Networking in Multinational Enterprises: The Importance of Strategic Alliances

by

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Abstract. As multinational enterprises realize the increasing potential and necessity of integrating their operations throughout the world, they are contributing to significant shifts in the patterns of international trade and industrial development. Analysts of multinational enterprise commonly stress the importance of the internalization approach, based upon transactions costs, to explain the rapid expansion of global firms. However, once an enterprise has become multinational, the basic goal is no longer simple internalization, rather it is to find the formal structure and conditions which provide multinational enterprise with the right organizational fit. Complementary to Coasian internalization approach, the aim of this paper is to provide an analytical framework which stresses the process of building global networks through the usage of external linkage strategies, i.e. strategic alliances. The main conclusion of the paper is that a global network model enables one to view multinational enterprise as a collection of valuable transactional options (both internal and external in nature) which permits the discretionary choice of changing real economic activities or financial flows from one country to the next. Networking through strategic alliances contributes to the value of the enterprise and its economic opportunities. The search for new competitive approaches to multinational enterprise is producing new organizational forms culminating in the dynamic integrated network as a basis of competition.
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Once upon a time, the organisation of cooperative economic activity we call the firm was a black box. Into this went labour and capital, and out came products. The mechanism was driven by wealth maximization and governed by laws of returns. Some venturesome economists have wondered what the black box contained.....
A. Alchian and S. Woodward (1988)

I. Introduction

The post-war growth of international trade and production of the manufacturing firms of the industrialized countries can be thought of as an accumulation of technology and capital within multinational enterprises, and in international networks of production and trade (Cantwell (1989)).

At one time multinational enterprises may have been simply the providers of technology and finance for foreign direct investment; today they have become global organizers of economic systems, including systems for strategic allied technological development in various parts of the world. Globalizing markets are dramatically reshaping social and economic institutions. Industries are being redefined through the power of information technology.

In a recent survey on strategic management (Lyles 1990), the respondents were asked to indicate the topics which will have the "most relevance to practising general managers in the next ten years". Seventy-eight items were listed, with the average respondent listing 2.7 items. Table I summarizes these results.
1 Topics most relevant to practising general managers in next 10 years

<table>
<thead>
<tr>
<th>Topic</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>International/global competition</td>
<td>15</td>
<td>18.29</td>
</tr>
<tr>
<td>Technology, innovation, information</td>
<td>10</td>
<td>12.20</td>
</tr>
<tr>
<td>Strategic alliances</td>
<td>9</td>
<td>10.97</td>
</tr>
<tr>
<td>General management</td>
<td>9</td>
<td>10.97</td>
</tr>
<tr>
<td>Strategy implementation</td>
<td>8</td>
<td>9.76</td>
</tr>
<tr>
<td>Strategic change and flexibility</td>
<td>8</td>
<td>9.76</td>
</tr>
<tr>
<td>Industry/environmental analysis</td>
<td>5</td>
<td>6.10</td>
</tr>
<tr>
<td>Strategic competitive advantages</td>
<td>4</td>
<td>4.88</td>
</tr>
<tr>
<td>Mergers, takeovers, crises</td>
<td>4</td>
<td>4.88</td>
</tr>
<tr>
<td>Strategic decision-making</td>
<td>3</td>
<td>3.66</td>
</tr>
<tr>
<td>Diversification</td>
<td>3</td>
<td>3.66</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>4.88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>


Across the board, globalization seems to be the most important area for a future research agenda. Over 18 per cent of the suggestions focused on the topic of international and global competition, and a frequency of 15, suggests that 50 per cent of the respondents listed it. Globalization is seen as clearly the most important topic for practising managers in the 1990's.

Two other topics that will be of increasing importance to practising managers and theorists of multinational enterprise in the future are "technology, innovation, and information" and "strategic alliances". Managing changing organizations, transformation, and implementing strategy now consistently ranks high in many of the articles in recent management journals. Contrary to common static economic belief, these developments have very little to do with any failure or malfunctioning of the markets for technology, innovation, or
information, but everything to do with the close association between the generation and the utilisation of a distinctive type of technology within each enterprise.

Through the extension of networks each enterprise extends the use of its own unique line of technological development, and by extending it into new environments it increases the complexity of this development. The expansion of international production thereby brings gains to enterprises as a whole, as the experience gained from adapting its technology under new conditions feeds back new ideas for development within the rest of the enterprise network. For this reason, once they have achieved a sufficient level of technological strength in their own right, multinational enterprises are particularly keen to produce in the geographical areas from which their major international rivals have emanated, which offer them access to alternative sources of complementary innovation (Cantwell (1989)).

The focus of the paper will be to examine the multinational enterprise from the perspective of networking on a broad and admittedly preliminary scope, as opposed to the now dominant internalisation approach towards multinationality. Section II discusses the internalization approach to multinationality raising some important points of criticism. Section III presents a brief analysis of what networking is. Section IV introduces four general network strategies of building strategic alliances. Section V demonstrates the economic optimization problem of formulating strategic alliances. Section VI concludes the discussion with a summary and areas of future research.
II. The Internalization Approach to Multinationality

The internalisation approach is founded upon Coase's (1937) criticism of neo-classical economics. He postulated that transactions within the hierarchial structures of the firm are less costly than spot market transaction costs. Consequently, firms serve to internalize markets thereby increasing economic allocative efficiency. The level of transaction costs provides the source of economic justification for the existence of firms.

The literature on multinational enterprise traditionally assumes the existence of some firm-specific ownership advantage of a technological kind. Such advantages permit enterprises to carry the costs (i.e. disadvantages) of penetrating foreign markets.

Technology is commonly thought to be analogous to knowledge or information. Due to the public good nature of the production of scientific knowledge (see Nelson (1959), Arrow (1962), Dosi (1988)) inherent problems of appropriability in the transfer process occur. Applying the theory of internalisation to multinational enterprise (compare Buckley and Casson (1976)) it is assumed that since technology is often highly costly or even impossible to exchange in international spot markets, multinational enterprises internalize such transactions.

Indeed, up to the early 1970's, the majority of most technological innovations implemented by multinational enterprises did appear to follow this pattern based upon systematic in-house R & D investments (Arora and Gamardella (1990, p. 362)).

The internalization approach to multinationality is now generally considered "common sense" in much of the literature on multinational enterprises. There has been little or practically no critical assessment of the applicability of the internalization approach as applied to the globalization of enterprise markets. Surprisingly, one of the original major advocates of the internationalization
approach to multinationality [see Hennart (1982)] has become an ardent critic of the common oversimplified misinterpretations of the internalization approach.

Hennart [1986, p. 793, emphasis added] raises the following very critical important point:

"Does internalization consist in the substitution of internal for external prices? Is the distinguishing characteristic of firms the use of internal prices? Although the concept of "internal markets" accounts for some features observed in firms, my view is that it fails to capture their most specific characteristic. The productive activity of the overwhelming majority of employees is not directed by prices, but by directives, either formalized through company rules, directly voiced by superiors, or internalized through indoctrination. Most employees are not rewarded on the basis of their output, measured at market prices, but according to their obedience to rules, orders or traditions. At the division level, internal prices also play a limited role. Firms which are functionally organized do not make use of internal prices. Even in multidivisional firms the use of internal shadow prices is seriously limited by interdependencies and measurement problems.

Furthermore, the description of internalization as setting up an internal market does not seem to adequately describe business behavior. A firm that integrates vertically forward or backward does not use "internal markets" to coordinate upstream and downstream activities. Setting up such a market would mean, in this context, using transfer prices to guide, measure, and reward the performance of the managers of its upstream and downstream divisions. A firm that integrates vertically does not make use of this coordination mechanism, for to do so would recreate the bargaining situation it has sought to avoid by taking over its supplier or customer. ....

Although firms do sometimes rely on internal prices as a method of organization, the use of such prices is not their distinguishing mark. The firm does not displace the market because it is better at doing what the market does, but because, as we will see, it uses a completely different method of organization. To describe internalization as the replacement of an imperfect external market by a more efficient internal market seems therefore to obscure what is distinctive about internalization."
III. What is Networking?

In recent years, one observes the fact that multinational enterprises (Mytelka (1987)) or even government research programmes (Mytelka and Delapierre (1987)) appear to be increasingly incapable of internalizing required resources to produce and commercialize new technologies.

Given enterprises often cannot afford the cost or risks of internalizing required resources, they must rely on one of the two remaining options: the market or some form of network collaboration. The market option may be sub-optimal. Furthermore, the cost aspects play a large role in deciding which option to take. It now costs, for example, approximately four billion dollars to produce a new automobile model and 5 billion dollars to create a new jet aircraft. Each new generation of mainframe computers requires enormous financial research and development investments, while the product life cycle has been reduced to less than four years (Bodaracco (1988)).

Increasingly networks of inter-enterprise co-operative agreements in complementary knowledge production activities function as a strategy of minimizing the costs, risks and uncertainties associated with technology-based modes of production (exchange of information).

Enterprises desiring to increase their working technological base, thereby increasing their flexibility and international competitiveness, seek to appropriate new skills and capacities through networking activities such as subcontracting, linkages between universities, research institutes and firms and inter-enterprise agreements in research and development, production and marketing. These activities result in an added strategic enterprise value.

Data from the CEREM survey of agreements provide evidence of the rising importance of precisely this form of inter-enterprise network co-operation for European-based multinational enterprises. In Table 2 the data are classified by
functions into agreements which involve knowledge production in a broad sense (choice of research priorities, joint pre-competitive research, joint engineering or development activities), goods production (including licensing, sub-contracting and joint ventures) and the commercialization of goods or services whether jointly produced or not. The fourth category covers those agreements that were global in nature involving at least two of the above functions. Over the period 1980-1985 the share of knowledge production agreements increased from a low of 2.3 percent in 1980 to 9.8 percent in 1985.

### Table 2
Distribution of Inter-Firm Agreements* by Function

<table>
<thead>
<tr>
<th>Year</th>
<th>Knowledge</th>
<th>Production</th>
<th>Commercialization</th>
<th>Globalb</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>11</td>
<td>12</td>
<td>6</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>1981</td>
<td>15</td>
<td>13</td>
<td>10</td>
<td>10</td>
<td>31</td>
</tr>
<tr>
<td>1982</td>
<td>17</td>
<td>16</td>
<td>15</td>
<td>24</td>
<td>58</td>
</tr>
<tr>
<td>1983</td>
<td>24</td>
<td>25</td>
<td>31</td>
<td>41</td>
<td>97</td>
</tr>
<tr>
<td>1984</td>
<td>36</td>
<td>37</td>
<td>36</td>
<td>57</td>
<td>131</td>
</tr>
<tr>
<td>1985</td>
<td>47</td>
<td>39</td>
<td>51</td>
<td>58</td>
<td>149</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>142</td>
<td>149</td>
<td>192</td>
<td>481</td>
</tr>
</tbody>
</table>

| %    | 31.2%     | 29.5%      | 31.0%             | 39.9%   | 100% |

* Includes only agreements to which at least one European-based firm is a party.

b Agreements which involve two or more of the preceding functions.

Strategic alliances appear to be the magical success formula for international business in the 1990s. While during the ten years between 1976 and 1986, the analysts of the international auditing company KPMG Peat Marwick McLintock registered only 1000 strategic alliances, alone in the last quarter of the year 1989 they registered some 670 corporate partnerships (Rubner (1990), p. 61)

The important question thus arises: What is networking?

Networking is often quite complicated. Because of the specific internal and external market constellations, several types of infrastructures have to coexist at a given point in time. This makes good and economically efficient network management both essential and at the same time very difficult to achieve.

Networks are not hierarchial. There is no one directly in charge, and the group is not dependent on any single individual (enterprise) for its survival. Participation by members of the network is optional, and members treat each other often as equals rather than as superior or subordinate. A network of strategic alliances is a combination of elements intended to act together to accomplish an objective (i.e. survival in international/domestic markets).

Since nothing in nature can be completely isolated from everything else, we see that our selection of the boundaries of enterprise system depends on the purpose and the limitations of our study. Economists interested in only analyzing an enterprise's overall performance would not have the need nor the time to study in detail the organizational design of the enterprise. Given the information that enterprises maximize profits, we tend to consider enterprises as a black box. This term is used to convey the fact that the organizational details are not important to the study (or at least constitute a luxury we cannot
The black-box concept is essential to what has been called the "systems approach" to problem solving. With this approach, each element in the system is treated as a black box, and the analysis focuses on how connections between the elements influence the overall behavior of the system. Its viewpoint implies a legitimate willingness to accept a less detailed description of the operation of the individual elements in order to achieve an overall understanding.

The behavior of a black-box element is specified by its given input-output relation. An input is a cause, an output is an effect due to the input. Thus the input-output relation expresses the cause-and-effect behavior of an element.

The conscious implementation and development of increasingly complex "Bargaining Technologies" through networks of strategic alliances are challenging our traditional black box concept of what enterprises really are and how they function.

Closer relationships between suppliers and customers blur the operational distinctions between legally separate organizations. New workplace realities and work force demographics are changing the implicit contract about what

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1Microeconomic price theory assumes that the enterprises objective is profit maximization. Hart (1985, pp. 106-107) has recently observed, however, that...

"In a competitive framework, this is usually accepted without question as the right objective for a firm. Under imperfect competition matters are more complicated, a point noted a long time ago by Marshall (1940, p. 402) and emphasized more recently by Gabszewicz and Vial (1972). The reason is that the owners of the firm are not interested in monetary profits per se, but rather in what this profit can buy. Given that a monopolistically competitive firm can influence prices, the owners may prefer low monetary profit but favorable prices for consumption goods to high monetary profit and unfavorable prices.

This argument suggests that we should substitute owner utility maximization for profit maximization as the firm's goal. Unfortunately, things are not that simple. If owners have different tastes, they will have different trade-offs concerning high monetary profits versus favorable consumption goods prices. That is, each owner will have his own private objective function which he would like the firm to pursue, and the problem then is how to aggregate these into an overall objective function."

Other scholars have also commented upon this problem [e.g. Cornwall (1977)], but to date no satisfactory alternative hypothesis has been effectively established.
employers and employees owe to each other. Harrigan and Newman (1990, p. 420) have applied the term "internal venturing" to describe such implicit contract phenomenon. Managers recognize that entrepreneurial ideas of their employees may not effectively be getting to the marketplace. The enterprise thus creates an internal venturing unit. However, entrepreneurial employees often want equity in the ideas they develop. As such enterprises may find they must enter into joint ventures with their employees.

Changes are taking place on the boundaries of enterprises, rather than at their core, where traditional business economists have, for decades, sought and found them (Badaracco (1988)).

The dependence of business on an adequate supply of natural and human resources puts "external" environmental, educational, and even family restrictions on the enterprise's internal agenda.

Common Coasian theorizing about the nature of firms presupposes that boundaries of some sort separate them from their markets or, more broadly, their environments. Arm's-length, explicitly contractual, market-based relations with other organizations define an enterprises's boundaries, within which managers exercise authority and deploy assets that the enterprise owns or controls. Recently, however, managers have been blurring these boundaries with networks of cooperative arrangements with other enterprises, labor unions, universities, and government bodies.

It is becoming increasingly evident that in order to capture these effects it is necessary to shift our attention away from the more traditional static industrial organisation approach, and towards that of industrial dynamics (Carlsson 1987, Cantwell 1989).2 We must readjust our emphasis away from the structure of

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2For example, Arrow (1959) suggested that it is impossible to reconcile the hypothesis of price-taking agents with the notion of dynamic adjustment of prices towards a
an industry at a given point in time, and towards its evolution as a process over time at the international, national and firm level. In this context, the main issue is no longer the question "Why do multinational enterprises exist?" but rather more importantly "will the firms in a given country and industry, when faced by global competition, possess the capacity to generate technological and allied advantages of their own that enable them to respond effectively, and in so doing to establish international networks of their own" (Cantwell 1989 p.3, Porter 1990, pp. 84-85).

IV. Four Basic Network Strategies

There has been a fundamental change in thinking about global competition during the past decade. Previous analysis concentrated on the decision to invest overseas. Current analysis is increasingly shifting to questions concerning the strategic value of operating assets in multiple countries. As Kogut (1989) suggests, an important element in this shift is the distinction between increased economies due to serving a larger market and the acquisition of advantages built upon the multinational network.

Four basic types of external network linkages (i.e. strategic alliances) are commonly exploited in networks (Arrora and Gambardella (1990)):

i. research and/or joint development agreements with other firms,
ii. research agreements with universities,
iii. equity investments in the capital stock of other firms (minority participations)
iv. acquisitions and mergers.

Walrasian equilibrium: if each agent in the economy considers prices to be beyond his control, who changes prices out of equilibrium? The hypothesized auctioneer being a fictitious textbook device leaves the question unanswered. If we relax the price-taking hypothesis what are the implications? Rational economic agents now must react strategically since their actions will affect their environment.
Each such external linkage targets some perceived set of firm specific assets complementary to the assets of the mother enterprise necessary for new production of marketing developments. In analysing such network linkages the problems of appropriability of firm specific assets play a major role in deciding which strategy will be chosen (Gilroy (1989)). However, increasingly one observes that such appropriability problems may not be the whole story. In many industrial sectors multinational enterprises apparently are no longer capable of internalizing all the resources necessary to produce and commercialize new products and technologies.

Often the research or joint development agreements with other enterprises are product-specific. Such strategies focus their efforts on the development and commercialization of "downstream" activities of the innovation cycle.

Research agreements with universities aim at more basic research objectives. The basic strategy of financing research activities is designed to appropriate basic scientific knowledge in some relevant field. Generally, such research finance agreements contain a first option on the license of any new discovery made by the researchers. Over and above this underlying objective, such agreements often provide a highly efficient means of recruiting qualified researchers or access to such research service potential while leaving the researchers in environments they find most congenial.

Minority equity participations in the capital stock of enterprises provides a means of monitoring the internal research activities of the enterprise. Furthermore, this strategy attempts to establish a "preferential" link with the new equity partner, offering the possibility of preempting rivals in the commercialization of any important discovery made. This strategy also may be helpful in averting problems of moral hazard and serve as tokens of good faith.

Acquisitions and mergers provide large multinational enterprises that have substantial in-house technology with additional core research potential. This
strategy is sometimes applied as a way of "catching-up" if the multinational enterprise is a late entrant in the business.

**IV. The Optimization Problem of Strategic Alliances**

Assume that $V(x;\theta)$, the pay-off function of the enterprise is a function of the strategies $x = [x_1, x_2, x_3, x_4]^T$, and a vector $\theta$ of firm characteristics, i.e. $\theta = [\theta_1, \theta_2, \ldots, \theta_m]$. $^3$

$V(x;\theta)$ is postulated to be concave in $x$. Two strategies are said to be complementary if an increase in one raises the marginal payoffs of the other strategy. Given $V(x)$, any two strategies $x_i, x_j$ for $i \neq j$, are complementary if and only if $V_{ij} \geq 0$, where $V_{ij}$ is the second order cross-derivative between $x_i$ and $x_j$, i.e. $V_{ij} = \partial^2 V / \partial x_i \partial x_j$. For example, an increase in in-house competence from an acquisition raises the marginal value of links with universities (which is the same as saying that they are complements). As such, one would expect to observe that enterprises which make more acquisitions also tend to have a higher number of interactions with universities. Two strategies that are complements should be positively correlated.

Each enterprise must solve the following optimization problem

$$\max_{x} V(x, \theta) - (w + \varepsilon)^T x,$$

$V$ is a scalar. $w$ is a vector $[w_1, w_2, w_3, w_4]^T$ of (constant) marginal costs of undertaking each of the strategies in $x$, *common to all enterprises*, and $\varepsilon$ is a vector $[\varepsilon_1, \varepsilon_2, \varepsilon_3, \varepsilon_4]$ of stochastic perturbations across enterprises of the "true"

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$^3$This section is based upon Arrora and Gambardella (1990) in which the model is explained in more detail.

$^4$The superscript $T$ denotes transpose vectors or matrices. Bold lower case or Greek letters represent vectors and upper case variables are used for matrices.
unit costs of the different linkages. The elements of ε are "unobserved" and firm specific. The "true" unit cost (w + ε) of pursuing the strategies x is equal to a common factor w and a firm-specific element ε. Arrora and Gambardella (1990) suggest that one interprets these "costs" as the direct expenditure incurred and the transaction costs.

The first order conditions of the strategic alliance optimization problem are given as

\[ V_2^* = w + ε \]

where the left-hand side \( V_2^* \) is the vector \([V_1,V_2,V_3,V_4]^T\) evaluated at the optimum \((x^*;θ)\) and \((w + ε)\) designates the corresponding costs.

\[ V_i = \frac{∂V}{∂x_i}, \quad i = 1,2,3,4 \]

VI. Summary and Perspectives for Future Research

Once an enterprise has become multinational, the basic goal is no longer simple internalization, rather it is to find the formal structure and conditions which provide multinational enterprise with the right organizational fit. A major element of change in the world economy since World War II is the rapid emergence of multinational enterprises and their network linkages. Transactions among affiliated and non-affiliated parties evolve out of a complex process motivated by strategic, behavioral and economic considerations. Intermediate input procurement is structured rather differently in different industries. Within industries, intermediate input procurement may also be organized differently at each stage of manufacturing.

The potential gains of strategic alliances through network linkages are relatively high in certain industries. When the internalization costs of procurement are high as well, enterprises have been often able to improvize contractual and non-contractual arrangements which permit them to obtain the benefits of internalization without all the costs through the usage of strategic alliances.
Factor and product market imperfections, as stressed throughout much of the literature on multinational enterprises, are commonly mentioned as the Coasian economic incentive for the internalization strategies of multinational enterprises. Market imperfections, however, may come about quite naturally, as Caves (1971) and others have stressed. Firms seek specifically to establish unique competitive positions through their procurement strategies, i.e. their network linkages on an international basis. This aspect has recently been stressed by the *value-chain* business strategies of Porter (1986).\(^4\) Competition among enterprises in international markets is a continuously changing process which is a great deal more complex than the now common internalization theory at first glance suggests.

Current models of foreign direct investment strategies do not take into account the *value-added* advantages of a global network. They stress instead motivational and structural advantages, e.g. proprietary knowledge, static domestic industrial structure and product differentiation. These are all important aspects of multinational enterprise. However, the initial motivations for establishing subsidiaries in foreign locations are conceptually quite different from subsequent investment decisions as exhibited through strategic network linkages and alliances. Networking represents largely *sequential flows of information* stemming from the advantages of flexibility inherent in a multinational enterprise network system.

A global network perspective of the multinational enterprise implies a collection of valuable transactional options which permits the discretionary choice of changing real economic activities or financial flows from one country to next. We have stressed the importance of a strategic multinational network

\(^4\)Although Porter (1990, p. 93) has recently taken a somewhat more sceptical viewpoint on the importance of strategic alliances. Porter suggests that using alliances as a strategy may only ensure an enterprise’s mediocrity, not its international leadership. According to Porter alliances are best used as a selective tool, employed on a temporary basis or involving noncore activities.
as an important contribution to the overall value of the enterprise and its economic opportunities.

Rapid technological change, along with the shifting patterns of international trade and global competition, has intensified multinational enterprises' search for new competitive alternatives to explicit overall foreign direct investment. These developments were foreseen by researchers such as Dunning (1979, pp. 290-291 and Casson (1979)). They were well aware, at an early stage, of the potential development of the now rapidly growing cross-hauling of international investment and joint ventures or quasi-contractual resource flows among enterprises.

Dunning suggested that if governments attempt to "unpackage" the activities of multinational enterprises, or if technology becomes more standardized, then contractual ventures will take place of foreign production and the "traditional" multinational enterprise may become less important. The acceleration of technical progress (along with shortened product life cycles) and the improvement of both inter- and intra-firm communication networks have counterbalanced these effects. This is basically due to the fact that the distribution of innovations continues to be uneven across nations, and if the world moves closer towards economic interdependence rather than away from it, international networking and strategic alliances will remain a dominant force affecting the organizational structures of multinational enterprise.

The literature on multinational enterprise offers sufficient guidance for explaining the initial foreign direct investment decision. It focuses mainly on the problem of becoming a multinational rather than on competitive strategies for established subsidiaries. Although this is a still rather neglected area of research, equally important are the operational aspects of established affiliate production centers and potential inter- and intra-enterprise collaborations through networks.
Once an enterprise has become multinational, the basic goal is to find the formal structure and supporting environmental conditions which provide the enterprise with the proper organizational fit. Successful enterprises achieve strategic fit with their market environment and support their strategies with appropriately designed structures and management processes (see e.g. Miles and Snow (1984), (1986)). Less successful enterprises commonly exhibit poor fit externally and/or internally.

The search for new competitive approaches in multinational enterprise is producing new organizational forms culminating in international dynamic integrated networks. These new structures are both a cause and a result of today's global market environments in which enterprises compete to combine strategy, structure and management processes most effectively.

In the uncertain environment of international markets, production flexibility is achieved by the ability to change a process from one mode of operation to another. One of the most significant benefits of such flexibility is to provide the manufacturing process with an ability to modify itself in the face of uncertainty (Kulatilaka and Marks (1988)). The rapid increase in the volume of intra-firm trade and network linkages reflect these developments. Intra-firm trade and network linkages manifest strategic attempts to diversify over broad ranges of industries, allowing for specialization along product lines or according to processes within industries, rather than the traditional inter-industry specialization. The upshot of this is a relative ease in adjusting to structural change in international markets, adding to the expected profit value of the firm.

Strategic alliances, however, may often result in a loss of profits for partners as recently gravely illustrated by the failure of the Olivetti and AT&T joint venture. Originally, these enterprises were considered to be a good match with high levels of synergy effects due to complementary research and development strategies as well as their complementary geographical locations.
After realizing the potential importance of strategic alliances and networks, future research should concentrate its efforts on analyzing the managerial and economic problems of effective implementation of strategic alliances. The international consulting agency Deloitte Haskins and Sells in a recent study of 880 corporate partnerships found that only 45 percent of the participating parties involved regarded their alliances as successful. 40 percent of the strategic alliances had a life span of no more than four years and only 14 percent of the alliances managed to last longer than 10 years (see Rubner p. 66). Michael Porter has also estimated that the track record for acquisitions is apparently equally poor. More than half of the acquisitions in related fields of business and approximately 60 percent of the acquisitions in non-related fields of business have proved to be failures according to Porter.

It is potentially incorrect however, to interpret the well-documented instability of strategic alliances as being representative of their low strategic value. Based upon the evolutionary process of technological development and structural changes in international markets strategic alliances are predestined to be inherently instable. In judging the success or non-success of strategic partnerships it is necessary to also take into account any additional competitiveness derived for the involved parties that arose out of the venture. Since it is only natural that the complementary firm specific advantages of the involved parties changes over time, so will the organizational fit of strategic alliances change enterprise boundaries over time depending upon the learning curve effects that occur in playing the iterated game in the merry-go-round of strategic alliances.


Literature


Rubner, Uli (1990), Unternehmer Aller Länder Vereinigt Euch!, Politik und Wirtschaft, Heft 5, pp. 60-69.