The Asian Journal of Technology Management Vol. 4 No. 2 (2011): 84-98

Required Steps of Managing International Equity Placement Strategic Alliance

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ABSTRACT

The purpose of the research is to unravel the steps of managing international equity placement strategic alliance (IEPSA). The steps of managing an IEPSA are obtained by conducting theoretical review. The theoretical reviews consist of theory of strategic alliance; definition, classification, and finding definition of an IEPSA, political and analytical considerations and the necessary steps. These steps of managing IEPSA can be classified into analyzing of macro consideration, micro consideration, domestic company's stakeholder support, cultural understanding, strategic planning, internal support, human resource management, organizational arrangement, management control system, evolved cultural understanding, and evaluating results. In this research, the domestic partners who formed the IEPSAs are limited to State-Owned Enterprises (SOEs). The IEPSA was one of the means of privatization. The research will be beneficial for both foreign and domestic partners who form an IEPSA in the previous SOEs. By knowing the steps of managing the IEPSA both partners will be able to secure a successful implementation of IEPSA. By identifying the steps of managing the IEPSA, the stakeholder will not see IEPSA as threat rather as an opportunity to improve performance, to create synergy, and generate benefits for both partners and stakeholder. By knowing the necessary steps of managing the IEPSA, the stakeholder including society and politician will envisage the IEPSA as a means of effectively improving the SOEs' performances.The research was espected to provide contributions for the research on strategic alliances. Apparently, there exist no literatures discussing about IEPSA in the domain of strategic alliances.

Keywords: strategic alliance, equity placement, international equity placement strategic alliance, privatization, steps of international equity placement strategic alliance, state-owned enterprises.

1. Introduction

Strategic alliances such as International Equity Placement Strategic Alliances (IEPSA) are becoming increasingly important in today's increasingly competitive international business (Killing, 1983; Harrigan, 1985; Contractor and Lorange, 1988; Lorange and Roos, 1992).

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IEPSA itself is defined as:

A cooperation that is strategic and tactical between two or more companies, from different countries, in which one or more of collaborative companies take(s) on ownership in the other(s) by purchasing of one company's equity so there is a sharing ownership between or among partners, that unite to pursue a set of agreed goals through continuously sharing *their respective complementary assets and core competencies, whereby each of them retain their independence and identity in all areas that are not subject to collaboration, in order to gain mutual benefits and to strengthen their competitive advantages*.

Strategic alliances can take a wide variety of forms: joint ventures, RandD contracts, joint RandD, joint production, joint marketing, supplier relationships and distribution agreements (Lorange and Roos, 1992; Gates, 1993; Yoshino and Rangan, 1995). According to the pyramid of alliances as presented by Segil (1996), joint marketing/distribution are the alliances with lowest risk and joint venture as well as equity (including IEPSA) are the alliances with highest risk. Furthermore, the partners who form IEPSA are originated from different nationality and culture.

Hence, determining steps of an alliance, including an IEPSA, is an important factors to guarantee a long lasting strategic alliance (Lorange and Roos, 1992). Partners who form a strategic alliance without knowing the accompanying steps will result with anxiety during the way of forming and managing the alliances (Lorange and Roos, 1992). On the other hand partners who have already known the necessary steps will be able to efficiently undertake the IEPSA. The accompanying steps are also beneficial to alert the partners over the importance of knowing the alliance’s stakeholders; what they need and want.

In this article we shall delineate key steps for developing and managing IEPSA. The steps address two primarily considerations of the IEPSA which consist of political and analytical considerations (Lorange and Roos, 1992). The steps itself is defined as the necessary stages within the life cycle of an IEPSA that should be taken into considerations by both partners in order to achieve a successful strategic alliance.

The life cycle of an IEPSA consists of planning, formation, operation, and termination phases. In this research, the steps of managing the IEPSA are intended for the alliance whose domestic partners are from State-Owned Enterprises (SOEs). The IEPSA scheme in the domestic partners had become one of the means of privatizing the SOEs. Managing an IEPSA comprises the life cycle of the alliance including planning, formation, and operation phases.

2. Steps of Managing IEPSA

We obtain that there are eleven steps to plan and implement the IEPSA. Those steps encompass the life cycle of an IEPSA which composes of planning, formation, and termination phases.

2.1. Analyze the Macro Consideration

The first step of initiating IEPSA is that prospective partners should determine and analyze whether the timing of intended alliance is right (Lorange and Roos, 1992; Mockler, 2001). Basu (1994), Ghemawat (2001), Megginson (2000), Tsang and Yip (2007) concur that the economic distance between (among) the partners matters. On the other words, the timing is represented with the macro environment condition (Ramamurti, 2000). The macro condition of the domestic partner such as the macroeconomics, regulatory, state-owned enterprise, privatization scheme, cultural and management, customer, market, and competition variables support the intended alliance. The macro environment considerations of the targeted alliance consists of macroeconomic and industry (Basu, 1994; Ramamurti, 2000).

2.1.1. Macroeconomic

In the privatization, the economic distance between the country of foreign investor and the domestic country matters (Tsang and Yip, 2007; Ghemawat, 2001). Economic distance was measured as the difference, in U.S. dollars, in the real per capita gross domestic product (GDP) between the foreign country and a domestic country in the first year of an FDI. For a complementary reason, the economic distance is necessary for partners.

However, Tsang and Yip (2007) reveal that the higher the economic distance would lead to the more hazard rates. Generally, countries that did not experience economic crisis were slow to privatize the SOEs (e.g., Asian countries, such as China, India, Indonesia, and Korea). Following the economic crisis, Indonesia and Korea came under pressure to privatize SOEs to bolster their foreign exchange: reserves and satisfy IMF conditionality.

In the state of crisis, it is not possible for SOEs to seek help from the government to additional financing that converted to government's equity in the SOEs. The government simply run out of cash and deteriorate with further budget deficit. Ramamurti (2000), states that SOEs in countries which face macroeconomic crisis are more likely to be privatized than SOEs in countries with stable economy. The privatization usually occurs when the economic condition is deteriorated (Ramamurti, 2000).

It also happens when the government needs to restructure the industry and economic and the government simply run out of cash and deteriorate with further budget deficit (Ramamurti, 2000). On the other hand, during economic crises, governments are strapped for funds and want to get the highest possible price of selling the SOEs directly to a private company or to a consortium of investors (Ramamuri, 2000; Megginson, 2000).

Privatization agenda should have backward linkages as part of a wider economic reform package (Basu, 1994). The government should revive fiscal discipline, destabilize the exchange rate in order to revive trade discipline, and remove subsidies (Basu, 1994).

2.1.2. Industry

Governments are likely to target foreign investors to the SOEs when the SOEs are performing poorly and operate in industries characterized by extra national markets (i.e., global industries) (Ramamurti, 2000). Ramamurti (2000) proposes SOEs in competitive markets or potentially competitive markets are more likely to be privatized than SOEs in monopolistic markets. Ideally, before privatizing the SOEs, the government should have taken prior action of setting up new regulations to turn the monopolistic markets into competitive markets. In markets where competition is strong, privatization alone is likely to improve firm performance (efficiency, profitability, and rate of growth of output).

Ramamurti (2000) proposes that in imperfectly competitive markets, reforms that inject more competition or improve regulatory incentives are more likely to improve performance than privatization alone. Combining ownership, competition, and regulatory reforms will produce the greatest performance improvement because of, among other things, positive interaction between ownership and competition and between ownership and regulatory reform.

According to Basu (1994), industry reform is one part of a wider economic reform package from the impact of privatization. According to him any privatization agenda must include all six components, such as SOE restructuring, reform and commercialization, management contract prior to divestiture, divestiture of shares/assets of SOEs with/without redundancy, and privatization as part of a wider economic reform package.

2.2. Analyze the Micro Consideration

After analyzing the macro consideration, the next step is to analyze the micro consideration of the IEPSA (Lorange and Roos, 1992; Mockler, 2001; Segil, 1996). The scope of micro considerations is any assessment on the targeted partner on its capacity and complementary ranging from the strategic position, market, product, service, finance, human resource, technology, and RandD (Lorange and Roos, 1992; Mockler, 2001; Segil, 1996; Sierra, 1995).

During the planning phase, the partners will search for potential partners that are in line with their capability and resources, and provide benefit to their long-term strategic objectives. The potential partners are those who form a match with the partner's strategic objective and motivate themselves to form the alliance. Medcof (1997: 721) states that despite several reasons of alliance failure, many authors agree that poor selection is among the most important ones. This poor selection will provide difficulties for partners to find the strategic match. In contrast, a well-chosen partner allows a synergy which blossoms into outcomes far beyond expectations (Medcof 1997: 721).

There are five criteria for selecting alliance partners, which consists of whether the alliance has business strategy rationale that will lead to the strategic fitness; whether the prospective partner capable of carrying out its role in the alliance; whether the prospective partners operationally compatible, and whether the prospective partner committed to the alliance and its objective and able to control arrangements for appropriate coordination (Medcof, 1997).

Niederkofler (1991), defines strategic match as follows: "Strategic match exists when the partners' interest in a specific area overlap, and when each control part of the resources needed to pursue the shared goals". In order to create a successful strategic alliance both parties must have strategic match that is reconcilable and this match must be quite explicitly stated and established early on (Lorange and Roos, 1992). Moreover, Sierra (1995) and Medcof (1997) state that commitment between partners is essential in order to obtain the strategic match. Sierra (1995) states that a lack of strategic match is one of the reasons why the alliances terminate which consists of changes in strategic objectives and focus, false expectations about partners' capabilities, and inability to cope with diverse management styles. Almost by definition the two parties will come to the table with different strategic intents (Lorange and Roos, 1992: 28).

They will seek different benefits from the strategic alliance in relation to their respective strategic objectives. The two different strategic intents must, however, be sufficiently compatible to leave room for cooperation (Lorange and Roos, 1992: 28). Faulkner (1995), points out that the fundamental issue in assessing the strategic match is whether their joint value chain seems likely to achieve sustainable competitive advantage for the partners, through the complementarity of their resource endowments and core competencies.

However once the prospective partners have found that they complement each other than they should also take into account the strategic importance of the partners (Douma, 1997). This consists of pressure on continuity, new chances in the market, pressure of time on alliance, and alternative to cooperation. Based on this discussion, in this research the strategic match is defined as:

"There is a strategic match when both partners find conformity of their respective strategic importance and objectives after analyzing the prospective partner's strategic objectives, position and resources and provided that trust and commitment for cooperation is established".

In the planning phase, the analytical consideration concerns the early assessment of the strategic match between the prospective partners (Lorange and Roos, 1992; Faulkner, 1995; Yoshino and Rangan, 1995). Niederkofler (1991) states the requirement of overlap of each other's resources that meet partners' interests.

Lorange and Roos (1992) emphasize complementarity and reconcilable of resources and strategic position. Faulkner (1995) suggests that there should be complementarity of resource endowments and core competencies. Both Sierra (1995) and Segil (1996) suggest a compatibility of partners' capabilities. Sierra (1995) adds commitment between the partners and Segil (1996) also uses the term complementarity despite compatibility.

Medcof (1997) differentiate the strategic match into operation, business, and strategy which need to be synergized between partners. Douma (1997) emphasis that the strategy and organization of the partners should add value to the alliance and there should be also strategic importance between partners which consist of analysis of pressure on continuity, new chances in the market, pressure of time on alliance, and alternative to cooperation.

All of the mentioned authors; Niederkofler (1991), Lorange and Roos (1992), Sierra (1995), Segil (1996), Medcof (1997), Douma (1997) differentiate the strategic match factor into several sub factors as presented in table 1. The strategic match factor can be differentiated into three sub-factors; capacity, complementarity, and strategic importance. Capacity refers to the partner's value activities both in the primary activities; logistics, operations, marketing and sales, and service as well as in the supporting activities; firm infrastructure, human resource management, technology development, and procurement (Porter, 1998).

It also refers to the partner's strategy of planning and implementing those value activities. Complementarity refers to both partners' capacities; whether they are overlapped, reconcilable, compatible, and synergized that will potentially provide added value to the alliances. Finally, the partner's commitment is assessed in the strategic importance sub factor, which consist analysis of pressure on continuity, new chances in the market, pressure of time on alliance, and alternative to cooperation which conforms Douma (1997).

Table 1. Sub-factors of strategic match

Author	**Capacity**	**Complementarity**	**Strategic Importance**
Niederkofler (1991)	Resources	Partners' interest overlap	-
Lorange and Roos (1992)	Resource, strategic position	Reconcilable complement	-
Faulkner (1995)	Resource endowments, core competencies	Complementarity of resource endowments, core competencies	-
Sierra (1995)	Capability	Compatibility	Commitment
Segil (1996)	Resource, strategy, Organization	Compatibility/Complementarity	-
Medcof (1997)	Operation, business, strategy	Synergy in operational, business, strategy	Commitment
Douma (1997)	Strategy, organization	Added value	Strategic importance

The strategic match sub-factors; capacity, complementarity and strategic importance with the associated component can be seen in figure 1.

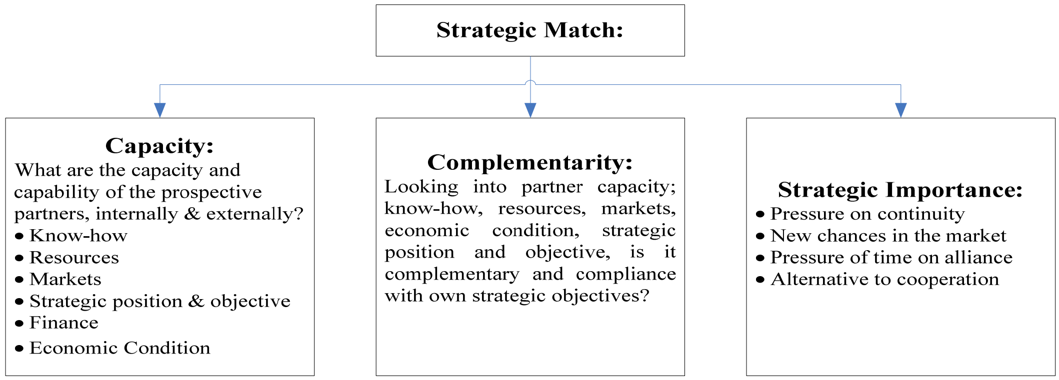

Figure 1. Strategic match of international strategic alliance

Capacity: The capacities of the potential partners are of prime importance (Sierra, 1995; Lorange and Roos, 1992; Mockler, 2001). According to Medcof (1997: 722), it is the criteria, which determines whether an alliance is workable operationally and relates to whether the prospective partners have the ability to carry out their roles in the alliance. According to Sierra (1995: 21), before seriously approaching any prospective ally, the capacities of the targeted candidates should be subjected to a rigorous test. The term ‘capabilities’ here refers to ‘capacities’ of the targeted partners. Sierra (1995: 21) states that many alliance practitioners recommend establishing a team of experts to undertake a feasibility study of each candidate. “It’s better to allow time during negotiations for partners to get to know each other and to test and develop personal chemistry, especially through reconciling anticipated areas of possible conflict” (Mockler, 2001: 88).

The team should be prepared to undertake a tough, critical examination of a potential partner. Consequently, the complete examination of a potential partner consists of: examining the environmental conditions, understanding the legal and regulatory environment, and finally examining the internal conditions. Complementarity: The fundamental issue in assessing a strategic match is whether the alliance chain seems likely to achieve sustainable competitive advantage for the partners, through the complementarity of their capacities (Sierra, 1995; Douma, 1997). If the combination of the partners’ skills and resources seems unlikely to achieve competitive advantage, then, irrespective of how the alliance is set up, it is not desirable (Douma, 1997).

Strategic importance: The strategic need to cooperate is determined by a number of factors (Douma, 1997). First, is direct pressure on alliance continuity, it is the degree of eagerness to continue for alliance intention. This is a defensive motive for alliance. Cooperation, however, can also be essential to strengthen the competitive position for offensive reasons. Consider, for instance, penetrating new markets or the development of new technologies. A third factor is time pressure. Cooperation can generate time advantages with respect to autonomous development and/or takeover, and be important for these reasons. Finally, the need to cooperate is determined by the degree to which a company has alternatives for other alliances.

2.3. Analyze the Domestic Company’s Stakeholder Support

The third step is prospective partners should make sure that the intended alliance be socialized to the stakeholders. Furthermore, they should anticipate the interests and threats that stakeholders face upon the intended alliance (Freeman, 1984). The stakeholder that should be taken into consideration ranged from top management, house of representative, ambient society, labor union, and government.

Due to the sharing of equity in the alliance, participation of stakeholders over the intended IEPSA is unavoidable. This is so because changes in the equity's portion will affect the stakeholders' reaction to the alliance. In this research, where the focus is on SOEs, the influence of stakeholders is even more prominent.The definition of privatization in broad terms is the transfer of ownership and/or control of state-owned organizations to private investor (Heracleous, 1999). As mentioned earlier, IEPSA is one of the forms of privatization. The process structure of privatization is similar with that of IEPSA particularly SOE as the subject of investigation. It is the selling some parts of government's shares to the foreign company.

Hence, the foreign company takes ownership in the SOE and together with the government become the new owner of the company. The process of selling the government's shares in the SOEs should take into consideration the stakeholder (Freeman, 1984). The stakeholder is defined as those groups without whose support the organization would cease to exist (Freeman, 1984). The stakeholder of SOE consists of government (Moore, 1992; Ramamurti, 2000; Megginson, 2000), house of representative (Moore, 1992), politician (Moore, 1992; Boycko, Shleifer, and Vishny, 1996), top management (Moore, 1992), labor union (Moore, 1992; Boycko et al., 1996; Ramamurti, 2000), and ambient society (Moore, 1992; Ramamurti, 2000).

2.4. Initiate Talks and Build Relationship of Trust

The fourth step is to make sure that the deviations among the partners and stakeholders can be resolved through gradual feedback systems based on the climate of trust and commitment. The climate of trust and commitment will enhance and dissipate the difference among the cultures and furthermore create the cultural match.

Any deviations between the strategic match and stakeholder support were able to be alleviated through a continuous process of interchange relationship among partners and stakeholder based on trust and commitment. Hence, the trust and commitment are the key success factors variables for partners to be successful in IEPSA. The deviations and difficulties occurred in the planning phase would interfere to the further phases as it would influence the success of IEPSA. A good relationship alliance, although there were difficulties that could not be coped with in the previous phases, would gradually overcome the obstacles based on trust and commitment.

2.5. Strategic Planning

After the foreign partner is elected through the tendering process, and the sales and purchase agreement (SPA) has been signed. The strategic planning will be set up and undertake, in which the variables that should exist are long-term strategy, benefits for the nation, and commitment to the employment.

The success factors of international equity placement strategic alliance in the formation phase existed in the strategic planning factor, the key issue is how successful the alliance undertakes the strategic planning. After successfully passing through the tendering process and became the winner, the foreign partner together with the Indonesian partner, will undertake and prepare the strategic planning. The variables within the strategic planning factor were long-term strategy, benefits for the nation, and commitment to the employment.

Strategic planning is the process of deciding on the programs that the organization will undertake and on the approximate amount of resources that will be allocated to each program over the next several years (Anthony and Govindarajan, 2001). During the creation of the strategic planning, discussions, dialogues and arguments should be made in accordance with the trust, commitment, and cultural understanding either between both partners or among partners and internal people within the organization. It is of vital importance that the strategic planning has the internal support from the beginning of the strategic planning making process (Lorange and Roos, 1992). According to Lorange and Roos (1992: 41), in the strategic planning stage the key question is: who is expected to do what, and by when?

2.6. Analyze the Internal Support

The next stage is analyzing the internal support. Similar to the condition in the planning phase, in the formation phase the strategic planning should be supported by internal support, which consists of top management and labor union. Partners in IEPSA should analyze and anticipate that the operationalization of strategic planning will provide benefits to internal stakeholder and not become the threats to their position.

In this stage, it is required to consider political aspects as well for the development of the strategic planning, i.e. ensuring that the organization becomes committed to and enthusiastic about the alliance (Lorange and Roos, 1992; Sierra, 1995; Segil, 1996).

Lorange and Roos (1992: 41) consider that at this stage there are key questions raised: has the intended alliance been sufficiently explained and clearly motivated throughout the organization? has it been presented with sufficient detail to ensure that everyone sees the tasks ahead and can focus on them as an opportunity? has it been plausibly documented how combinations of activities are to be executed so that job security issues are addresses, and so that the strategic will not be seen as a threat? Segil (1996) states that the alliances are doomed to failure without having active participation of the managers in the implementation plan. She mentions that the company should obtain internal approval particularly in the cases where the life cycle of parent partner’s company before forming the alliance is either in mature or consolidating stage. This confirms with the object of investigation in the research (SOEs and BTOs) which are in the stage of consolidation after being suffered from the economic downturn and restructured by the government.

According to Segil (1996), the company should check with lots of people before feeling comfortable in going forward. According to Lorange and Roos (1992), in order for the entire organization to be prepared for during the alliance’s implementation, everyone must be sold on the concept relatively early on. The internal support issue concerns, above all, managers in various operational functions, who might be particularly actively involved in participating in the strategic alliance (Lorange and Roos, 1992: 41). Segil (1996) and Lorange and Roos (1992) concur that in the implementation plan of strategic planning everyone must be involved and contribute to the successfulness of strategic alliance implementation. They consist of employee and managers of the alliance. Based on the previous mentioned authors, it can be concluded that internal support is the important factor that should be considered in the formation phase.

2.7. Human Resource Management

The next step for the partners after designing the strategic planning and ensuring the internal support is implementing the strategic planning. The variables that should be considered in the human resource management factor are extend the capability of learning, be cooperative and see conflict as natural, exhibit trust and commitment to others, and commit to objective setting.

Human resource management is one of the factors in the operation phase that should be considered by the management of international strategic alliance (Lorange and Roos, 1992). Human resource management considerations play a pivotal role in the development of strategic alliances. “Without the development of human resources and core competencies as a strategic resource within a strategic alliance, it will be difficult to secure the long-term strategic future of the cooperative effort, even though financial resources and returns might be adequate for now” (Lorange and Roos, 1992: 150). The success of a strategic alliance is determined by individuals, and choosing people for key positions (Lorange and Roos, 1992). Since an IEPSA is a form of alliance this must apply to IEPSA as well.

The kind of people who can successfully support the strategic alliance are people who can collaborate (Hamel and Heene, 1994; Littler and Leverick, 1995; Medcof, 1997). Collaborative people show strong cooperative and assertive behaviors (Hellriegel, et al. 2001). It is the win-win approach to interpersonal conflict handling, which can be illustrated as in table 2.

Table 2. Interpersonal conflict handling style (adapted from Hellriegel et al., 2001)

Author	**Capacity**	**Complementarity**	**Strategic Importance**
Niederkofler (1991)	Resources	Partners’ interest overlap	-
Lorange and Roos (1992)	Resource, strategic position	Reconcilable complement	-
Faulkner (1995)	Resource endowments, core competencies	Complementarity of resource endowments, core competencies	-
Sierra (1995)	Capability	Compatibility	Commitment
Segil (1996)	Resource, strategy, Organization	Compatibility/Comple-mentarity	-
Medcof (1997)	Operation, business, strategy	Synergy in operational, business, strategy	Commitment
Douma (1997)	Strategy, organization	Added value	Strategic importance

A person who uses a collaborative approach desires to maximize joint results (Hellriegel et al., 2001).

He or she tends to:

- Extend the capability of learning (Doz, 1996)
- Be cooperative and see conflict as natural (Mohr and Spekman, 1994)
- Exhibit trust, candor, and communication with others (Mohr and Spekman, 1994)
- Commit to the objective setting (Das and Teng, 1998)

2.8. Organizational Arrangement

The organizational arrangement is one of the factors in operation phase that will support the successful implementation of strategic planning. The characteristics that partners in IEPSA should provide are responsiveness and flexibility, flattened organization, decentralization of decision making, and improvement orientation variables.

Organizational arrangement is also one of the factors that should be regarded (Foster, 1996). Responsiveness and flexibility is required to adapt to the dynamic environment (Bleeke and Ernst, 1991; Foster, 1996; Callahan and Mac Kenzie, 1999). The dynamic environment consists of shifts in the market, invention of new technology, changing customer's demands, and new government regulation (Daniels, Radebaugh, and Sullivan, 2001). Hence, a fast stable response time is desirable as a key element of system control. Flexibility is also an important aspect. Bleeke and Ernst (1991: 131) argue that inevitably the objectives, resources, and relative power of the parents will gradually change and there is a strong link between flexibility and success.

Flattened organization is another characteristic that is required, by reducing hierarchy layers and spreading of control ranges at all management levels (Foster, 1996). Lei and Slocum (1992, p. 95) state that the "horizontal organization" should replace the tradional functional-base form. In this form, work is primarily structured around business processes such as new product development, manufacturing technologies, or integrated logistics, as opposed to areas of functional expertise.

Each team is responsible for a process' performance and ensures that its performance objectives are congruent with other processes and with the strategy of the alliance. Decentralization of decision making from top management towards middle management is needed (empowerment) (Daniels, Radebaugh, and Sullivan, 2001). An orientation towards improvement is another required characteristic in order to learn partner's skills and capabilities, in order to create synergy, and to solve the differences among them (Senge, 1992; Cohen and Levinthal, 1990; Inkpen, 1996; Nti and Kumar, 2000).

2.9. Management Control System

The management control system factor is the feedback and control tools in the operation phase of IEPSA, the variables that should be considered are planning, control structure, and control process. The management control system in the model can be enhanced with the good condition of trust and commitment in the alliance. The better the climate of trust and commitment among partners in this phase are, the better it will support the management control system.

Another factor of international strategic alliance in the operation phase is the optimal use of Management Control System to ensure that the strategic alliance achieves its objectives (Anthony and Govindarajan, 1994). Authors have used a variety of terms in the literature on the control paradigm, such as level of control, mode of control, controlling, control mechanisms, and control systems (Bradach and Eccles, 1989; Das, 1989, 1993; Flamholtz, Das, and Tsui, 1985; Geringer and Hebert, 1989; Goold and Quinn, 1990; Simons, 1991). Control requires setting goals, objectives and standards, measuring actual performance to determine deviations, which when fed back into the system, would trigger off corrective action (Anthony and Govindarajan, 1994). In practice when operationalized, these concepts result in a management control system with three sub-systems (Anthony and Govindarajan, 1994) as indicated in the following figure 2.

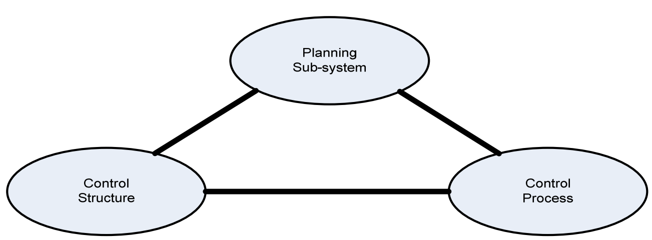

Figure 2. Management control system (adapted from Anthony and Govindarajan, 1994)

In accordance with Anthony and Govindarajan (1994), the ingredients of a management control system consist of planning (vision, goals and objectives, strategies and policies), control structure (responsibility centers, organizational set-up, performance measures, reward and punishment system, information system) and control process (programming, bugetting, evaluation, feedback, reporting, and compensation).

2.10. Cultural Understanding

According to Faulkner (1995), it is not important that the cultures of the partners are similar. If this was a requirement then few alliances would succeed. Cultural congruence between companies is extremely infrequent, especially in international strategic alliances (Faulkner, 1995).

Nevertheless, an approach of understanding of cultural differences, and willingness to compromise in the event of cultural problems, may well be critical to alliance effectiveness (Faulkner, 1995). According to Mohr and Spekman (1994), more successful partnerships exhibit higher levels of trust, a willingness to coordinate activities, and the ability to convey a sense of commitment to the relationship. The study of Mohr and Spekman (1994: 148) suggests that trust, the willingness to coordinate activities, and the ability to convey a sense of commitment to the relationship are keys.

Effort must be dedicated to the formation and implementation of management strategies that promote and encourage the continued growth and maintenance of the partnership. The effort should be able to improve the trust level of the alliance. Faulkner (1995) provides contribution that partners are able to alleviate cultural incompatibility through understanding of cultural differences and willingness to compromise in the face of cultural problems. According to him mutual trust and commitment will enhance the cultural understanding between partners.

Mockler (2001) states the compatibility in culture is one that should be considered besides the compatibility in strategic and operations. While Sierra (1995) states that the compatibility of partners can be discerned into tangible features and intangible features. Culture is one of the tangible features that should be considered while trust and commitment are the intangible features. She points out that trust and commitment between partners enable to deal with compatibility problems and focus to the future. According to Cullen, Johnson, and Sakano (2000) without a continuous investment in and building of commitment and trust, differences in partner companies in conjunction with cultural differences can greatly inhibit the alliance’s durability and its success. The relationship between trust and commitment was researched by Cullen et al. (2000).

They find that once established the trust dimensions appear to contribute significantly to the development of commitment. Based on Mohr and Spekman (1994), Faulkner (1995), Sierra (1995), Mockler (2001), and Cullen et al. (2000), it can be concluded although there exist cultural differences between partners, as long as trust exists there will be a state of cultural compatibility between partners. The relationship between trust and commitment was researched by Cullen et al. (2000). They find that once established the trust dimensions appear to contribute significantly to the development of commitment. So that, based on Mohr and Spekman (1994), Faulkner (1995), Sierra (1995), and Cullen et al. (2000) the order of gaining cultural compatibility is; trust, commitment, and cultural understanding.

Although the already mentioned authors have researched cultural compatibility, trust, commitment, and cultural understanding of strategic alliance, there are still lack of literatures on the definition of cultural compatibility. The definition of cultural understanding is: the state of understanding on cultural differences by willingness to compromise in the event of cultural problems through successfully exhibiting high levels of trust in order to convey a sense of commitment to the relationship.

According to Faulkner (1995), when the alliance is intended to be long term, cultural attitudes relating to trust and commitment are likely to be vital ingredients in the alliance's success. It deals with a flexible attitude to cultural differences, an eagerness to learn from a partner that has different procedures, and a strong commitment and mutual trust between the partners (Faulkner 1995). Based on the above discussion, cultural understanding can be divided into three components, as presented in figure 3.

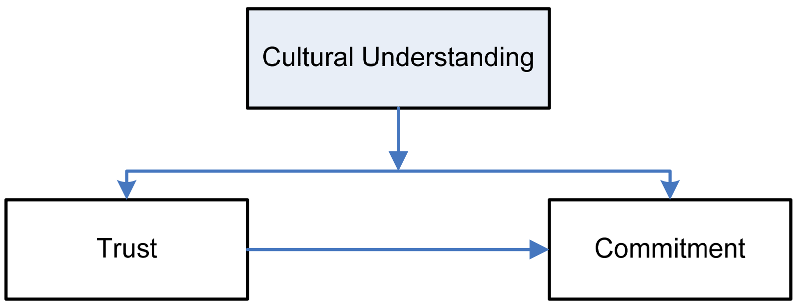

Figure 3. Cultural understanding of strategic alliance

2.11. Evaluate Results

The results of IEPSA can be identified in the financial performance, customer satisfaction index, and market share, in accordance with Anderson (1990). The results will be beneficial one of the means is for the feedback to the operationalization of alliance.

3. Conclusions

There are eleven key steps in forming and managing the IEPSA. The steps can be delineated into analytical and political considerations. The step begins with considerations of the stakeholder support and strategic match in the planning phase. After the winning partner has been decided through the bidding process, both partners proceed to the formation phase of the IEPSA. In this phase, the partners should ensure that the internal stakeholders support the implementation of the IEPSA. In the initial phases (planning and formation phases) both partners should support, encourage, and maintain the environment of trust and commitment. In the operation phase, partners should consider the human resource management, organizational arrangement, and management control system.

The effectiveness of the factors' implementation can be enhanced by the environment of trust and commitment in the alliance as it was before in the initial phases. The steps can be provided in the following figure 4. As shown in the figure, the order of analysis between analytics and politics are at the same time. On the other words, the successfulness of forming the IEPSA is determined by how successful the partners analyze and implement both of these considerations.

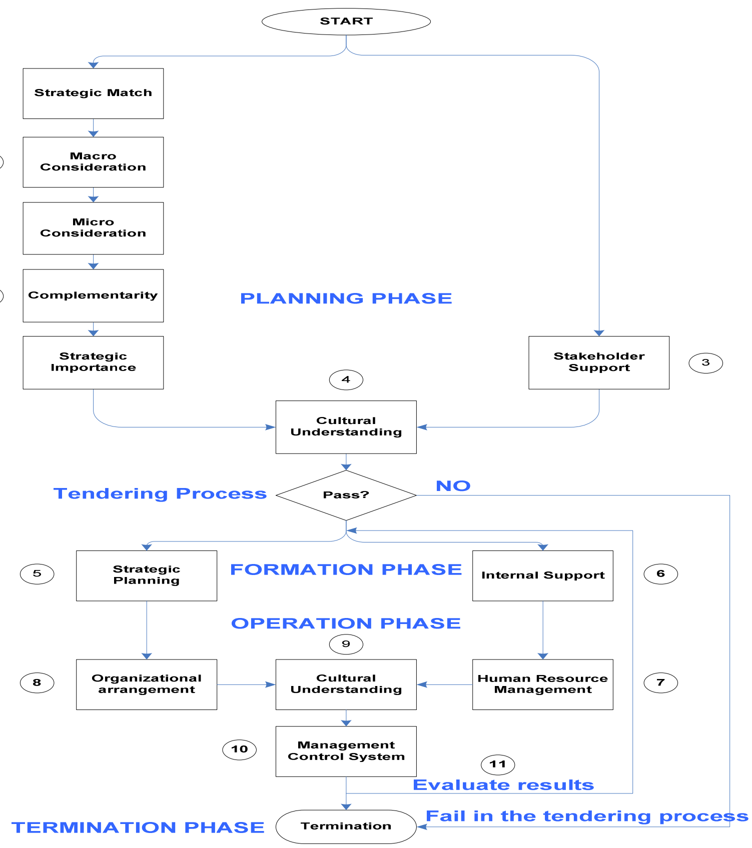

Figure 4. Summary of practical recommendations

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