RELATIONSHIPS OF COOPERATION BETWEEN FIRMS, COMMUNITIES AND GOVERNMENTS

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Abstract

This paper is aimed to describe the different types of relationships of cooperation between firms, communities and governments. The paper reviews the literature on these issues.

Key words: Communities, cooperation relationships, firms, governments.
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1. Relationships of cooperation between firms, institutions and government

Cooperative solutions are possible when agents pursue tit-for-tat strategies in an expected time horizon infinite and the information gathering and processing demands are high upon agents who know the pay-off of each action (Axelrod, 1980, 1981, 1984). The increasing number of new entrants has effects on the sustainability of cooperation. Cooperation may diminish competition.

Cooperating firms are less likely to use cooperation when they face strong competition from other firms. Any competitive threat of a cooperative may be stronger than a usual threat for profit entrant. Cooperation between competitors endangers welfare of customers but cooperation in creating and organizing resources increase welfare. Cooperation between an organization and networks are needed for effective outcome (Okko, 2003).

Collaborative action demands a degree of mutuality between the short- and long-term and between sectional and system-wide interests. The basis for collaboration from this perspective is “organizational altruism”. Webb (1991) defines organizational altruism as the voluntary four broad requirements for coordination and collaboration:

- The effective mobilization of ‘self-interest’ as a basis for bargaining and exchange,
- The legitimating of wider interests and goals,
- The creation of a broad rather than narrow base for inter-organizational relations, and

Firms are expected to form cooperative agreements if these arrangements will enable them to meet their strategic objectives with the focus being on maximizing profits (Kogut, 1988). Relationships of cooperation with customers, suppliers, complementary and related firms, lead to the expansion of market, creation of new forms of enterprise, etc. Cooperatives have a pro competitive effect on market conduct public policies favorable to customer coalitions may be justified. Customers
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themselves may form a cooperative to enter a market in order to avoid monopoly power. Cost are high to organize customer coalitions for products where do not exist. (Okko, 2003).

Figure 1. A Continuum of Cooperative Arrangements

Power is based on functional aspects of the value chain. Dependence is stipulated in formal agreement or informally based on trust and clear norms. Because the actor live in harmony, conflicts are rare. Goals are jointly stipulated. Cooperative relationships between vertical agents are built on a distribution of activities and resources. Adaptations and investments in economic, legal, social, technical, planning, etc glue relationships between firms built upon trust and mutuality.

Agreements are formal in partnerships, strategic alliances, etc., and informal when are built on trust and norms to adjust the distribution of power and dependence. Cooperation between firms by informal partnerships built on mutual trust, protect each other from external threats and commit to long-term investments to achieve greater economies of scale and scope. For example, partners might perceive the threat of cooperation leading to the creation of a competitor.

Since firms can not always rely on market forces to solve their problems, they make cooperative agreements especially with suppliers and customers, but also with institutions and government.

Factors affecting decisions to cooperate are the costs of coordination, degree of competitive environment uncertainty and feedback between individual decision
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making and organization structure (Pyka and Windrum, 2003). The right form of cooperation depends on the management capabilities for organizational design and their influences on long term performance in the environment. Homogeneity in content of cooperation between organizations is likely to lead to decreasing returns in a cooperative environment. However, a feedback loop between the emerging organizational structures and individual decision making can have multi-scale effects.

The areas of cooperation in successful clusters are:

- Global cooperation
- Inter and cross nation-states cooperation
- Transnational cooperation
- Community cooperation
- Bilaterally and multilaterally between firms
- Between firms and supporting institutions
- Between firms and the public sector
- Stakeholders between cooperation. Multi-party, multi-sector collaboration
- Hybrid forms of cooperation

A. Global cooperation

As economic globalization processes become increasingly uncertain, complex and interdependent, new cooperative structures are necessary to ensure governance and governability to all stakeholders, firms, communities, non governmental organizations, governments, international organizations, etc.

For example, Global Compact is a form of cooperation that brings together all the “stakeholders” involved in the area of the global economy to supplement social and ecological regulations of the world economy. A similar cooperation agreement is emerging between global actors in human rights. Other good examples of
cooperation have been established at the World Trade Organization (WTO) and at Organization for economic Cooperation and Development (OECD).

Cooperation can also be in the form of expert advice and participation in working groups. These are only a few examples of global cooperation.

B. Inter and cross nation states cooperation

A particular interest of states, such as identity offers important insights into the dynamic of security cooperation and alliance politics. An alliance as a formal or informal relationship of cooperation between two or more states involving mutual expectations of some degree of policy coordination on security issues under a range of conditions in the future. States form alliances to prevent aggression from another country and maintain their security, to change the status quo and seek advantages such as gaining territory or natural resources. Others argue that forming alliances are influenced by formative national experiences (Moravcsik and Tatsuya Nishida, 2004). The function of an alliance is to “reinforce the security of the allies or to promote their interests in the external world” (Wight, 1978: 122).

When centralization is not politically feasible, a cooperation agreement among states allows them to gain benefits.

Cooperation between state nations can resolve an escalated dispute in one issue can threaten other fronts, such as the water dispute between Mexico and USA, which can cause damage to bilateral relationships immigration and economic development. The interests of the people on both communities who live near the border of Mexico and United States and the interests of both governments are best served by agreements. These agreements are served to cooperate to the current standoff over Rio Grande/Rio Bravo water rights, and for the protection and improvement of the environment. This cooperation is based on equality and reciprocity is of mutual benefits and demands political will to further strengthen the principle of good neighborliness.
Forms of cooperation include coordination of national programs; scientific and educational exchanges; environmental monitoring; environmental impact assessment; and periodic exchanges of information and data. NAFTA has fostered unprecedented cooperation between the United States, Mexico and Canada on economic ... political ... and social issues.

Other example of cooperation is the agreement that the governments of United States of American and Mexico concerning the establishment of a Border Environment Cooperation Commission and a North American Development Bank. Legal crossings of individuals and merchandise into the United States are a concern to elicit cooperation of Mexico in a community agency partnership.

Through cooperative agreements, some countries increase remittance flows to improve political stability and economic development. "Mandatory remittance policies have been effective... in labor flows organized through bilateral official channels when governments have direct access and control over the migrant’s earnings." (Diaz Briquets and Perez Lopez, 1997:415). These agreements involve governmental cooperation with the private sector as well as non-governmental organizations and communal banks.

Agreements like Memorandum of Understanding creates a new bi-state international partnership to strengthen economic cooperation between New York State and the State of Mexico through trade, technology, environmental preservation, workforce development, and tourism. For example, Mexico has cooperation agreements with all Central American countries to deliver EDUSAT signals, a Rural Distance Learning, Telesecundaria.

There are a lot of more examples of cross-national cooperation.

**C. Transnational cooperation**
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In any international alliance the fit of cooperative interpersonal relationships require to cross bridges of cultural differences, such as the case of Japanese companies situated in Mexico to produce goods for the US and Canadian markets, have interest in developing partnerships agreements, but encounter cultural differences.

Allegations of rights violations in one country belonging to NAFTA, be presented before the National Administrative Offices (NAO) of another country, encourage cross-border collaboration and transnational popular sector cooperation.

Transnational strategies among labor unions have been among the most difficult to find common ground.

The primary objectives for international partners in NAFTA agro-food alliances, are either market entry or sourcing, finance, knowledge and technology acquisition. In a market-driven trend, toward cooperation, US shippers seek partnerships with knowledgeable growers in different region of Mexico, as it happens with the Ley family from Sinaloa (Sparling and Cook, 1999).

Partnership for Prosperity launched in 2001, a public private alliance that has achieved some results. For example, an agreement of cooperation between U.S. Peace Corps and CONACYT focused aid provision, information technologies, small enterprise development and technology transfer. Banco Nacional de Obras Públicas (BANOBRAS) and the U.S. Agency for International Development (USAID) provide assistance to Mexican municipalities to issue bonds in the Mexican capital market.

The Commission for Environmental Cooperation (CEC), created under the North American Free Trade Agreement (NAFTA) and headed by the three top environmental authorities of Mexico, the United States, and Canada, has supported fair trade. Allocating seed money to Mexican producers supports this fair trade and by conducting research on the finance, market, and public/private sector partnership mechanisms.

Partnership for Prosperity Entrepreneurial Workshop highlights commitment to create jobs for workers and demand for products on both sides of the border, to
ensure compliance with NAFTA and to identify and resolve obstacles encountered by U.S. businesses trying to access Mexican markets.

Cooperation between Mexican labor organizations and US labor organizations has been difficult because of mistrust and misunderstanding. Many believed that NAFTA involved a zero-sum game in which US job losses were viewed as Mexico's job gains (Browne et al. 1994, ch. 3). However there has been cases of cross-border solidarity actions in response to specific conflicts, but the strategy involves cooperation in bargaining with a common multinational employer. The national level support of labor unions for ongoing talks of transnational cooperation and engaging in related activities leading to closer cooperation and adoption of a transnational strategy.

Some examples of demonstrations of transnational union solidarity and cooperation that have been threatened by the Mexican government and the CTM, are the following. In 1987, the FLOC US union obtained support from the national level CTM and AFL-CIO to locate a Mexican counterpart in response to Campbell's operations in Mexico using disparities in labor costs against US workers. (La Botz 1994: 10).

The maquila industry that has the lowest union density is taking Mexican cooperation in union organizing. In the auto sector, intra-industry meetings have set up at the Chrysler-Ramos Arizpe (Middlebrook 1995). At the Transnational Information Exchange (TIE), held in Mexico in 1991, autoworkers from the Big Three (Chrysler, Ford, and General Motors) formed a trinational committee to coordinate industry-wide cooperation and networking (Moody and McGinn 1992).

In the Ford case, solidarity focused on supporting Mexican autoworkers in their fight for union democracy (Middlebrook 1995), adding leverage through the alliance. Similar forms of cooperation with US allies (Middlebrook 1995) have been discouraged at the Ford plants in Chihuahua and Hermosillo. Teamsters in Chicago supported the strike at the Modelo Brewery in 1990, with solidarity actions that included a corporate campaign against Green Giant products (Moody and McGinn 1992: 48).
The Mexican Telephone Workers' Union (Sindicato de Telefonistas de la República Mexicana, STRM) signed an agreement with the US Communications Workers of America and the Communications and Electrical Workers of Canada. Canadian, Mexican electrical workers' unions, and US met in Mexico in February 1994 to discuss common concerns.

The Developed Technology Cooperation Framework led by CONAE and the US implementing agency NREL, to promote cooperative work between local and international technical groups to foster private investment in clean energy technologies and projects that speed economic development.

Some examples of cooperative agreements between firms, non-governmental organizations and government at cross national level follows. A long-term maintenance and operational agreement between CESMACH, a coffee growing cooperative in the El Triunfo reserve of Chiapas, with Sandia and WWF, who have implemented a photovoltaic powered radio communication system.

The Sister Cities International's "International Partners" is a program that allows partners to undertake projects on economic development, healthcare or municipal Border Initiatives promotes public-private partnerships and cooperation to strengthen economic development through the growth of existing small and medium sized businesses along the Texas-Mexico border.

Although it is evident that cross-national cooperation is critical in addressing many health hazards like bioterrorism along the U.S.-Mexico border, reflecting a cooperative spirit, a public health program is underway in the San Diego and Tijuana region. However this cooperative relationship is always caught in a dilemma between addressing the health hazards and maintaining cordiality.

The closer governments and public and private partnerships work together, the more important is to leverage knowledge to improve cross-border cooperation and strengthen the linkages. Other problem is the land management issues affecting the
US-Mexico border in which a field coordinating committee is producing a digital mapping database. Partnerships forged are a valuable asset. Cooperation between Canadian aboriginal communities and the indigenous Otomi people of Mexico is a good example of indigenous relationships. These are only a few examples of transnational cooperation.

D. Cooperation between and among firms

Involves three features: relational contracting, information exchange / joint learning, and collective action which leads to the emergence of inter-firm networks. Relational contracting involves a long-term business relationship based on trust and occurs both within hierarchical settings and hierarchical environments. Formal and informal information exchange between firms includes exchanges in supplier-subcontracting arrangements, strategic alliances, associations and firms’ employees in professional associations. Cooperation between firms is a feature of innovation economics, which involves incremental innovation as a process of continuous improvements resulting from learning by interacting. Collective action includes provision of services by associations and meso-institutions, active participation and political lobbying.

Cooperative relationships between firms are 'intermediate' or 'hybrid' organizational forms. Research on inter-firm cooperation, frequently views companies as entities, which can receive trust (Buckley & Casson, 1988; Madhok, 1996).

Cooperation: involves frequent social, business and information exchanges arising social, legal, economic, informational, etc., bonds. The institutional field within which members are located will assist the social processes that constitute collaboration (Phillips et al., 2000).

Firms have some motivating factors to enter into cooperative agreements: quicker access to new markets or increased speed of product development; desire for technological innovation, diffusion and control; cost minimization; risk minimization; competition for a strategic partner; and learning (Husbands, 1994). Firms have
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motives to enter cooperative relations: continuous investments, external challenges and internal needs (Child and Faulkner, 1998).

External challenges

- Change in environmental condition of globalization of markets
- Turbulence and economic uncertainty
- Shorter product life cycles
- Increasing rate of technical change, requirement

For continuous investment

- Development of networks and alliances provides some security and buffering against external threats to survival
- Few companies have the internal resources and competencies to meet this range of requirements

Internal needs

- Resource dependency (mutual resource-dependency perception is often a key internal motivator)
- Gain the requisite skills or resources need to respond to an external challenge or opportunity
- Learning
- Become part of a community in which new discoveries will be made
- Risk limitation (prevalent in R&D alliances)
- Speed to market (alliances are the fastest means of achieving market presence to meet an opportunity)
- Cost minimization
- Current poor performance (poor performers were found to be early joiners of R&D collaborations)
- Achievement of economies of scale (scale alliance)
- Technology exchange
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- Risk reduction (e.g. safeguard R&D failure).

The necessity for complementary resources is a key driver of inter-organizational cooperation. Firms are not islands but are linked together in patterns of cooperation and affiliation (Richardson, 1972). Cooperating firms can learn more about having better configurations, strengthen their technological capabilities and achieve greater economies of scale and scope. Informal or formal inter-firm cooperation agreements involve long term equity participation, the creation of new companies and no equity agreements.

**Figure 2. Categories of Strategic Alliances**

![Diagram of categories of strategic alliances]

Source: Sorensen, Olav Jull (1999)

Through vertical cooperation or integration between firms, the problems of appropriability of complementary assets can be solved. Transactions involving uncertainty are likely to take place within firms organized hierarchically.

1). **Types of cooperative relationships**

Through different forms of cooperation, firms can achieve targets that could not achieve alone (Madhok & Tallman, 1998), as for example, to combine the advantages of vertical integration and scale economies in merging resources but keeping individual companies focused on its core competencies. There are different forms of cooperation and collaboration: mergers, strategic alliances, joint ventures, coalitions, consortiums and agreements for research and development, co-production, marketing, licensing, franchising, etc.
According to Child and Faulkner (1998, 106), cooperative relationships can be categorized by different types:

### a. Scope of the alliance

- **Focused**

- **Complex**

The concept of a firm’s “relative scope,” for each firm is the ratio of the scope of the alliance to the total set of markets in which the firm is active captures the initial conditions likely to influence the competitive and cooperative dynamics (Khanna, Gulati, and Nohria, 1998).
b. Legal form

**Joint venture**: legally separate company; partners provide resources. Joint Ventures are simultaneously contractual agreements between two or more organizations and a separate legal (and usually organizational) entity with its own purpose (Borys and Jemison 1989).

Joint ventures are operations whereby a legally independent and autonomously managed business enterprise is set up by two or more parent companies to run a clearly defined set of activities in the common interest of the founding firms. Joint venture is a separate legal entity with ownership shared by both partners (Harrigan, 1984, Geringer, 1991). “JV is a form of strong cooperation based on technology complementarity, reduction of time span for innovation and market access” (Shiva Ramu 1997). A joint venture is not an alliance, it is a new corporate entity formed. Joint ventures carry the connotation of shared ownership (Badaracco, 1991).

Joint R&D agreements cover agreements that regulate R&D sharing and/or transfer between two or more companies. A non-equity joint venture is an agreement between partners to cooperate in some way without creating a new, joined entity. In contrast, an equity joint venture involves the establishment of a newly incorporated entity in which each of the partners has an equity position.

A joint venture offers a solution to cooperate only in one of the partner’s core competencies when the management is difficult, such as the case of pooling knowledge.

**Collaboration**: alliance form appropriate when need for flexibility in environments of high uncertainty is.

**Alliance** is any cooperative working relationship between two or more organizations developed to achieve mutually beneficial objectives. An alliance is defined as 'novel form of voluntary inter organizational cooperation that involves significant exchange, sharing, or co development and thus results in some form of enduring commitment
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between the partners' (Gulati and Gargiulo 1999: 1440). Also an alliance is defined simply as 'contractual asset pooling or resource exchange agreements between firms' (Stuart 1998: 668). An alliance is an inter-firm form of cooperation which as an intermediate organizational form falls between the integrated firm and an arms length market interaction, exhibiting some of the best aspects of both extremes (Hennart 1993).

c. Alliances

An alliance is “… a formal agreement between two or more business organizations to pursue a set of private and common goals through the sharing of resources … in contexts involving contested markets and uncertainty over outcomes” (Arino et al. 2001:110). The partners not only have “common goals”, but a need for “an on going match between … goals and needs…” (Ashkenas, 1995, p.211).

Inter-firm alliances involve cooperative relationships defined by formal contracts. An alliance is any voluntarily initiated cooperative agreement between firms that involves exchange, sharing, or co-development, and it can include contributions by partners of capital, technology, or firm-specific assets (e.g., Harrigan, 1986; Parkhe, 1993; Gulati and Singh, 1977; Gulati, 1998).

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Traditional theories of alliances have been unable to assess the factors that determine performance and to explain the fixed-firm effects in individual firm’s alliance (Kale and Singh, 1999). Some theoretical perspectives complement to traditional theories and point to organizational capabilities. Among others, evolutionary economics (Nelson and Winter, 1982; Lewin and Volberda, 1999), organizational learning and knowledge-based theory (Conner and Prahalad, 1996;
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Grant, 1996; Lei et al., 1997), resource-based theory (Wernerfelt, 1984; Barney, 1991; Das and Teng, 2000) and dynamic capability perspectives (Mahoney, 1995; Teece et al., 1997; Eisenhardt and Martin, 2000).

Figure 4. The arc of alliance strategy

The differences between the alliance capabilities and traditional theories are shown below.

Alliances can be structured as complex equity joint ventures or as looser arrangements for cooperating in activities such as marketing and R&D. Some forms of these cooperative arrangements can be horizontal alliances between organizations. These alliances compete for the same resources with exchanges in one direction (MacMillan & Jones, 1978; Astley & Fombrun, 1983; Oliver, 1990). Organizations exchange or pool their resources toward an overarching goal, such as research consortia.

A vertical alliance is an agreement between a firm and organizations to exchange in one direction, either supplying inputs or using its outputs. In a reciprocal alliance, organizations exchange in directions, inputs and outputs (Borys & Jemison, 1989; Oliver, 1990), increasing their interdependence requiring more interaction and
stability in the relationships leading to governance structures with more institutional control, such as acquisitions or joint ventures (Borys & Jemison, 1989).

The governance structure of the alliance is the formal contractual structure in terms of the degree of hierarchical elements and the extent to which they replicate the control and coordination features associated with organizations. These elements are considered to be at the hierarchical end of the spectrum (e.g., Pisano, Russo, and Teece, 1988; Pisano, 1989; Gulati, 1995). At one end are joint ventures as a new entity in which they share equity and replicate the hierarchical control. At the other end are alliances with no sharing of equity, few hierarchical controls and interorganizational coordination. “Since there is both conflict and cooperation and formal authority structure is lacking.” Litwak and Hylton (1962: 399). This situation of interdependent coordination may result in uncertainty until the partners get mutual adjustment and adaptation.

There are three internal components in an alliance close loop system: alliance structure, development processes and alliance review.

Figure 6. An Alliance as a Closed Loop System

Source: Callahan, 1999.

In a second order model, the alliance manager control objectives are expanded.
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Figure 7. Second order alliance control road map.

Source: (Callahan, 1999).

Figure 8. Typical partnership objectives along the life cycle of a business

<table>
<thead>
<tr>
<th>STAGE OF LIFE CYCLE</th>
<th>TYPE OF ALLIANCE</th>
<th>OBJECTIVES FOR VALUE CREATION IN LEARNING PROCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMBRYONIC</td>
<td>Venture capital technology “windows”</td>
<td>Market penetration</td>
</tr>
<tr>
<td></td>
<td>Alliances to define markets and set competitive terms (e.g. standardisation- creation of critical mass)</td>
<td>New products same market Same product new market</td>
</tr>
<tr>
<td></td>
<td>Alliances to join R&amp;D with key customers and suppliers</td>
<td>New product/new market</td>
</tr>
<tr>
<td>GROWTH</td>
<td>Alliances for key complementary skills and products</td>
<td>New product/new market</td>
</tr>
<tr>
<td></td>
<td>Alliances to share risk in process of innovation</td>
<td>New products same market Development of overseas business</td>
</tr>
<tr>
<td></td>
<td>Alliances to share access markets and funds</td>
<td>Same products/new market Development of overseas production facilities market &amp; distribution rationalisation</td>
</tr>
<tr>
<td>MATURE</td>
<td>Alliances to co-operation and control competition</td>
<td>Backward or forward integration/ licensing abroad</td>
</tr>
<tr>
<td></td>
<td>Alliances and acquisitions to gain/re-establish critical mass</td>
<td>Production and product line rationalisation</td>
</tr>
<tr>
<td>AGEING</td>
<td>Acquisitions and alliances for rationalisation to avoid “stalemates”</td>
<td>Methods and functions efficiency technological efficiency/ traditional cost cutting efficiency</td>
</tr>
<tr>
<td></td>
<td>Markets and competition stabilisation alliances</td>
<td>Distribution and market rationalisation</td>
</tr>
</tbody>
</table>

Source: Molevicius, Algis.
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The stages in the alliance process, based on previous research (Doz 1996, Smith and Van de Ven 1994) and on the analysis (Callahan, 1999) of a number of strategic alliance experiences of a large integrated systems manufacturer to which they had access, follows.

**Figure 9. The Alliance Process**

Source: Callahan, (1999).

Alliance formation may allow firms to reduce the level of uncertainty that stems from some transactions (Kogut, 1988; Hennart, 1988).

**Figure 10. Framework Outline: Strategic Alliance Formation.**

In alliance formation, selecting partners and managing cooperation, embeddedness matters according to Gulati and Westphal (1999). Cooperative relationships in the boardroom of a firm increase the likelihood of alliance formation with other firms on which the outside directors sit as board members. However, there is not empirical analysis to demonstrate that deals create value for the firm and the results are mixed.

In theory of economic organization, inter-firm alliances fall between the polar models of markets and hierarchies. Broader basis has been provided by the resource-based approaches to strategy that emphasizes the role of knowledge. Alliances characterized by similarity and compatibility of knowledge-related capabilities contributed by both partners in that uncertainty is likely to be reduced compared to alliances characterized by dissimilarity and sharing of asymmetric knowledge.

The parties of an alliance understand benefits and option to impact unilaterally the partnership’s outcome if they have comprehension of an alliance’s payoffs and continuous information exchange on the incentives to cooperate. An alliance may be seen, as a non-zero-sum cooperative game where the partners would all be better off if they are able to cooperate. The governance structure of alliances changes as the expectations and goals of partners in the alliance evolve (Gulati, Khanna and Nohria 1994).

To learn how to manage alliances better a firm needs a system like the one proposed by Callahan (1999).

An alliance capability is defined as the mechanisms and routines that are purposefully designed to accumulate, store, integrate, and diffuse relevant organizational knowledge about alliance management (Kale, Dyer and Singh, 2002). Researchers have analyzed firm level factors, managerial processes, tools and routines in order to explain alliance performance. Firms that consistently generate above-average rents in alliances are supposed to possess specific alliance capabilities (Kale and Singh, 1999).
Strategic alliance: A scale alliance: horizontal, link alliance or vertical strategic, diagonal alliance or cooperation between firms in different industries. It is set up as a separate joint venture if there is a perceived need to tie in the partners, scope is a distinct of core business or geographically, assets are specific and separable from parents, and clear objectives.

Figure 11. Learning from Alliance to Alliance

Source: Callahan, (1999)

Figure 12. An alliance capability

Source: adapted from Duysters et al. (1999).
Strategic alliances are cooperative agreements in which two or more separate organizations share reciprocal inputs, while maintaining their own corporate identities (Vanhaverbeke, Duysters and Noorderhaven, 2002). A strategic alliance is formed by ‘agreements characterized by the commitment of two or more firms to reach a common goal entailing the pooling of their resources and activities’ (Teece, 1992, p. 19). Under this long-term agreement of collaboration ‘the parties . . . maintain autonomy but are bilaterally dependent to a non-trivial degree’ (Williamson, 1991, p. 271). Strategic alliance as a cooperative arrangement between two or more companies in which a common strategy is developed in unison and a win-win attitude is adopted by all parties. It fills the middle ground between transactional arrangements and acquisitions. (Harbison and Pekar, 1993). Strategic alliances are defined more broadly, covering a variety of flexible cooperative arrangements between organizations, from fluid, short term cooperation to long term, formal agreements (Das & Teng, 1998; Murray and Mahon, 1993).

A strategic alliance is a cooperative agreement between two or more autonomous firms pursuing common objectives or working towards solving common problems through a period of sustained interaction. “One of the essential features of a true strategic alliance is that it is intended to move each of the partners towards the achievement of some long term strategic goal .... This strategic objective is the one distinguishing feature that separates strategic alliances from other forms of inter firm cooperation” (Webster’s 1992 :p8).

There is a tension between an economic and social rationale of any strategic alliance. The purpose of an alliance is to further the economic benefits but at the same time, the economic core is socially embedded in a collaborative arrangement. The core concept of the social embeddedness of alliances is the concept of trust. The economic and social rationales may both replace each other and interact (Sorensen, 1999).
Figure 13. The Economic Core of Strategic Alliances and its Social Embeddedness

<table>
<thead>
<tr>
<th>Social Embeddedness</th>
<th>Economic Core:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dominant</td>
</tr>
<tr>
<td>High</td>
<td>Balanced, highly committed alliance</td>
</tr>
<tr>
<td>Low</td>
<td>Undersocialized alliance</td>
</tr>
<tr>
<td></td>
<td>Balanced alliance with low commitment</td>
</tr>
</tbody>
</table>

Source: Sorensen (1999)

Firms form strategic alliances as a means of acting proactively and in so doing, altering their environment. Informal alliances involve voluntary contact and interaction while in formal alliances cooperation is governed by a contractual agreement to put in place IPR clauses, confidentially agreements and other contractual measures designed to safeguard the firm against knowledge spill-over (Pyka and Windrum (2003). Increasing gains to cooperative behavior are likely to attract more cooperating firms to join an alliance. The formal contractual structure of the alliance designs and establishes the governance structure, coordination and control features and hierarchical elements of participant organizations (Pisano, Russo, and Teece, 1988; Pisano, 1989; Gulati, 1995). The relationships between the types of underlying assets of strategic alliances and the survival of new ventures are studied by Kishida (2002).

Figure 14. Strategic Alliances and New Venture Survival

Source: Kishida, (2002).
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Strategic alliances are cooperative relationships between organizations which intent to share resources, capabilities and/or knowledge on a continuing basis. Some forms of strategic alliances include equity investments, cooperative research agreements, technology development agreements, component or systems development partnerships, and technology sharing agreements, assembly and manufacturing, distribution and marketing partnerships.

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