

The Embeddedness of Risk Profiles in Strategic Alliance Risk

(July, 1999)

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Abstract

The literature on strategic alliances has for some time included attention to the issue of risk in these relationships. Typically, in researchers' conceptualizations, risk is manifested in terms of uncertainty regarding partner performance outcomes, and uncertainty about cooperation among alliance partners. Underlying both dimensions is the notion of an alliance partner's risk profile - an organization's propensity toward taking business risks. Unless the strategic focus is diversification, matching risk profiles in strategic alliances can be a good measure of fit. Because there are individual, organizational, cultural and industry differences in interpretations of risk, attempting to match risk profiles may be problematic.

Why were the strategic alliances between AT&T-Olivetti, Alza-Ciba/Geigy, and Nortel-ICL failures, while those between GE-SNECMA, Fuji-Xerox, and ICL-Fujitsu were successes?

Alliances are an increasingly important part of the organizational landscape. In just two recent years (1996-1998), the number of such arrangements among organizations totaled 20,000. Their economic impact was equally staggering, amounting to more than 20 percent of American corporate revenues (in just the 1000 largest firms) and an even greater amount in Europe (The Economist, 1999). One organizational researcher suggests that the growing trend toward "these organizational forms may turn out to be as significant an organizational innovation as the moving assembly line and the multidivisional structure" Teece, 1992: p. 24).

In addition to their vast economic impact, however, the lack of success in such collaborative ventures is equally remarkable - dissatisfaction and dissolution of these arrangements has been estimated at as high as 50 percent (Matthews and Harvey, 1988; Contractor and Lorange, 1988). Many causes have been suggested for this widespread lack of success, but one that consistently attracts attention is the risk associated with these arrangements. In the literature, risk has been addressed in a very broad-brush fashion, but to truly understand the impact of risk on these relationships, it is important to take a more fine-grained approach to assessing the impact of risk at the individual, organizational, industry, and cultural level of such partnerships. More generally, if researchers hope to develop explanations for strategic decision-making behavior in risky business situations they must heed the advice that says that these "can be tested more fully in rich, fine-grained studies that address how managers frame risky choices", within the context of specific industries (Figenbaum & Thomas, 1988: 99). Thus, a central goal of this study is to point future empirical work including risk as a central variable toward a

focus on particular contexts so as to facilitate the interpretation of such work, enhancing the potential for both theoretical and practical relevance.

Recently, scholars have begun to focus on elements of risk in strategic alliances, but in this context, risk plays a number of roles. The purpose of this paper is to highlight the centrality of an alliance partner's approach to risk taking in the success of collaborative arrangements. Definitions of strategic alliances and the notion of interorganizational fit are first explored. Conceptualizations of risk, risk profiles and factors influencing them are then developed. These two streams of work are then linked, and issues related to alliance success through enhancing fit are elaborated.

Risk and strategic alliances

Strategic alliances. Strategic alliances are collaborative relationships between and among organizations that allow them to compete in ways they would not have been able to do alone by accessing resources or capabilities that a particular firm does not already possess yet which are critical for improving its competitive position. Various authors use different ways of categorizing strategic alliance motives and rationales. For example, from a strategic management perspective, seven objectives have been identified for the formation of strategic alliances, the first three of which are risk reduction, economies of scale, and technology development (the remainder largely relate to positioning relative to competition) (Contractor and Lorange, 1988). Others are more parsimonious in their presentation and speak in terms of the "logic of alliance value creation", and focus on new markets, new product opportunities, and new skills and competencies (Doz and Hamel, 1998). Inherent to each of these is some degree of risk.

Risk is a topic that pervades the literature on strategic alliances. The ability to spread or avoid financial risk is frequently cited as a motive for engaging in such inter-

organizational relationships (e.g., in the oil industry, many firms undertake joint ventures to create an ability to participate in high-cost/high-uncertainty exploration and development projects at all). Alliances are viewed as a strategic response to managing firm-level uncertainties (which includes such categories as operating, liability, research and development, credit, and behavioral uncertainties). The "cooperation response" to managing uncertainty through alliances allows a number of areas of exposure to be covered and an increase in flexibility (Miller, 1991).

However, while acknowledging the capability-enhancing aspects of collaborative behavior, others cite the risks that accompany such governance structures in general (Faulkner and Bowman, 1984; Zajac and Olsen, 1993). That is, although alliances may reduce the transactions costs a firm would bear in going it alone in the marketplace, alliances also come with costs with which an independent operator would not have to be concerned. This is because alliances involve unfamiliar participants acting as boundary spanners across organizations, amongst whom trust may not exist (at least not without a lot of work), and lacking the control systems available to sovereign organizations. The reality of these relationships is that alliances are an ambiguous, fluid, evolving, multifaceted competitive option of which managers and scholars are just beginning to appreciate the complexity (Doz and Hamel, 1998).

Once the intent to participate in a collaborative relationship is agreed to by the various players, risk again becomes an issue, first in configuring the deal so as to achieve the best outcome for the collaboration, and secondly in determining how to do the best deal for one's company. The level of risk in negotiations is a reflection of the criticality of the stakes and also the reversibility of the position taken (Child and Faulkner, 1998).

Other authors have looked at risk as an independent variable that influences the choice of governance configuration (Das and Teng, 1996) and that interacts with the core resource focus of a partner in an alliance to determine its central priority in the relationship (Das and Teng, 1998). Underlying both of these perspectives is the notion that there are two primary risk types: relational and performance which suggest in turn a primary concern with cooperation and with achieving the intended strategic goals of the alliance.

While we concur that these two types of risk are clearly differentiable in their specific focus, we would argue that there are issues of risk behavior embedded in each that will have important implications for the overall success of the alliance. That is, a partner's risk behavior profile is likely to affect performance risk in that particular risk behaviors may be essential for achieving the strategic intent of the alliance, and the risk behavior profile will also likely affect relational risk in that any lack of fit in risk behavior profiles may manifest itself in destructive tensions and problems in the alliance.

Importance of fit in alliances

Strategic intent has at its core the recognition of potential sources of synergy deriving from interdependencies between the value chains of the two organizations. The realization of this synergistic potential requires that two important task objectives be met in order to achieve the appropriate degree of interfirm coordination: a strategic task and an organizational task (Pablo, 1994).

Strategic fit. Strategic fit is at the heart of the potential for value creation between firms. Strategic fit is defined as "the degree to which the potential alliance partners augment or complement a partner's strategy and thus makes identifiable contributions to the financial and nonfinancial goals of the focal partner". (Jemison and Sitkin, 1986). While this

definition comes from the mergers and alliances literature, the context is the same - how can two (or more) firms create value through by working together?

The strategic task therefore becomes to successfully share or exchange those critical skills and resources that form the foundation for value creation. As such, questions that must be addressed relative to strategic fit are numerous, as suggested by Lewis (1990):

How will an alliance with a particular partner advance your overall strategy (i.e., what objectives does it help you achieve that you couldn't do alone?)

What key resources are needed and will they be available from your partner, when needed, and given priority? (skills, expertise, management, timing issues, priorities)

Is this partner your best alternative now and in the future? (time frame)

Is this a good combination from your partner's perspective? (remember, both have to benefit for this to work)

Are there risks to your own position in this alliance (are you creating a new competitor?)

Is expansion possible with this partner? (what can the alliance evolve into)

Do they have problems that could affect you? (labor relations, bad safety record, environmental issues)

Are there important factors they don't control? (government relations, economic or political conditions)

The accomplishment of the strategic task requires, however, that target-specific bases of those critical skills and resources be kept intact. The organizational task, therefore, is the preservation of any unique characteristics of the partner firm that are a source of key strategic capabilities.

Organizational fit. Appropriate levels of cooperation depend on the compatibility between the partner firms as reflected in the similarity of their organizational cultures, top management styles, administrative systems, and decision-making practices (Buono & Bowditch, 1989; Datta, 1991). Organizational fit focuses on culturally-defined behavioral norms and procedural routines, and the degree to which differences in these characteristics of the two firms are likely to cause conflict. Organizational fit should generally be viewed as desirable since it relates directly to minimizing the probabilities of undesirable outcomes (i.e., tensions, conflict and disruption) that lead to alliance failure.

As with strategic fit, there are some key issues that must be addressed (Lewis, 1990; Jemison and Sitkin, 1987; Pablo, 1994):

Are key people compatible (decision making and management styles can be important here)

Are the cultures of the two companies harmonious (what are important values in each - integrity, loyalty, importance of employees, attitudes toward risk)

What is their reputation from past alliances?)

What is risk? While some researchers have limited use of the term risk to refer only to unpredictability in corporate outcome variables (accounting-based performance measures), others use it in the sense of unpredictability of input variables (environmental or organizational) that impact on corporate performance (Miller, 1991). This paper takes the position that risk is an inherent characteristic of all strategic decisions and must be viewed from an *ex ante* behavioral perspective if researchers hope to gain an appreciation of managerial expectations regarding the risks of a particular decision. While recognizing the importance of risk strategy, researchers have with few exceptions focused on measuring risk outcomes, and have either ignored the instrumental strategic choices contributing to those outcomes, or have tried to infer what they must have been. To truly appreciate an organization's strategic choices one must examine behavioral risk measures reflective of managers' strategic choices rather than attempt to measure risk-related strategy from its trail of outcomes.

When trying to understand an organization's approach to risk taking, one must consider the question of how relevant and meaningful studies using *ex post* measures of risk are from a managerial perspective. Managers' risk-taking behavior and attitudes toward risk do not conform to classic decision theoretic processes of choice among alternatives, based on the mean and variance of possible outcome distributions, and the assumption that individuals are uniformly risk averse (e.g., March and Shapira, 1987; Shapira, 1993). Rather, managers' attitudes and propensities to take risks may vary across individuals and contexts. Managers believe that risk-taking is essential to successful decision-making, and that it is expected of them in carrying out their jobs, and indeed, research data tends to support these beliefs, showing that those who rise to the top jobs in organizations tend to be risk takers (Grey & Gordon, 1978). These individuals are often affectively motivated to take risks and believe in their abilities to beat the odds (March & Shapira,

1987). The desire for high potential return may even cause risk to be denied as positive outcomes are weighted more heavily than negative outcomes (Lopes, 1987).

Contextual factors also contribute to the departure of risk-taking behavior from classical economic norms and prescriptions. As predicted by prospect theory (Kahneman & Tversky, 1979), an organization's performance relative to some target level will influence decision makers' risk preferences. In organizations that are meeting or exceeding their aspirations, decision makers will tend not to take risks, while in those that are falling short of their aspirations, decision makers will be risk seeking - up to a point. When the organization's survival is threatened, risks will be avoided, even to the extremes of behavior described as threat-rigidity responses to extreme danger (Staw, Sandelands & Dutton, 1981). According to Sitkin and Pablo (1992), organization design (i.e., control systems, social influences) will impact on the tendency to behave in a risk-seeking or risk avoiding way.

Thus, as March and Shapira note ". . .the behavioral phenomenon of risk-taking in organizational settings will be imperfectly understood within a classical conception of risk" (1987: 404). While observed (*ex post*) risk measures may tell a lot about the actual risks of a situation, they tell very little about managerial expectations of the risks beforehand. Yet it is the expectations that influence managerial decision making, and ultimately *ex post* outcomes (Bettis, 1982). Jemison further observes that, "Risk is an elusive concept with many interpretations . . . risk is an *ex ante* concept that we can only measure *ex post*. . . . But managers deal with risk as a continuing phenomenon and as such their decisions are affected by . . . *ex ante* presumptions about their future experiences" (1987: p. 1088). The development of managerial expectations regarding the risks of a particular decision involve risk identification, estimation, and evaluation, which in turn, reflect individual and organizational information processing capabilities, cause-

effect beliefs, and values (Baird & Thomas, 1985). Only *ex ante* measures of risk taking can begin to reveal how this process of handling strategic risk unfolds.

Since our interest in the strategic alliance context is in the decision-making behavior of organizations and their members (risk behavior), we now offer a definition of risk behavior. Drawing on Sitkin and Pablo's (1992) definition, decisions are riskier the more uncertain decision outcomes are, the harder decision goals are to achieve, and the more extreme the gain or loss potential of the decision.

As evidenced in a broad-based body of research, risk affects decision behavior by influencing perceptions of the decision situation, evaluation of alternatives, choices made, and other decision-related actions taken in response to risk. Managers' assessments of and attitudes toward the risk characteristics of a decision are central to managerial behavior with regard to that decision. In theorizing about how risk influences decision making in the context of an alliance, it is important to note that basic information processing activities are complicated as uncertainty and equivocality are exacerbated where decision making involves the inter-organizational level (Thomas & Trevino, 1993). Further, to get a better understanding of what factors ultimately influence risk behavior, it is helpful to draw on more general models of decision-making behavior in risky organizational situations.

Risk and strategic intent. One of the central reasons that firms engage in strategic alliances is to manage risk - make the chances of success in strategic activities more favorable. As noted by Das and Teng (1998, p. 24), "the control of uncertainties and risks in one's environment forms the essence of management". For many firms, some activities would not be possible without a partner, as the chances of success are too low to be the sole investor - the risk/return ratio is not acceptable. However, with a partner (or

partners), where the exposure for each partner is reduced, involvement in the activity is justifiable. Common examples of alliances formed for such reasons are research and development initiatives where by definition there is a high level of uncertainty about outcomes, outcomes are likely to be extreme in terms of gains or losses, and achievement of goals is not assured (activities are neither routine nor are solutions straightforward). Other such situations exist where the information is of such ambiguous and unknown quality (e.g., exploratory oil field drilling) and the cost of activities so high that again the decisions are risky - there is uncertainty about extreme and difficult to accomplish outcomes. Where activities require high risk regarding "future states of nature", an alliance may be the only feasible strategy.

While there is no literature that relates directly to risk-taking behavior and strategic alliances, some inferences can be made. For example, some researchers have addressed the necessary competencies of management teams in cooperative ventures. One of the fundamental activities that must be accomplished in an alliance is "internal push" reflecting an entrepreneurial competency within the management team. Without the presence of such entrepreneurial drive, the venture and its forward thinking capabilities in product, production and marketing may suffer (Lorange and Roos, 1990).

What is a risk profile and why is it important?

As noted above, issues relating to management style, decision making and organizational culture can be critical to making effective strategic decisions in the context of an alliance. The greater the extent of decision-making risk associated with the strategic goals of the alliance, the more important is a partner's risk profile.

In a recently proposed model of risk behavior, Sitkin and Pablo (1992) proposed that two causal mechanisms, risk perception and risk propensity, act as the mediating influences

through which individual, situational, and organizational factors influence risk behavior by channeling such major cognitive processes as information gathering and sense-making. As such, these individual level variables are appropriate aspects of *ex ante* risk on which to focus in order to begin to conceptualize the influence of risk on decision processes within an alliance. Given this, it is critical to be aware of the level at which decisions are made within the alliance (Nueno and Oosterveld, 1993), and further whether key decision makers change depending on the stage of the alliance. For example, in technology alliances, it has been demonstrated that during the pre-commercialization stage, decisions are made at the technical level while once the alliance reaches the competitive phase, decisions are taken at the top level (Nueno and Oosterveld, 1993).

In applying the mediated model of risk behavior to alliance decisions, we focus on aspects of the key individual risk variables that center on issues of information salience and interpretation. Specifically, risk propensity is defined as the cumulative general tendency of the individual to either take or avoid risks, and influences how a decision maker evaluates risk and decides what risks are acceptable (Sitkin & Pablo, 1992)¹. As such, risk propensity acts to shift decision maker attention regarding risk-related information, influencing what information will be used and what will be discarded. Risk perception, on the other hand, is an individual's assessment of the risk inherent in a situation. This assessment is reflected in the decision-maker's labeling of the situation, estimates of how extensive and controllable risks are, and confidence in those estimates. These critical behavioral variables have an important impact throughout decision situations that impact on the alliance, especially to the extent that the strategic logic of the alliance requires risky decisions.

¹ Research suggests that individuals do exhibit stable risk propensities within relatively broad risk domains (see Sitkin and Pablo (1992) for a more general review), and it is in this sense that we refer to the individual's general tendency.

Building on Hamel and Prahalad's (1990) conception of "core competence", one implication of this work is that organizations can identify ways to exploit their core competency either by partnering with like-minded organizations or by partnering with organizations that match a desired future "risk profile" (i.e., where this is a strategic intent collaborating). For example, a firm might evaluate its current risk propensity (as an organization and for key individual decision makers) and compare current risk propensities with alternative strategic future states reflecting changing technological, competitive, or regulatory environments. In order to better position themselves for future strategic action, firms that identify problematic mismatches could then begin to alter their risk propensity via alliances, for example by changing the "risk composition" of their top management team, or by gaining "risk experience" by experimenting with actions reflecting different levels of risk (Brown, 1992; Sitkin, 1992).

A risk profile is a measure of individual and organizational willingness to take business risks. Because a causal relationship has been demonstrated between *ex ante* risk taking and corporate economic performance, it is important that corporate risk policies are well understood (Walls, 1996). In an alliance situation, it takes on importance in evaluating the economic aspects of the relationship, specifically the scope of alliance benefits and risks to each partner (Doz and Hamel, 1998: p. 74). In considering the suitability of an alliance partner, one must consider the partner's approach to and perspective to dealing with risk. Understanding how decisions will be made and what a partner's risk propensities are will be essential knowledge in assessing partner compatibility and which decision tools are going to be most valuable (i.e., expected value vs risk tolerance taking willingness and ability into account (Walls, 1995)). If and when partners have different tolerances with regard to risk taking, the relationship can become problematic from an agency theory perspective as in a collaborative relationship each partner becomes an

agent for the other. As such, questions of opportunistic behavior, lack of trust, and the requirement for monitoring and control mechanisms are heightened when the governance of the relationship is considered (Child and Faulkner, 1998). Capital budgeting and capital allocation decisions made by firms in the pursuit of value creation may be made problematic if there is a lack of consensus amongst partners in how to approach these decisions. If the strategic intent of the alliance rests on decisions where there is uncertainty regarding the outcome, where there is the potential for extreme loss (or gain), or where decision makers have little control over outcomes, the logic of value creation for the alliance will be jeopardized.

When risk profiles are considered in the context of a relationship between or among organizations, the question must be considered from multiple levels of analysis. One must evaluate the variable from the level of individual decision makers within potential partners, and also in an integrated sense, from the level of the organization. Beyond that, the industry context within which one is operating must be taken into account. And finally, the influence the societal culture has on approaches to risk must be assessed. When all of these factors have been evaluated as part of a due diligence process, it is likely that potential tensions and problems in the relationship resulting from differences along these lines will have been brought to light and consideration made of whether the strategic and financial benefits arising from the alliance offset the costs of finding ways to make the relationship work.

Contributors to partner risk profiles

Individual. Characteristics of decision makers must be taken into account if one hopes to get an understanding of how they develop particular profiles of risky decision making. Particular elements of information that must be addressed from an individual perspective are *risk propensity*, defined as the cumulative general tendency of an individual to either

take or avoid risks, and the historical patterns that contribute to it. Risk propensity is a central influence on how a decision maker evaluates risk and decides what risks are acceptable (Sitkin & Pablo, 1992). As such, risk propensity acts to shift decision maker attention regarding risk-related information, influencing what information will be used and what will be discarded.

In a recent study by Pablo (1998), it was found that tendencies toward risk taking are complex, reflecting personality traits, habits, and experience. This paper suggests the need to incorporate individual differences into models of risk behavior, and for organizations the need for management attention to members' risk experiences. It is also suggested that the routine approaches or habits an individual has developed toward handling risky situations (inertia) and the success or failure of previous incursions into risk-taking in similar situations (outcome history) will act as major influences on an individual's tendency to take risk in any particular situation. As such it will be important to gather data on key past decisions involving business risk (new product introductions, new markets, new technologies, etc.), the outcomes of those decisions, and key decision makers involved.

Organizational. When we expand the individual risk profile to the organizational level, we can assess the risk profile at important decision making levels. We can concentrate at the level of the top management team, where we will likely capture data on approaches to risk of those involved in critical strategic decisions having a major impact on future directions of the firm. Alternatively, we can concentrate at operational levels where we will likely capture information on risk approaches through the introduction of new technologies and methods. Another possible approach is that we can concentrate on particular functional areas within a firm where we will get risk propensity information around particular task areas (i.e., corporate treasury and financing).

Though this approach, we can make several important comparative assessments about the focal firm. We can evaluate how consistent managers within the firm are when it comes to business risk propensity, we can assess whether managers are aligned with any particular corporate risk policy, and we can determine the degree to which managers in this firm are in step with the industry on average (MacCrimmon & Wehrung, 1986).

Knowing a firm's willingness to take business risks can facilitate evaluation of alternative business ventures. Risk profiles can be used as an evaluation tool by either party to a prospective collaborative relationship. Knowing a prospective partner's suitability with regard to how they will make investment choices under uncertainty can avoid a number of potential problems in a partnership that requires a particular attitude toward risk. Does a potential partner have the conservative image required to appeal to financiers? Does the candidate evidence the entrepreneurial capacity to exploit new opportunities, explore new markets, develop new competencies that are uncertain but have potential high returns? Does the partner possess the risk profile necessary in the projected competitive environment?

Culture. While the organization's culture and subcultures must be attended to in understanding the risk propensity of organization members, that discussion is well beyond the scope of this paper. Suffice it to be said, that there are as many cultures as there are organizations, and probably the best we can say in this paper is that organizations can be classified by types (Deal and Kennedy, 1982).

However to the extent that we are concerned with cross-national alliances, we must understand the impact of international cultures. In Hofstede's (1980) work on international differences in work-related cultures, he finds that there are four value

dimensions along which countries can be positioned (individualism versus collectivism, power distance, uncertainty avoidance, and masculinity versus femininity). One of these dimensions, uncertainty avoidance, will have an impact on how individuals and organizations within the society react to an unknown future: i.e., how willing are they to accept risk. Individuals and organizations within a country characterized by a high degree of uncertainty avoidance are risk averse and would tend to make choices with certain outcomes rather than take a risk to maximize gains. Even where losses are involved, individuals in an uncertainty avoidance culture will prefer to accept the sure loss.

Beyond the types of choices that are ultimately made, it is important to recognize that decision making in countries characterized by a high degree of uncertainty avoidance will tend toward organizational processes characterized by intensive and detailed planning in anticipation of unknown events. Knowledge of such details about an organization's decision making style should be taken into account as part of a due diligence process among potential alliance partners. As Hofstede asserts, power distance and uncertainty avoidance characteristics will have a strong impact on the structure and functioning of organizations. Where power distance is high, organizations are protected from uncertainty by that power. However, if power distance is low, uncertainty avoidance becomes an important contingency variable predicting the structure and design of the organization. In combination with low power distance, uncertainty avoidance will be managed either through a system of formal rules or ad hoc mutual adjustment, depending on whether the UA dimension of culture is low or high. Obviously, these cultural differences in dealing with risk will create quite different organizational contexts with powerful implications for organizational fit and for the success or failure of collaboration.

Enhancing risk-related fit in strategic alliances

"While incompatibility cannot be overcome, compatibility can and should be aggressively enhanced" (Brouthers, Brouthers, and Wilkinson, 1995). Enhancing fit can be best achieved by being open with yourself and your partner about beliefs, assumptions, and past experiences so that all parties are operating from the same frame of reference (Doz and Hamel, 1998).

Key issues to attend to are first, the strategic fit in the alliance. It must be clear to each partner, and to the partnership as a whole, what the objectives of the partners are. One must consider this in the context within which it exists. What's going on in the particular industry(ies)? What is each partner's competitive position in their own industry? What is each partner giving and getting from the alliance? Are the goals of the partners being achieved? What are the expectations of each partner

In the context of answering these questions, each organization must be able to answer the extent to which the strategic logic of the alliance is dependent on the particular risk propensity of themselves, or their partners. What kinds of decisions will organizations and their members be called on to make? What kinds of capabilities does each organization bring with it to the alliance? What do risk profiles of past risk behavior communicate about a focal organization or its partners?

Individual/organizational level. Organizational fit must be assessed to prepare ahead of time for differences reflecting size, decision-making styles, and to avoid judgmental thinking and criticism. For each organization within a partnership, risk profiles should be assessed at three levels - key decision makers within the organization, key decision makers in the partner organization(s), other executives within the same industry. When considering entering into a cooperative venture, it is important to assess your own willingness to take business risks. Similarly, it is important to have a clear view of

potential partners' risk propensities. For example, what chance of a zero rate of return on large portion of the budget for which you are responsible are you willing to accept? For what rate of return would you take this risk? What is the lowest chance of winning in court that you would require to recommend taking a case to court versus settling out of court (a certain outcome)? How willing are you to undertake risky business propositions compared to other executives at or near your level in your firm (MacCrimmon and Wehrung, 1988)

Industry level. While cross-industry alliances are not that common, where they do occur, there are numerous reasons to suspect that managers in different industries will have different interpretations and conceptualizations of risk. In a recent study by Pablo (1999), strong differences emerged in interpretations of risk across industry sectors, with implications for differences in how risky business decisions are likely to be handled, and for problems in any kind of collaborative effort.

Strategic management scholars have noted that the decision criteria used and their influences on strategic decision making may vary by industry (Hitt & Tyler, 1991), and indeed, that industry “recipes” (Spender, 1989) may contribute to the development of particular managerial orientations. These industry-based cognitive patterns especially are the source of particular beliefs about “appropriate risk” (Donaldson & Lorsch, 1983), and may be central to understanding managerial response to and resolution of uncertainty (Spender, 1989).

Spender contends that “of several possible organizational contexts that of its industry seems historically and empirically the most important” (1989: 65). Within industry contexts the nature of a variety of characteristics might be expected to be influential, for example, regulatory environment (e.g., Bowman, 1980), service vs. manufacturing

technology (e.g., Mills & Moberg, 1982), the type and intensity of competitive forces (e.g., Porter, 1980), and industry growth rates (Baird & Thomas, 1990) among others.

The notion of industry "mindsets" has also been theoretically and empirically explored from diverse organizational perspectives. Institutional theory (e.g., DiMaggio & Powell, 1983), for example, would suggest that the emergence of collective rationality in organizational fields would contribute to the development of common perspectives on risk within those fields. Cultural theories of organizations also provide support for the argument of industry-based perspectives on risk, in that particular activity orientations likely reflect assumptions about how to deal with particular macro-environments (Schein, 1985). Combining institutional and cultural perspectives, Chatman and Jehn (1994) suggest that judicious cultural mimicry may effectively contribute to firms' competitive strategies. Similarly mindsets built round interpretations of risk believed to enhance competitive positioning may develop on an industry basis.

Cultural level. Much has been written about how to manage expatriate employees and managers. However, little attention has been paid to the particular context within these organization members find themselves. It must be remembered that alliance partners operating in multinational geographies have two hurdles to overcome: the new societal culture within which they find themselves, and the multifaceted organizational form within which they are trying to achieve the goals of the partner organizations, and as an overlay to all this the particular set of business decisions that must be made (Lane and Beamish, 1990). Successful approaches have included the exchange of managers and personnel between the partners (i.e., Fuji-Xerox) and the creation of gate-keepers and liaison managers (GE - SNECMA).

The likelihood of success in cooperative ventures that face such odds can be enhanced by advanced cross-cultural training (communication, issue sensitivity) and context awareness for functioning within the business itself.. Obviously, ethnocentrism within such arrangements should be avoided, and partner's needs should not be downplayed or ignored. As Lane and Beamish (1990) contend, partners should use the principal of fair exchange.

Conclusions

Because there is no literature that explicitly addresses the issue of risk behavior in strategic alliances, no decisive answer to the question posed at the beginning of this paper can be given. However, to a large extent it can be inferred that it had to do with complementarity and joint understanding of decision-making processes and common appreciation of skills relating to the handling of decisions involving risk. Through the learning and joint development that took place because of this, decision-making risk was effectively addressed in the context of the successful alliances but not the others. Further, awareness and management of the all-important timing of cost/benefit trade-offs for each partner must be maintained (Doz and Hamel, 1998).

The purpose of this paper has been to present a more encompassing view of risk in strategic alliances than has been done previously. Similar to other strategic alliance literature that looks at particular variables that if mismatched may create problems in the partnership (i.e., the impact of divergent time horizons on compatibility (Ganitsky and Watzke, 1990), this paper examines issues of compatibility in risk behavior for an alliance. Although as elaborated previously, the concept of risk, and issues related to it have been prevalent in the strategic alliances literature, the "risk-based" view (Das and

Teng, 1998) has been limited in that in identifying performance and relationship risk in the relationship, it has failed to recognize common underlying elements of each.

Specifically, researchers must go back to a more fundamental understanding of risk and its behavioral manifestations in a risk behavior profile to understand the underlying effects on performance and relationships in an alliance context. It must be understood how particular embedded risk behaviors are essential for achieving the strategic intent of the alliance, and that the risk behavior profile will also likely affect relational risk in that any lack of fit in risk behavior profiles may make themselves apparent in destructive tensions and problems in the alliance.

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