measurement theory methods can provide (Reeve 2006). Issues in measurement have risen because of the utility in item and scale analysis, scale scoring, instrument linking and adaptive testing. Item response theory is a model based measurement in which trait level estimates depend on both the person's responses and on the properties of the questions that were administered (Emdretson and Reise, 2000)

The fundamental idea of measurement theory is that measurements are not the same as the attribute being measured, they are thought to be a reflection or indication of it. Therefore drawing conclusions about the attribute, one has to take into account the nature of the response between the attribute and the measurements (Sarle 1997)

Measurement theory of course has different levels of measurement that involve different properties. The most commonly discussed levels of measurement are (Stevens 1946):

- Nominal

Two things are assigned the same symbol if they have the same value of the attribute, for example male or not male (Sarle 1997).

- Ordinal

Things are assigned ordering numbers such that the order of the numbers reflects an order relation defined in terms of the attribute, for example light wind or very light wind (Sarle 1997).

- Interval

Things are assigned numbers signifying a quantifiable difference in the attribute being measured. The degree of difference can be specified and quantified, for the example population of China is higher than that of India by X billion (Sarle 1997).

- Log-interval

Things are assigned numbers such that ratios between the numbers reflect ratios of the attribute (Sarle 1997).

- Ratio

Things are assigned numbers such that differences and ratios between the numbers reflect differences and ratios of the attribute (Sarle 1997).

- Absolute

Things are assigned numbers such that all properties of the numbers reflect analogous properties of the attribute. (Sarle, 1997)

When one is trying to demonstrate cause and effect relationships only interval measurement can be conclusive. For instance, A leads to B, so more of A leads to more of B and x times more of A will lead to x times more of B will have demonstrated the casual relationship. Therefore in the particular case of the Extended Co-Evolution model, some of the variables simply do not lend themselves to interval measurement e.g. internal and external strategies.

An important obstacle in data collection was the limitations of data access. A PhD student working alone cannot get inside a lot of banking alliances in many countries and do his own research. The phenomenon can only be studied via the observation of incidents. Recognizing the difficulties of inside observation, we had focused on data access by means of a questionnaire survey and also by executive interviews. There is no doubt that this is worth doing whether or not it satisfies all the levels of scientific verification. The testimonies sought in the empirical work and detailed in this thesis, are those of European banking executives who initiated and formed strategic alliances.

6.3 Philosophical Underpinnings

All research activity is embedded in a theory of knowledge, an epistemology. The theory may be implicit or explicit, acknowledged or tacit. Regardless of its status, the embedded theory underpins the research activity and influences its validity, methods and scope.

A theory of knowledge, an underlying epistemology, is present in all research activity. This theory may be tacit, acknowledged or inferred. However expressed (implicitly or explicitly), it has an impact on the research activity and influence, in terms of validity, methodology and scope. It ranges from positivism to idealism, with empiricism, realism and subjectivity in between, with no fixed boundaries for each position. In every research, in every field and science a research philosophy comes back to the way that the researcher thinks about the development of knowledge. The researcher determines the understanding of the nature of the interactions between cause and effect and delineates the position of theory in the research activity.

Trying to define subjectivity, we need to consider that what matters is the "meanings that people give to their environment, not the environment itself". The social environment that the individual inhabits is dependent on the individual's understanding and interpretation of it.

Positivism as a research method, accepts the view that the nature of the relationships between the social world and individuals, can be observed and explained in the manner of the natural sciences. The researcher uses methods that often progress from theory, through the generation of null hypothesises, to questionnaire based surveys resulting in statistically significant and therefore generalizable findings, so as to emphasize the clarity, generalizability and repeatability of outcomes.

Realism as a research method recognizes that people as individuals are not objects to be studied in the style of natural sciences, and that there is an objective nature of the macro aspects of the society. Therefore the particular research respecting the theory of realism as applied to the business studies or the social studies recognizes the importance of understanding people's socially constructed interpretations and meanings, or subjective reality, within the context of understand broader social forces, structures or processes that influence and perhaps constrain the nature of people's views and behaviours. As Clark (2000) noted, all analytical work in the social sciences, cannot be undertaken within the closed system model. Using empirical testing, qualitative and quantitative research methods, the researcher is able to determine the generative mechanisms in models and observe the events that lead to the construction of the model (Bhaskar 1975).

Qualitative researchers assume multiple and dynamic realities that are context-dependent, embracing an ontology that denies the existence of (or at least the efficacy of arguing for the

existence of) an external reality. By external reality, we mean anything that exists outside and independent of our interpretations (Searle 1995). That ontological approach, affects the epistemology of qualitative research and therefore since qualitative researchers embrace internal reality they cannot embrace an objective epistemology.

Denzin and Lincoln (1994) define qualitative research as a multi - method in focus, involving an interpretive, naturalistic approach to its subject matter. Qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them. This implies that qualitative research involves the study and collection of a variety of empirical materials—case study, personal experience, introspective, life story, interviews, observation, historical, interactional, and visual texts—that describe routine and problematic moments and meanings, in individual's lives. Accordingly, qualitative research deploys a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand (Denzin 1994).

On the other hand the basic principle of quantitative research is to develop and employ mathematical models, theories and hypotheses ideally pertaining to natural phenomena. Quantitative research is often an iterative process whereby evidence is evaluated, theories and hypotheses are refined and technical advances are made. Qualitative and quantitative researches are not merely different ways of doing research, but different ways of thinking.

6.4 Questionnaire based postal and email survey

Our questionnaire survey was aimed at the European continent. That is, all the countries of Europe were targeted. Forty two (42) countries in fact were targeted in total. The purpose of the research was to yield insights and to seek an empirical response to our proposed model. Furthermore the survey probed the general background of the relationship between the allies, that is the banks involved in the alliances, and the importance of trust and behaviour. It also sought to reveal practical insights and possible applications of the extended Co-Evolution model to real life business.

The questionnaire was divided into two sections. The first section explored the environment of a strategic alliance and the relationship between the partners, and the second section was dedicated to the analysis of the basic parameters upon which the Extended Co-Evolution model is based. In the first section the participants had to answer 16 questions regarding their participation in a strategic alliance. Participants were asked for information regarding the alliance status, and the behaviour inside the alliance, as well as their beliefs regarding the behaviour of their partners. The second section of the questionnaire dealt with the Co-Evolution of strategic alliances. Participants responded to questions regarding the behaviour of the partners with the added notions of the Extended Co-Evolution model.

The carefully selected and detailed questions helped our process of plotting and examining the proposed Extended Co-Evolution model. The questionnaire was designed so as to help and lead the participant to the process of evolution of alliances with the proposed notions of the Extended Co-Evolution model.

The sample was selected on a geographical basis. Our sample was the European banking sector. As mentioned earlier, the forty two countries that constitute the European landmass were all included in the survey. We used Bankscope as our database and our sample was 5,951 European banks that included retail banks, commercial banks and investment banks.

Each bank invited to take part in the study, received a package that included a personally addressed cover letter detailing the research agenda and enclosing the questionnaire and a copy of the "*Charalampopoulos, G., ul-Haq, R., Opportunistic Behavior as a Mean to affront Opportunistic behavior in Strategic Alliances? The dilemma of Opportunism, British Academy of Management Conference 2007, Track: Strategic Management – Full Paper".* All the above documents are given in the appendix of the thesis.

The covering letter introduced the research topic, sought to explain the aim of the research, and to assure confidentiality. The confidentiality issue and the purpose of the questionnaire were mentioned both in the text of the questionnaire and in the covering letter. The attached paper was an addition to the theoretical framework and aiming to give detailed information regarding the nature of the topic of the thesis. In order to enhance the response rate participants had the option of asking for an electronic version of the questionnaire, for their ease of use.

Total Active European Banks			
	No of banks	Postal Questionnaires	E-mail Questionnaires
Albania	14	3	8
Andorra	6	3	3
Austria	267	20	95
Belarus	20	5	16
Belgium	97	15	40
Bosnia & Herzegovina	29	6	29
Bulgaria	32	6	32
Croatia	39	6	39
Cyprus	31	10	31
Czech Republic	34	5	34
Denmark	121	12	60
Estonia	10	3	8
Finland	19	5	10
France	477	25	250
Germany	1748	35	800
Greece	23	23	9
Hungary	40	6	30
Iceland	44	5	44
Ireland	73	5	50
Italy	784	15	350
Latvia	23	6	15
Liechtenstein	15	3	8
Lituania	10	3	7
Luxembourg	118	15	60
FYRUM	17	3	12
Malta	14	3	8
Moldova	17	3	15
Monaco	12	3	4

Netherlands	121	12	60
Norway	88	10	60
Poland	53	9	53
Portugal	48	9	48
Romania	32	6	32
San Marino	5	3	5
Serbia & Montenegro	39	8	22
Slovakia	21	7	13
Slovenia	22	7	13
Spain	170	20	100
Sweden	141	20	61
Switzerland	532	29	250
Ukraine	60	8	33
UK	485	200	200
Total	5951	600	3017

Table 2: Analysis of study sample, postal and email questionnaire volume.

We choose Europe as credible sample base, but one with practical limits. The challenge of examining all 5,951 banks had to be addressed. A proposed solution in order to maximize the sample size was to divide the sample into two different questionnaire types. One part of the sample received postal questionnaires and the other part received electronic mail questionnaires. A detailed analysis of the study sample is presented in Table 2.

Each country's banks were ranked by total asset size based on the Bankscope database. For each country a postal and an email sample was chosen. The proposed number of postal questionnaires for each country was posted to the largest banks by asset value while on the other hand the email questionnaire was sent to other banks regardless their asset size. For instance in Austria out of the 267 retail banks, commercial banks and investment banks, the 20 largest by asset size banks received the postal questionnaire and a random selection of 95 banks received email questionnaires.

The number of responses is presented in Table 3. The returned questionnaires were graded into two groups:

- valid responses where the respondent completed the questionnaire
- no valid responses where the recipient declined to complete the questionnaire.

Valid responses totalled 38 completed postal questionnaires out of the 39 returned postal questionnaires, and 60 valid email questionnaires out of the 60 returned email questionnaires. The collected data were analyzed and in the next chapter the analysis of the responses is presented and reported.

Total Active European Banks					
	No of banks	Postal Questionnaires	Response number	E-mail Questionnaires	Response number
Albania	14	3	0	8	1
Andorra	6	3	0	3	0
Austria	267	20	2	95	1
Belarus	20	5	0	16	1
Belgium	97	15	1	40	2
Bosnia & Herzegovina	29	6	0	29	1
Bulgaria	32	6	1	32	1
Croatia	39	6	0	39	2
Cyprus	31	10	3	31	0
Czech Republic	34	5	0	34	1
Denmark	121	12	1	60	1
Estonia	10	3	0	8	0
Finland	19	5	0	10	0
France	477	25	2	250	4
Germany	1748	35	2	800	6
Greece	23	23	6	9	5
Hungary	40	6	0	40	0
Iceland	44	5	0	44	0
Ireland	73	5	1	50	0
Italy	784	15	2	350	2
Latvia	23	6	0	15	1
Liechtenstein	15	3	0	8	0
Lithuania	10	3	0	7	0
Luxembourg	118	15	1	60	4
FYRUM	17	3	0	12	1
Malta	14	3	1	8	1
Moldova	17	3	0	15	0
Monaco	12	3	0	4	0
Netherlands	121	12	1	60	1

Norway	88	10	1	60	3
Poland	53	9	2	53	1
Portugal	48	9	0	48	0
Romania	32	6	1	32	2
San Marino	5	3	0	5	1
Serbia & Montenegro	39	8	1	22	2
Slovakia	21	7	1	13	0
Slovenia	22	7	2	13	2
Spain	170	20	3	100	5
Sweden	141	20	1	61	1
Switzerland	532	29	0	250	2
Ukraine	60	8	0	33	1
UK	485	200	3	200	4
Total	5951	600	39	3027	60

Table 3: Analysis of study sample, postal and email questionnaire volume with response rate.

The survey attempted to provide a broad view of the practice of larger banking institutions with regard to their strategic alliances. It explored the behaviour of institutions within an alliance and probed their response based on specific scenarios and alternations in their partner behaviour. The survey as noted included all 42 countries of Europe, though not all responded and 3,627 candidates took part in the research. 600 of the largest banking institutions of Europe based on asset size were selected, and 3,027 other banking institutions were randomly selected to complete the large scale survey. That broad approach is appropriate in the context of the thesis that is not only focussed on large banking institutions but explores a model that describes the Co-Evolution of alliances between banks regardless their size.

The questionnaire survey exercise was not preceded by a pilot study. Our reasoning was that for any given bank only a handful of people would have the knowledge and expertise to respond to our questionnaire on the evolution of their strategic alliances and we did not want to "use them up" in a pilot questionnaire and risk them being reluctant to respond to a later stage.

A by product of this decision is that we could not in a formal way verify the responder's English speaking ability. At a more practical level, however, it is accepted that English is the language of European banking; nor, after the event, was there anything in the questionnaire responses to suggest that there has been difficulty in comprehension or completion. As a footnote it might be added that the original work on Co-Evolution (ul-Haq 2005) involved interviews at banks in a variety of European countries. These were all conducted in English with no apparent difficulty.

There is a paradox concerning our survey sample. This is that we have a modest return rate, but still ended up with a reasonable number of usable results as has been noted earlier. But this does, of course, raise the question: are those who completed the questionnaire different from their professional colleagues at other banks who did not?

The most likely reason for non completion is that the questionnaire probed the issue of opportunistic behaviour, and that this put off a lot of potential responders, and if this assumption is true, is leads to a second question, namely: were those bankers more involved in opportunistic behaviours within the strategic alliances of which they were members, or were they more sensitive about it? Sadly is has to be admitted that we cannot be certain.

There are however some encouraging considerations:

- no major country has been left out; there were some usable returns for all of those big countries with many banks, like Germany or simply punched above their weight while not necessarily large countries, like Switzerland.
- similarly there was a decent response from the European G7 countries
- broadly the pattern of questionnaire responses was consistent with the executive interviews.

6.5 Thematic, Semi-Structured Interviews

As an addition to the survey we also conducted, semi-structured interviews. The interviews added insights, particularly regarding issues that their firms faces in the alliance process.

Furthermore the interview process tended to provide a recognition or confirmation of the Extended Co-Evolution model.

As we will shown in a moment, our interview sample was drawn exclusively from one country – Greece. This however was more a matter of constraint than of convenience. As the world financial crisis deepened bankers tended to become a focus of public disapproval. This in turn rendered bankers somewhat reluctant to grant interviews to foreigners who wanted to probe the sensitive area of strategic alliance evolution. It was, however, possible to overcome this difficulty in the researchers own country, in part because of the researchers prior experience and thus contacts, in Greek banking (the researcher had been the executive assistant of the CEO of Hellenic Postbank).

Given this limitation, however, we would like to argue that Greece is a good choice of country for this heuristic purpose of the research for two reasons. The first reason is that the financial economic crisis had a significant effect on the financial map of Greek banking. The economic map of Greece had reformatted and hence banks, in order to survive had to re-examine their strategic planning and reconsider strategic alliance as a solution. A number of cases of strategic movements towards the formation of strategic alliances had occurred over the past few years because of the economic fragility of Greek economy. Strategic reformation through the establishment of strategic alliances was a main strategic element of the Greek banking system. Greek banks were aiming at forming strategic alliances so as to overcome and survive through the economic crisis. Examples such as the action of Piraeus Bank to acquire Hellenic Postbank, Alpha Bank and National Bank of Greece to attempt to merge with Emporiki Bank, Hellenic Postbank acquired Attica bank and created a strategic alliance with Tbank and lately the Piraeus Bank has acquired the Millenium Bank. All this shows the

dramatic strategic behaviour of the Greek banking sector regarding strategic alliances. The increasing focus on the formation of strategic alliances and formation of strategic behaviour towards strategic alliances positioned Greece as an ideal candidate for our research through interviews with Greek bank senior executives.

The second reason that classifies Greece as a rather good candidate for our research is suggested by the research of Hofstede (2010). Hofstede conducted one of the most comprehensive studies on how values in the workplace are influenced by culture. His study was based on 76 countries in which he examined the following dimensions of National culture:

- Power Distance
- Individualism versus Collectivism
- Masculinity versus Femininity
- Uncertainty Avoidance
- Long – Term Orientation

Hofstede's research had given valuable insights into the behaviour and characteristics of Greek culture that are reflected in business life. Greece is above Europe's average index on power distance and uncertainty avoidance. According to that study in Greece the less powerful members of institutions and organizations within a country, expect and accept that power is distributed unequally and that the degree of integration within a society that leans towards collectivism (people move towards the strong cohesive in-group). This will entitle them to be particularly sensitive to the internal and external prospects of a strategic alliance. Furthermore according to Hofstede Greece has the highest score in Uncertainty Avoidance

which implies that members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these. Moreover Greece, as a result of the economic crisis, has also shown an inclination for a pragmatic future-oriented perspective rather than a conventional historical short-term point of view. Thus Greece, is probably prototypical of European alternative behaviour in strategic alliances.

The interviews were conducted with senior managers, vice presidents or Chief Executive Officers of nine Greek banks as seen in Table 4. Interviews were held in Greece at the head offices of each bank. Four of them were tape recorded, always with the consent of the interviewee, and five of them recorded by means of hand written notes, at the interviewee's request. The length of the interviews varied from 45 minutes to 1 ½ hours. In sufficient time before the interview some basic material regarding the nature of the research and basic information regarding the original Co-Evolution model and our Extended Co-Evolution model were posted to the interviewee.

The basic structure of the interview was as follows:

- General discussion of the strategic environment
- Discussion regarding strategic alliances of which the bank is a member
- Discussion regarding the levels of trust between partners and the tendency towards opportunistic behaviour
- Presentation of the Extended Co-Evolution model and its extensions
- Discussion of the applications of the Extended Co-Evolution model

County	Bank	Chairman	Vice Chairman	Main Board	Head Office Executive
Greece	Hellenic Postbank	•			
Greece	Aspis Bank	•	•		
Greece	Attica Bank		•		
Greece	Alpha Bank			•	
Greece	Emporiki Bank			•	
Greece	Piraeus Bank			•	
Greece	Marfin Bank				•
Greece	National Bank of Greece				•
Greece	Geniki Bank				•

Table 4: Analysis of interview and the responsibility level/position of the interviewee

- Correlation of extended Co-Evolution model with the behaviour and actions of their institution

The semi-structured nature of the interview allowed the interviewer to interact with the interviewee and to gain access to the interviewee's 'accounts and articulations' and to allow them to 'be recounted' (Mason, J. 1996).

The flexible structure of the interviews offered the opportunity for a detailed and 'off limits' discussion, which lead to the collection of valuable data. Exchange of ideas and the in depth discussion of various parts of our proposed thematology gave valuable insights to our research.

In selecting the interviewees sample we were aiming for senior executives and/or board members who were directly involved with the strategic decision making of their institution (Table 4.). The sample was broadly representative of the Greek banking sector, the chosen banks being the largest banks in Greece based on their asset size.

At the beginning of the interview the interviewee was assured that all comments and observations would be treated in the confidence and was asked whether the interview could be recorded. As mentioned earlier four of the interviewees agreed to be recorded while five of them kindly asked to limit the interview to hand written notes. It is important to note, however, that all the interviews were genuine, comprehensive and unaffected regardless of being recorded or otherwise

A basic principle of achieving a successful interview process involves meeting three conditions; accessibility, cognition and motivation. Meeting all three criteria is essential in order to claim a completed interview as successful.

The term accessibility refers to the ability of the interviewee to have access to the knowledge and the information that the interviewer seeks. Based on the sample of our interviewees and our effort to seek out senior executive participants we have eliminated the possibility of their not being able to access the information sought. All of the interviewees were considered to be at the highest level of strategic decision making.

It is important for the interviewee to understand their role and what is expected of them in the interview process. This is the 'cognition' criterion. In order to fulfil that criterion, as mentioned earlier, all the participants had received a detailed information package regarding the context of the research topic, and an account of the Extended Co-Evolution model. Furthermore each of the participants was informed about the nature of the research, the structure of the interview process and its time constraints. All the available information was posted to the participant prior to the interview.

The last but most important element of a successful interview is the ability of the interviewer to motivate the interviewee. Only by motivating the interviewee, the interview has added value and the quality of collected response is significantly increased. Showing that the interviewee's ideas and insights are valuable to the research motivates the discussion and allows the interview to explore deeper aspects of the topic as well as expanding the horizons of the discussion. Our approach also implies respect for the interviewee who in return is more ready to share knowledge and understanding.

6.6 Summary

In this Chapter we have examined the methods of data collection for evaluating and examining the validity of the thesis propositions together with the Extended Co-Evolution model. The Chapter also focused on the research limitations and on the means of avoiding obstacles, as well as on measurement theory and the examination of the selected methods regarding data collection. Insights were given on the choice of our data collection methods, through questionnaires, as well as the choice of Greece as an ideal candidate for conducting our semi structured interviews. In the following two chapters we will present and discuss the results of our research.

Chapter Seven

Questionnaire Survey Research Results

7.1 Introduction

In the previous Chapter we have examined the hypothesis of data collection for evaluating and examining the validity of the thesis propositions as well as the Extended Co-Evolution model. This Chapter focuses on the presentation, analysis and discussion of the data collection from the questionnaire survey within the European banking sector, offering a presentation of the results of every question of the questionnaire, as well as interpretative comments, and some discussion. It seeks to be an analytical presentation of the findings of the field research in the European banking sector that was conducted in the 42 countries of the European landmass.

7.2 Research Findings

Questionnaire responses were categorized and analysedusing frequency analysis. 74 valid responses were counted out of the 98 total responses and are presented in the following sections. Analytical tables of the data and statistics of the postal and email responses can be found in the Appendix of the thesis (Table 6 – Table 31).

7.3 Is your firm a member of a strategic alliance?

As initial question participants had to answer to the basic question whether their bank is a member of a strategic alliance. Out of the 98 responses 67.3% are member of a strategic alliance and 32.7% are not. Candidates were asked to explain why they were not a member of a strategic alliance. Research showed that three were the main reasons their bank was not a member of a strategic alliance:

- It was not allowed for competition purposes
- They did not had the opportunity as yet
- They were not interested in joining or forming a strategic alliance

Out of the 32.7% of the participants who were not a member of a strategic alliance or in other words 32 responses, 8 of them, decided as written in their comments to complete the questionnaire and participate as if they were a member of a strategic alliance. All of them completed the questionnaire as being in an alliance with more than 4 partners and completed the questionnaire in order to describe their firm's likely behavior. Their responses were treated as valid and summed up with the responses that were actually from members of a strategic alliance. They were only excluded from the statistics of question 2, the number of partners so as to be accurate with the results of our survey.

7.4 How many alliance partners exist in the strategic alliance including your company?

For the accuracy of the results of the number of partners that do exist in the strategic alliance, the 8 responders that were not a member of a strategic alliance but completed the

questionnaire were excluded only from that question. Out of the remaining 66 responses, 22.7% had one partner in their strategic alliance, 13.6% had two partners in their strategic alliance, 28.78% had 3 partners in their strategic alliance, 16.7% had 4 partners in their strategic alliance and 18.2% had more than 4 partners in their strategic alliance. From the collected data it is observed that the number of partners in a strategic alliance is highly varied from one partner to more than 4. There was not a significant peak in our sample.

7.5 Has ever your firm's best interest come in conflict with the alliance's best interest?

A high number of responses, 64.9%, reported that their firm's best interest came in conflict with the alliance's best interest. On the other hand, 35.1% of the responses reported that their firm's best interest did not come in conflict with the alliance's best interest. This shows, a high number of participants reported conflicts and hence difference in firm's best interest and alliances best interest. As noted by some respondents, the way of sharing the earnings from the alliance is not always in the alliance's best interest. Despite being on the same "team", a term used by a large number of participants, firms do have to compete on the earnings which creates conflicts between the alliance's best interest and their firm's best interest. Differences in decisions that the allied partners have to take can also be a reason that their firm's best interest is in conflict with the alliance's best interest such as differences in marketing investment levels. Some of the responders had noted that the gains of acting alone in the market could have been higher that the gains that their firm had as a member of a strategic alliance.

7.6 In order to serve your firm's best interests that were in conflict with the alliance's best interest please explain briefly your company's actions and strategic behaviour.

In order to classify the findings of the above question we have split the replies into two categories according to the nature of the response. The first category refers to the renegotiation of the firm's best interest with the partners so as to remain the alliance's best interest while protecting their initial best interest and the second the non-negotiation of the firm's best interest when they are in conflict with the alliance's best interest. 60.4% of the of the 48 responders have noted that they would try to ensure their own best interest without altering the alliance's balance or stepping out of the alliance while the 39.6% would not negotiate their firm's best interest when it comes in conflict with the alliances best interest. The 60.4% tier of the responders have noted that they would renegotiate their strategic reviews in joint with all partners and that they would try to seek, with their allies, alternative objectives and views on how to maximize their own best interest as well as their alliance best interest. On the other hand from the 39.6% tier of the responders that have stated that they would never negotiate their firm's best interest, 65% of that tier would try to find an alternative solution that would still serve their best interest, in negotiation with their partners. In other words they would still not negotiate their best interest but they would enter negotiations with their partners in the alliance on how to gain them.

7.7 What was the effect of your actions in the life and continuation of the strategic alliance as well as the effect on the relationship with the alliance members?

Summarizing and presenting the results of the effect of the firms actions, if their best interest were in conflict with the alliance's best interest, in the life and continuation of the strategic alliance and the effect on the relationship between the alliance members we have categorized the replies into three tiers. The first one refers to the termination of the alliances and the relationship with the partners, the second tier refers to a positive negotiation of the firm's and alliance's best interest with the partners through better understanding of key drives for the continuation of the alliances and the third and last tier refers to a problematic relationship between the partners for a limited time but with no dissolution of the alliance. The results of the 48 responders that have faced a conflict between their best interest and the alliances best interest are almost equally divided into the above three tiers. 29.2% belongs in tier 1, 33.3% belong in tier 2 and 37.5% belong in tier 3. There is a higher percentage of responders, which belong in tier 3, that do believe that their actions will lead to a problematic relationship between the partners for a limited time but with no dissolution of the alliance, but based on the results of the other two tiers we cannot argue that there is a dominant response in the effect of a partner's actions in the life and continuation of the strategic alliance as well as an effect on the relationship between the allied members.

7.8 In the above scenario (7.5) would you characterize your behaviour as: 1)Non-opportunistic due to alliance's regulation, 2) Opportunistic, 3)Defensive reaction against a partner's possible future opportunistic behavior 4) Aggressive reaction against an opportunistic behavior of a partner 5) None of the above

A substantial 58.3% of the 48 responders that have been the above discussed scenario have characterized their behavior as a defensive reaction against their partner's possible future opportunistic behavior. According to a large number of responders conflicts and differentiations between their best interest and the alliance's interests and therefore their partner's interests may imply a possibility for future opportunistic behavior by their partner. Their action to protect their firm's best interest has been characterized by 58.3% as defensive reaction. 25% of the participants have characterized their behavior as non-opportunistic due to alliance's regulation, while on the other hand only 4.2% have characterized their behavior as opportunistic. The 12.5% have characterized their reaction as aggressive reaction against the opportunistic behavior of their partners that created the conflicts between their firm's best interests and the alliance's best interest. Out of the 48 participants that were in the above scenario 0% had chose to respond as "none of the above", while all of the 26 participants that had never faced a conflict in the alliance answered as "none of the above". There for the accuracy of the results the statistics of that question were calculated on the basis of the 48 responders that answered positive in the question that their firm's best interest came in conflict with the alliances best interest. It is important to note that participants who had characterized their behavior as defensive, have added to their comments that by acting defensively would hope to re-establish the good co-operation between their allied companies and that their behavior would be used as mean to smooth any issues and challenges that created any kind of conflicts.

7.9 Do you believe that your strategic alliance allies are: 1) Making good faith effort to behave in accordance with any commitments 2) Are honest with negotiations with the rest of the alliance members 3) Will take advantage of the other partner firms even when an opportunity is available.

The collected data for the above question are very interesting. Participants were able to answer using more than one reply from the three tier question. 39 responses were collected on the believe that the participant's allies were making good faith effort to behave in accordance with any commitments, 41 responses were collected on the belief that their strategic allies are honest with their negotiations with the alliance's members and 33 responses were collected with that their strategic allies will take advantage of the other partner firms when an opportunity is available. Since participants were allowed to reply using more than one answer 113 responses was the total amount of the collected responses. In absolute values, based on the 113 responses, 34.5% responded in tier 1, 36.3% responded in tier 2 and 29.2% responded in tier 3. As seen from the data most of the participants that answered using tier 1 have also used the tier 2 answer, hence the similarities of tier 1 and tier 2 statistics. If we look deeper in that analysis, the 33 responses on the tier 3 part of the question, the participants that believe that their partner firm will take advantage of the other partner firms when an opportunity is available, is actually the 44.6% of the 74 participants of the survey. Analyzing further the above data we can argue that 55.4% of the 74 participants sample do believe that that their strategic allies within the alliance are making a good faith effort to behave in accordance with their commitments and that they are honest with their negotiations with the rest of the alliance members, while on the other hand 44.6% of the sample believe that their strategic allies within the alliance will take advantage of the other partner firms when an opportunity is available.

7.10 In the above question (Q7 – 9.7), the characteristics that you choose for your allies, do exist for all the parties of the alliance?

A substantial 94.6% out of the 74 responders do believe that the characteristics that use to choose their allies, either that that their strategic allies within the alliance are making a good faith effort to behave in accordance with their commitments and that they are honest with their negotiations with the rest of the alliance members, or that their strategic allies within the alliance will take advantage of the other partner firms when an opportunity is available exist for all the parties of the alliance. The vast majority of the responders do believe that all the allied partners have the same characteristics. On the other hand, only 5.4% of the responders believe that their allies do not have the same characteristics. It is important to note that the notes from the participants of the above sample stated that, despite the differences in the characteristic of the partners, the combination of partners with the tendency of opportunistic or non-opportunistic behavior adds value to the alliance. An opportunistic partner will create instabilities in the alliance and harm the alliance's and the partner's best interests, but until they act opportunistically, they exist and add value to the benefits of the alliance and serve their partner's strategic intents. Combining the findings of question 8 of the questionnaire with the data from question 7 of the questionnaire we can argue that the chances of an opportunistic behavior of a partner against their allied firms within the alliance, approaches almost 50%.

7.11 Identify one of the following components (Dependability – expectations that the partner will act in the alliance's best interest / Predictability – consistency of actions by the partner / Faith – belief that the partner will not act opportunistically even in unforeseen or novel situations) that you believe is more important for the existence of your strategic alliance.

The collected evidence have clearly showed that dependability, expectations that the partner will act in the alliances best interest, and predictability, consistency of actions by the partner are the most important characteristics that the allied firm must have in order to support the existence of a strategic alliance. On the other hand the less important characteristic of the allied partner that is important for existence of a strategic alliance is faith, the belief that the partner will not act opportunistically even in unforeseen or novel situations. Analytically 40.5% of the participants have chosen dependability as the most important characteristic, 51.4% of the participants have chosen predictability as the most important characteristic and only 8.1% of the participants have chosen faith as the most important component for the existence of their strategic alliance. According to participants' comments, faith that the partner will not act opportunistically in order to serve its own best interests and not based on the alliance's best interest seemed unrealistic as the partner tends to act in its firm's best interest even if this conflicts with the alliances best interest. Accepting the above helps in the overall governance of the alliance and hence delineates and regulates the alliance's scope of activities and objectives. Having dependability and predictability as the main components of that are important for the existence of a strategic alliance and understanding the tendency of partners to behave according to their own best interests, there is a high chance of parallel Co-Evolution of the strategic alliance.

7.12 In the case that your firm exists in an alliance with three or more parties do you believe that the bonds and the level of trust are equally distributed between all the partner firms?

Out of the 74 responders, 23 are members of an alliance with three or more parties. They had to respond based on their belief that the bonds and the level of trust are equally distributed between the allied partner firms. 30.4% of the responders have argued that the bonds and the level of trust are equally distributed among the allied partners, while 69.6% believe that the level of trust and the bonds that connect the allied partners are not equally distributed. A vast majority of the responders have argued that typically not all partners are equal, not all partners are bonded at the same rate and level, and hence it is obvious the there will be differences in the bonds and the level of trust between partner firms.

7.13 Do you believe that your firm is more connected (in terms of trust) with one of the partner firms more than the others?

The 23 responders to question 10 who are members of an alliance with three or more parties have responded accordingly to question 11 from the questionnaire. They had to respond based on their belief that their firm is more connected in terms of trust with one of the partner firms more that the others. Following the trend of the previous question based on the different levels of bonds and trust and between the allied partners, 69.6% believe that their firms is more connected with one of the partners more than the others. On the other hand the 30.4% of the responders have argued that their firm is equally connected in terms of trust with the allied partners. As noted by one responder, “in some part of the solutions that the alliance

provide to the customer, we are also competitors. So obviously we trust some partners more than the others."

7.14 In a situation where your firm has higher levels of trust with one the allies and that this relation creates a relative advantage against the other allied firms, would you, if the opportunity arose, with the cooperation of the closest firm behave opportunistically against the other allies?

46% of the 74 responders admit that in case where their firm has higher levels of trust with one the allies and that this relation creates a relative advantage against the other allied firms, if the opportunity arose, with the cooperation of the closest firm they would behave opportunistically against the other allies. The remaining 54% of the responders have denied the possibility to behave opportunistically with the cooperation of the closest partner against the other allies. Out of the 46% of the responders, part of them would terminate the alliance with the less "bonded" partners and the other part would act opportunistically while trying to maintain the alliance. As responders comment, they would feel obligated to secure their firm's best interest, rather than secure the alliance. As another responder states, it would act opportunistically only if the outcome of the stakeholders of the alliance (mainly clients) turns to be better than in the current situation, but not otherwise such as their firms best interest. In the later case the normal course of action according to the responder would be to terminate the alliance first and enter into a new one. Behind the various responses of the 46% tier, lies one common action. All of them would act opportunistically on behalf of their best interests, trying either not to affect the alliance or acting in ways that could even cause the termination of the alliance.

7.15 As soon as the level of your firm's personal interest exceeds the level of trust and confidence between the partners (and that your firm is able to overcome all protective measures and limitations) would your firm behave opportunistically?

Results have shown that the participant's replies, referring to their opportunistic action against their partners as soon as the level of their firm's personal interest exceeded the level of trust and confidence between the partners tend to support that argument. 59.5% of the participants believe that they would act opportunistically on such circumstances. Once again a large number of responders noted that they are obligated to secure and serve their firm's best interest rather than the alliance's best interest. A part of the responders would favour their best interest even though that was against the alliance's best interests, and at the same time would try not to step out of the alliance, while the other part of the responders of that tier would choose their firms best interest even if they had to step out of the alliance. On the other hand 40.5% of the responders would not behave opportunistically against their partners despite the fact that the level of their firm's best interest exceeds the level of trust and confidence between the partners. Most of the responders that belong to the 40.5% tier comment that they would not choose to act opportunistically since they be characterized as short term relationship partners and lose their credibility and damage their reputation. It is important to note that most of the responders that would not choose an opportunistic behavior were mostly well established and large banking institutions asset wise.

7.16 Under what circumstances in the above scenario would you consider your firm to behave opportunistically?

Similar responses as in the notes on question 13 of the questionnaire were given by participants when asked under which circumstances their firm would consider to behaving opportunistically. In the above question 44 responders replied positively regarding opportunistic behavior by their firm which implied that we would expect almost the same percentage of responses in question 14. Out of the 30 participants that replied negatively regarding an opportunistic behavior, 25 of them still remain on their initial position and given a negative response, that under no circumstances their firm will behave opportunistically against their partners. The 5 of them that replied that replied negatively for an opportunistic behavior in question 13, noted that would consider an opportunistic action only if the gains of their opportunistic behavior would maximize the benefits of their firm. If we can summarize the 49 responders that describe the circumstances that would behave opportunistically we can say, using the collected data, that all of them have a common meeting point in their opinions. They would behave opportunistically against their partners if the gains of such action will favor their firm's best interests. All of the 49 responders were focusing on securing and increasing their firm's best interests, rather than securing the alliances or their partners' best interests.

7.17 Do you believe that a partner can change its behavior and even behave opportunistically as a reaction to its ally after a miss-evaluation and miss-understatement of the ally behavior?

A substantial 92% of the 74 responders do believe that an allied partner can change its behavior and even behave opportunistically as a reaction to its ally after a miss-evaluation and miss-understatement of the ally behavior. Only 16 responders, 8.1% believe that the behavior of their partner would remain unaffected even if they miss-distinguish and miss-evaluate the behavior of their partner. Looking at some comments from the responders that do believe in alteration of partner behavior based on an alteration of the other partners behavior, they argue that firms as human organizations act irrationally when a feeling of betrayal occurs. Another responder claims that in such scenarios the alliance can be characterized as virtually dead and hence the alteration of their behavior to opportunistically, is therefore obligatory. In cases such as changes in personnel or political agendas, miss-evaluation and miss-understatement of the ally's behavior may occur.

7.18 Do you believe that the above scenario can exist even in cases of high levels of trust between allies?

Participants were given a scale type of reply to the question of existence of opportunistic behavior even in high levels of trust between the allies. They had to respond a basis of, strongly agree, agree, disagree, strongly disagree and none of the above. A majority of participants' responses agreed that even in high levels of trust between the allies, and ally may behave opportunistically. 83.8% of the responders agreed with that statement. 4% of the

responders strongly agreed to the statement, 10.8% of the responders disagreed to the statement and only 1.4% strongly disagree with the above statement. None of the 74 responders responded “none of the above”. Despite the high level of acceptance that even in high levels of trust between the allies, and ally may behave opportunistically, a significant number of comments noted that the higher the trust invested in the alliance, the higher it would be to overcome a “breach of trust”. Despite that 83.8% of the 74 participants agreed that a partner may behave opportunistically even if there is a high level of trust between the allies of an alliance.

7.19 Co-Evolution of Strategic Alliances

As seen before participants had to respond in reference to general strategic alliance’s behavior and provide data regarding scenarios and possibilities that a partner of an alliance may behave opportunistically. In the second part of the questionnaire participants had to respond with reference to the Co-Evolution of strategic alliances. As mentioned with the questionnaire they were provided with a brief discussion of the Co-Evolution of strategic alliances and a presentation of the Co-Evolution model so as to be able to understand the underpinning assumptions of the questions in the following section of the questionnaire.

7.19.1 We argue that not all the partners in a strategic alliance have the same size and relative power inside the alliance compared with the other allies. Do you believe that this difference in size and relative power has a significant effect on the alliance evolution?

Participants were asked if they believe that the difference in size of the partners and hence differentiation in their relative power, has a significant effect on the alliance evolution, given that not all the partners in a strategic alliance have the same size and relative power inside the alliance. They had to respond a basis of, strongly agree, agree, disagree, strongly disagree and none of the above. 21.6% responded that they strongly agree, that the differentiation of partner size and hence the relative power between the partners has a significant effect in the evolution of the alliance. 71.6% have agreed with the above statement, 5.4% of the responders have disagreed with the statement and only 1.4% strongly disagrees with the above statement. None of the 74 responders responded "none of the above". Summing up the above data we can see that the vast majority of our sample, 93.2% believes that the differentiation in size and hence relative power of the allies affects the evolution of the alliance. Only 6.8% believes that the evolution of the alliance will remain unaffected by the differentiation of size between the partners. As some participants noted, in any strategic alliance, one part will need the other part more. This fact will allocate an additional unofficial power with this member. Greater size means greater level of decisions and also means more influence on the alliances' decisions. Participants noted that the risk/reward balance differentiates according to the size of the partners. On the other hand, a participant that was against the statement that the differentiation in size and hence relative power of the allies affects the evolution of the alliance, noted that the way partners affect the evolution of the alliance is through the alliances' governance mechanisms and not because of the

differentiation of size between the partners. A greater say in the governance may depend on individual contributors, for example assets or cash/shares, to the alliance.

7.20 Do you believe a firm that has greater relative power against the rest of the alliance partners will make use of its power and affect the alliance according to its own best interest?

Participants were asked if they believe that the difference in size of the partners and hence differentiation in their relative power, has a significant effect on the alliance evolution, given that not all the partners in a strategic alliance have the same size and relative power inside the alliance. They had to respond a basis of, strongly agree, agree, disagree, strongly disagree and none of the above. 21.6% responded that they strongly agree, that the differentiation of partner size and hence the relative power between the partners has a significant effect in the evolution of the alliance. 71.6% have agreed with the above statement, 5.4% of the responders have disagreed with the statement and only 1.4% strongly disagrees with the above statement. None of the 74 responders responded "none of the above". Summing up the above data we can see that the vast majority of our sample, 93.2% believes that the differentiation in size and hence relative power of the allies affects the evolution of the alliance. Only 6.8% believes that the evolution of the alliance will remain unaffected by the differentiation of size between the partners. As some participants noted, in any strategic alliance, one part will need the other part more. This fact will allocate an additional unofficial power with this member. Greater size means greater level of decisions and also means more influence on the alliances' decisions. Participants noted that the risk/reward balance differentiates according to the size of the partners. On the other hand, a participant that was

against the statement that the differentiation in size and hence relative power of the allies affects the evolution of the alliance, noted that the way partners affect the evolution of the alliance is through the alliances' governance mechanisms and not because of the differentiation of size between the partners. A greater say in the governance may depend on individual contributors, for example assets or cash/shares, to the alliance.

7.21 Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the alliance's evolution over time?

The belief that a firm, which has greater relative power against the rest of the alliance partners can determine and change the alliance's evolution over time, is supported by 89.2% of the responders. As noted by participants, the dominant partner, always need to take greater risks that can trigger a change in its strategic directions and hence alter and determine the evolution of the alliance over time. The suggested alteration of the evolution of the alliance by some participants was even the dissolution of the alliance since the strongest partner's best interests come in conflict with the alliance's best interest. On the other side, only 10.8% of the participants believe that a firm, which has greater relative power against the rest of the alliance partners, cannot determine and change the alliance's evolution over time. It is important though, to quote an interesting comment from a participant that belongs to the 10.8% tier. According to that responder, "there will always be a limit to the goodwill given to the alliance by the "forced" members, but going to the limit, without crossing it, can only be mastered by only a few.

7.22 Do you believe a firm that has greater relative power against the rest of the alliance partners is able to affect the evolution of the weak partners, able to change its strategic intents and even able to pull them towards and acquire them according to its own firm interest?

As in question 19, participants responded with the same rates in question 20. 89.2% of the sample believes that a firm that has greater relative power against the rest of the alliance partners is able to affect the evolution of the weak partners, able to change its strategic intents and even able to pull them towards and acquire them according to its own firm interest. A responder commented that since the strong partner's best interests are in conflict with the alliance's best interests, instead of stepping out of the alliance (the governance of the alliance may prevent and embraces difficulties in such scenario), the acquisition of the smallest partners can be an easy and quick solution. On the other hand, the 10.8% of the participants are against that statement. It is important though to note that two of the participants of that tier responded that the above scenario cannot be possible since they are only looking for alliance's partners with the same identity, characteristics, profile and size. They do acknowledge that stepping in an alliance with partners that have stronger characteristics, profile and greater size can create instabilities in the alliances and may give the relative advantage to the strong partner to control the alliance. Despite being negative to the question's statement, we can see from their comment that they do support it. They do support that a firm that has greater relative power against the rest of the alliance partners is able to affect the evolution of the weak partners, able to change its strategic intents and even able to pull them towards and acquire them according to its own firm interest.

7.23 Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the strategic intents of the rest of the partners and hence the evolution of the alliance over time?

Following the logic of the previous questions, question 19 and question 20, participants responded accordingly to question 21. 86.5% of the 74 responses agree with the statement that a firm with greater relative power against the rest of the alliance partners can determine and change the strategic intents of the rest of the partners and hence the evolution of the alliance over time. The remaining 13.5% was against the above statement. Comparing the statistics with the previous two questions, (question 19 and question 20), we can see a small alteration in the responses. Two of the responders that agreed with the statements of the previous two questions and altered their reply in question 21 commented that the strong partner can affect the evolution of the alliance but not the strategic intents of the partner firms.

7.24 In the scenario that the strong partner in the strategic alliance is making use of its power, do you believe that the rest of the weak allies can create an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner.

A significant percentage of responders, 64.9%, believe in the existence of the scenario in which if the strong partner in the strategic alliance is making use of its power, the rest of the weak allies can create an intra alliance (alliance inside the alliance with the creation of a new

firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner. As seen from the collected data, the large portion of the sample believes in the existence of the above scenario. In most of the comments participants noted that as the alliance effects elaborates to the allies, each partner will seek to maximize their own benefits. The fact that the partners are already in an alliance shows that they are likely to enter even smaller alliances, inside or even outside of the alliance in order to promote their own agenda and secure their affected strategic intents. On the other hand, the 35.1% of the responders responded negatively on the question's statement, but most of them on their comments noted that under particular circumstances and if the governance of the alliances accepts such movements the statement can be true. Therefore, it can be argued that the vast majority of participants do agree with the above statement.

7.25 Would you consider the above reaction of the weak firms as an opportunistic behavior?

Given the scenario of question 22 in the questionnaire, that the strong partner in the strategic alliance is making use of its power, and that the rest of the weak allies are creating an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner, 82.4% of the responders have characterized the behavior of the weak firms as non-opportunistic. A significant number of responders have noted in their comments that they would characterize such behavior by the weak firms as defensive behavior against the strong partner. As noted

before since that the partners are already in an alliance, it shows that they are likely to enter even smaller alliances, inside or even outside of the alliance in order to promote their own agenda and secure their affected strategic intents. 82.4% of the participants have characterized such behavior as non opportunistic while on the other hand, only 17.6% believe that the behavior of the weak firms as response to the actions of the stronger partner is characterized as opportunistic.

7.26 Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and even pulls them towards itself resulting a hostile acquisition. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the above scenario and hence able to change the hostile acquisition to a merger of the new companies?

The 74 participants were asked to assume the scenario of question 22 of the questionnaire, that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and even pulls them towards itself resulting a hostile acquisition, and consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the above scenario and hence able to change the hostile acquisition to a merger of the new companies. 91.9% of our sample responded positively in the option of creating an intra-alliance with the other weak partners so as to able to increase their size, gain power and hence greater control of the scenario, in

order to change their hostile acquisition by the strong partner in to a merger. Participants noted that in such scenario, the possibility of creating an intra-alliance so as to avoid a hostile acquisition and transform it into a merger, may even occur in cases where the bonds and the level of trust between the weak partners is low. On the other hand only 8.1% of the sample responded negatively in considering the above scenario of the creation of an intra alliance.

7.27 Would you consider the above reaction of the weak firms as an opportunistic behavior?

Gathered data showed that there was no clear judgment on the characterization of the reaction of the weak firms while behaving according to the scenario in question 24 and forming an intra-alliance. Based on the data 43.2% characterized the behavior as opportunistic, while 56.8% characterized the weak firms' behavior as non opportunistic. According to the comments by the responders, despite their characterization of the behavior of the firms as opportunistic or non-opportunistic, argued that it is mainly a defense mechanism and was most important to secure their firms best interest. The characterization of their behavior as opportunistic or non-opportunistic was noted by the participants as not important. Securing, and serving their firms best interest in any way, is essential.

7.28 Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intents?

From the 74 responders, 86.5% confirm the scenario of question 26. Since the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance, 86.5% of the responders would consider the creation of an intra alliance between the weak partners so as to able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intents. On the other hand only 13.5% were negative to this scenario. However in their comments a number of them have argued that, despite being a possible reaction scenario, it would take a significant amount of time to form the intra-alliance and respond to the behavior of the string partner. Hence their choice was to respond negative on that particular scenario. It is important though to note, that from their comments there was a belief that the above scenario is realistic but based on their comments decided to respond negatively. However the vast majority of the sample was positive in the situation of the formation of intra-alliances by the weak firms as a response to the alteration of the behavior of the strong partner.

7.29 Would you consider the above reaction of the weak firms as an opportunistic behavior?

Results showed, as in question 25 that there was no clear judgment on the characterization of the reaction of the weak firms while behaving according to the scenario in question 26 and forming an intra-alliance. Based on the data 67.6% characterized the behavior as opportunistic, while 32.4% characterized the weak firms' behavior as non opportunistic. Once again, despite the fact that the number of participants that characterized such behavior as opportunistic was greater compared to the results of question 25, participants made the exact same comments. Despite their characterization of the behavior of the firms as opportunistic or non-opportunistic, both tiers argued that it is mainly a defense mechanism and the most important was to secure their firms best interest. In this situation the reaction of the weak firms was mainly characterized as defensive. The characterization of their behavior as opportunistic or non-opportunistic was noted by the participants as not important. Once again, securing, and serving their firms best interest in any way, is essential.

7.30 Summary

The emphasis in this chapter has been on an initial presentation of the survey findings, especially in terms of the frequency distributions. In the following chapter we will introduce additional research material and broaden the discussion. By presenting and analysing the findings of the survey, this present chapter shows how the survey has given substance to the Extended Co-Evolution model, and given some sense of the model's practical implications. The main purpose of the proposed Extended Co-Evolution model is to create a diagnostic tool

for analysing the evolution of alliances. Survey responses have shown that the permutations of the model do exist and arebased on behaviour and reactions of the alliance partners at any given situation.

The fact that the majority of respondents are involved in alliances adds validity of our research findings. Although responses by bank executives that were not part of a strategic alliance have also been considered, providing further insight into the behavioural issues of alliance evolution and firm behaviour inside an alliance. It is important to note that all the respondents are senior executives, who are responsible for the strategic planning and for the implementation of those plans, of their institution. Their response, behaviour and opinion sets the basis of the behaviour of every firm inside the alliance. Having those responses from "decision makers" provides a level of confirmation of the existence of the permutations presented in Extended Co-Evolution model.

It is important to note that the majority of respondents do report awareness of the conflict of interest between alliance partners, which is the leitmotiv running throught the Extended Co-Evolution model. Conflict of interest as seen in previous chapters is responsible for the creation of intra alliances, opportunistic behaviour, differentiation in strategic intents (internal, external and pragmatical), exploitation of size and "relative power" differences and changes of strategy even inside a strategic alliance so as to gain advantage and benefit interest and profit maximization. Even inside a strategic alliance firms do co-operate and complete at the same time. The possibility of "change" in the dynamic of the alliance is reflected in several of the survey responses.

Similarly numerous responses show awareness of different or changing developments in the alliance and respondents are able to presage different outcomes. Furthermore the possible emergence of opportunistic behaviour meets with near universal recognition. The vast majority of decision makers and executives, who participated in our research, acknowledge the existence of opportunistic behaviour especially during times of economic crisis. It is important to note that an opportunistic behaviour was mainly not acknowledged as opportunistic behaviour but as an opportunity that was discovered and hence had to be explored by the institution. As mentioned earlier, survey findings do accept conflicts of interest and the tendency of institutions for profit maximization.

Also the case that this is empirical recognition of some of the permutations of the Extended Co-Evolution model, was it pertinent for instance to consider alliances made of more than two partners? The survey reveals that more than 60% percent of the respondents are in alliances with three, four or even more institutions. Do alliance members recognize the differences in the size and "relative power" and its effect between the members of a strategic alliance? Does it affect the evolution of the strategic alliance or the behaviour of the partners? Elements that were missing from the original Co-Evolution model and which are brought out by the Extended Co-Evolution model created this diagnostic tool that explores and analyzes the evolution of a strategic alliance. Likewise this emergence of the intra alliance, the recognition of differentiation of balance of trust between the allied members, new variables that were introduced by the Extended Co-Evolution model are also generally acknowledged.

We hope that our attempt to align the questionnaire instrument with hypothesis implied in the model is a step on the right direction in a methodological sense.

Chapter Eight

Discussion

8.1 Introduction

This Chapter focuses on the discussion of the thesis propositions, the 'balance of trust and time', the paradox of confidence trust and control and the Extensive Co-Evolution model. The combination of questionnaire survey results as well as the evidence and the insights form the conducted interviews with Greek bank senior executives tended to confirm of the thesis propositions. Key substantive issues of this thesis can only be explored by dialogue with senior organisational members who are or have been prime movers in the strategic alliance and can therefore provide insights, from the inside, on the causes, effects, and key processes relevant to the establishment, development and dissolution of the alliances as well as the behaviour of firms within the alliance or their reaction according to their allied partners actions.

As argued in Chapter 3, if the level of trust is not balanced between all the members of an alliance, then even if high levels of trust exist or even sufficient time has passed making the bonds between the firms stronger, then the firms that have a higher levels of trust between them, will have a relative advantage against the other firms of the alliance and hence the propensity of opportunistic behavior may rise. In the following discussion we will examine this proposition.

Furthermore the thesis proposed the paradox of confidence – trust – control. As argued in Chapter 3, as soon as a firm, that is part of a strategic alliance, is be able to overcome all protective measures and limitations imposed by the partner firm, even if there is no level of opportunistic propensity and high levels of trust, under certain circumstances it is inevitable that the firm will behave opportunistically. Chapter 8 examines the research data and discusses the validity of this argument.

Finally the thesis introduced the Extended Co-Evolution model. The Extended Co-Evolution model based on the pioneering work of ul-Haq (2005), the Co-Evolution model, examines the evolution of strategic alliances. Moving forward and going beyond the limitations of the original Co-Evolution model, the thesis applied a number of extensions to the original model, in an effort to create a more realistic diagnostic tool of an alliance's evolution that shares the basic principles of the original Co-Evolution model (starting point and end point). The thesis, in Chapter 4, introduced additions such as:

- the size and relative power of the allied partners and its effect on the evolution of alliances
- 'crowdness of alliances', moving from the dyadic mode of strategic alliances into alliances with more than two players
- intra alliance, that is alliances within the alliance
- differentiation of strategic intents, an effort of dividing strategic intents into internal, external and pragmatical.

All the above factors added value, and overcome the limitations of the original Co-Evolution model, and hence created the Extended Co-Evolution model. In this Chapter we will also

discuss the validity of our proposed model and its practical implications so as to be used as a diagnostic tool, as well as being a practical tool by practitioners and strategists for practice, training, identification and analysis of strategic alliances. In our discussion we do not seek proliferation for its own sake but to add understanding of the validity of variable and combinations leading to the three outcomes – convergent, divergent and parallel.

8.2 Balance of trust and time

As we have argued earlier in the thesis, trust levels between allied partners vary, or in other words there is no constant balance of trust levels. Even though, as it has been argued by scholars (Anderson and Narus (1990), Doz (1996),Das and Teng (1998)), in multi party alliances, partners tend to have different levels of truest for each of the alliance's members.

Having already discussed this proposition in Chapter Three, let us examine it using the data gathered from the questionnaire survey as well as the insights from the semi structured interviews. Since trust levels between partners vary, if the level of trust is not balanced between all the members of an alliance, then even if high levels of trust exist or even sufficient time has passed making the bonds between the firms stronger, then the firms that have a higher levels of trust between them have a relative advantage against the other firms of the alliance and hence the propensity of opportunistic behavior may rise.

It is important for our analysis to break down the proposition in the following parts:

- Balance of trust between the partners
- Variation in trust levels between partners

- Partners that have a higher levels of trust between them have a relative advantage against the other firms of the alliance and hence the propensity of opportunistic behavior may rise

The proposed statement that trust levels between alliance partners do not balance is confirmed by the responses from our questionnaire survey. This showed that 69.6% of the sample of the European banking sector believe that the level of trust and the bonds that connect the allied partners are not equally distributed, while on the other hand only 30.4% of the responders have argued that the bonds and the level of trust are equally distributed among the allied partners. We saw the exact same response when research participants had to respond regarding their connection in terms of trust with their allied partners. Once again 69.6% believe that their firm is more connected with one of the partners than with the others and on the other hand 30.4% of the responders have argued that their firm is equally connected in terms of trust with the allied partners.

A significant proportion of European banking practitioners as it seems from of our survey do believe that the level of trust and the bonds that connect the alliance partners are not equally distributed, which in turn implies that their firm is more connected with one of the partners more than the others. A statement that had also been confirmed through the semi structured interviews in the Greek banking sector. One Greek bank CEO stated that:

> "Levels of trust and way that banks, firms and corporations bond with each other inside an alliance is exactly like human relationships. There is definitely someone in your group that you 'like'and trust more than the others."

The issue of balance of trust and the variation of trust levels was a key issue in all the semi-structured interviews with the Greek bank executives. There was clear evidence that all of the participants do confirm the difference in trust levels between banks. Even in cases in which trust levels seem equal between the partners and there are no balanced trust levels between the partners. As a vice chairman of one Greek bank noted:

> "There is always an underlying assumption that indicates the differentiation in trust levels, hidden evidence that proves the difference in connection between the partners, which in turn, even in cases where strategic alliances look like they are protected with high levels of trust between the partners, and opportunistic action in cooperation with the closest ally against the other members of alliance is always a possibility."

A number of Greek bank managers relate the difference in trust levels to the differentiation in trust levels between the managers of the other banks and not the bank as an institution. As they observed, you create the alliance not only with the bank as a firm, but with the bank managers as well. Therefore the alternation in relationship levels between the 'human' level of senior managers of banking institutions, can and will affect the levels and balance of trust at the firm level. As many of the interviewees admitted, we cannot take out of the equation of trust levels and bonds between allied partners the notion and definition of the human element.

Therefore having established the differentiation between the levels between and among the partners, and that the level of trust is not balanced between all the members of an alliance let us focus on the results and effects to which that variation in connectivity between the alliance partners leads.

Even if, high levels of trust exist or even if sufficient time has passed that made the bonds between the firms stronger, the propensity of utilizing and opportunity that will significantly favor the firms strategic intents exists since, as we have seen from our sample and as the evidence from the interviewees propose, opportunistic behavior exists and will always exist, despite trust levels and connection between the partners.

46% of our questionnaire samplerespondents admit that in the case where their firm has higher levels of trust with one of the partners this relationship creates a relative advantage against the other partner firms. A senior manager of a Latvian Bank commented on this:

> "There is a difference between opportunistic behavior and a business opportunity. Why should we name the exploitation of a business advantage as opportunistic behavior? We form alliances so as to serve our banks best interest. We will behave like this in certain circumstances. Following our aim of serving our bank's best interest even if that includes of 'taking advantage' of a given opportunity."

If the opportunity arose, with the cooperation of the firm to which they feel closestthey would behave opportunistically against the other allies. As stated earlier we define as opportunistic behavior any act of the allied partner that is against the benefit of the alliance and benefits its firm's best interest. The notion of obligation to secure their firm's best interest, rather than to secure the alliance was significantly high in our survey data as well as during the interviews with the senior managers. The vast majority of the interviewees, stated clearly that their firms strategic intents and interests are a significant priority rather that the alliances' strategic intents and its best interest.

It is important though to note the importance of balance of trust between the partners. Data from the interviews showed that since there are allies inside the alliance, where trust levels are higher than the trust levels with the other allies, their tendency of moving against the less connected partners is higher. As a senior bank manager of a Greek bank stated:

> "The tendency of following an opportunity and behaving opportunistically against your partners exists at all times. The existence of an ally within the alliance with whom your trust levels are higher and that you are strongly connected with each other, will probably give you alternative ways and possible solutions, when cooperating, to achieve the desired goals that are against the alliance."

The same manager continued his statement with an interesting point.

> "If there is an opportunity that your firm is obligated to take advantage of and behave opportunistically, the existence of a partner in which your bond levels are higher than the bond levels of the other allies, alters your actions. If trust levels were equally distributed you would act opportunistically against all partners. Since trust levels are not equally distributed you may as well consider acting with the firm with which you are closely connected."

Analyzing the above statement we can distinguish the following underlying assumptions that we have also met in the discussion with other Greek bank managers. Both data collected from the semi structured interviews as well as data gathered from the questionnaire sample indicate that there is an opportunistic propensity in the behavior of the strategic allies. Using that data and the above statement of a senior bank manager of a Greek bank, we have seen that the

existence of a ‘closely connected’ ally with whom trust levels are higher compared to the other members of the alliance, changes the way the opportunistic action is taking place. Firms tend to cooperate more with the closest ally in opportunist behavior rather than acting on their own. As a Vice Chairman of another Greek bank mentioned:

> “You will definitely behave opportunistically, if you see an opportunity, but if there are high levels of trust between two of the partners in a multi party alliance, it is more likely to involve that partner into that new strategy. You will go against the alliance, if it is not serving your best interest but you will not go against all the partners.”

As in our questionnaire sample, 54.0% of the respondents have denied the possibility of behaving opportunistically with the cooperation of the closest partner against the other allies. A lower percentage of the senior Greek managers have also denied the possibility to behave opportunistically with the cooperation of the closest partner against the other allies. Despite the fact that they have made clear that since the alliance is no longer serving their best interests they would dissolve the alliance in a divergent Co-Evolution process. Once again they would feel obligated to secure their firm’s best interest, rather than secure the alliance.

8.2.1 Conclusion

Summing the above, our evidence suggests that the trust between partners inside an alliance is not balanced. Therefore trust levels do vary between the allied partners and the bonds between them are not equally distributed among the members of a strategic alliance. Evidence has also shown that opportunistic propensity does exist and that firms and managers

would feel obligated to secure their firm's best interest, rather than to secure the alliance. Furthermore as the interview and questionnaire data indicated, the presence of a highly trusted ally compared with the other members of the alliance, will alter the opportunistic behavior of those two partners, from a solo opportunistic strategy to a combined opportunistic strategy. Combining the above, the balance of trust, the different levels of trust between allies, and the fact that partners that have higher levels of trust between them will use their relative advantage against the other firms of the alliance and hence they will increase their propensity tocombinefor the purpose of opportunistic behavior.

Therefore our proposed statement that if the level of trust is not balanced between all the members of an alliance, then even if high levels of trust exist or even if sufficient time has passed making the bonds between the firms stronger, then the firms that have a higher levels of trust between them have a relative advantage against the other firms of the alliance and hence the propensity of opportunistic behavior may rise.

8.3 The paradox of confidence – trust - control

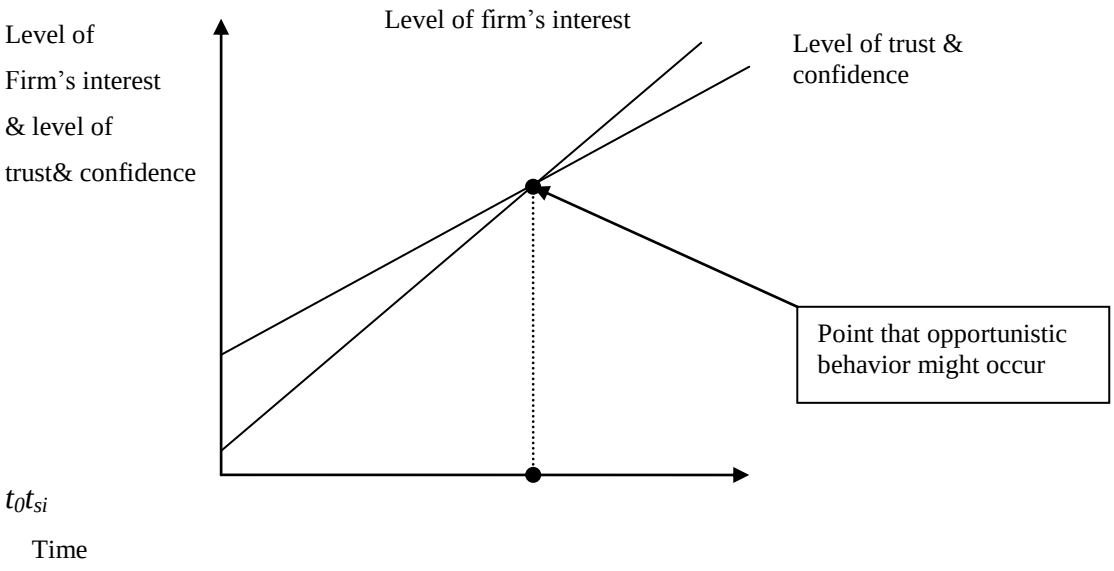
The second proposition that this thesis proposes refers to the paradox of confidence – trust – control.According to our proposition, as soon as the firm is be able to overcome all protective measures and limitations imposed by the partner firm, even if there is no opportunistic propensity and high levels of trust exist, under certain circumstances, it is inevitable that the firm will behave opportunistically.

As described in Chapter Three, Figure 17, plots our proposition diagrammatically. The basic principle of the above proposition and graph, as described in Chapter Five, is that while confidence can increase over time; personal interest can also increase due to in-company pressures, e.g. shareholders, business cycle, faulty managerial decisions, and so on. That point at which that opportunistic behavior might occur is when the level of personal interest exceeds the level of trust, even though, high levels of trust exist.

Let us start our discussion of the above statement by looking at the data gathered from the questionnaire survey. This shows that 59.5% of the participants believe that they would act opportunistically against their partners as soon as the level of their firm's personal interest exceeded the level of trust and confidence. The notion of obligation to secure and serve their firm's best interest rather than the alliance's best interest was the dominant conviction of supporting that position. From the analysis of the data was clear that almost 60% of European bank managers, as soon as the level of their firm's personal interest exceeds the level of trust and confidence between the partners of their alliance, would tend to behave opportunistically in order to server their firm's best interest.

One participant in the questionnaire survey suggested that even if we cannot measure in purely mathematical terms that point of establishing the beginning of opportunistic behaviour, we know that if there is evidences of 'profit and gains' then that implies that we are above the levels of trust limitations with our partners and hence we should start of examining means of eliminating the control mechanisms implied by the strategic alliance.

This situation, described by the paradox of confidence – trust – control, was accepted by the most of the Greek senior executives, as an inevitable effect of firm's tendency, towards profit



key: t_{si}= time of start of instability of alliance

Figure 17: Firm's interest VS trust and confidence

maximization. A Portuguese senior executive particularly said that:

> "We must never forget the basic principle for the creation of the firm; that is, profit maximization. Therefore firms do tend to serve their instinct of maximizing their profits."

The data suggest that opportunistic actionsof firms could occur with or without dissolving the alliance. In either case, the effect on the allied partners is the same; an opportunistic behavior by an alliance member, which may or may not lead to the collapse of the alliance. A statement that also seems to be confirmed by the data from the semi structured interviews. As one Greek bank CEO:

> "If the gains of behaving opportunistically are greater than the gains of committing to the alliance then you must act immediately and seize the opportunity even if that means that you will destroy the alliance."

It is important to note that, as he added, the gains in both the short and the long term of behaving opportunistically and affecting the alliance, have to be greater that the gains of committing to the alliance.

Two senior members of Greek banks explained that there are limits to which a firm can sacrifice the benefits of an action, taking advantage of an opportunity and behaving opportunistically, that is against the allied partners and the strategic alliance. There is also a limit that divides the bonding and relationships between the partners and the tendency of an opportunistic action in which a firm may sacrifice the potential benefits of acting

opportunistically. As evidence has shown,firms in many cases do behave in line with the benefits of their own institution and not based on the benefits of the alliance.

A statement of a chairman of a Greek bank tends to confirm the above statement:

> "Firms do enter strategic alliances in order to serve their best interest and increase their benefits. It is a perspective that still remains after the creation of an alliance. It is therefore natural that a firm will still behave in order to serve its best interest and increase its benefits even if that means that it needs to go against the allied partners and the strategic alliance. The existence of trusted allies and firms in which your company is closely related and bonded compared to the other partners, only changes the way of measuring the potential benefits of an opportunistic action. The do not change the tendency of that behavior."

It is therefore assumed that the tendency of firms to focus on their best interest is established. The variation is in the difference in the *level* of firm's best interest against the partners of the alliance. Despite the fact that trust and confidence exist in the alliance, even though it is increasing over time, as soon as the level of firms best interest is higher that the trust levels between the partners alliance is instable and partners do tend to behave opportunistically.

On the other hand in our survey, as we have said in the previous chapter, 40.5% of the responders would not behave opportunistically against their partners despite the fact that the level of their firm's best interest exceeds the level of trust and confidence between the partners. Most of the respondents comment that they would not choose to act opportunistically since they would be characterized as short term relationship partners and

lose their credibility and hence damage their reputation. This argument was discussed in all of the interviews. Most of senior Greek bank managers, referred to the banking sector as a very dynamic environment in which reputation issues count for less. It has been argued that, in that dynamic environment, it is more important to secure your best interests and a leading position in the market than securing your reputation issues. The latest economic crisis has created new ground rules in the behavior of firms inside the alliance. In an economic environment where everything tends to move faster, decision making, actions, achieving profit maximization, and so on, reputation issues are tend to fade. As a strategist of one Greek bank stated:

> "Since everything is moving so fast and since we do exist in a dynamic environment, even if an opportunistic action will damage our reputation, the negative effects of that damage will fade out really fast given the speed of evolution of the economic environment. What will be remembered, are the results of that action, or, in other words, the benefits and interests that the firm has achieved."

Data from both the questionnaires and interviews reveal that firms would consider an opportunistic action only if the gains of their opportunistic behavior would maximize the benefits of their firm. There is an acceptance that firms do focus on securing and increasing their firm's best interests, rather than securing the alliances or their partners' best interests and hence at the point in which firm's best interests exceeds the level of trust between partners the tendency of opportunistic action is higher and hence the alliance is unstable.

What was particularly interesting was that in questionnaire survey we have found evidence that suggested that the existence of maintaining high reputational levels within the market

was limited. In other words, there was evidence that suggested that reputation and ethical issues have limited effect on strategy behavior. This issue was discussed in depth in the interviews with the Greek bank executives.

Living in the era of information speed evolution, reputational issues have a decreasing effect on business behavior. A Greek bank strategist noted that:

> 'Everything tends to move that fast and so issues, behavior and news that would have destroyed a firm's reputation 20 years ago, nowadays are easily forgotten. The speed at which the economy evolves, the speed that information and news spread all over the world, but especially the speed that people tend to 'forget' is increasing, and hence the potential reputational damage is decreasing.'

As he noted there are two values that move in different directions. People, and therefore organizations, have short term memory, a phenomenon that was has also been enhanced during the latest economic crisis. Organizational survival during an economic crisis, profit maximization in a highly competitive and complex economic environment has reduced reputational concerns. Strategists and managers tend to focus on maximizing their organization's best interest rather than securing their market reputation. Immediate gains and survival according to a Greek bank CEO are the first targets of strategy planning and strategy implementing.

8.3.1 Conclusion

As discussed above, the evidence suggests that many firms follow the principle of behaving in a way that will serve their best interest. This is after all, the reason that a firm enters in an alliance in the first place, and hence that behavior of seeking at any time its best interest does exist inside the alliance as well. Despite the fact of trust, confidence and control issues inside the alliance allied partners tend frequently to seek actions that would favor their best interests. The existence of high levels of trust between partners changes the estimation of the gains of an opportunistic behavior and increases the level of the gains. As discussed above measuring the gains in the short and long term of behaving opportunistically and affecting the alliance, have to be greater that the gains of committing to the alliance.

Therefore our proposed statement of the scenario in which a firms as soon as it is able to overcome all protective measures and limitations imposed by the partner firm, even if there is no level of opportunistic propensity and high levels of trust, under certain circumstances it is inevitable that the firm will behave opportunistically.

8.4 Extended Co-Evolution model

This analysis refers to the original Co-Evolution model and the transforming additions we have made to it. As described in Chapter Four the Co-Evolution model (ul-Haq, 2005) was extended with the notions of ‘size’ of partners, number of allied partners, intra – alliance, and the notion of internal, external and pragmatical strategic intents.

These were what led to the creation of the Extended Co-Evolution model. Let us examine the proposed notions that were added to the original Co-Evolution model.

- *Size of allied partners*

Size of the partners as stated in the literature can be examined in two different ways. One is by sales, profits, assets or number of employees, and the other is in a qualitative interpretation with respect to power, leadership and other variables that characterize the organization. The difference in the size of the partners inside the alliance was proposed as an important factor that was build into the Extended Co-Evolution model. As the data from the questionnaire survey suggested, 93.2% of our sample believe that the differentiation in size and hence in relative power of the allies affects the evolution of the alliance. A view also found strong supportin the interviews with the Greek bank managers. In any strategic alliance, one part of the alliance will need the other part more. This factor will give an additional power to this member. The greater size means the greater the level of decisions and implies greater influence on the alliances' decisions.

The factor of size as the data indicate is a significant element in the evolution of a strategic alliance. The vast majority of survey participants believe that a firm that has greater relative power against the rest of the alliance partners will make use of its power and effect the alliance according to its own best interest. A partner with greater relative power will alter its own strategic directions and use its power to best serve its own interest and to maximize its profits. That assumption regarding the size and power correlation of a partner and its influence in the evolution of a strategic alliance, was seen as correct by the Greek bank

managers as well. A large proportion of the senior Greek bank managers do believe in the effect of size of the partners inside the alliance.

Despite the acceptance of the effect of size of the partners in a strategic alliance it is important to note an interesting point made by a vice chairman of a Greek bank. According to his statement, size and power do not always imply the ability to control the alliance. The greater the size of a firm the slower its reaction to take advantage of beneficial situations and alters its strategic intents. As he stated, 'a large and powerful partner is like an elephant. It is slow to react but if he does it you are at the mercy of its power'. The larger the institution the slower its response rate regarding market opportunities, since for every action the decision making process has to be discussed, calculated, weighted and accepted by a broad group of managers. On the other hand small and weak firms are more flexible in seizing market opportunities. That does not imply though that a strong partner will not have the ability to control the alliance and the weak partners. Power and size of allies is a significant factor in the evolution of the alliance. The greater the power and size, the greater the control levels of the direction of the evolution of the strategic alliance.

- *'Crowdness' of alliances, number of allied partners*

The extension of the original Co-Evolution model from the dyadic mode to a multi party mode is a factor that has added value to the model and to the ability to be applied in the analysis of any type of strategic alliance regardless the numbers of partners. As evidence showed 77.3% of the respondents of our questionnaire survey are member in a strategic alliance that involves more than two partners. Evidence from the Greek banking sector

interviews as well has shown that the modern economic environment stimulates the creation of multi party alliances. Therefore the addition of the notion of multi party alliances in the Co-Evolution model increased the applications of the model in real life business situations. With the notion of multi party alliance, the Extended Co-Evolution model is able to accommodate situations that apply to some 77.3% of our sample of the European banking sector and the vast majority of alliances that have more than two parties.

- *Intra- alliance*

As mentioned in Chapter Seven, the fact that the partners are already in an alliance shows that they are likely to enter even smaller alliances, inside or even outside of the alliance in order to promote their own agenda and secure their affected strategic intents. Almost 70% of survey participants believe that the level of trust and the bonds that connect the allied partners are not equally distributed. The same percentage also believe that their firm is more connected with one of the partners more than with the others. The above evidence shows that the notion of intra alliance is an important addition to the Extended Co-Evolution model.

With the notion of intra alliance we are able to cover the possibility of cooperation of partner firms inside an alliance in cases where their strategic intents are effected by the action of the other partners and therefore an intra alliance can be characterized as a mean of reaction in order to protect their best interest or even in cases in which partners decide to form an intra alliance so as to be able to take advantage of market opportunities.

Our proposition of adding the notion of intra alliance to the variables introduced into our model, was approved by some 65%, of European participants. The data show that in a

scenario in which if the strong partner in the strategic alliance is making use of its power, the rest of the weak allies can create an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner.

Furthermore in cases where the bonds and the level of trust between the weak partners is low the possibility of creating an intra-alliance so as to avoid a hostile acquisition and transform it into a merger was as high as 92% of our sample. Their positive responseto the option of creating an intra-alliance with the other weak partners so as to be able to increase their size, gain power and hence greater control of the alliance shows that the notion of intra alliance does exist within a strategic alliance.

Intra alliances cannot only be used as means of protection such as in the above cases, but also as a way gaining relative advantage against other partners of the strategic alliance. Five of the nine senior Greek bank managers have accepted the creation of an intra alliance so as to serve their end of improving their benefits of their strategy. The creation of an intra alliance was according to the collected data, an accepted notion that will not only serve the intra allied partners best strategic intents but in many cases protects the initial strategic alliance. Firms can create an intra – alliance, increase their benefits, take advantage of market opportunities and at the same time do not dissolve the alliance. Some of the managers have noted that the concentration of an alliance to a reduced number of strong partners would be preferable to the option of having a large number of small partners in an alliance.

Therefore the notion of intra alliance is a consequential addition to the extension of the Co-

Evolution model. As evidence show intra alliances are part of the strategic alliances phenomenon.

- *Internal – External – Pragmatical strategic intents*

An important addition to the extension of the Co-Evolution model is the notion of internal, external and pragmatical strategic intents. The original Co-Evolution model was based on the description of the movement and direction of the strategic intents of a firm inside an alliance without emphasising the underlying assumptions and meaning of strategic intents. As a senior manager of Greek bank stated:

> "The strategic intent of a firm is a complex of directions that the firm, the manager, stakeholders and shareholders set. The espoused strategic intent of a firm inside an alliance is often a cover that hides the firm's secret and underlying actual strategic intents."

This statement was supported by all of the Greek managers that took part in our research.

As mentioned in the literature we have identified three categories in which we can categorize the notion of a firms strategic intents. External strategic intents refer to the strategy, vision and targets that a firm sets when joining an alliance. Using a metaphor to describe the notion of external strategic intents, we can relate them to the 'open cards' that each party of an alliance shows prior and during their alliance. As one Greek bank Chairman told us, there are cases in which the strategic intents that a firm expresses prior to the alliance, can be modified in a way that they will look attractive to the potential partner, so as to allure him into the

creation of the alliance. Our evidence suggests that the existence of differentiation in strategic intents, and hence our distinction between external and internal strategic intents.

Proceeding then to our discussion, having already explored the notion of external strategic intents, internal strategic intents refer to the secret strategy, vision and targets that each firm has prior and during the alliance. Particularly as the gathered data from the interviews with the Greek bank managers reveal there is a secret agenda of each player of the alliance. Internal and external strategic intents do not always match. There are cases in which the external strategic intents are only used as a mean of cover for implementing the firm's and manager'sinternal strategic intents. The existence of the accepted terminology of 'hidden agenda' was confirmed and approved by the whole sample of our senior Greek bank managers.

Despite the above clarification of strategic intents, the thesis proposed a third categorization of strategic intents, the pragmatical strategic intents. Data gathered through the interview process have revealed the existence of pragmatic strategic intents and confirmed our three type differentiation. In our literature we have identified as "pragmatical strategic intents" the actual strategy of a firm in an alliance. In other words we have defined as pragmatical strategic intents, the strategic intent that a firm has as a target and uses the alliance to implement that strategy. We can realize that each partner has its internal, external and at the end pragmatical strategic intents.

As confirmed by most of the Greek bank managers through the interview process, pragmatical strategic intents are the actual strategic intents of the firm. In most of the cases, they reflect the vision and strategy of an institution and are not visible of revealed to the

partners of the alliance. Only if internal, external and pragmatical strategic intents are identical then the firm is classified as a pure non opportunistic partner. As our data,both the questionnaire and the interviews have shown that the existence of conflicts in the firms interest with the alliances evolution confirm the differentiation of the strategic intents into the above three categories. If all internal, external and pragmatical strategic intents were identical then, the phenomenon of conflicts between the strategic intents of the allied partners and between partners and the alliance would have not existed. It is that three way differentiation that creates conflicts in strategic intents within the alliance and the tendency towards opportunistic behaviour. Our evidence indicates the existence of conflicts in strategic intents within the alliance and the tendency of opportunistic behaviour and therefore validates the differentiation of strategic intents into internal, external and pragmatical.

Importing the above elements into the Co-Evolution model, the thesis proposed the Extended Co-Evolution model. The additions of differentiation of strategic intents, intra – alliance, size and number of partners, created the thirteen permutations of the Extended Co-Evolution model.

8.4.1 Co-Evolution of strategic alliances with external and internal strategic intents

As evidence and the data gathered showed, the existence of the differentiation of strategic intents resulted in the creation of conflicts of partner interest and hence instability of the alliance and the tendency of opportunistic behaviour by allied partners. The added notion of internal and external strategic intents added value to the Co-Evolution model since it revealed the underpinning assumptions of firm behaviour inside the alliance and gave insights and

information regarding parallel, divergent and convergent Co-Evolution. As a Vice President of a Greek bank noted, the addition of strategic intents differentiation reveals the principles of firm behaviour inside the alliance. With the notion of internal and external strategic intents, the Extended Co-Evolution model gave further insights in observing the evolution of strategic alliances.

An example of the differentiation between the external and internal strategic intents can be seen in the Piraeus bank strategic movement in 2010. The CEO of Piraeus bank strategically moved and proposed the acquisition of Hellenic Postbank. Based on the current economic situation of Piraeus bank as well as the current economic situation of Greece it was obvious that the move had internal strategic intents that where different from the proposed external strategic intents. A scenario that was proven two years later in which Piraeus bank managed to aquire ATE bank that belonged to the Hellenic Postbank group. It was argued that it was the internal strategic intent of Piraeus bank to acquire ATE bank but based on economic criteria it was a movement that was not feasible in 2010. Through that differentiation of strategic intents Piraeus bank managed to achieve its strategic goal, externally aiming for Hellenic Postbank but internally aiming for ATE bank.

8.4.2 Multi-party Co-Evolution of strategic alliances

With the notion of the multi party alliance, the Extended Co-Evolution model has the ability extent its capabilities to alliances with more than two members. Adding the notion of multi – party Co-Evolution we are able to describe the behavior of firms in alliances with more than two members. The evolution of the Co-Evolution model of strategic alliances from the dyadic

mode to the multi party mode gave significant added value to our model. As evidence from the research showed that the vast majority of strategic alliances do include more than three members. With the addition of multi party Co-Evolution notion, we are able to examine the parallel, convergent and divergent Co-Evolution of strategic alliances that include more than two members. For the sake of simplicity we have examined three party alliance scenarios, but the extended multi party Co-Evolution model is not limited to the description of behavior of three party alliances. Using the same logic we can apply the multi party Co-Evolution to alliances with any number of strategic partners. As senior executive of a French banking group stated:

> "The evolution of a strategic alliance will follow the same path as if there were two, three or even more than three allied partners."

The basic principles of the evolution of strategic alliances, common principles that share the Extended Co-Evolution model with the original Co-Evolution model (starting point and end point) do apply when there are more than two allies. The journey that the alliance will have is not based on the number of the allied partners but on the behavior of each of the allied institutions.

8.4.3 Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

Through the addition of differentiation of internal and external strategic intents, the Extended Co-Evolution model is able to give further insights and understanding into the behaviour of

firms that co-evolve in a multi party strategic alliance. Differentiating strategic intents into internal and external, we are able to investigate further the behavior and logic of the allied partners of a multi party strategic alliance. Adding the notion of internal and strategic intents, the extended Co-Evolution model reveals the underlying assumptions of parallel, convergent and divergent Co-Evolution of multi – party alliances. A senior Greek bank executive noted that the evolution of the strategic alliance is directly affected by the differentiation of strategic intents:

> "We do know that the hidden agenda does exist. It would be naive to expect and believe whatever is stated while completing a strategic alliance. It would be naive to expect a precise and accurate behaviour based on the agreement. A partner's behaviour is not what it has been stated but what is actually being implemented."

The differentiation of strategic intents into internal and external was validated by the majority of the research participants. It is a phenomenon that everyone acknowledges and every strategist and practitioner is aware of.

8.4.4 Uneven Co-Evolution of strategic alliances

The evidence from the semi structured interviews and the vast majority of our survey sample (93.2%) believes that the differentiation in the size and hence the relative power of the allies affects the evolution of the alliance. The effect of differentiation of size of partners within a strategic alliance is plotted and analyzed in the scenarios of uneven Co-Evolution of strategic alliances. Though those scenarios of uneven parallel, uneven convergent and uneven

divergent Co-Evolution the Extended model is able to examine the effects of size of partners within the alliance. Our gathered evidence showed that a firm with greater relative power against the rest of the alliance partners can determine and change the alliance's evolution over time since the dominant partner always needs to take greater risks that can trigger a change in its strategic directions and hence alter and determine the evolution of the alliance over time.

Size differentiation alters the level of influence that each alliance member has in the evolution of the strategic alliance. This statement was supported by the entire sample of the Greek interviewees. As one of them stated, it is inevitable that in a strategic alliance you are forced to follow the 'big' partner's direction. Therefore the uneven Co-Evolution model sketches the possible scenarios that the effect of size of partners has inside the alliance.

Through uneven parallel, uneven convergent and uneven divergent Co-Evolution we can distinguish the effects of size differentiation, whose their existence was confirmed by our own research.

The value of size and power in a strategic alliance has greater effects in countries in which the banking institutions are relatively smaller and weaker compared with the average European banking institutions. As an Albanian CEO noted while forming a strategic alliance with a larger than themselves European banking institution:

'We knew that the alliance would improve our strategic position in our domestic market, but we also knew that we would lose some of our "freedom and flexibility". What we did not know was the level of influence that a larger institution has while forming a strategic alliance

with a weaker institution. We might have gained domestic advantage but we were imprisoned serving the strongest partner's strategic intents. Therefore we had to reform our own strategy not based on our own targets but based on our partner's strategy.'

As this permutation of the Extended Co-Evolution of strategic intents presents, size differentiation implies uneven co-evolution of the strategic alliance. Inevitably the stronger partner will gain control of the alliance and hence the weak partner will have to follow the stronger partner's lead.

8.4.5 Uneven Co-Evolution of strategic alliances with external and internal strategic intents

As stated earlier uneven parallel, uneven convergent and uneven divergent Co-Evolution distinguishes and describes the effects of size differentiation, inside a strategic alliance. By adding the notion of internal and external strategic intents, we give insights into the hidden assumptions of firm behavior in a strategic alliance. As in previous cases, with the use of internal and external strategic intents we are able to determine a firm's performance and understand the reasons for firm behavior and differentiation in strategy and strategic intents that size alternation between partners creates.

8.4.6 Uneven Multi-party Co-Evolution of strategic alliances

Since a significant number of strategic alliances involve more than two partners, as our research indicated, the uneven multi-party Co-Evolution of strategic alliances reveals the effect of partner size differentiation in a multi party alliance. As in the dyadic mode the Extended Co-Evolution model throws light on the evolution of the multi party alliance with size differentiated partners. Through parallel, convergent and divergent uneven multi party Co-Evolution, we are able to describe scenarios that involve more than two allied partners of different size. Our research suggests that most strategic alliances are like this.

8.4.7 Uneven Multi-party Co-Evolution of strategic alliances with external and internal strategic intents

Using the notion of internal and external strategic intents, the Extended Co-Evolution model gives clear explanations of the effect of size differentiation of partners within a multi party alliance. Using the notion of internal and external strategic intents we are able to further analyze the underlying assumptions of the behaviour and the effect that each of the members of an uneven multi party alliance may display. Using the permutations of uneven multi party Co-Evolution of strategic alliances with external and internal strategic intents, the Extended Co-Evolution model has the ability to reveal and describe behaviour of uneven 'size wise' partners that are members of an alliance with more than two parties. Using evidence from our research we have determined the effects of size differentiation in multi party situations that are described through parallel, divergent and convergent Co-Evolution and with strategic intents analysis we are able to reveal the basis of each firm's behaviour.

8.4.8 Multi-party Co-Evolution of strategic alliances with intra alliance

The existence and importance as well as the underlying assumptions of the intra alliance were discussed previously in this thesis. The Extended Co-Evolution model incorporates the notion of intra alliance within its permutations in the scenarios of multi party Co-Evolution of strategic alliances with intra alliance in cases where the allied partners are of equal size. As seen in our research, a significant percentage of the sample, believes in the existence of the scenario in which if the strong partner in the strategic alliance is making use of its power, and therefore the rest of the weak allies are forming an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit theinfluence of the strong partner. The effects and behavior of firms prior and after the formation of intra alliance inside a multi party strategic alliance, is captured by parallel, convergent and divergent multi party Co-Evolution of strategic alliances with intra alliance.

The above permutations are based on the fact that since the partners are already in an alliance, they are likely to enter even smaller alliances, inside or even outside of the alliance in order to promote their own agenda and secure their affected strategic intents. The data from our research show the existence of the permutations of that scenario

8.4.9 Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

Having already established the fact that since the partners are already in an alliance, they are likely to enter even smaller alliances, inside or even outside of the alliance in order to promote their own agenda and secure their strategic intents. Therefore we have identified the permutations of amulti party Co-Evolution of strategic alliances with intra alliance. The importance of the notion of internal and external strategic intents has already been discussed in previous scenarios. Therefore following the same logic, the use of differentiated strategic intents gives further insights into understanding the assumptions and behaviour of firms in multi-party Co-Evolution of strategic alliances with intra alliance. Using the concepts of internal and external strategic intents, the Co-Evolution model is able to expose the different strategic intents of each firm prior the creation of intra alliance, those reasons that lead to the creation of an intra alliance and hence provide sufficient information to show the evolution of the strategic alliance.

8.4.10 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance

Evidence indicated the existence of size differentiation and its effects between the allied partners. In the previously discussed scenario of the Extended Co-Evolution model, the uneven multi party Co-Evolution of strategic alliances with intra alliance, the notion of size was not incorporated. In the previous scenario the extended Co-Evolution model was exploring the scenarios between equal power and size partners and its implications for the creation of intra alliance. Unevenmulti party Co-Evolution of strategic alliances with intra

alliance, examines and presents the scenarios of behaviour of uneven size firms in a strategic alliances prior to and after the creation of an intra alliance. Parallel, convergent and divergent Co-Evolution, as presented in uneven multi party Co-Evolution of strategic alliances with intra alliance give insights on the evolution of firm's strategic intents through time.

The permutations of Uneven multi party Co-Evolution of strategic alliances with intra alliance, do incorporate elements that through our research have proved to be of significant value in the evolution of alliances, such as the effect of size differentiation between partners and the notion of intra alliance as a reaction method of the weak partner against the strong partner of the alliance.

8.4.11 Uneven Multi-party Co-Evolution of strategic alliances with intra alliance and external and internal strategic intents

In understanding the implications of uneven multi party Co-Evolution of strategic alliances with intra alliance, the addition of internal and external strategic intents reveal the underpinning assumptions that direct the strategic intents of each firm and give insights regarding the formation of an intra alliance. The differentiation between internal and external strategic intents, adds value to the Extended Co-Evolution model as a means that describes and plots the evolution of a strategic alliance under the above circumstances. The notion of internal and external strategic intents provide diagrammatically the evidence that our research has revealed that effect of each firm's behaviour and lead to the different variations of Co-Evolution into parallel divergent and convergent uneven multi party Co-Evolution of strategic alliances with intra alliance.

8.4.12 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance

Almost nine out of ten of the respondentswho participated in our questionnaire survey confirm they would consider the creation of an intra alliance between the weak partners and hence the creation of a new stronger firm so as to be able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intentssincethe strong partner of the strategic alliance is making use of its power and this effects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance.

The above scenario had also significant support for its existence, by the vast majority of the interviewed Greek Bank managers. The possibility of the formation of an intra alliance as a reaction of the weak partners against the strong partner or in other words the transformation of an ‘uneven’ strategic alliance into an ‘even’ strategic alliance has been confirmed by data from both interview and questionnaire research. The permutations of uneven even Multi-party Co-Evolution of strategic alliances with intra alliance, reveal the possible scenarios of firm behaviour under the above circumstances. Parallel, convergent and divergent Co-Evolution were all identified by the Greek bank managers, as well as by the questionnaire survey participants, as approved scenarios of the behaviour of firms in a strategic alliancethat evolves the above elements.

8.4.13 Uneven – Even Multi-party Co-Evolution of strategic alliances with intra alliance and external, internal and pragmatical strategic intents

As mentioned above,Uneven Even Multi-party Co-Evolution of strategic alliances with intra alliance, refers to scenarios in which the weak firms of a strategic allianceconsider the creation of an intra alliance and hence the creation of a new stronger firm so as to able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intentssincethe strong partner of the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance.

The particular permutation of the Extended Co-Evolution model is based on the actions of the strong partner and the reactions of the weak partners. The addition of internal and external strategic intents, reveal the underlying assumptions of the behavior of each firm within the alliance. In this case we use the notion of pragmatic strategic intents so as to give further insight into the behavior and strategy of the strong partner. As a senior Greek bank executive stated, the Uneven Even multi-party Co-Evolution of strategic alliances with intra alliance and external, internal and pragmatical strategic intents, unwraps and presents the secrets of a strategic alliance under these circumstances. It shows the pragmatic hidden intentions of the strong partner and not only plots the reaction of the weak partners but also emphasises in the 'thinking' of the strategy that the weak partners adopt.

The addition of internal external and pragmatical strategic intents in the permutations of Uneven Even Multiparty Co-Evolution of strategic alliances provide the additional

information regarding the behaviour of the allied firms, the alternation of their strategic intents and their ability to react against their partners behaviour.

An example that illustrates the differentiation between internal external and pragmatical strategic intents can be found in 2007. Piraeus Bank was in a strategic alliance with Cyprus Bank that lead to the acquisition of a percentage of Cyprus Bank by the Piraeus bank. An alliance that was not as successful as both Banks wanted it to be. Piraeus bank was trying to find a way of breaking the alliance and selling Cyprus Bank. The CEO of Piraeus Bank knew that Marfin bank was aiming at acquiring both Piraeus and Cyprus Bank and therefore formed a strategy that was divided into three different strategic intents suddenly proposing an offer to acquire Marfin bank. An offer that based on the assets of Piraeus – Cyprus banking group, but also based on the power (assets and cash flow) of Marfin bank was impossible to implement. We can identify the three differentiations of strategic intents in Piraeus bank strategy. The external strategic intent was that Piraeus bank was committed to the strategic alliance with Cyprus Bank and wanted to acquire Marfin bank. The internal strategic intent was that Piraeus bank wanted to break the alliance with Cyprus Bank and the pragmatical strategic intents was that it wanted to avoid a hostile acquisition by Marfin bank (since Marfin was in a position where it was able to acquire both Piraeus and Cuprus bank) but also to sell the acquired share of Cyprus bank to Marfin Bank. Following those three differentiation of strategic intents, Piraeus bank managed not only to avoid a hostile acquisition by Marfin, but also to break up the alliance with Cyprus bank and sell its share to Marfin in a profitable price.

With the differentiation in strategic intents into internal, external and pragmatical the Extended Co-Evolution model was able to capture the underlying and hidden behaviour of institutions within a strategic alliance. As an Italian CEO stated:

> "Strategy is more than a plan. It does not have one dimension."

Internal, external and pragmatical strategic intents, aiming to give insights into these multidimensional aspects of strategic thinking, within a strategic alliance.

8.5 Summary

This Chapter has discussed the propositions balance of trust, the paradox of confidence trust control and the Extended Co-Evolution model that the thesis proposes. Using data from the email and postal questionnaire survey from the European banking sector, as well as data from the semi structured interviews with senior bank managers from the Greek banking sector, we examined the validity of these propositions.

Trust between partners inside an alliance is not balanced and hence bonds between strategic partners are not equal. Evidence has shown that opportunistic propensity does exist and that firms and managers would feel obligated to secure their firm's best interest, rather than to secure the alliance. Our research revealed support for our proposition that the level of trust is not balanced between all the members of an alliance. Even if high levels of trust exist or even if sufficient time has passed making the bonds between the firms stronger, then the

firms that have a higher level of trust between them have a relative advantage against the other firms of the alliance and hence the propensity of opportunistic behavior may rise.

This Chapter also discussed the paradox of confidence trust control. The research evidence indicated the validity of our argument that any firm will follow the principle of behaving in a way that will serve their best interest and hence its' instinct for profit maximization. This is the reason that a firm is entering in an alliance and hence that behavior of seeking at any time its best interest does exist inside the alliance as well. Despite the fact of trust, confidence and control issues inside the alliance allied partners tend always to seek actions that would favor their best interests. Hence as soon as a firm is able to overcome all protective measures and limitations imposed by the partner firm, even if there is no level of opportunistic propensity and high levels of trust, under certain circumstances, it is inevitable that the firm will behave opportunistically.

Finally the thesis proposed the Extended Co-Evolution model. A model that shared the basic principles with the pioneering Co-Evolution model presented by ul-Haq (2005), but eliminating its' limitations and updating the model so as to be become a diagnostic tool of strategic alliance's evolution, examination and description. By adding notions such as size and relative power of the allied partners, 'crowdness' of strategic alliances – multi party alliances, intra alliances and strategic intents differentiation via internal, external and pragmatical strategic intents we have developed an analytical tool for mapping the evolution of strategic alliances.The Extended Co-Evolution model adds value to the existing literature since its 39 permutations examine all the possible combinations, outcomes and behaviours of allied partners of a strategic alliance. Our research tends to validate our Extended model, and offers practical applications in the examination and mapping of the behaviour of the firm in a

strategic alliance. Our aim was the development of such a model that will go beyond academic interest and has practical applications in the management of strategic alliances as well as strategic planning and implementation.

Chapter Nine

Conclusion

9.1 Introduction

In this final chapter we seek to provide a summary of the thesis topics. Our Extended Co-Evolution model was inspired by ul-Haq's (2005) Co-Evolution model. The notion of 'balance of trust' between alliance partners and the paradox of confidence, trust and control between alliance partners are the areas that we have developed into. We will try to suggest later what our contribution to academic knowledge has been. But first we want to flag up two additional ideas that derive from the research, which concerns the modifications of our strategic idea of opportunism.

9.2 Opportunism or Opportunity

Through the research process, there was a clear suggestion regarding the differentiation of the notions of opportunism and opportunity. From the semi structured interviews a large number of interviewees have opposed a different stand regarding the issue of opportunism inside and outside strategic alliances.

According to senior Greek banking executives and the evidence collected from the questionnaire survey, the opportunistic behaviour of a firm was characterized as taking

advantage of a market opportunity. Since we have already established that firms and managers do tend to act based on their firm's best interest the characterization of the behaviour of a firm as opportunistic does not follow from this pre mentioned assumption. Evidence has shown that since firms would seek to maximize their benefits, their actions are based not an opportunistic behaviour but on a manipulation of market opportunities. Since firms do enter alliances so as to benefit their interests, then if market opportunities arise that would imply further interest maximization, firms are likely to act so as to take advantage of the those opportunities.

Therefore as one Greek bank CEO stated:

> "Firms do not act opportunistically but according to market opportunities."

Investigating further, we have seen a trend that alters the notion of opportunistic behaviour and moves it in the direction of 'opportunity chase'. That alternation of the characterization of opportunistic behaviour by practitioners suggested the differentiation of strategic management into aggressive, defensive and passive.

9.3 Aggressive, Defensive and Passive strategic management

As discussed above the examination of the research evidence has differentiated strategic management into three major categories; Aggressive strategic management, defensive strategic management and passive strategic management. Looking at ourdata, we have seen

that there is a difference in the strategic management character that each type of institution uses,based on the firm's strategic intents.

Our material does suggest that strategists do act based on the above threestrategic behaviours. A firm's strategy can be aggressive, defensive or passive. As evidence indicated a firm in a strategic alliance can either be characterized by one style of strategic management or can rotate through all three pre mentioned styles. Let us first analyse the basic assumptions of each of the three different strategic behaviours;

- Aggressive strategic management

As aggressive strategic management or aggressive strategy we definethe strategy that aims purely to serve the firm's best interest even if that is against the benefit of the other allies or against the benefit conferred by the existence of the alliance. Regarding aggressive strategic management, differences in the initial strategic intents can give to a firm an advantage over its allies and hence the partner that behaves aggressively can perform based on its best interest and not for the alliance's best interest. External, internal and actual strategic intents do not match. That implies that the firm changes its strategy without acknowledging its partners' best interest or the alliance's best interest. Reasons for such behaviour can be found hidden in the internal strategic intents. A firm may use aggressive strategy so as to obey its strategic needs using the alliance and its partners.

Our evidence suggests the reasons for a firm to adopt aggressive management behaviour can be the manager's aggressive strategic agenda based on theimmediate needs of the firm's

stakeholders and shareholders, market establishment, immediate power gain or high profits in the short term. We must also acknowledge the existence of a market opportunity which will emerge as an aggressive behaviour and a differentiation of the firm's strategy so as to take advantage of that market opportunity.

- Defensive strategic management

The behavioural strategy that field research suggested and was described by the Extended Co-Evolution model in the Uneven Even extended Co-Evolution model with intra alliance permutations is the existence of defensive strategic management or defensive strategy. The characteristics of the defensive strategy can be found as a reaction to an aggressive strategic behaviour by a partner. A firm in order to protect its benefits and market position, can react defensively so as to protect itself from its partners. In that case internal and external strategic intents do match the initial strategic intents but the actual strategic intents differentiate according to the aggressive partner's behaviour.

- Passive strategic management

By passive strategic management we mean the strategic behaviour of a firm that follows its pre-alliance agreed strategic intents. The firm during the evolution of the alliance is following the strategy that was agreed with its allies and hence the alliance can be described using the basic Co-Evolution Model. There is no strategy differentiation and the firms can Co-Evolve in time without unpredicted differentiations. As discussed in the Co-Evolution model

strategic allies can Co-Evolve over time, in parallel, convergent or divergent ways. In cases of passive strategic management, internal, external and pragmatical strategic intents do match. The firm follows the agreed strategy without sifting from the agreed targets. Passive management can be characterized with the existence of trust inside the alliance, and the luck of opportunistic behaviour.

Despite that, as our field research suggested, a firm may adopt passive strategic management so as to equalize the effects of previous aggressive management behaviour. As one Greek bank Vice Chairman noted:

> "Aggressive strategic management behaviour may bring the desired outcome and benefits to the firm such as growth and market establishment but the reactions of the market against your aggressive behaviour must be neutralized using passive strategic management."

In other words, the firm with passive strategic management behaviour can absorb the effects of the reaction of the market based on its previous aggressive strategic behaviour. This was characterized by several senior bank executives as a means of transition from aggressive strategic management to defensive strategic management.

The variation of strategic behaviours from aggressive, passive and defensive strategic management was reflected in the permutations of ourExtended Co-Evolution model. It is that differentiation of strategic management behaviour that is reflected in the differentiation of the evolution of strategic alliances.

9.4 Pre – Alliance extended Co-Evolution model

The thesis has presented the extended Co-Evolution model. A model that, with its thirteen different permutations, describes a large number of possible scenarios of firm behavior inside an alliance and with the addition of its extensions (size of partners, intra alliance, number of allied partners, internal, external and pragmatical strategic intents), creates a dynamic model of description of alliance Co-Evolution.

The dynamics and capabilities of the Extended Co-Evolution model, offer to the researcher and the practitioner a tool, that with is permutations is able to describe, observe, plot and graph the evolution of strategic alliances. The model gives the ability of examining the behavior of firm cooperation inside the strategic alliance and through the extensions of the model can be applied to a vast number of strategic alliances regardless of the size of partners, the number of allied members, the possibility of creation of intra – alliances and the ability of examining the internal, external and pragmatical strategic intents of the firm.

Despite its port alliance applications the Extended Co-Evolution model can also be used as pre – alliance firm behavior and strategic intent description tool. The model with its basic principles can transform from alliance based evolution model to a firm based model. The evolution of strategic intents of each firm in a strategic alliance can be examined, using the same principles of the Extended Co-Evolution model as the evolution of strategic intents of each firm prior to the alliance. Since firms do exist and evolve in the same market the basic principles of the Extended Co-Evolution model can be applied.

Two or more firms that exist in the same market do evolve over time in parallel evolution. Even if their strategy does not evolve a formation of an alliance among those firms we can argue that they do continue to evolve in parallel directions. In an event of alliance creation we can identify similarities with convergent Co-Evolution.

On the other hand two or more firms that exist in the same market, negotiate for a formation of a strategic alliance and hence their strategic intents do evolve over time in convergent evolution. Their Co-Evolution after the creation of their strategic alliance can be examined using the extended Co-Evolution model.

Finally, two or more firms that exist in the same market evolve over time in convergent evolution following their decision of forming a strategic alliance. The basic principles of the Extended Co-Evolution model do apply for all the above scenarios.

Variations in the market based on size of firms, the number of firms, the possibility of creation of alliances and the ability of examining the internal, external and pragmatical strategic intents of the firm are all been cover with the use of the extensive Co-Evolution model. Therefore the strategic firm behavior in pre and post alliance situations can be examined using the Extended Co-Evolution model principles. The ability of the model to be adjusted in individual firm market behavior as well as firm behavior in strategic alliances, introduces new horizons in firm's market evolution and alliance evolution.

9.5 Contribution to knowledge

The originality of this work is that we took a basic model of strategic alliance evolution and transformed it. We began this process by reading the literature on alliances and investigating on issues of trust and confidence. From these sources, supplemented by personal experience in the banking industry, we generated several new variables, introduced in Chapter 4, and also formulated our understanding of the basic issues of competition versus co-operation in the ideas of balance of trust, and the paradox of confidence, trust and control. Combining these new variables with the original model, we develop our Extended model.

The transformation insights can be summed up in the Table 5. It is a presentation of the differences between the original Co-Evolution model and the Extended Co-Evolution model. Table shows the key elements of both models and provides a collection of factors that suggest the update of the pioneering work of ul-Haq (2005)

The original Co-Evolution model saw the alliance as a unit. It was able to demostrate the evolution of an alliance from its creation to the three basic end results, which are the parallel, convergent and divergent Co-Evolution. The Extended Co-Evolution model on the other hand is looking inside the alliance. It accepts the basic principles of start and end point of evolution of strategic alliances but seeks to examine further the journey between these two points. The extended model looks beyond the limited analysis of the original model and illustrates the behaviour of alliance partners inside an alliance from the establishment of the alliance until its end point (parallel, divergent, and convergent).

Co - Evolution model	Extended Co - Evolution model
Sees alliance as a unit	Looks inside the alliance
A typology of alliance evolution	More dynamic, an exploration of reality
Limited to two companies	Able to deal with more than two companies
Strategic intents not differentiated	Strategic intents differentiated
'Power' of member companies not differentiated	'Power' of member companies differentiated
Opportunism implicit	Opportunism explicit
Not concerned with the interaction of variables	Interaction of variables closely analysed
States three basic developmental outcomes	Seeks to explain outcomes
-	Demonstrates that different variables or configurations may lead to the same outcome
-	Model has value as diagnostic tool
Few variables	Additional variables decisive for underlying outcome (i.e. balance of trust, 'size' of partners)
No notion of an alliance within the alliance	Notion of 'intra alliance'

Table 5: Co-Evolution model vs Extended Co-Evolution Model.

Therefore the Extended Co-Evolution model is more dynamic than the original model. It goes beyond a simple typology of alliance evolution and explores reality. Utilizing the abilities of the Extended Co-Evolution model, scholars and practitioners are able to explore the behavior and reactions of the firms during an alliance evolution. Being able to examine not only the start and end result of a strategic alliance, but the transition between those significant points, gives the model its ability to explore reality.

An important limitation of the original Co-Evolution was its limitation to the dyadic mode of strategic alliances. The importance of the number of players in a strategic alliance has been acknowledged by the literature as a structural dimension that serves both as proximate explanations of cooperation and as target of higher-order strategy to promote cooperation. Besides literature, real life business situations have shown that multi party strategic alliances are more common than alliances with only two members (almost 80% of our survey participants stated that they do exist in alliances with more than two partners). That ability of the Extended Co-Evolution model, has the benefit of examining cases that are beyond the dyadic mode and hence be able to expand its applications to a significantly larger number of cases.

The Extended Co-Evolution model contributed in understanding further the underlying assumptions of strategic intents. As discussed in the body of the thesis in real case scenarios we have to consider the differences and variations of the strategic intents since the expression ‘the manager’s hidden agenda’ is well accepted by scholars and practitioners. Furthermore the Extended Co-Evolution model offered the examination of the combination of external strategic intents and internal strategic intents, the pragmatical strategic intent. The differentiation of strategic intents that was not offered by the original Co-Evolution model

added value to the behavioral analysis of firms' behavior inside the alliance as discussed in the thesis.

While the original Co-Evolution model misses the acknowledgment of the size differentiation between allied partners, the Extended Co-Evolution model recognizes its absence and its importance in alliance evolution. As research indicated in collaborative relationships, the "size" of the partner has a significant effect on the way the partnership co-evolves. An addition that boosts the model's ability of reality exploration of strategic alliances.

Strategic alliances have been recognized by scholars and practitioners as arenas with potential for opportunistic behavior by partners. The notion of opportunist behavior is another missing element from the original Co-Evolution model. As discussed in the thesis, in strategic alliances cooperation is maintained as each firm compares the immediate gain from 'cheating' with the possible sacrifice of future gains that may result from violating an agreement. Therefore the ability that the Extended Co-Evolution model has, by examining situations of opportunistic behavior by allied partners inside a strategic alliance, made a contribution to literature and knowledge.

The contribution to knowledge of the Extended Co-Evolution model compared with the original Co-Evolution model can be identified in the lack of concern of variables interaction on the evolution of a strategic alliance. This is mainly because the original Co-Evolution model bases its analysis on few variables, mainly the evolution of strategic intents. On the other hand, the Extended Co-Evolution model, offers additional variables decisive for any given underlying outcome such as balance of trust between partners, 'size' of partners, 'crowdness' of alliances, intra alliances and so on. Despite the fact that the Extended Co-

Evolution model offers additional variables for the examination of strategic alliances' evolution it offers through its 39 permutations a close analysis of the interaction between variables. The creation of permutations on the Extended Co-Evolution model derives from that interaction of variables.

One important variable that the Extended Co-Evolution model proposed was the variable of intra alliance. As discussed in the thesis, by intra-alliance we imply the creation of an alliance between *some* of the partners in an already existing alliance. The addition of the creation of intra alliances adds insights to the literature on strategic alliance evolution, since it adds to the model variables that are related to intra alliances, such as opportunism, balance of trust between partners, 'size' differentiation and anti-opportunistic behaviour. As explained in the thesis a formation of an intra alliance may occur in situations where 'weak' allied partners need to protect their interest against a 'powerful' partner, cases in which two or more of the players decide to act opportunistically against their allies as well as cases in which partners of an alliance join for their best interest with no intention against their allies or no intentions to affect the balance of the primary alliance. The absence of the variable of intra alliance from the original Co-Evolution model reduces its connection with reality as well as limiting the descriptive ability of the evolution of strategic alliances.

Compared to the original Co-Evolution model, the Extended Co-Evolution model adds value to the existing literature since its 39 permutations examine all the possible combinations, outcomes and behaviours of allied partners of a strategic alliance. The need for a model that will go beyond academic interest and has practical applications in the management of strategic alliances as well as strategic planning and implementation, has been fulfilled by Extended Co-Evolution model that offers practical applications in the examination and

mapping of the behaviour of the firm in a strategic alliance, and can also be used by practitioners and strategists for practice, training, identification and analysis of strategic alliances.

Possibly one of the most valuable contributions of the Extended Co-Evolution model to knowledge is its ability to demonstrate that different variables or configurations may lead to the same outcome. The Extended Co-Evolution model, seeks to explain outcomes compared to the original Co-Evolution model that just states three basic developmental outcomes. Even though both models share the initial principles of the three basic developmental outcomes (parallel, convergent and divergent) the evolution of arriving at those outcomes alters when considering the variables that were proposed in the thesis. While the end state of evolution of a strategic alliance can be a three tier scenario (parallel, convergent and divergent), the alterations of firms strategic intents, the behaviour of allied partners and the complexity of evolutionary pathways that allied firms are able to follow sums up the value of knowledge contribution of the Extended Co-Evolution model.

There were difficulties in verifying the model, both theoretical and operational and these have discussed in Chapter 6. None the less, we did carry out a questionnaire survey across a number of European countries, and interviewed a small number of highly placed executives in one of these. The result is to show a general acceptance of the issues and developments discussed in the thesis.

Thus the Extended Co-Evolution model helps us to understand changes and behaviours on the inside of strategic alliances. It can be used not only theoretically but also diagnostically. It aids our understanding, and is broadly supported by insiders in the industry.

9.6 Conclusion

The thesis has provided new insights into the theory of alliance Co-Evolution over time. The extensions that were added to the Extended Co-Evolution model shifted the limitations of the original model. Additions such as the size of partners, the number of allied members, the possibility of the creation of intra alliances and the ability of examining the internal, external and pragmatical strategic intents of the firm created a tool for explaining alliance behavior that is not only theoretical but practical as well.

The creation of the extended Co-Evolution model has provided a tool to researchers, managers and practitioners, which is able to describe, suggest, examine and provide valuable information on the evolution and direction of the strategic alliance. A concept of alliance Co-Evolution presented by ul-Haq (2005) was further developed so as to respond to real life business situations. The creation of thirteen permutations of strategic alliances situations cover a vast majority of strategic alliance scenarios.

The thesis has also proposed the notion of 'balance of trust' between alliance partners and the paradox of confidence – trust and control between allied partners. The first proposition offers insights in the area of trust issues between allied partners and the second provides a new understanding in the relation of confidence trust and control between partners and their tendency towards opportunistic behavior.

The framework for the proposed Extended Co-Evolution model and for the suggested propositions, was assessed through field research in the European banking sector and completed with interviews of senior bank executives of the Greek banking sector. Field

research provided insights that supported the thesis's propositions and helped to evaluate the validity of the framework of the Extended Co-Evolution model. The thesis was aiming for the development of a model that goes beyond theory to embrace practice. A model that can be used as a diagnostic tool has practical application and the ability to be used to real life business situations. A diagnostic tool, in fact, that can be used for practice, training and the identification of strategic alliance behaviour.

The Extended Co-Evolution model fulfils this aim, but others may well wish and are welcome to develop this area further._

Appendix

Postal and email survey Questionnaire

Cover Letter

Research Summary

Questionnaire

UNIVERSITY OF BIRMINGHAM

Birmingham Business School
University of Birmingham

Dear Respondent,

We are kindly inviting you participate in a research project to study Opportunism in Strategic Alliances in Banking Sector Survey. Along with this letter please find attached a brief summary of our research topic and a short questionnaire that asks a variety of questions about strategic alliances and opportunistic behaviour. We are asking you to look over the questionnaire and, if you choose to do so, complete it and send it back to:

Dr. Rehan ul-Haq
Strategy and Alliance Researcher
Birmingham Business School
University House
Birmingham
B15 2TT

The questionnaire should take you approximately 20 minutes to complete.

The results of this project will be used for the completion of a PhD research by George Charalampopoulos at the University of Birmingham from the United Kingdom. Through your participation we hope to understand the behavior alliance partners of Strategic Alliances under circumstances of opportunistic behavior from their allies. We hope that the results of the survey will be useful for examining opportunistic behavior in Strategic Alliances and hence be able to prevent or react against opportunistic actions.

There is no risk to you if you decide to participate in this survey and we guarantee that your responses will not be identified with you personally and are strictly confidential. The responses are only going to be used to derive results for a PhD research at the University of Birmingham. We guarantee not to share any information that identifies you with anyone outside our research group which consists of Dr. Rehan ul-Haq (PhD supervisor) and George Charalampopoulos (PhD candidate).

We hope that you will take the time to complete this questionnaire and return it. Your participation is voluntary. Regardless of whether you choose to participate, please let us know if you would like a summary of our findings. To receive a summary, please email George Charalampopoulos at george_charalampopoulos@yahoo.com.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact us at:

Dr. Rehan ul-Haq
Tel: +44(0)121 414 3456
Fax: +44(0)121 414 7791
Email: r.ul-haq@bham.ac.uk

George Charalampopoulos
Tel: +44(0)7810034639
Tel: +306942705836
Email: george_charalampopoulos@yahoo.com

We can also provide and electronic version of the questionnaire if requested simply by emailing the above contacts.

This project has been approved by the Business School Board at The University of Birmingham of the United Kingdom.

We appreciate your time!

Statement of Confidentiality

All information that might in any way permit identification of you will be regarded as strictly confidential, will be used for the purposes of operating and evaluating the study, and will not be disclosed or released for any other purposes without your prior consent, except as required by law.

Sincerely.

Dr. Rehan ul-Haq,
Lecturer in Strategic Management
Birmingham Business School
University of Birmingham

George Charalampopoulos
PhD Candidate
Birmingham Business School
University of Birmingham

Summary of Research Topic

Opportunism and Strategic Alliances,
The case of Co-Evolution of Strategic Alliances

A strategic alliance is a relationship of anticipated durability between two or more independent firms, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more partners for their mutual economic advantage

Strategic alliances have been recognized as arenas with potential for opportunistic behavior by partners (Das & Teng, 1998). The incentive to cheat or behave opportunistically in alliances occurs because each partner finds it "advantageous to maximize his own gains at the expense of the venture" (Hennart, 1991), and has proved that all parties involved have an "inalienable de facto right to pursue their own interests at the expense of others" (Buckley & Casson, 1988)

Opportunism has been strongly bonded with the existence of alliances. It refers to "behavior that is self interested and deceptive" (Child *et. al.* 2005). Cooperation between organizations creates a mutual dependence and any self interested action, opportunistic behavior, will create the widely known phenomenon of instabilities in alliances causing a miss-function of the alliance or even the dissolution of alliance. In order to avoid opportunistic behavior by partner firms, organizations use defense mechanisms, control mechanisms, which restrain partners' ability for any actions of opportunism that will harm the alliance's performance or existence.

The literature identifies four major types and motivations of opportunistic behavior that arise from the four different perspectives thought which opportunism has been studied: economical, relational, temporal and managerial. Sources and motivations of opportunistic behavior include the difficulty of relations between the partners, uncertain or declining future prospects, low or declining trust levels, pure competitive opportunism and a poorly structured alliance.

In order to examine changes that a cooperative strategic alliance can experience because of the existence of competitive behavior between the partner firms the authors use the Co-Evolution Model (ul-Haq, 2005). (Please find model's schema in page 5)

The model is based on the fact that during a strategic alliance, participating firms in the alliance co-evolve. The model introduces the three main forms that the evolution of an alliance can take – parallel co-evolution, convergent co-evolution and divergent co-evolution. These three major forms are presented diagrammatically in the following schema.

As ul-Haq (2005) explains, parallel co-evolution "is where the strategic intents of the two firms are evolving along paths that allow the continuation of the strategic alliance in broad by the same nature as at establishment. The initial matching of intents continues and evolves over time at the same rate, in a similar direction" (ul-Haq, 2005). Parallel co-evolution also covers any minor changes in the speed of evolution of the individual intents or the degree of

parallel evolution since according to ul-Haq (2005) can be adjusted by the "springiness" or flexibility of the strategic alliance. Following the later statement ul-Haq (2005) distinguishes that in case that these changes of intent are in a greater degree then the later two cases will occur as being described by the model as well as being showed diagrammatically.

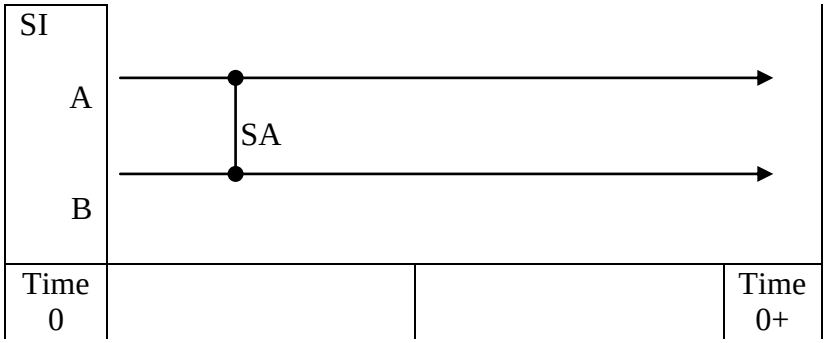
In the case of converged co-evolution, the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened (ul-Haq, 2005). In cases that convergent co-evolution occurs in an alliance, that will lead to the merger of the firms or the acquisition of one firm from the other and hence to the dissolution of the alliance. It is important to note that in cases of convergent co-evolution the alliance will move to a "hierarchical" nature.

The exact opposite case occurs in divergent co-evolution. That means that the strategic intents of the two firms diverge over time and the rationale behind the strategic alliance is weakening (ul-Haq, 2005). In that case as well as in the convergent co-evolution the alliance will break down. In divergent classification the alliance will move to a "market" nature.

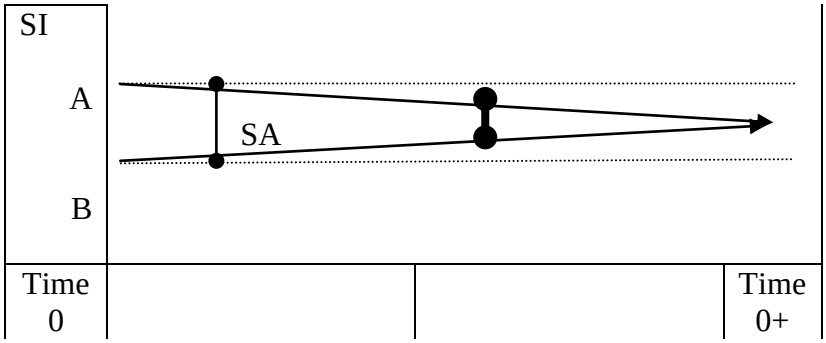
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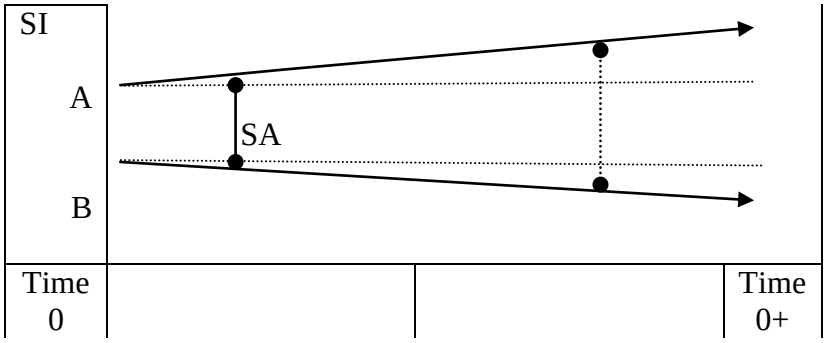
Co-Evolution Model (ul-Haq, 2005)



Parallel Co-Evolution



Convergent Co-Evolution



Divergent Co-Evolution

Key:

SI = Strategic Intent
SA = Strategic Alliance
A = Alliance Member A
B = Alliance Member B
Time 0 = Time at Start of Alliance = Co-Alignment
Time 0+ = Time in the Future
→ = Internal Strategic Intent
..... = External Strategic Intent

Birmingham Business School
University of Birmingham

CONFIDENTIAL QUESTIONNAIRE

Opportunism in Strategic Alliances in Banking Sector Survey

The questionnaire aims to elicit information regarding the behavior and attitudes of alliance members inside a strategic alliance in the European Banking sector.

Please complete this questionnaire, following each question's instruction and return it to:

George Charalampopoulos
C/O
Dr. Rehan ul-Haq
Strategy and Alliance Academic
Birmingham Business School
University of Birmingham
University House
Birmingham
B15 2TT
U.K.

We thank you in advance for taking the time and effort to complete this questionnaire. Your response is valuable for the completion of our study.

The questionnaire will take approximately 20 minutes to complete.

Statement of Confidentiality

All information that might in any way permit identification of you will be regarded as strictly confidential, will be used for the purposes of operating and evaluating the study, and will not be disclosed or released for any other purposes without your prior consent, except as required by law.

1) Is your firm a member of a strategic alliance? (Tick as appropriate)

☐ Yes

☐ No

If No please explain briefly any reasons that your firm is not a member of a strategic alliance (If your answer is NO, there is no need to complete the following parts of the questionnaire but please return the questionnaire):

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2) How many alliance partners exist in the strategic alliance including your company? (Tick as appropriate)

☐ 2

☐ 3

☐ 4

☐ More than 4

3) Has ever your firm's best interest came in conflict with the alliance's best interest? (Tick as appropriate)

☐ Yes

☐ No

If Yes, please explain briefly the/a situation that your firm's best interest came in conflict with the alliance's best interest

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4) In order to serve your firm's best interests that were in conflict with the alliance's best interest please explain briefly your company's actions and strategic behaviour.

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5) What was the effect of your actions in the life and continuation of the strategic alliance as well as the effect on the relationship with the alliance members?

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6) In the above scenario would you characterize your behaviour as: (Tick as appropriate)

☐ Non-opportunistic due to alliance's regulation

☐ Opportunistic

☐ Defensive reaction against a partner's possible future opportunistic behavior

☐ Aggressive reaction against an opportunistic behavior of a partner

☐ None of the above

Please explain briefly your choice.

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7) Do you believe that your strategic alliance allies are: (Tick as appropriate. You may tick more than one answer.)

☐ Making good faith effort to behave in accordance with any commitments

☐ Are honest with negotiations with the rest of the alliance members

☐ Will take advantage of the other partner firms even when an opportunity is available.

8) In the above question (Q7), the characteristics that you choose for your allies, do exist for all the parties of the alliance? (Tick as appropriate)

☐ Yes

☐ No

If No, please elaborate:

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9) Identify <u>one</u> of the following components that you believe is more important for the existence of your strategic alliance: (Tick as appropriate)

☐ Dependability – expectations that the partner will act in the alliances best interest

☐ Predictability – consistency of actions by the partner

☐ Faith – belief that the partner will not act opportunistically even in unforeseen or novel situations

10) In the case that your firm exists in an alliance with three or more parties do you believe that the bonds and the level of trust are equally distributed between all the partner firms? (Tick as appropriate)

☐ Yes

☐ No

If No, please elaborate:
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11) Do you believe that your firm is more connected (in terms of trust) with one of the partner firms more than the others? (Tick as appropriate)

☐ Yes

☐ No

If Yes, please elaborate:
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12) In a situation where your firm have higher levels of trust with one the allies and that this relation creates a relative advantage against the other allied firms, would you, if the opportunity arose, with the cooperation of the closest firm behave opportunistically against the other allies? (Tick as appropriate)

☐ Yes

☐ No

If Yes, please elaborate:

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13) As soon as the level of your firm's personal interest exceeds the level of trust and confidence between the partners (and that your firm is able to overcome all protective measures and limitations) would your firm behave opportunistically? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:

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14) Under which circumstances in the above scenario would you consider your firm to behave opportunistically?

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15) Do you believe that a partner can change its behavior and even behave opportunistically as a reaction to its ally after a miss-evaluation and miss-understatement of the ally behavior? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:

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16) Do you believe that the above scenario can exist even in cases of high levels of trust between allies? (Tick as appropriate)

- ☐ I strongly agree
- ☐ I agree
- ☐ I disagree
- ☐ I strongly disagree
- ☐ None of the above

Please elaborate your answer:
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Co-Evolution of Strategic Alliances

17) We argue that not all the partners in a strategic alliance have the same size and relative power inside the alliance compared with the other allies. Do you believe that this difference in size and relative power has a significant effect on the alliance evolution? (Tick as appropriate)

- ☐ I strongly agree
- ☐ I agree
- ☐ I disagree
- ☐ I strongly disagree
- ☐ None of the above

Please elaborate your answer:
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18) Do you believe a firm that has greater relative power against the rest of the alliance partners will make use of its power and affect the alliance according to its own best interest? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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19) Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the alliance evolution over time? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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20) Do you believe a firm that has greater relative power against the rest of the alliance partners is able to affect the evolution of the weak partners, able to change its strategic intents and even able to pull them towards and acquire them according to its own firm interest? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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21) Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the strategic intents of the rest of the partners and hence the evolution of the alliance over time?(Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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22) In the scenario that the strong partner in the strategic alliance is making use of its power, do you believe that the rest of the weak allies can create an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner. (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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23) Would you consider the above reaction of the weak firms as an opportunistic behavior? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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24) Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and even pulls them towards itself resulting a hostile acquisition. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the above scenario and hence able to change the hostile acquisition to a merger of the new companies? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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25) Would you consider the above reaction of the weak firms as an opportunistic behavior? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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26) Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intents? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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27) Would you consider the above reaction of the weak firms as an opportunistic behavior? (Tick as appropriate)

☐ Yes

☐ No

Please elaborate your answer:
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Internationalisation Strategy

28) How would you classify your bank's international strategy?

☐ Country Centered Player

☐ Geographic Niche Player

☐ Opportunistic International Challenger

☐ Continental Leader

☐ World-Wide Specialist

☐ Quasi-Global Player

☐ Transnational Restructures

☐ Global Shapers

Please refer to "International Strategic Configurations (adopted from Calori et al 2000)" template on page 13.

Please use this space to add any comments regarding your answer:
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29) Does the international strategy employed differ at the product level and if so how?

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General Comments

30) Please use the following space to add any comments.

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Administration

31) Would you like us to send you a free copy of the Opportunism in Strategic Alliances in Banking Sector Survey Report?

☐ Yes

☐ No

32) Would you be willing, in principle to participate in a follow up phone interview?

☐ Yes

☐ No

33) Would you please provide the following information for our confidential records?

Name: ……..……..
Job Title: ……..…….
Company Name: ……..…….
Company Address: ……..……..
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Telephone No: ……..….
Email: ……

Thank you for your participation in this survey.

Please return it to: George Charalampopoulos
C/O
Dr. Rehan ul-Haq
Strategy and Alliance Academic
Birmingham Business School
University of Birmingham
University House
Birmingham
B15 2TT, U.K.

References:

- ul-Haq, R., (2005). *Alliances and Co-evolution: Insights from the Banking Sector*', Palgrave Macmillan: London and New York.

- Charalampopoulos, G., ul-Haq, R., *Dilemmatic Opportunistic Behaviour As A Means to Affront Opportunistic Behaviour in Strategic Alliances*, BAM Conference, Warwick Business School, September 2007.

Postal and E-Mail Questionnaire Responses

	Yes	percentage	No	percentage
Q1	66	67.3%	32	32.7%

Table 6: Postal and email questionnaire responses of question 1. Is your firm a member of a strategic alliance?

	Number of alliances	responses	percentage
Q2	1	15	22.7
	2	9	13.6
	3	19	28.8
	4	11	16.7
	more than 4	12	18.2

Table 7: Postal and email questionnaire responses of question 2. How many alliance partners exist in the strategic alliance including your company?

	Yes	percentage	No	percentage
Q3	48	64.9%	26	35.1%

Table 8: Postal and email questionnaire responses of question 3. Has ever your firm's best interest came in conflict with the alliance's best interest?

	Tier 1	percentage	Tier 2	percentage
Q4	29	60.4%	19	39.6%

Table 9: Postal and email questionnaire responses of question 4. In order to serve your firm's best interests that were in conflict with the alliance's best interest please explain briefly your company's actions and strategic behaviour. (Tier 1 – Yes, Tier 2 – No)

	Tier 1	percentage	Tier 2	percentage	Tier 3	percentage
Q5	14	29.2%	16	33.3%	18	37.5%

Table 10: Postal and email questionnaire responses of question 5. What was the effect of your actions in the life and continuation of the strategic alliance as well as the effect on the relationship with the alliance members? (Tier 1 - termination of the alliances and the relationship with the partners, Tier 2 - positive negotiation of the firm's and alliance's best interest with the partners through better understanding of key drives for the continuation of the alliances, Tier 3 - a problematic relationship between the partners for a limited time but with no dissolution of the alliance)

	Tier 1	percentage	Tier 2	percentage	Tier 3	percentage	Tier 4	percentage	Tier 5	percentage
Q6	12	25.0%	2	4.2%	28	58.3%	6	12.5%	0	0.00%

Table 11: Postal and email questionnaire responses of question 6. In the above scenario would you characterize your behaviour as: Tier 1 - Non-opportunistic due to alliance's regulation, Tier 2 – Opportunistic, Tier 3 - Defensive reaction against a partner's possible future opportunistic behavior, Tier 4 - Aggressive reaction against an opportunistic behavior of a partner, Tier 5 - None of the above

	Tier 1	percentage	Tier 2	percentage	Tier 3	percentage
Q7	39	34.5%	41	36.3%	33	29.2%
						(44.6% of the 74 sample)

Table 12: Postal and email questionnaire responses of question 7. Do you believe that your strategic alliance allies are: Tier 1 - Making good faith effort to behave in accordance with any commitments, Tier 2 - Are honest with negotiations with the rest of the alliance members. Tier 3 - Will take advantage of the other partner firms even when an opportunity is available.

	Yes	percentage	No	percentage
Q8	70	94.6%	4	5.4%

Table 13: Postal and email questionnaire responses of question 8. In the above question (Q7), the characteristics that you choose for your allies, do exist for all the parties of the alliance?

	Tier 1	percentage	Tier 2	percentage	Tier 3	percentage
Q9	30	40.5%	38	51.4%	6	8.1%

Table 14: Postal and email questionnaire responses of question 9.) Identify <u>one</u> of the following components that you believe is more important for the existence of your strategic alliance: Tier 1 - Dependability – expectations that the partner will act in the alliances best interest, Tier 2 - Predictability – consistency of actions by the partner, Tier 3 - Faith – belief that the partner will not act opportunistically even in unforeseen or novel situations

	Yes	percentage	No	percentage
Q10	7	30.4%	16	69.6%

Table 15: Postal and email questionnaire responses of question 10. In the case that your firm exists in an alliance with three or more parties do you believe that the bonds and the level of trust are equally distributed between all the partner firms?

	Yes	percentage	No	percentage
Q11	16	69.6%	7	30.4%

Table 16: Postal and email questionnaire responses of question 11. Do you believe that your firm is more connected (in terms of trust) with one of the partner firms more than the others?

	Yes	percentage	No	percentage
Q12	34	46.0%	40	54.0%

Table 17: Postal and email questionnaire responses of question 12. In a situation where your firm have higher levels of trust with one the allies and that this relation creates a relative advantage against the other allied firms, would you, if the opportunity arose, with the cooperation of the closest firm behave opportunistically against the other allies?

	Yes	percentage	No	percentage
Q13	44	59.5%	30	40.5%

Table 18: Postal and email questionnaire responses of question 13. As soon as the level of your firm's personal interest exceeds the level of trust and confidence between the partners (and that your firm is able to overcome all protective measures and limitations) would your firm behave opportunistically?

	Yes	percentage	No	percentage
Q15	68	91.90%	16	8.10%

Table 19: Postal and email questionnaire responses of question 15. Do you believe that a partner can change its behavior and even behave opportunistically as a reaction to its ally after a miss-evaluation and miss-understatement of the ally behavior?

	I strongly agree	percentage	I agree	percentage	I disagree	percentage	I strongly disagree	percentage	None of the above	percentage
Q16	3	4.0%	62	83.8%	8	10.8%	1	1.4%	0	0.00%

Table 20: Postal and email questionnaire responses of question 16. Do you believe that the above scenario can exist even in cases of high levels of trust between allies?

	I strongly agree	percentage	I agree	percentage	I disagree	percentage	I strongly disagree	percentage	None of the above	percentage
Q17	16	21.6%	53	71.6%	4	5.40%	1	1.4%	0	0.00%

Table 21: Postal and email questionnaire responses of question 17. We argue that not all the partners in a strategic alliance have the same size and relative power inside the alliance compared with the other allies. Do you believe that this difference in size and relative power has a significant effect on the alliance evolution?

	Yes	percentage	No	percentage
Q18	69	93.2%	5	6.8%

Table 22: Postal and email questionnaire responses of question 18. Do you believe a firm that has greater relative power against the rest of the alliance partners will make use of its power and affect the alliance according to its own best interest?

	Yes	percentage	No	percentage
Q19	66	89.2%	8	10.8%

Table 23: Postal and email questionnaire responses of question 19. Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the alliance evolution over time?

	Yes	percentage	No	percentage
Q20	66	89.2%	8	10.8%

Table 24: Postal and email questionnaire responses of question 20. Do you believe a firm that has greater relative power against the rest of the alliance partners is able to affect the evolution of the weak partners, able to change its strategic intents and even able to pull them towards and acquire them according to its own firm interest?

	Yes	percentage	No	percentage
Q21	64	86.5%	10	13.5%

Table 25: Postal and email questionnaire responses of question 21. Do you believe a firm that has greater relative power against the rest of the alliance partners can determine and change the strategic intents of the rest of the partners and hence the evolution of the alliance over time?

	Yes	percentage	No	percentage
Q22	48	64.9%	26	35.1%

Table 26: Postal and email questionnaire responses of question 22. In the scenario that the strong partner in the strategic alliance is making use of its power, do you believe that the rest of the weak allies can create an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) so as to gain equal or greater relative power and hence able to control the evolution of the alliance and limit the effect of the initial strong partner

	Yes	percentage	No	percentage
Q23	13	17.6%	61	82.4%

Table 27: Postal and email questionnaire responses of question 23. Would you consider the above reaction of the weak firms as an opportunistic behavior?

	Yes	percentage	No	percentage
Q24	68	91.9%	6	8.1%

Table 28: Postal and email questionnaire responses of question 24. Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and even pulls them towards itself resulting a hostile acquisition. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the above scenario and hence able to change the hostile acquisition to a merger of the new companies?

	Yes	percentage	No	percentage
Q25	32	43.2%	42	56.8%

Table 29: Postal and email questionnaire responses of question 25. Would you consider the above reaction of the weak firms as an opportunistic behavior?

	Yes	percentage	No	percentage
Q26	64	86.5%	10	13.5%

Table 30: Postal and email questionnaire responses of question 26. Assuming the same scenario with Q22 that the strong partner in the strategic alliance is making use of its power and affects the evolution of the alliance as well as changes the strategic intents of the weak partners and the strategic intents of the whole alliance. Would you consider the creation of an intra alliance (alliance inside the alliance with the creation of a new firm after the merger of all the weak firms) between the weak partners so as to able to control the strong partner and gain the power and ability to affect the strong partner and force it to return to its original strategic intents?

	Yes	percentage	No	percentage
Q27	50	67.6%	24	32.4%

Table 31: Postal and email questionnaire responses of question 27. Would you consider the above reaction of the weak firms as an opportunistic behavior?

	Bank name	Country Name	Web Site Address	Specialisation (General)	Specialisation (Country Specific)
2	Alpha Bank AE	GREECE	www.alpha.gr	Commercial Bank	Commercial Bank
3	Aspis Bank SA	GREECE	www.aspisbank.gr	Commercial Bank	Commercial Bank
4	Attica Bank SA	GREECE	www.atticabank.gr	Commercial Bank	Commercial Bank
7	Emporiki Bank of Greece SA	GREECE	www.emporiki.gr	Commercial Bank	Commercial Bank
8	General Bank of Greece SA	GREECE	www.geniki.gr	Commercial Bank	Commercial Bank
9	Hellenic Postbank SA	GREECE	www.postbank.gr	Savings Bank	Commercial Bank
10	Marfin Egnatia Bank SA	GREECE	www.egnatiabank.gr	Commercial Bank	Commercial Bank
11	National Bank of Greece SA	GREECE	www.ethniki.gr	Commercial Bank	Commercial Bank
12	Piraeus Bank SA	GREECE	www.piraeusbank.gr	Commercial Bank	Commercial Bank

Table 32: Bank List of participants of the thematic Semi – Structured Interviews

References - Bibliography

Reference list - Bibliography

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