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# Interpartner negotiations in alliances: a strategic framework

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## Abstract

**Purpose** – The purpose of this paper is propose a strategic framework for understanding interpartner negotiation dynamics in alliances.

**Design/methodology/approach** – The authors define interpartner negotiations as a process of reconciling and integrating the interests of the partners in an alliance, and consider four types of interpartner negotiation strategies – problem solving, contending, yielding, and compromising – and then discuss the dynamics of these negotiation strategies in the formation, operation, and outcome stages of alliance development.

**Findings** – The framework makes clear that the four types of interpartner negotiation strategies identified in the article need to be appreciated as having differential impact at each stage of alliance development.

**Research limitations/implications** – As interpartner negotiations occur at all stages of alliance evolution, future research may seek to empirically assess the impact of different interpartner negotiation strategies.

**Practical implications** – The paper discusses how alliance managers can deploy effective interpartner negotiation strategies for achieving alliance objectives at each of the three developmental stages.

**Originality/value** – The article responds to the need of managers with alliance responsibilities for a framework to help identify and exploit the most effective ways to conduct interpartner negotiations in alliances for productive interactions at different alliance development stages.

**Keywords** Strategic alliances, Interpartner negotiation strategies, Alliance development stages, Negotiating

**Paper type** Conceptual paper

## Introduction

Strategic alliances have become a prominent feature of the contemporary business landscape. Firms rely on alliances to facilitate market entry, initiate new product development, and share risks. However, as many studies have suggested, alliances are also notoriously unstable entities, and we need to recognize that alliance partners are in a state of interdependence that may be a precursor of potential conflicts in the alliance. The critical issue is how the partners manage the interdependence that exists between them. The management of interdependence necessitates negotiation, making salient

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the intriguing subject of the nature and dynamics of negotiation strategies that are pursued by the alliance partners. Might the failure of the alliances be attributed to the dynamics stemming from the use of inappropriate negotiation strategies? How flexible are the alliance partners in terms of the negotiation strategies that they employ as the alliance evolves over time? Are different types of negotiation strategies more appropriate at different developmental stages of the alliance? Can a troubled alliance be rescued by an alteration in the negotiation dynamics between the partner firms? These issues are surely relevant but have only received fragmented attention in the literature so far.

We first introduce the concept of interpartner negotiation dynamics, and then discuss in some detail the framework of interpartner negotiations covering four types of negotiation strategies – problem solving, contending, yielding, and compromising – in the three alliance development stages of formation, operation and outcome. We conclude with a discussion of managerial implications of the framework.

## The concept of negotiation

Negotiation refers to “the deliberate interaction of two or more complex social units which are attempting to define or redefine the terms of their interdependence” (Walton and McKersie, 1965, p. 3). This definition suggests that interdependence is a key element of all negotiations. If parties were not interdependent there would really be no need for negotiations. The management of interdependence is a process that is often fraught with ambiguity but also offers at once the potential for learning as the partners may get to know more about each other and from each other during the course of interaction (Das and Kumar, 2007). The partners in a negotiation have to calibrate their expectations, determine appropriate negotiation strategies, and respond to their counterpart’s offers. Exaggerated expectations, for example, may prevent the partners from reaching an agreement but at the same time low expectations may allow the other party to benefit disproportionately from the negotiated agreement. Similarly, a small concession by one party may generate anger but a large concession may induce the other party to revise expectations.

Bartos (1977) proposes that negotiation is a process that pits the individual (competitive) motivation of an actor to maximize his/her utility against the collectivistic (cooperative) motivation to attain a fair solution. Cross (1977) posits negotiation as a learning process in which negotiators adjust their expectations based upon the results of their interactions. If the learning rate is high then the length of the negotiation process may be reduced. Zartman (1977) conceives of negotiation as a decision making process in which negotiators seek to develop a joint formula. Once such a formula is decided upon the parties begin to focus on issues concerning the details. As the parties negotiate, the partners are also required to deal with the different types of conflicts that may arise in an alliance, namely conflicts about interests, intellective problems, or evaluative problems (Harinck *et al.*, 2000). Conflicts of interest center on the issue of resource scarcity, conflicts involving intellective problems deal with the question of conflicting positions regarding a particular issue, whereas conflicts involving evaluative problems represent conflicting positions on issues and are also referred to as “value conflicts.”

The process of defining or redefining interdependence may be the immediate precursor for the emergence of conflict in an interorganizational context. As parties seek to define or redefine the terms of their interdependence they may be stating their demands, rebutting their partners' demands and expectations, and above all may be engaged in a negotiating game as they seek to diffuse conflicts and prevent conflicts from escalating. If, for example, in a dyadic alliance, one of the alliance firms seeks to impose new requirements on its partner, such as completing a particular task earlier than originally agreed upon, the partner is likely to resist and this may provide the basis for the emergence of conflict.

Thomas (1976) defines conflict as "the process which begins when one party perceives that another has frustrated, or is about to frustrate, some concern of his" (p. 891). Pondy (1967) in a discussion of organizational conflict suggests that conflict is a dynamic process whose roots may lie in resource scarcity, need for autonomy, and divergence in subunit goals. We would surmise that these factors are also germane to studying conflict in the alliance context. In a dyadic alliance, for example, the partners may quibble as to the amount of resources they are expected to contribute to the alliance. They may also be very protective of their independence and may differ in terms of the goals that they are hoping to realize from the alliance. Although the definitions may differ in terms of their various emphases, they all focus on the issues of interdependence, perceived incompatibility among the parties' interests, and interactional dynamics (Thomas, 1992). The negotiation strategies are mechanisms for the effective management of conflict. In managing conflicts negotiators are confronted with the need to balance the competing motivations of value creation and value appropriation.

## Types of negotiation

A number of perspectives on how conflict can be managed have appeared in the literature. Pruitt's (1983) dual concern model suggests that negotiators have open to them four alternative strategies, namely problem solving, contending, yielding, and inaction. These strategies are derived on the basis of two orthogonal dimensions – namely, concern for one's own outcomes versus concern for the other's outcomes. Contending as a negotiation strategy is likely to be chosen when concern for one's own outcomes is high and the concern for the other's outcomes is low. Problem solving strategy, by contrast, is likely to be chosen when both of these concerns are high. The problem solving approach is akin to Follet's (1941) notion of integration, as the aim is to construct a new alternative that may appeal to all parties. The strategy of contending has one actor imposing his/her will on the other. Yielding means that the negotiators reduce their aspiration levels while inaction implies doing very little of anything in the negotiation process.

Follett (1941) held that conflict can be managed either through domination, compromise, or integration. The dominating strategy suggests victory for one party over another. Compromise involves mutual give and take in which each party gives a little to secure an agreement. Integration represents the construction of a new alternative in which the interests of the parties are reconciled in ways that may be beneficial to both.

Thomas (1976) proposed a typology of five conflict modes (competition, accommodative, sharing, collaborative, and avoidance) based on the dimensions of cooperativeness and assertiveness. Cooperativeness refers to the desire to satisfy the other party's concern while assertiveness refers to attempts to satisfy one's own concern. Competition means satisfying one's own concerns even if it involves imposing a cost on the partner. An accommodative stance implies satisfying the partner's concerns without concentrating on one's own needs. Sharing gives rise to a moderate but not complete satisfaction for the parties involved. Collaboration is integration in that it is associated with fully satisfying the concerns of both of the parties. Finally, an avoidant orientation implies an indifference to either party's concerns.

Putnam and Wilson (1982) proposed a typology of non-confrontation, solution-orientation, and control. Non-confrontation represents an indirect way of managing conflict whether through withdrawal or minimizing differences. Solution orientation represents a problem solving approach to manage conflict in which an attempt is made to integrate the interests of the parties. A control strategy involves an open and direct defense of one's position.

Gelfand *et al.* (2008) developed a theory of organizational conflict cultures. They propose four alternative conflict cultures: dominating, collaborative, avoidant cultures, and passive-aggressive. The typology was derived on the basis of active vs passive conflict management norms and agreeable vs disagreeable conflict management norms. A dominating conflict culture is characterized by norms that are both active and disagreeable. A collaborative conflict culture possesses norms that are agreeable and active. A conflict avoidant culture has norms that are both agreeable and passive. Finally, in a passive-aggressive conflict culture the norms are both disagreeable as well as passive. Harinck *et al.* (2000) note that different types of conflict are often associated with different types of negotiation strategies. In particular, they found that conflicts rooted in interests lead negotiators to pursue integrative strategies whereas conflicts rooted in intellectual or evaluative problems are not amenable to such a resolution.

Lastly, Pinkley and Northcraft (1994) tested the impact of conflict frames on both the processes and outcomes of conflict. Three alternative frames have been identified in the literature, namely relationship vs task, emotional vs intellectual, and cooperate vs win. It was found that individuals achieved a high pay-off solution when the dominant frame that characterized them and their partner was a task-oriented frame.

The dual concern model (Pruitt, 1983) mentioned earlier has received strong empirical support both in the laboratory as well as in field studies and is now prominent in the field of conflict management (De Dreu *et al.*, 2001). Negotiation scholars have also drawn a distinction between integrative (win-win) and distributive (win-lose) bargaining (Walton and McKersie, 1965). The distinction between integrative and distributive bargaining can easily be mapped onto the strategies of problem solving and contending in the dual concern model. We will use the dual concern model as our organizing framework for discussing interpartner negotiation strategies for several reasons. First, this is a framework, as De Dreu *et al.* (2001) suggest, that has received substantial support in the literature. Second, the dual concern framework is useful in highlighting the mixed motive character of the alliance context in that negotiators have to find the optimal balance between concern for one's own outcomes and concern for the partner's outcomes. And third, the dual concern model suggests that alliancing firms may find all of the strategies attractive depending upon the circumstances (Pruitt and Kim, 2004). We should note, however, that Pruitt's (1983) framework does not discuss compromising as a strategy but other theorists such as De Dreu *et al.* (2001) consider this to be a viable option. If the alliancing firms are willing to compromise, an agreement may well be at hand although it may not be a truly integrative agreement. Our discussion of interpartner negotiation, thus, will comprise of the following four strategies – problem solving, contending, yielding, and compromising.

A few caveats are also in order. First, it should be noted that in practice alliance managers may choose to use a number of strategies simultaneously (Euwema *et al.*, 2003) and may use different strategies at different stages of alliance development. Euwema and colleagues develop the notion of conglomerated conflict behavior in which actors utilize multiple conflict strategies in a negotiation process. This no doubt makes the analysis more complex, but it does not detract from the fact that different strategies are in principle associated with different substantive and relational outcomes. Second, and assuming a dyadic alliance context, the outcome of the negotiation process is dependent on whether the negotiation strategies adopted by the alliance partners lead towards convergence or whether they enhance the distance between the parties. That said, the principle objective of this article is to map out the consequences of alternative negotiation strategies.

## Interpartner negotiations in alliances

As they weigh the prospects of entering into an alliance, or alternatively seek to restructure their relationship if already in an alliance, the alliance firms are confronted with the necessity to effectively manage their interdependence. This requires the partners to choose negotiation strategies that are well calibrated to suit their situation. Consider, for example, the alliance between Renault and Nissan. When the parties explored the possibility of forming an alliance, both companies faced severe challenges. Nissan was facing a loss of market share and financial strain while Renault was just emerging from a failed alliance with Volvo (Korine *et al.*, 2002). The companies were also embedded in different societal cultures, with Renault (French) an embodiment of individualistic societal values whereas Nissan (Japan) represented collectivistic societal values. The partners had to engage in extensive sensemaking and while this was no doubt a tricky and a time-consuming affair it paid good dividends for both companies over the long term. The companies had to grapple with both task and relational issues. As the cultural distance was substantial, relational issues were quite important at the outset. As the partners initiated their relationship and built it over a period of time, they were careful to choose negotiation strategies that avoided any longer term harm. As Korine and colleagues (2002, p. 42) note, “First, they took a long term, encompassing view at critical junctures in the process, rather than a short term bargaining perspective.” A good illustration of this is the strategic decision on the part of Renault not to put more pressure on Nissan when DaimlerChrysler backed out of bidding for Nissan. Interpartner negotiations not only involve finding the right balance between the task and relational demands, but it also means calibrating the strategies that might build upon each other. The Renault-Nissan negotiations may be unique in many aspects but they clearly highlight some of the key issues in managing interdependence among partners.

We define interpartner negotiations as a process of reconciling and integrating the interests of the partners in an alliance. These negotiations may or may not be successful. In addition, they may vary in the level of integrativeness that they exhibit. It needs to be noted that this is not a one-off process. The process of reconciliation and integration must be carried out over the alliance life cycle, and different alliance partners may employ different strategies depending on the level of concern that they have for their own outcomes versus the other's outcomes. Third, there are different types of negotiation outcomes, namely, economic and relational outcomes, and we would suppose that different negotiating strategies may be associated with different kinds of outcomes. Curhan *et al.* (2006) note that negotiators may often be as much concerned about subjective outcomes as they are about objective outcomes. Subjective outcomes included feelings pertaining to:

- instrumental outcomes;
- feelings pertaining to self;
- feelings relating to the negotiation process; and
- feelings pertaining to relationships.

In terms of the dual concern model, the process of reconciliation and integration may range from problem solving at one extreme to contending at the other. In a problem solving approach the reconciliation and integration involve a genuine concern for understanding the other party's perspective. In a contending strategy, reconciliation and integration, for example, simply mean that the dominant partner's perspective usually prevails. A problem solving approach is likely to lead to positive economic and relational outcomes, while a contending strategy may lead to negative economic and relational outcomes.

The literature on interpartner negotiations in strategic alliances is rather limited but we could identify a few studies that discussed such negotiations to a certain extent. These studies variously suggest that negotiation can be a difficult process (e.g. Arino and Reuer, 2004; Reuer *et al.*, 2002), that effective negotiation is critical in enhancing alliance performance (e.g. Lin and Germain, 1998), that the use of distributive strategies is often context dependent (Luo, 1999), and that structural conditions are often highly important in shaping negotiation outcomes. In Table I we have listed some of these studies. Limited in number though these studies might be, they do serve to highlight the relevance of studying interpartner negotiation in alliances.

## Interpartner negotiations in alliance development stages

Interpartner negotiations are vital for successful cooperation between alliance partners. The negotiation process is intrinsically not simple; its complexity is clearly magnified in the alliance context because alliances involve partners that are potential competitors. Partners may therefore be reluctant to share information lest such information be used to gain advantage. They may also be sensitive to potential partner opportunism in the alliance context and this may deter them from being fully committed to the venture. But at the same time the partners recognize that they must cooperate, for otherwise there would be no point in entering into an alliance. It is finding the right balance between cooperation and competition that may and often does prove tricky for the partners. The balance between cooperation and competition is reflected in the type of negotiation strategies that are chosen by the partners. Within the framework of the dual concern model a problem solving strategy would signify cooperation while a contending strategy would be indicative of a competitive intent.

We have noted that alliances evolve through the stages of formation, operation, and outcome (Das and Teng, 2002a). Each of these stages has its own unique challenges. In the remainder of this section we discuss the relevance and implications of the different

| Authors | Illustrative observations |
|---|---|
| Arino and Reuer (2004) | "Executives need to balance the costs of negotiating, monitoring and enforcing complex contracts against the threat of opportunistic behavior" (p. 38) |
| Lin and Germain (1998) | "Conflict resolution strategy is expected to affect JV performance" (p. 183) |
| Luo (1999) | "Distributive strategies are less likely in IJV negotiations, however, when such ventures involve interpartner learning and future interdependence" (p. 144) |
| Parry *et al.*(2008) | "We hypothesized that integrative potential was higher (or perceived to be higher) in decisions involving R&D task conflict than in decisions involving marketing task conflict" (pp. 211-212) |
| Rao and Schmidt (1998) | "Negotiators who believed that their firms would cooperate in the future used more rational tactics in negotiations. They focused on the exchange of information and provided strongly data driven reasons for their demands" (p. 681) |
| Reuer *et al.* (2002) | "We also suggested that changes in the alliance's governance structure can be costly and risky due to the need for renegotiation after collaborators have made resource commitments, which implies that firms will be selective when undertaking governance changes and incurring these costs and risks" (p. 148). |
| Yan and Gray (1994) | "The findings of this comparative case study provide confirmative evidence that the relative levels of joint venture partners' bargaining power has a significant impact on the pattern of parent control in the venture's management" (p. 1,511) |

**Table I.** Selected studies of negotiation in alliances

negotiation strategies at different stages of alliance development. We also summarize in Table II the likely outcomes of the different negotiation strategies at each of the developmental stages, and also provide a few illustrative alliance cases that may help in appreciating the different interpartner negotiation strategies that we discuss in this article.

## Interpartner negotiations in the formation stage

The negotiation of an agreement between the potential partners is the central issue at this stage. The alliance partners will have to negotiate a wide range of issues ranging from the type of the proposed venture (equity vs nonequity), to the level of resources that each partner will commit to the venture, and the mechanisms for managing the venture (shared vs dominant control). The issue of the optimum level of control may itself be a tricky one, because on the one hand a dominant control may minimize the possibility of opportunistic behavior while also being detrimental to trust (Li *et al.*, 2009). Another key issue may be the level of contractual complexity (Reuer and Ariño, 2007). This refers to the stringency of the contractual provisions pertaining to issues of both enforcement and coordination. Some have suggested that trust and contracts may be substitutes (Ghoshal and Moran, 1996) but others have argued that the two work in tandem (Poppo and Zenger, 2002). Although contracts may well be essential to all alliances the relative emphasis that alliance partners give to one or the other may itself be a product of the effectiveness of interpartner negotiations.

**Table II.** Negotiation strategies and their impact at different stages of alliance development

| Negotiation strategy | Alliance development stage<br>Formation | Operation | Outcome |
|---|---|---|---|
| Problem solving (likely to be pursued by member firms that are cooperative, flexible, and long-term oriented) | Will develop mutual trust or strengthen their preexisting relationship | Will be successful in preventing the escalation of mutual conflict | Will strengthen their relationship; will deal with negative developments in a calm and a dispassionate manner |
| Contending (likely to be pursued by member firms that are competitive, rigid, and short-term oriented) | Will not be successful | Will result in distrust and make success less likely | Will weaken their relationship; will find it costly and time-consuming |
| Yielding (likely to be pursued by member firms that are cooperative, flexible, and long-term oriented) | Will not achieve an integrative outcome | Will be successful in preventing the escalation of mutual conflict but whether it adequately deals with the issues confronting the alliance may not be immediately clear | Will find it economical and time-efficient; will not affect their relationship |
| Compromising (likely to be pursued by member firms that are moderately cooperative, moderately flexible, and short-term oriented) | Will not achieve an integrative outcome | Will be successful in preventing an immediate alliance failure, but fundamental problems may still persist; will be only moderately successful | Will not achieve an integrative outcome; will not adversely affect their relationship |

This is not an exhaustive list of issues but is only suggestive of some of the key elements critical to negotiation. As the partners begin the process of negotiations, the negotiating dynamics that come into play may be influenced by a wide variety of factors (alluded to earlier) ranging from perceptions of trust, to relative power and cultural differences. A related factor, but by no means less important, is the need for building a relationship with one's partner with the objective of fostering trust. Trust is often deemed vital in collaborative arrangements because it may help to mitigate opportunistic behavior (Das and Teng, 1998). It has also been maintained that the link between trust and performance "is stronger when market uncertainty is higher, resource interdependency is stronger, risk sharing is more commensurate, or reciprocal commitment is greater" (Luo, 2002, p. 689). At the same time, trust permits the alliance partners to deepen their collaboration, knowing that their partner may not take advantage of them. The relevance of trust is closely linked with the importance of relational outcomes that negotiators seem to value (Curhan *et al.*, 2006). We will now explore the implications of the different negotiation strategies that the partners may employ using the dual concern framework.

### *Problem solving strategy*

The problem solving strategy is associated with a concern for a member firm's own outcomes and an equally salient concern for its partner's outcomes. In this scenario, the focal firms are likely to freely share information, be responsive to their partner's concerns, and be in a good position to not only negotiate successfully but also to be able to develop a truly integrative solution. As Pruitt (1983) notes, "In joint problem solving, the parties exchange accurate information about their underlying interests, collectively identify new issues in light of this information, brainstorm to locate alternate ways of dealing with these issues, and (sometimes) work together to evaluate these alternatives" (p. 168). Scholars note that a problem solving strategy, if employed by all partners in an alliance, will not only guarantee successful negotiations but also result in a negotiated outcome that will be associated with trust building (Euwema *et al.*, 2003).

For a real-world example of a problem solving strategy in the formation stage of strategic alliances, consider the joint venture between Fiat of Italy and Tata of India. The case of Fiat and Tata illustrates how a problem solving strategy may be pursued at the alliance formation stage (Mitchell and Hohl, 2008). Fiat was Italy's biggest car manufacturer and was also one of the major industrial groups in the country. In recent years the company had experienced severe economic difficulties. It lost about US$12 billion during the period 2001-04. As Mitchell and Hohl (2008, p. 6) note, "Several reasons were seen to contribute to Fiat's difficulties including its low- margin mix of smaller cars, languid new product introductions and the onslaught of more Japanese cars in Italy due to the abolition of quotas on foreign imports." Fiat had established a joint venture initially with Premier Automobiles to manufacture Uno at Premier's plant in Kurla, Mumbai. Over time Fiat took total control over this venture. The plant had difficulty in achieving profitability and in 2006 it initiated steps to close the Kurla plant and to consolidate all of production at a new facility. The company was also faced with the strategic decision at this time to either close down the Indian operation or look for a new partner. They decided on the latter and in Tata Motors they found one of India's most respected industrial groups. Tata Motors remained India's biggest automotive manufacturer (taking all types of vehicles into account) and had sales of 4.5 billion euros at that time (Mitchell and Hohl, 2008). Tata Motors had first initiated the manufacture of passenger vehicles in 1991 with the production of Sierra and had more recently developed Indica, "a compact economy car" that was seen as representing new technological advances for the Indian industry.

The two companies were quick in finding common ground as regards the new venture. As De Filippis noted, "We started with a blank white board and talked about where we saw potential opportunities. As more meetings took place, we saw that we shared a common set of values. Even if two companies have common values, they may not cooperate. However, we were very fast in finding common ground" (Mitchell and Hohl, 2008, p. 12). Similarly, as Lombardi noted, "From the meetings, we saw that they really had a great commitment to the long term. We concluded that their management has a similar spirit to ours" (Mitchell and Hohl, 2008, p. 12). The parties met once every month from autumn 2006 to autumn 2007 to negotiate the venture. No major obstacles emerged in this process. As Graziolli noted, "Since I've been involved with the negotiations, there has not been a roadblock or one big issue to face. The overriding issue was getting through the volume of work in the specified time period" (Mitchell and Hohl, 2008, p. 15). The commitment to a problem solving strategy was further evidenced by the fact that often enough the parties had discussions with each other in the absence of legal advisors. In other words, there seemed to be a high degree of trust among the partners to have been able to adopt this strategy. This is a good example of how a problem solving strategy yielded positive outcomes for the parties.

### *Contending strategy*

The contending strategy implies a high concern for one's own outcomes accompanied by a low concern for the partner's outcomes. This is a strategy in which one party tries to impose its own wishes and demands on the other without any concern for the other's interests. Firms pursuing this strategy often resort to threats, non-disclosure of information, or putting the partner under pressure. It has often been maintained that when parties adopt a contending strategy the likelihood of a successful agreement is relatively low. There is no doubt that conflicts will escalate under such conditions, but Pruitt notes that this may not always be the case because "contending is often a necessary precursor to successful problem solving" (Pruitt, 1983, p. 170). While we agree that contending may not always lead to a negative outcome, the alliancing context is somewhat different. The partners are, to begin with, wary of each other, given the fact that they are often competing with the potential collaborators. Second, in an alliancing context, and especially at the formation stage of the alliance, the partners always have options, in the sense that they can always decide not to proceed with the alliance. The conflict spiral model, for example, suggests that when one party pursues a contending strategy, the other party will likely reciprocate this, thus leading to an escalation of the conflict (Pruitt and Kim, 2004). The motivation for each party is to punish the other for the costs that it has imposed on the other. It is often difficult to stop these spirals because an absence of a retaliatory action may often be viewed as a sign of weakness. These spirals often tend to increase in intensity as one party's defensive actions are viewed as escalatory by the other party. Finally, a contending strategy may lead to low levels of interpersonal trust as this strategy would have communicated to the other partner that its counterpart is solely concerned with obtaining maximal outcomes for itself (Beersma and De Dreu, 1999).

This is a strategy likely to be adopted by firms that have a strongly competitive, rigid, and short-term orientation. Firms that are competitive are likely to insist on an agreement on their own terms. They are less likely to respond to their partner's concerns and may propose a take-or-leave offer. They may also be inclined to use aggressive tactics and this may not endear them to their partner. Firms which are rigid are unlikely to make concessions and the absence of concessions in a negotiation process may in itself be viewed as a hostile or an escalatory act. Finally, firms with a short-term orientation will not be minded to consider the longer-term implications of their actions, namely that an escalatory action may invite retaliatory actions.

We illustrate the application of a contending strategy in the formation stage of strategic alliances with the negotiation between Nora, a Malaysian supplier of telecom equipment, and Sakari, a Finnish manufacturer of cellular phone sets and switching systems. Nora was a leading supplier of telecom equipment in Malaysia while Sakari was a major player in the manufacture of cellular phone sets and switching systems (Ainuddin, 2006). Peter Mattson, who headed Sakari's regional office in Singapore, had approached Nora with the possibility of setting up such a venture. Nora had obtained a contract from Telekom Malaysia (Bhd) for the installation of digital switching installations in the country. The Malaysians were finding it difficult to negotiate with the Finns because the Finns were rather reserved and cold. The negotiations were also made difficult by the fact that Sakari was not unified in its decision to pursue project in Malaysia, with one group within Sakari suggesting that the company should pursue projects in the UK. As Ainuddin (2006, p. 13) notes, "Some of the issues which they complained were difficult to resolve had often led to heated arguments between the two negotiating teams." The parties experienced difficulties over the issues of equity ownership, technology transfer, royalty payment, expatriates' salaries and perks, and arbitration. This was a negotiation in which both parties adopted a contending strategy. Perhaps this explains why even after five days of negotiations many issues could not be resolved.

### *Yielding strategy*

In a yielding strategy the partner firms reduce their demands or concede to what the opponent is expecting of them. Concern for other's outcomes is high and concern for one's own outcomes low. Yielding may allow the partners to conclude their negotiations expeditiously, but on the other hand there is the possibility that by yielding one of the parties allows the other to take the major share of the benefits. Yielding also lessens the possibility that the partners will be able to find an integrative agreement. As Pruitt notes, "Out of a fear of conflict or of failure to reach agreement, they may both yield so far that they are not challenged to be creative" (Pruitt, 1983, p. 171). Euwema *et al.* (2003) note that a strategy of accommodating the other party's wishes will have no significant impact on relational outcomes. Although yielding is a possible option for alliancing firms, and they may use it from time to time, we do not think that this option will be exercised frequently by alliancing firms as yielding connotes surrender and this may be unlikely in a mixed motive context such as strategic alliances. Alliancing firms that have a cooperative, flexible, and short-term orientation are likely to pursue such a strategy. Firms that have a cooperative orientation are more likely to be concerned about their counterpart's interests and insofar as that is the case may lower their demands to satisfy their counterpart. Flexibility also implies that the firms are not dead set in terms of what they want and this may allow yielding. Finally, those with a short-term orientation may be less concerned about the longer-term consequences of their actions in that a reputation for yielding may lead other potential partners to make a similar demand of them.

### *Compromising strategy*

Compromising implies a moderate amount of concern for one's own outcomes as well as for the other party's outcomes. A compromise leaves gains on the table and insofar as that is the case it would be associated with the emergence of conflicts. Compromising might have been expected to enhance relational satisfaction (Euwema *et al.*, 2003), but their empirical study involving Dutch nurses does not validate this promise. We would surmise that firms that are moderately cooperative, moderately flexible, and short-term oriented will pursue this strategy. Firms that are moderately cooperative will tend to make concessions but perhaps not on all of the issues or not on those issues that are most salient to them. The moderately flexible firm will also be prepared to make concessions, but, once again, will resist doing the same on issues that might be deemed as most important to them. Finally, the short-term nature of the orientation implies that the firms may not be willing to put in the necessary effort to truly obtain an integrative solution.

## Interpartner negotiations in the operation stage

The operation stage tests the partner's commitment to the venture. At this stage the negotiated agreement has to be put into practice. The partners must deploy their resource contributions, develop a mechanism for coordinating with their partner, select employees, and begin with the agreed task of the alliance, be it the development of a new technology or the establishment of a new production facility. The operation stage may, once again, expose the alliance partners to ambiguity and uncertainty, and especially so if the alliance partners have been unable to develop a set of cooperative exchange norms. Bercovitz *et al.* (2006) suggest that if the partners have made transaction specific investments and there is a high degree of transparency then cooperative exchange norms might emerge. While this is no doubt a possibility, the known inherent instabilities of alliances seem to suggest that this may not be very common.

Interpartner negotiations at the operation stage have the central goal of resolving the conflicts that arise in the normal course of partner interactions. These negotiations may be difficult because they will test both the relationship and the commitment of the partners to the venture. The negotiations may also be delicate because in the midst of ambiguity and uncertainty it may be easy to misinterpret the actions of one's partner. Accusations may be made or alleged that do not stand the test of time. The different negotiation strategies employed by the alliance partners have divergent implications both for the relationship among alliance partners as well as for the overall success of the alliance.

### *Problem solving strategy*

The problem solving strategy is associated with a concern both for the focal firm's own outcomes as well as the outcomes of its partner. In the face of conflicts alliance managers who use a problem solving strategy will be tactful and patient in dealing with the problem at hand. The problem solving strategy can vary from being overt to being covert (Pruitt and Kim, 2004). In an overt strategy the partners are likely to openly discuss as to how best to deal with the conflicts. By contrast, in a covert strategy, the alliancing partners may rely on informal problem solving using back channel contacts, track-two diplomacy, reliance on intermediaries, or sending conciliatory signals (Pruitt and Kim, 2004). They will be hesitant in making accusations on the basis of inconclusive evidence and will seek to unearth more information before proceeding further. Perhaps even more importantly, when firms pursue a problem solving strategy, they may demonstrate greater flexibility in the use of the contract that governs their relationship. Scholars have demonstrated that flexibility in contract application may generate positive goodwill trust dynamics at both the operational and managerial levels and may further strengthen parties' perceptions about the success of the project (Faems *et al.*, 2008). Such a strategy may have the potential of creating a virtuous cycle among the alliance partners. In particular, this strategy will also avoid the danger of escalation because problems will not lead to direct accusations or confrontational exchanges. Finally, a problem solving strategy will pay as much attention to the relationship between parties as to the underlying problems they are dealing with. A potential downside to this strategy may arise if the other partner does not reciprocate the problem solving strategy. If so, then the firm that initiates this strategy may run the risk of suffering either an image loss, position loss, or an information loss (Pruitt and Kim, 2004).

An example of a problem solving strategy can be observed in the alliance between General Electric and Snecma to manufacture jet engines (Cauley de la Sierra, 1995). The alliance was first established in 1969 but, interestingly, the company got no orders for the first eight years. This might have been construed as a crisis but, as it turns out, neither partner was overly concerned about the delay as they both recognized that it would take some time to generate revenue. In 1991, the company had annual revenues of US$31.1 billion – an eloquent testimony to their success. Problem solving in this context meant modifying expectations, being patient, and working with and not against the partner.

### *Contending strategy*

The strategy of contending focuses only on one's own outcomes. This is an aggressive and a contentious strategy in which the partners may easily accuse each other of violating the terms of the deal. Accusations of opportunism may fly thick and fast. The goal of the parties is to compel the other to change its behavior in accordance with one's own wishes. Threats to walk away from the alliance or to take the other party to the court may occur. Crisis escalation makes the successful resolution of a conflict even less likely.

We give an example of a contending strategy that relates to the interactions between Deepak Singhania, Managing Director of LML Ltd, and the Piaggio Group (Sirisha, 2002). LML Machinery had been established in 1975 and was engaged in manufacturing textile machinery. Over time the company entered into the manufacture of scooters and subsequent to that entered the motorcycle segment of the industry. The LML-Piaggio relationship began in 1984 when the partners entered into a licensing agreement. This was subsequently restructured as a joint venture with Piaggio taking a 23.6 percent stake in the company. The Singhanias were responsible for the operational aspects of the joint venture while Piaggio had control over technology and quality control. In the early years the venture progressed well with the market share of the joint venture increasing from 19.8 percent to 27.6 percent in April-June 1998. The problems began to emerge when Giovanni, who was the heir to the Agnelli family, died. This made the Singhanias apprehensive because their relationship with the rest of the Agnelli family, save Giovanni, was not very good. For instance, the rest of the family had wanted to form a joint venture with Bajaj Auto instead of the Singhanias. This apprehension about the intentions of the Agnelli family led the Singhanias to initiate a process by which they could buy out Piaggio's stake. This was clearly an example of a contending strategy and, as we might expect, Piaggio responded aggressively by challenging Singhania's actions.

### *Yielding strategy*

The strategy of yielding means lowering one's expectations and conceding to the demands of the other. Whether alliancing firms choose to adopt this strategy depends on the nature of the demands that are imposed upon them. Allegations and accusations of opportunism are unlikely to be accepted by the partners even if they recognize their own contribution to the problem. If, however, the partners are agreed that the alliance cannot continue as it is and that structural and behavioral changes need to be made to resurrect the alliance, and they find their counterpart's suggestions appealing, they may well decide to yield. Yielding also presupposes a certain level of trust in the other. It may also, however, be associated with a lack of bargaining power. It is also the case that yielding will prevent any conflict escalation.

An illustration of a yielding strategy can be found in the case of the joint venture between the French company Essilor and its Korean distributor Samyung Trading. Essilor was a major player in the optical market in France. The company specialized in "value-added, technology-intensive corrective lenses." The company was adept in expediting delivery of customized lenses to customers with a turnaround time of 24-36 hours. In 2003 Essilor reentered Korea and it did so with a 50-50 joint venture with its trading partner Samyung Trading. Essilor wanted a partner who could both provide the manufacturing base as well as access to the local market. As Pant (2009, pp. 3-4), states: "In the partnership, known as Essilor Korea, Essilor agreed to provide both the Essilor and Nikon brands as well as various corrective lens technologies. This would enable Samyung Trading to establish itself in the value added, branded segment of the Korean eyewear market. Samyung Trading, in turn, would give Essilor access to the Korean market and a manufacturing facility for commodity finished lenses and blanks, not only for the Korean market, but also for Essilor's worldwide operations." Under the original agreement the company would by led by two co-CEO's, one from Essilor and the other from Samyung Trading. The latter would also be the President of the joint venture. Essilor's representative was Steven Shawler, a US citizen who had previously worked with Johnson & Johnson in Asia before being recruited by Essilor. The case study suggests that, on arrival in Korea, Shawler developed good relations with the Lee family, who had controlling interest in Samyung Trading, and who invited him to their home for dinner. Notwithstanding this relationship Shawler encountered numerous challenges in managing the joint venture. He did not or could not develop a relationship with the President of the joint venture, Mr S.J. Lee (unrelated to the Korean owners), who never invited him to any of his meetings even though Shawler invited him to his. His management style, in which he would invite members of his team to make a contribution, went unreciprocated. The team also, and much to Stephen's frustration, never entertained the possibility that Samyung might overtake the current market leader. He hired a few other people to assist him but they soon left, feeling that nobody seemed to trust them. As of October 2003, the company was lagging behind in meeting its targets. Subsequently, and to his surprise, Shawler was appointed President of the joint venture, and soon realized that his budget forecasts were not going to be met. He also had to deal with manufacturing problems that began to plague the venture. He made a number of changes in the process, including relocating the factory from Korea to China, to cut costs. To turn around the operations, he wanted to upgrade the laboratory and hire some key people from outside. Regrettably for him the Lee family refused to fund any of these initiatives. But changes were being made gradually, and when he was able to hire J.G. Chung, whom he know from his earlier stint in Johnson & Johnson, the orders started flowing much more easily. Even as things were improving, S.Y. Lee, who led Samyung Trading, called the regional CFO of Essilor to ask him to have Shawler replaced. The main criticism was that he was not running the company in the spirit of partnership and, also, that he favored the more Westernized staff in his company. Essilor were quite happy with the way that Shawler had performed but at the same time they were concerned that they not unnecessarily antagonize their partner. They finally decided to accede to Mr Lee's request to replace Shawler. As is clear from the case the main reason why Essilor acceded to this was that they did not want the conflict to escalate.

### *Compromising strategy*

The strategy of compromising involves a moderate concern for one's own outcomes and also a moderate concern for the partner's outcomes. This strategy may well help to curb some of the dysfunctional effects of conflicting aims but it remains unclear as to how effectively this will help the partners deal with the problems in the alliance. Compromising means that both parties retreat from their original positions, and while this may be feasible in some cases it is unclear as to how relevant this strategy might be if one of the partners is primarily responsible for the problems confronting the alliance. Negotiation theorists often consider compromising to be a second best solution as it leaves gains on the table. On the positive side, though, a strategy of compromising might prevent the relationship from deteriorating further. It might also generate a space within which the partners can search for better solutions over time. An example of a compromising strategy involves the alliance between the Japanese automaker Honda and the Kinetic Group of India (Mukund, 2002). Kinetic and Honda entered into a joint venture with the objective of manufacturing scooters and mopeds. As Honda had another joint venture with Hero to produce motorcycles the joint venture between Kinetic and Honda was confined to mopeds and scooters. During the operational phase of the joint venture, several sources of disagreements emerged among the partners. Kinetic felt that Honda was not sufficiently committed to the venture. For example, Kinetic wanted the company to spend more on advertising but Honda was reluctant to do so. They also felt that Honda was more focused on markets such as Indonesia and Thailand, which were growing rather rapidly. Honda, by contrast, claimed that the Kinetic group lacked the marketing acumen that their partner in the other joint venture, Hero, had demonstrated. The continuing difficulties led Honda to make an offer to Arun Firodia of Kinetic, namely, that either Firodia purchase 51 percent of their stake or alternatively Honda would buy out his 19 percent stake. A compromise meant that Firodia would buy out Honda's stake at Rs 45 per share when the market price was close to double of that. This compromise agreement also dictated that the Kinetic Group would both manufacture and sell the Kinetic-Honda models. In return Honda would continue to provide technical support, in lieu of a royalty fee.

## Interpartner negotiations in the outcome stage

The outcome stage marks the point where the alliance partners come to evaluate the progress of the alliance. Has the alliance achieved its objectives? Has it gone from strength to strength? Alternatively, why has the alliance failed to perform according to expectations? Has the partner put in the necessary effort and commitment? If not, why not? If the alliance is underperforming, is it due to internal or external factors? Is it necessary to reinvigorate the alliance by deploying more resources, altering its strategic objectives, reinvigorating the relationship with one's partner? Or is it the time to throw in the towel and exit the alliance amidst growing acrimony with one's partner and an external environment not conducive to alliance success? These are critical decisions that need to be made by the partner firms for they are likely to have fateful consequences for how the alliance develops over time. It is pertinent to make the point that these negotiations are likely to be most critical when the alliance has experienced or is experiencing unfavorable outcomes. The different negotiation strategies have different implications for how best the alliance partners deal with such unfavorable outcomes.

### *Problem solving strategy*

A problem solving strategy with its emphasis on an equal concern for one's own and the partner's outcomes, will seek to deal with the negative outcomes in a calm and focused manner. Alliance firms will refrain from blaming their partners and will not confront their counterparts unless they have clear-cut evidence that their partner has been at fault. Likewise, the firm will accept responsibility for any shortcomings if it realizes that errors have been committed and maybe things could have been handled differently. This will prevent any conflict escalation and will ensure that the partner firms remain focused on the task at hand. The partners will also debate alternatives calmly and reasonably. They may or may not decide to continue with the alliance but whatever be their decision their relationship is likely to be unaffected by negative outcomes.

### *Contending strategy*

A strategy of contending focuses solely on concerns with one's own outcomes. This is also a short-term strategy where the partner firms are trying to extract the maximal advantage in an unfavorable situation. The partners will engage in a blame game and deny any responsibility for the emergence of negative outcomes in the alliance. They will attribute the negative outcomes to their counterpart. If the alliance is to be dissolved, the partners may squabble about the termination process. How will the costs be shared? Threats of legal action and inflammatory actions may very well follow. The relationship is likely to deteriorate and it is more than likely that these partners will never again enter into another alliance. They may also seek to reevaluate the viability of alliances for their company as a whole.

A good example of a contending strategy is the alliance between Meiji Milk and Borden products (Cauley de la Sierra, 1995). The alliance had been in existence for some 20 years when problems erupted. The sales of Borden's products in Japan began to slow down and Borden felt that Meiji was doing this purposefully. Borden made the public statement that Meiji Milk had set out to destroy the relationship as it was seeking to develop its own products. Shortly thereafter, Borden exited from the alliance.

### *Yielding strategy*

The strategy of yielding implies lowering one's own expectations and acceding to the demand or the requests of one's partner. In a negative outcome context yielding could mean either agreeing with the partner to exit the alliance if requested it or alternatively to persist with the alliance if it would prefer that option. Yielding presupposes a lack of leverage or low bargaining power. However, it could also connote a good relationship with one's partner, as this may be a compelling reason to accede to its requests. We would suppose that a strategy of yielding would be neutral in terms of strengthening or weakening the relationship with one's partner. It is also the case that when a partner yields the interpartner negotiation process will be much less costly and time consuming.

*Compromising strategy*

The strategy of compromising means a moderate concern for one's own outcomes and a moderate concern for the partner's outcomes. In this scenario the alliance partners will be willing to settle their differences through a process of give-and-take that meets each party's concern to a moderate degree. The parties' overall objective at this point is to try to resolve the situation confronting them as expeditiously as possible. They will be cognizant of the cost of delay and, in order to avert it, will be willing to make compromises. This is a strategy that is likely to be less than integrative, but on the other hand the partners will have achieved an agreement.

A good example of a compromising strategy can be found in the negotiations between Fiat and General Motors regarding their alliance. The alliance was entered into in 2000, and under the conditions of the negotiated agreement, GM got a 20 percent stake in Fiat Holdings B.V. while Fiat got a 5.1 percent stake in GM. The terms of the agreement also had a put option under which Fiat could sell the balance of its shareholdings (80 percent) to GM (Umashankar, 2005). Fiat found the alliance attractive because it could potentially help the company's auto division that had been experiencing losses since the 1990s. GM, for its part, found the alliance attractive to enhance the effectiveness of its operations both in Europe and Latin America. Unfortunately for the alliance, Fiat's operations continued to nosedive. The company sought recapitalization but when GM dropped out of it, its stake in Fiat Auto declined from 20 percent to 10 percent. In 2004 Fiat Auto therefore decided to exercise its option of selling the balance of the company (90 percent) to GM. In turn, GM made the counterclaim that the put option was no longer valid both due to the recapitalization of the company and the sale of Fiat's financing arm "Fidis". Given the conflicting, and the seemingly irreconcilable positions of the parties, GM sought to initiate the mediation process. Fiat now demanded $US 3 billion from the automaker in lieu of the put option. GM, by contrast, offered to pay Fiat only US$500 million which was the book value of GM's stake in Fiat Auto. Continuing negotiations ended in an agreement when GM agreed to pay Fiat $US 2 billion in lieu of dissolving the joint venture (Umashankar, 2005). One could view this as a kind of a compromise in that neither party quite got what they initially hoped for but were nevertheless able to arrive at an agreement.

## Conclusions

The article has highlighted the relevance of negotiating strategies in the study of partner management in alliances. Our article discusses four alternative negotiation strategies and suggests that firms possessing certain characteristics are likely to pursue specific types of negotiation strategies. The issue of negotiations has only infrequently been studied in the alliance literature and our article goes some way in rectifying the limitations of the existing work on alliance management.

Another contribution of the article is in demonstrating the implications of different types of negotiation strategies at different stages of alliance evolution. For example, at the formation stage of the alliancing firms pursuing a problem solving strategy is likely to be more successful in forging a partnership than pursuing a contending strategy. At the operation stage the use of a contending strategy, for example, may amplify conflicts, while the use of a problem solving strategy may help to contain them. At the outcome stage, a problem solving strategy may strengthen the relationship between the partner firms while a contending strategy may weaken them.

The alliance literature has consistently stressed the importance of trust and trust building in influencing alliance evolution (Das and Teng, 1998). The literature remains unclear, however, as to the managerial processes that may facilitate trust building. Although the intuitive insight that interdependency may foster trust has been empirically demonstrated (Luo, 2002), the managerial processes that allow interdependence to foster trust have not been systematically discussed in the literature. Our article contributes to this literature by suggesting that the negotiation strategies employed by the alliance partners may play a crucial role in this. Problem solving strategies may facilitate trust while contending strategies may foster distrust.

That said, this article does not address some key issues that may well be worth exploring from the standpoint of partner management in alliances. First, implicit in our proposed framework is a model of a dyadic alliance. Many alliances, however, involve more than two partners (Das and Teng, 2002b). This makes the negotiation process more complex and hence more unpredictable. It would be interesting to explore the dynamics of partner management in multiparty alliances. Second, many alliances cross-national boundaries. This inevitably brings in national culture into play and scholars have begun to suggest that national cultural differences affect alliance evolution (Kumar and Das, 2010). This would inevitably have implications for partner management in such cross-national alliances. Third, the inter-linkages between negotiation strategies and the formation and sustenance of trust have not been empirically explored to date and this might be a worthwhile avenue of research. Fourth, it has been suggested that strategies such as contending may generate emotions and result in conflict escalation. Emotions are likely to be present in such negotiation situations (Kumar, 1997, 2008). Scholars have also drawn a distinction between dejection and agitation related emotions (Higgins, 1987), and it might be interesting to assess the role that these emotions play in strengthening or weakening the relationship between alliance partners. Dejection-related emotions represent the absence of a positive outcome, while agitation-related emotions represent the potential for the emergence of a negative outcome. Dejection-related emotions may lead negotiators to pursue a contending strategy while agitation-related emotions may lead negotiators to seek a compromise. In other words, it is conceivable that negotiators begin with one set of strategies, but depending on the presence or absence of particular emotions, transition to adopting a new set of strategies.

## Managerial implications of the strategic framework of interpartner negotiations

Alliances may be governed by contracts and by the commitments that the partners may have made in the new venture. The structural constraints as embodied in contracts or commitments may no doubt influence some aspects of a partner's behavior, but it is not determinative of it. As alliance firms interact with each other they are engaged at once in influencing their partner and in being influenced by them. Alliance managers must therefore become cognizant of their own negotiation style and the potential impact that it might have on their partner and on the success of the alliance. In a similar vein, they must be equally mindful of the negotiation style of their partner. Additionally, there must be a recognition that, notwithstanding the formal contract, the success of an alliance will be largely determined by how well the partners are able to manage their relationship. The realization that negotiation processes may have relationship implications is of great practical importance. It is also an issue that has been given less attention than it deserves.

Alliance managers must also be cognizant of the fact that different types of alliances may require the use of different types of negotiating strategies. The strategies of problem solving and contending may be appropriate for a joint venture but not so for a nonequity alliance. Negotiating is not a costless activity and the alliance managers must tailor their negotiating strategy to the type of alliance they are dealing with.

We have highlighted the different types of negotiation strategies that are potentially available to alliance partners. We have also shown the impact of these strategies at different phases of alliance development. It is important to note, however, that not all alliances share similar characteristics in terms of the level of commitment that is required or the amount of risk that the partners have to bear. Das and Teng (1998) note the different types of alliances differ in terms of alliance related investments, the pattern of interdependence among the partner firms and the potential for opportunism. Scholars have drawn a distinction between equity, minority equity, and non-equity alliances. It follows then that the negotiation strategies adopted by the alliance partners will also vary as a function of the alliance type.

A major feature of joint ventures is high potential for gain accompanied by a high potential for loss. This would seem to imply that the alliance partners are likely to pursue a negotiation strategy that entails both problem solving and contending. Problem solving is essential for realizing potential gains but contending is essential to defending one's own interests in the event of opportunistic behavior by one's counterparts. Although both of these strategies may be potentially useful, alliance managers must learn to calibrate the use of these strategies effectively. In the formation stage of a joint venture problem solving is essential to craft an integrative agreement but contending is essential to safeguard one's interests. Perhaps this may explain that even in the presence of a good relationship firms do not dispense with contracts as the latter provide a source of bargaining power. Contracts may not cover all of the possible contingencies but they are psychologically reassuring. The strategies yielding or compromising are unlikely to be deployed at the formation stage given the high stakes involved. During the operation stage of the alliance critical negotiations will occur only if the alliance is experiencing unfavorable outcomes. Under these conditions the alliance partners will choose a contending strategy in the absence of trust or the presence of distrust, but will choose a problem solving or a compromising strategy if the relationship is relatively good. A strategy of yielding is unlikely given the stakes involved and so is the case with inaction. At the outcome stage, the alliance partners, in the face of unfavorable outcomes, may enhance the vigor with which they pursue a contending strategy.

In minority equity alliances the stakes for the partners are not equal. The partner with the lower equity stake may defer to the partner with a higher stake, and this deference may occur at all stages of alliance development (formation, operation, and outcome). We would therefore surmise that the firm with the lower stake may adopt a strategy of yielding to accommodate the wishes of its partner. This may occur even if the alliance is experiencing unfavorable outcomes. The firm with the lower equity stake may not consider it worthwhile to expend resources to resolve the underlying conflicts. This is also a less costly strategy and may be appropriate because the stakes are not too high. It would thus seem that firms in a minority equity alliance will generally pursue a yielding strategy in interpartner negotiations.

Nonequity alliances pose a minimal degree of risk for the partnering firms. Such alliances possess flexibility, and are characterized by a much lower level of commitment. Flexibility and lack of full commitment mean that the partners are not invested sufficiently to utilize a problem solving strategy. Although this negotiation strategy may yield integrative agreements it is a costly strategy. The contending strategy may also be inappropriate as the costs associated with it may not justify the additional benefits. Hence a strategy of yielding or compromising may be the most beneficial for the partner firms. The strategy of compromising allows the firm to meet its goals halfway whereas a strategy of yielding defers to the partner but at an even lower cost than entailed in a compromise. This suggests that firms in a nonequity alliance will generally pursue a yielding or compromising strategy in interpartner negotiations.

In conclusion, interpartner negotiations may not easy or costless but, as we have argued, essential for partner management. Alliance firms must develop and institutionalize the capability for interpartner negotiations so that the alliance managers involved can effectively interact and manage their counterparts in the partner firms.

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