Introduction

It has been argued that due to the growing complexity of production and accelerated technological development, most firms need to find partners to keep up in the era of globalized competition. This state of affairs has been labeled “alliance capitalism” (cf. Dunning, 1995). Alliances are the connecting elements within global value chains, where the production of a good or service for a final customer is the result of a network of interfirm cooperative arrangements. Even if in many cases alliance partners maintain a formal supplier-buyer relationship, any type of bespoke B2B product or service that requires some adaptation in quality or delivery mode beyond the commodity standards implies a mutual dependency between the partners. In those cases, arms-length contracting is insufficient for ensuring effective coordination; the effective setup and management of such collaborative ties becomes an important issue that can turn into a competitive advantage for firms (Ireland, Hitt, & Vaidyanath, 2002). This chapter presents a microlevel view on how such alliances are set up and kept functioning, through negotiation.

Strategic Alliances Between Contracts and Negotiations: The academic literature on strategic alliances has focused far more on contracts than on negotiation. Even a book chapter that revolves around incomplete contracts
(Sumo, Duysters, van der Valk, & van Weele, 2014) fails to address the counterpart of such supposed incompleteness, which is of course a constant process of inter-partner negotiations. This bias is caused by the dominance of certain management theories for describing alliance-related phenomena, namely agency theory, game theory, and transaction cost economics (e.g., Parkhe, 1993). All these theoretical approaches deal with structures and outcomes at the organizational level, and quite naturally combine with such abstract terms as “relational governance” within alliances (cf. Larsen & Lyngsie, 2017). Even the umbrella term “alliance capability” (cf. De Man, Duysters, & Saebi, 2010), which has connected research on strategic alliances with the capability literature, does not necessarily focus on concrete actions such as negotiation, although Schreiner, Kale, and Corsten (2009) do consider such process categories as coordination, communication, and bonding. However, the lack of scholarly attention to micro-processes within alliances seems to be congruent with the fact that “one of the main reasons for alliance failure can be found in managers’ inability to address relational problems arising after the contractual agreement,” as Comi and Eppler (2015, p. 75) summarize the literature on alliance management. While a classic how-to book on alliances such as Kuglin and Hook (2002) gives far greater weight to contracts (mentioned 18 times) than to negotiation (mentioned 6 times), the mentality of alliance specialists seems to be changing: a recent textbook on alliances also favors the design of the contract, but insists on the necessity of renegotiation (Mesquita, Rogzzini, & Reuer, 2017).

By contrast, negotiation processes usually do take place, in practice, and should be framed at the individual or small-group level. It is thus fortunate for the training of current and future managers that other textbooks on alliances recognize the importance of negotiation processes by dedicating a whole chapter to either the initial negotiation (Tjemkes, Vos, & Burgers, 2017) or the “mutual adjustment and continuous negotiation” (De Man, 2013, pp. 167–179).

**Defining “Strategic Alliances”:** *Strategic alliances* is a rather broad term that covers “a variety of interfirm cooperation agreements, ranging from shared research to formal joint ventures and minority equity participation” (Bartlett & Beamish, 2018, p. 346). In all such cases, alliances involve “flows and linkages that utilize resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals” (Parkhe, 1991, p. 581). Alliance partners might join forces to cover larger markets, to share risk and investment costs, to share knowledge, or to specialize in one area while leaving another one to a partner. This chapter deals with how firms negotiate such alliance agreements and how negotiation is a central
part of interaction between the partners once the collaboration is under way, following Vlaar, Klijn, Ariño, and Reuer’s (2010) distinction between negotiation as pre-formation processes and (re)negotiation as a post-formation process.

**Structure of this chapter:** After this introduction, the section “Types of Strategic Alliances” offers a classification of strategic alliances into four dimensions: Scope of collaboration, degree of participation, partner (a)symmetry, and number of partners. The section on “Elements to Negotiate for Setting Up a Strategic Alliance” explains the elements that need to be negotiated for setting up a strategic alliance. The section “Alliances as an Ongoing Exercise in Negotiation” presents alliances as an ongoing exercise in negotiation. The final section presents conclusions and recommendations.

**Types of Strategic Alliances**

For setting up a strategic alliance, the future partners not only need to find each other and try to ascertain as much as possible about their counterparts, they are also required to engage in a series of negotiations in order to establish the other party’s willingness to cooperate, to build trust, and to work out the exact shape and conditions of the partnership (cf. Vlaar et al., 2010). Alliances can assume a dazzling number of forms. The following paragraphs present a rough sorting pattern, which allows the visualization of some aspects that influence the negotiation of the different types of partnerships.

**Scope of Activities in the Value Chain:** Within a material value chain, ranging from the extraction or production of raw materials to the delivery to the end customer, suppliers and buyers have a structural incentive to work closely with each other when they provide highly customized goods and services. This is the case for any manufacturing firm supplying customized inputs for the producer of an intermediate or final good, but also for many services like software, logistics, distribution, or bespoke forms of financing or insurance. Typical partnership arrangements are thus designed for contract farming, contract manufacturing, third-party logistics, business process outsourcing, franchising, or the setup of turnkey operations, among others. For each such collaboration, the precise scope of activities and the mechanisms of mutual influence between the partners need to be negotiated. In the case of a turnkey operation for a power plant, for example, the agreement usually goes far beyond technical specifications and includes specific delivery milestones, warranties, and financing details. Such an arrangement might include many idiosyncratic elements, so there is a lot of room for inter-partner negotiation.
On the other extreme, many franchise contracts—such as for restaurants, hotels, or convenience stores—are based on boilerplate agreements where franchisors use their bargaining power to reduce negotiation and other transaction costs to a minimum. It is also common to define a time frame for the alliance, either with or without an option for continuation at the end of the originally defined period.

**Degrees of Equity Participation:** Depending on the degree of equity participation of the partners, alliances can be classified as mere contractual alliances without any equity participation, minority equity participation, and joint ventures (JVs). Maybe the most emblematic form of an alliance is a JV, where two or more partners bring in equity and other resources to form a new, formally independent entity. A well-known international JV was Sony Ericsson, a mobile phone manufacturer set up as a 50:50 partnership between the Japanese consumer electronics firm and the Swedish telephone network equipment manufacturer. The purpose for setting up such a JV is often to expand the partners’ businesses into new areas, which need a certain degree of independence from the parent companies. On the other hand, minority equity participations are often set up to provide financial stability to a partner perceived as vitally important in current business or representing a technological or market option for the future. For example, a pharmaceutical company might take a financial interest in a small research lab that needs extra funding to advance its testing activities. How much the minority partner invests and what exact decision rights accompany such investment is one of the key issues to be negotiated. The most commonly encountered forms of strategic alliances, however, do not imply an equity investment by any of the partners and thus do not provide opportunities for directly intervening in the counterpart’s affairs. Contracts need to be negotiated in detail and revised whenever circumstances change.

**Relative (A)symmetry of the Alliance Partners:** Negotiations for setting up strategic alliances may be subject to important power imbalances, where the larger or financially healthier partner can practically impose conditions (and prices) on the smaller one. Another factor contributing to power imbalance can be one partner’s ties to a network, for example, in those cases where government connections are key for the success of the collaboration. DeGhetto, Sutton, Holcomb, and Holmes (2015) argue that personal ties can help SMEs from emerging economies to increase their bargaining power against multinational enterprises. Prashantham and Birkinshaw (2008) have even formulated tips for “dancing with gorillas,” so that local SMEs could afford to enter such relationships and then extend them without jeopardizing their own existence. In other cases, such as typical franchising relationships in
service-intensive industries, however, the franchisor’s power is so overwhelming that individual franchisees must accept standard contracts that dictate low profit margins and allow the franchisor to intervene in details of the franchisee’s operations. Under such circumstances, negotiation latitude will usually be reduced to a minimum.

**Dyadic Alliances versus Multiparty Alliances:** Many alliances are dyadic in nature, that is, they involve two partners that each play a clearly determined role within the relationship. One key issue when setting up these dyadic alliances is to delimit who does exactly what in order to create a positive-sum collaboration. The ensuing negotiation will become more complicated to the degree that the two partners’ scopes of activity and capability are similar, creating a tension between collaboration and competition (for details of the dynamics in co-opetitive arrangements, see Brandenburger & Nalebuff, 1997). Partners are thus advised to consider and negotiate very carefully what they want to share and which parts of the business they want to keep away from their partners.

On the other hand, there are several forms of multiparty alliances that imply both initial and ongoing negotiation processes. The following short paragraphs discuss three types of multiparty alliances, a list that of course could be extended to a whole chapter. In the airline industry, most major full-service companies based in developed and emerging economies are part of one of the world’s leading three alliances: Star Alliance, SkyTeam, and Oneworld. Such alliances offer their members advantages on both the resource side and the market side: Through code sharing, joint use of facilities, and supplier bundling, member airlines realize significant economies of scale. The increase of the network, on the other hand, allows for capturing a larger portion of the global air travel market, as passengers are steered to connecting with one of the partners. The largest airline alliance in the world is Star Alliance, which was created by only five member companies in 1997 but has since grown to 28 members as of March 2018. This extraordinary growth went from a negotiation-based approach to a formal structure including a full-time management team set up in 2000, a common IT platform launched in 2005, and a proprietary booking engine implemented in 2009 (Star Alliance, 2017). For most member airlines—especially the leading ones, Lufthansa and United—this alliance has been a boon, although there are some less successful examples, like Mexicana, which left the alliance in 2004 only to file for bankruptcy six years later, and Brazil’s Varig, whose membership was suspended when it ran into financial trouble. Details of negotiations on entering or leaving the alliance are normally not made public, so one can only imagine what has been going on behind closed doors.
Large infrastructure projects can also be framed as temporary alliances between the parties involved, which usually include engineering companies and different types of building contractors. Often called a consortium, such project-based interfirm agreements have a clearly delimited purpose and are usually disbanded once the goals are achieved, although the same partners might meet up again for different assignments. The project management approach usually emphasizes planning, organizing, and controlling (cf. Cleland & Gareis, 2006), while reports from the field emphasize the importance of negotiation to finish complicated projects with multiple partners, such as the expansion of the Panama Canal (van Marrewijk, Ybema, Smits, Clegg, & Pitsis, 2016). Even a relatively standard project such as the construction of a new metro line in Monterrey, Mexico, required the cooperation between a local construction company, a German-based electric control outfitter, and a Canadian-based vehicle manufacturer, who had to negotiate both among each other and facing local authorities, including the contracting entity.

Within the Japanese economy, business groups known as *keiretsus* have long played a considerable role (cf. Todeva, 2005). There are vertical *keiretsus* such as Toyota, which works with a network of exclusive providers, with whom it has multiple financial ties on top of the technical and supply relationships. Horizontal *keiretsus* such as Mitsubishi and Sumitomo operate in many different fields, working together through a common bank and sometimes a trading firm. The firms are connected by a network of personal contacts and cross-holding of shares. Negotiations within the network are notoriously confidential, as one of the key concerns is to keep outsiders at bay.

*Intercultural Alliances:* The inherent difficulties of having to work two or more organizations toward a common goal can be compounded when there are considerable cultural differences between the partners. Such differences come to the fore in negotiation behavior, for example, when members of individualistic cultures meet with collectivists, who are often more relationship-oriented than task-oriented. According to Gammelgaard, Kumar, and Worm (2013), such cultural differences influence process discrepancies, outcome discrepancies, issues of trust, and the decision of whether to renegotiate or exit the alliance in case of dissatisfaction. Cultural differences also appear with regard to the meaning of the initial contract, for example, “signing a contract with the Chinese may mean the beginning of real negotiations” (Chen, 2008, p. 278), an approach that would probably lead to legal conflict in contract-based societies such as the USA.
Elements to Negotiate for Setting Up a Strategic Alliance

**Object and Limits of the Collaboration:** The first topic to negotiate for in a future alliance agreement is the precise purpose and scope of the collaboration, that is, which products to manufacture, which services to deliver, or which technologies to develop. At this point, the future partners usually also define who contributes which part to the effort, concerning funding, technology, and critical personnel, although these contributions often need to be modified once the alliance is functioning. The efforts that are expended by each of the parties should lead to a corresponding split of future results, which is another vital issue in the initial negotiation. Since no agreement can foresee all possible future events, the agreement should also set up a governance structure where the decision rights and the obligations of the parties are defined in detail. Finally, the alliance agreement usually includes a time horizon, which may determine periodic reviews, and a termination date, which can include or not an option for renewal. All these issues are subject to negotiation, which of course requires considerable time if done thoroughly. Failure to discuss the points listed earlier will undoubtedly require further negotiation and may lead to open conflict when parties disagree about what they thought was the precise content and spirit of the agreement.

**The Degree of Formalization and Standardization:** Depending on the experience of the partners, the degree of certainty about market and technology developments, and the faith in the rule of law in the corresponding countries, partners will strive to stipulate the alliance in greater or less detail. In practice, it would be somewhat time-consuming and legally challenging to devise such agreements from scratch. Partners with ample alliance experience might use their previous agreements as models for the one under negotiation, while for other, less complicated cases, there is a significant number of templates available. For example, both Llamazares (2010) and Shippey (1998) offer books with illustrations of contracts for international distribution, consulting, licensing, technology transfer, and so forth.

Although there is general agreement on the fact that all contracts are necessarily incomplete and cannot cover all possible future events, scholars don’t quite concur regarding the benefits of pushing for further formalization. Some alliance researchers from Western Europe with its relatively well-functioning legal systems “assume […] that the more specified the legal agreement, the better the alignment of goals and behavior and the lower the risk of opportunistic behavior” (Neumann & Bachmann, 2011, p. 163). Similarly, Reuer
and Ariño (2002) found that contractual safeguards reduced the probability of renegotiating alliance terms for a sample from Spain. On the other hand, a prominent alliance researcher focusing on India—a country with a relatively weak legal system—states that “rigorous contracts at best will be moderately effective in deterring type-2 [i.e., high relational risk/short deceit horizon] deceitful behavior” (Das, 2005, p. 711). This discrepancy in learned opinions is a reminder that jurisdiction is a major concern; indeed, most alliance contracts contain a clause determining where partners could take each other to court if one of the partners feels compelled to do so.

A special consideration for negotiating such agreements is the question of the degree to which legal professionals should be involved in the process of hammering out a deal. In a highly legalistic and litigious system such as the USA, omitting a detailed legal review of contract terms would be considered negligent and potentially costly for any party entering such agreements. On the other extreme, traditional Japanese firms would not attach a lot of importance to the written contract; in fact, bringing in lawyers in the early phases of negotiation might be considered a show of distrust that could ruin the building of a harmonious relationship, which is regarded as the main purpose of such negotiations.

When alliance partners hail from countries with very different legal backgrounds, the question arises as to which legal system to apply. Contracts often contain a specific clause stipulating jurisdiction for the case of legal disputes. Of course, each of the partners would prefer to have home advantage in legal matters so that the jurisdiction clause may reflect power relationships in the alliance. However, when cultural distance is high and legal systems are very different, the outcome often seems to be a less detailed contract (cf. Delerue & Sicotte, 2018) and alliance partners from countries where legal protection is doubtful—Mexico, for example—will place an increased emphasis on trust (cf. Teegen & Doh, 2002).

In general terms, contracts that are written too “tightly” might be a hindrance for specific goals of the alliance that require innovation. For this reason, Sumo et al. (2014) point out the benefits of incomplete contracts, which allow for flexibility and freedom in the implementation of the agreement. There is also a possible adverse effect of too many legal details in contracts, as partners might focus more on loss prevention than on value creation, leading to suboptimal outcomes in practice (cf. Siebel, 2014).

**Containing the Partners’ Opportunism:** As explained earlier, contracts alone are insufficient to make sure that the partners will not take advantage of each other. Researchers thus insist on the importance of building trust (cf. Neumann & Bachmann, 2011) early on in the process. In this sense, the
negotiation process itself can be viewed as an exercise in gradual trust building, following the rules for mutual information disclosure and consideration of both parties’ interests. When one of the partners feels that the counterpart does not apply rules of fairness in the negotiation, the alliance might not be established, despite lengthy negotiations aiming toward this goal (cf. Ariño & Ring, 2010). The rules for establishing trustful relationships are described in most negotiation textbooks under the heading of “integrative negotiation” (e.g., Lewicki, Barry, & Saunders, 2015) and do not require further explanation in this chapter. However, Lui and Ngo (2004) were able to show that it is necessary to distinguish between competence trust and goodwill trust, and that only the latter can be a substitute for contractual safeguards. Similarly, from a detailed case study about a failed alliance in the Scandinavian financial service industry, Lueg and Pedersen (2014) conclude that output and behavioral controls reduce trust, while social controls would offer the opportunity for building trust.

Applying the dual concerns model for negotiation, Das and Kumar (2011) state that a problem-solving strategy is superior for the formation, operation, and outcome of strategic alliances, if compared to the alternative strategies of contending, yielding, and compromising. However, Das and Kumar (2011) base their model on the simplifying assumption that the partners’ behaviors will be symmetrical, while for the case where one of the partners does not pursue a cooperative strategy, the other one may be better off applying a contending or compromising approach. Under the best scenario, a cautious collaboration will help with building trust, so that over the long term, the partners will engage in mutual problem-solving.

The assumption that familiarity necessarily breeds trust is contradicted by the many experiences of alliances that end in less than friendly separations or that chug on only because one of the partners decides that suffering continued abuse is better than separation. For example, Western car companies in China are forced by government authorities to enter JVs with local partners, and in some instances they have reported patent infringement committed by their domestic partner. Such was the case with Volkswagen and its long-term partner FAW (Handelsblatt, 2012, July 27). In such cases, a negotiated approach to conflict resolution reaches its limits, as it does not make sense to draw up an agreement that you don’t expect your partner to respect.

**Contingent Agreements**: Except for dispute resolution cases, all negotiations about alliances concern future events, which always contain elements of unpredictability. Parties that are highly risk-averse might thus be reluctant to engage in alliance collaborations. One way of reducing risk is adopting a stage-wise approach, in which commitments are implemented only at previously
defined milestones, such as specific production or sales targets. A typical approach to such contingent agreement is linking one partner’s equity participation to the future development of the JV, in the form of a refund that is due only if specific threshold values are reached. Contingent agreements are a standard element for investors who provide funding for new ventures, which are often highly risky. However, all such clauses require the partners to engage in scenario planning and detailed negotiation, adding to overall transaction costs. For the case of an alliance between a knowledge provider and a knowledge recipient, Contractor and Ra recommend “a multiplicity of payment types, including royalties, lumpsum payments and returns on equity” (2000, p. 271) to balance the provider’s interest in stable payments and better monitoring against shirking. Thus, there is an argument to be made in favor of negotiating somewhat sophisticated agreements.

**Dispute Resolution Clauses:** In case an alliance fails from the perspective of at least one of the partners, and this partner finds fault with his or her counterpart, the default option for many Western business firms is to litigate. However, going to court has several drawbacks, notably the possibility of a prolonged and costly dispute, the inherent uncertainty of the judge’s ruling, and the partially misaligned incentives of the lawyers, whose own economic interest is to bill as many hours as possible by making matters complicated. Therefore, at least in the USA, alternative dispute resolution (ADR) mechanisms have become standard elements of many business contracts, including alliance agreements. Typical forms of ADR are mediation and arbitration, as well as combinations thereof (cf. Shonk, 2018a, February 19). Mediation is an assisted, orderly form of negotiation, while arbitration means voluntarily handing over decision power to a third party. Apparently, the type of ADR and the venue for such proceedings can be another issue of negotiation when setting up an alliance. Based on a study of 102 business disputes, Lumineau and Malhotra found that “a greater emphasis on contracting may also encourage parties to take the task of resolving conflict more seriously” (2011, p. 548); in other words, the enhanced transaction costs that go into negotiating a detailed contract may be money well spent.

**Alliances as an Ongoing Exercise in Negotiation**

As Salacuse states, “a business deal of any significant duration is an ongoing negotiation between parties, who must apply their agreement to unforeseen circumstances and adjust their relationship to a constantly changing environment” (2018, emphasis in the original text).
As opposed to the typical arms-length attitudes common to sales bargaining, the initial negotiation attitude of future alliance partners should be more integrative than distributive. Rao and Schmidt (1998) found that US negotiators favored soft over hard tactics in international alliance negotiations when their time horizon was more prolonged, although other factors such as personal dispositions and cultural distance also influenced these behaviors.

As it is virtually impossible to draw up a contract that would foresee all kinds of future contingencies and developments, the governance of alliances is usually a mixture between contractual and relational elements. When the environmental uncertainty increases, the relational part and therefore the need for ongoing negotiation increases with it (cf. Abdi & Aulakh, 2017). Das and Teng (2000) have classified the tensions that are inherent to strategic alliances as competition versus cooperation, flexibility versus rigidity, and short-term versus long-term orientation. Especially the first one of these tensions offers a wide field for ongoing negotiation, where partners’ attitudes determine outcomes with respect to the two other tensions.

Planning for the Evolving Alliance: Many alliances evolve over time, and these changes cannot be foreseen when signing the initial agreement. One of the reasons for this evolution is possible changes in the partners’ relative resource endowments. Dyer, Singh, and Hesterly (2018) argue that there are four constellations when a partner’s ex-post bargaining power increases: replication or replacement of the partner’s complementary resources, development of additional resources that are synergistic with the alliance, lower investment in relation-specific assets leading to less relative dependency on the partner, and preventing imitation of strategic resources by competitors. In the long run, the partner with increased bargaining power might want to refashion the conditions of the alliance or even terminate it. One case where an alliance in the international food industry was involved in a bitter feud was the partnership between Chinese Wahaha and French Danone, which reached the point where both parties accused each other of breach of contract and sought the support of their respective national governments. Interestingly, this case was settled through negotiation (cf. Tian, 2016), although the cost of fighting instead of collaborating turned out to be enormous, regarding both lost opportunities and a tarnished public image.

Another reason for renegotiating an existing agreement is changing market conditions or a set of unrealistic expectations that shaped the original agreement. For example, Kalnins (2005) found that most master franchise agreements involving a US-based franchisor needed to adjust the franchisee’s development commitments after a certain period of time. For those cases where changing circumstances require formal renegotiation of the initial
contract, de Man recommends that “alliance managers carry out renegotiations, not a different team. Organizing renegotiations in this manner ensures that a renewed deal fits with the existing alliance, that all relevant knowledge of the alliance is incorporated in the renegotiation, and that the end result will be executed because the deal is renegotiated by the same individuals who are responsible for its implementation” (2013, p. 86).

**Relationship management:** Andersen has presented a formal model of what he calls “network enterprise management tasks” (2011, p. 193). At the relationship level, these tasks include the initiation of relationships, relation maintenance and routinization, and relationship development and termination. All of these generic tasks involve intensive inter-partner negotiation.

**The role of interface managers:** Typically, organizations focus mainly on their internal activities and leave the task of dealing with alliance partners to specific individuals, who might be explicitly designated or evolve from either previous contacts or the ongoing alliance process. According to Gulati, Sytch, and Mehrrotra, “in many organizations, the employees who initiate the contact with the alliance partner and negotiate the terms of the deal are usually not the ones running the alliance” (2008, p. 161), which may lead to a mis-alignment of goals among members of the same organization.

The boundary spanners in charge of handling the ongoing relationship are often referred to as interface managers. According to Bartlett and Beamish (2010), interface managers need to know about internal processes, have credibility and status within their organizations, and be acquainted with the organization’s strategies and goals. Based on these, they will negotiate the details of the ongoing alliance relation.

**The long-term prospects of strategic alliances:** According to Das and Teng (1999), strategic alliances between firms are inherently risky and present a failure rate of up to 50%. It must be pointed out, however, that the dissolution of an alliance is not necessarily a failure, as some alliances were designed for a limited time anyway, especially those where the partners wanted to learn from each other, for example, about specific technologies or access to new markets. Once the learning cycle has been completed, there may not be many reasons left to keep working together. Of course, alliances can also be severely affected by external conditions, such as a change in government policies, evolving consumer preferences, or competitors’ actions. In any event, the termination of an alliance usually sets in motion the last phase of negotiation between the partners.

Das and Teng (2000) have developed a framework for predicting the outcome of alliances based on a combination of external tensions: Behavioral (cooperation vs. competition), structural (rigidity vs. flexibility), and
psychological (long-term vs. short-term) factors combine to favor one of three types of outcomes, namely mergers/acquisitions, stability, and dissolution.

The first type of outcome is when one partner acquires the other, or at least the other’s part in what used to be the commonly owned JV. This would be the case if the acquirer has a stronger interest in the further development of the venture and greater faith in its prospect than its partner does. A relatively well-known example is the former cell phone manufacturer Sony Ericsson, a 50:50 Japanese-Swedish JV created in 2001. The brand achieved respectable market participation in its first years of existence, but sales started declining after 2007, mainly due to intense competition from Apple and other manufacturers. Finally, in 2011, Sony bought out its former partner (cf. Thoumrungroje, 2004) and continued developing and selling cell phones under the Xperia brand.

When partners show flexibility, a long-term orientation, and a cooperative attitude, alliances may last for many decades. From many researchers’ point of view, such continuity is not interesting, and journalists will hardly cover these relationships, due to their professional bias toward bad news. However, such collaborations do exist. For example, the Mexican food company Sigma Alimentos has for decades been distributing Oscar Mayer sausages and cold cuts as well as Yoplait yogurts in Mexico, even though both brands have changed ownership over the years. On the other hand, there is evidence of firms clinging on to failed alliances, notably due to social pressure on the management team and such well-known negotiation phenomena as an escalation of commitment and the sunk-cost fallacy (cf. Delios, Inkpen, & Ross, 2004; Inkpen & Ross, 2001). A long-term relationship may also require periodic renegotiation efforts, which can be quite costly (cf. Artz & Brush, 2000).

The most newsworthy cases of alliance terminations, of course, are dissolutions, especially when in the final period; the partners leave the negotiation terrain and end up in arbitration or court. A well-known example from the USA is the partnership between coffee maker Starbucks and Kraft Foods, established in 1998. By 2010 Starbucks had left the agreement, after Kraft refused to distribute coffee pods designed for coffee machines other than their own. Negotiations between the two partners broke down, and Starbucks agreed to pay a hefty fine to grab a more significant share of the coffee-pod market (cf. Shonk, 2018b, March 29). In this case, market conditions had changed, and one partner wanted to move on, while the other one preferred to hold on to the original agreement.
Final Thoughts

This chapter describes negotiation as a significant part of alliance management. The traditional view is that there is an intense negotiation process for setting up an alliance, which culminates in a detailed contract between the partners. According to this simplified, legalistic conception, the remainder of the alliance life span is dedicated to implementing the agreement. In contrast, this chapter demonstrates the multiple facets of alliances, which are too varied to be included in a contract and the changing conditions of alliances, which lead to both continuous negotiations as part of the operational task and renegotiations when the need arises to change the base agreement.

A series of recommendations can be derived from the issues described in this chapter:

Alliance contracts need to cover many problems and require dedicating a significant amount of time and effort to getting to know the partner(s) and devising the best ways to collaborate. Even in societies with weak legal systems, the future partner should strive to look at as many aspects as possible of the future alliance. Furthermore, it is crucial to get the incentives right through more sophisticated mechanisms, such as stepwise implementation, contingent agreements, and clauses for ADR, for the case where the relationship turns sour.

The complexity of good alliance agreement and management requires designating one or several specialists who should be involved in both the initial negotiation and the ongoing relationship with the partner(s). Such interface managers should have an in-depth knowledge of the own organization and the partner(s) to anticipate problems and detect opportunities for improved synergies.

Finally, most alliances have a delimited life cycle with a beginning and an end. By clearly defining the desired results and thinking through the whole cycle, negotiators will benefit from engaging in long-term planning, which includes an appropriate exit strategy that minimizes costs and damages. In particular, those alliances in which the primary objective is to learn from the partner are analogous to getting a college degree: One might enjoy the experience for many years, but finally, it will be time to move on. As alliances often do not come with a predesigned schedule, when to terminate or reshape the current agreement is a decision to be made wisely, and negotiate well.
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