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Coalitions and Collisions

The benefits and problems in the context of collaboration

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Keywords: Relationship, Collision, Coalition, and Failure.

*Failure
is always the best way to learn*
Coldplay

Abstract

This paper investigates a research question about collisions in collaboration. It asks the question why collaboration partners collide and why collaborations eventually fail. We can analyse three types of reasons for failures of collaboration, namely cognitive, motivational, and behavioural reasons. Learning from failures in and for collaborative settings means to understand the reasons of failure and to analyse the existence of such reasons in actual interactions. In our literature review we analysed three main factors for failures of coalitions: environmental, organizational, and relational. Furthermore, relational aspects appear to dominate factors causing coalition failure. We therefore propose a more detailed analysis of relational factors between partners in coalitions.

Collaboration: Part of the solution or part of the problem?

Whenever organisations choose for a collaborative setting, they have certain a priori positive expectations about the outcome of collaboration. Given the assumptions about instrumental rationality, actors would not choose to collaborate with other actors if they do not think it is beneficial for them to do so. With benefices, however, we do not only refer to economic profit. The benefits of collaboration can be non-pecuniary. Outcomes of relationships take different forms: financial, market access, interaction, sympathy,

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legitimacy, etc. With respect to one or several of these dimensions, actors should have positive expectations in order to have an incentive to start and entertain an inter-organisational relationship. However, success in collaboration seems to be the exception rather than the rule (Park and Russo, 1996; Büchel, 2003). Several studies using various samples of joint ventures, alliances and other inter-organizational relationships showed failure rates at 7 in 10 (Coopers and Lybrand, 1986), 2 in 3 (Kogut, 1989), and 1 in 2 (Harrigan, 1988). We can observe very inefficient collaborative settings as well as failures of joint efforts. Such failure, of course, is detrimental for the collaborating organisations, and, especially, for the joint goal. In order to learn from past experiences for future collaboration, on the one hand, and from failure of others, on the other hand, it can be extremely helpful to analyse failure, to look for reasons of failure and to develop approaches to avoid collisions. We do not argue that it might be necessary to avoid conflict, because conflicts can be solved and in some cases can even have a productive outcome. A collision, however, can only be repaired. Thus, our question is: Why do interaction partners collide while they are supposed to collaborate and to form a coalition?

In order to answer this question, we will first (2) outline some general theoretical arguments that might be relevant in the context of conflicts between interaction partners. Next (3), we focus on factors influencing the ultimate form of collision in inter-organizational relationships, that is, we will concentrate on factors influencing inter-organisational failure, and we will finally (4) draw our conclusions.

Collaboration and collision: The theoretical problem

Partnerships are related to specific decision problems; that means that partners in partnerships have to take specific, partner- or partnership- related decisions. Each partnership has a life cycle, thus it starts, it exists, and it ends at a certain point in time. In each of these phases, actors have to take decisions. These decisions are general decisions about collaboration and decisions about the (possible or actual) interaction partners. There are several criteria and reasons that play a role in such a decision process, and they differ for the three different phases of the life cycle. After all, collaboration is not the default form of organising for most actors since it is associated with dependency issues. One has to actively decide to collaborate with an interaction partner.

An important reason for collaboration is team surplus. By collaborating with other individuals, an individual can increase the output that results from her input (Jensen & Meckling, 1976; Gössling, 2003). What is true for individuals is also a relevant reason for organizations to collaborate: The joint use of input factors of the respective participants in a joint effort can have two functions: First, it might be that a (project) goal can only be achieved with the use of the complementary input factors of each of the partners. Knowledge is an important input factor in many inter-organizational relationships. In many cases, partners pool together knowledge about different technical, juridical or marketing aspects of a new product and start collaboration. For example, in order to design, produce and market a new coffee machine, it can be useful that one partner brings in the technical knowledge to produce a new coffee machine, while the other puts its knowledge about coffee powder at the disposal of the collaboration (N.N., 2001). Second, it might be simply more efficient to collaborate with a partner than to acquire knowledge and skills internally, or hire new personnel.

Besides resource dependency and efficiency arguments to start to a collaborative effort, Oliver (1990) argues that necessity could be a trigger of inter-organisational col-

laboration. Actors team up in order to meet necessary legal or regulatory requirements. For examples, in order to get subsidy from a number of EU technology policy instruments, firms are required to collaborate with other firms from less developed European regions. Asymmetry could be another reason to link up with other organizations. In this case, an inter-organizational relationship starts because of the potential to exercise power or control over other organizations or its resources. Many network relations of Microsoft are clear examples of this, since this company wants to tap into the knowledge bases of smaller software houses or to prevent the marketing of certain software packages. Reciprocity could be a fourth reason to start an inter-organizational relationship. Here, the emphasis is on coordination and collaboration instead of power and control. The main aim of starting such a relationship is to pursue common or mutually beneficial goals or interests. Many strategic alliances are formed because of and based on reciprocity. Inter-organizational relationships are also started as an adaptive response to environmental uncertainty. In this way, an inter-organizational relationship is a coping strategy to forestall, forecast or absorb the impact of dynamics and turbulent environments in order to achieve orderly and reliable patterns of resource flows. Lastly, aiming at legitimacy could be an important reason to start-up a collaborative effort. Often, institutional environments impose pressures on organizations to justify activities or outcomes. By partnering with an actor that has a higher level of legitimacy, the other actor is able to increase prestige, reputation, or image.

The above shows that partners can decide to enter into a collaborative arrangement for various reasons, which does not necessarily mean that both partners have the same motives to start a link. Because of a lack of knowledge about motives and reasons for entering relationships, actors possibly expect opportunistic behaviour from which they want to safeguard themselves. In other words, by deciding to enter into a relationship, actors want to profit from the advantages of this so-called hybrid organizational form, while at the same time protect themselves from possible misuse.

Especially the transaction costs approach addresses these problems and turned out to deliver powerful explanations to the issue. Williamson (1985) and others have shown that collaboration in the organizational form of a hybrid can be efficient, and that the efficiency depends on two factors, namely asset specificity and the possibility to safeguard one's specific investment. Figure I shows the differences in transaction costs between markets and hierarchies. Every coordination form that has certain, but not all, character-

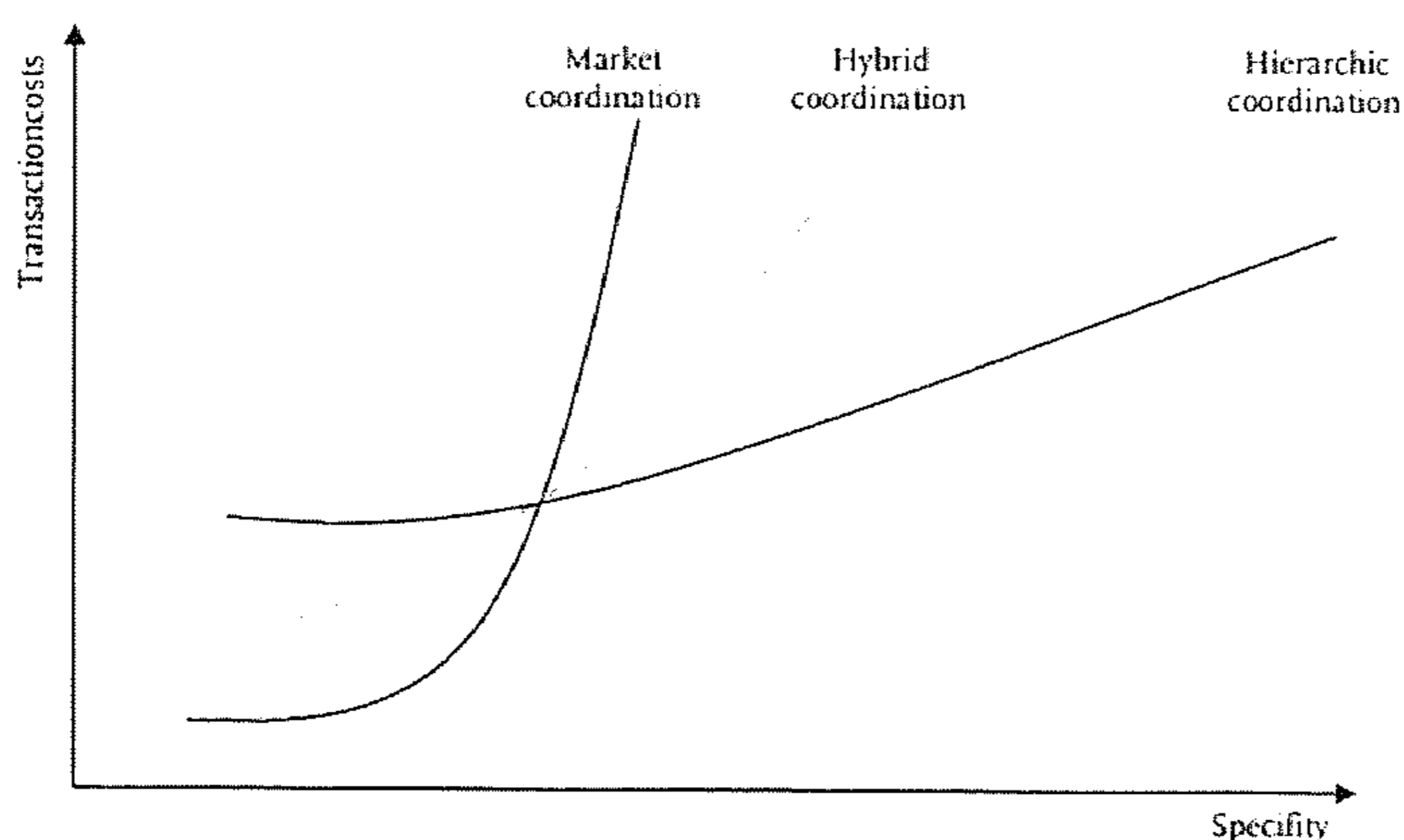


Figure I Market, Hybrids, Hierarchies

istics of market coordination and also certain, but not all, characteristics of hierarchic coordination is referred to as to a hybrid. For coordination problems with a medium degree of asset specificity, transaction costs of hybrid organisations are assumed to be lower than in market coordination.

However, as normative as the model appears, it does only very limitedly allow for a decision about the appropriate coordinative mechanism, given a certain coordination problem. So, the first problem is the decision about whether or not to collaborate for certain tasks.

Thus, once the decision whether or not to collaborate is taken, actors have to take the decision concerning choosing a suitable interaction partner. This decision is a choice between the great amounts of possible interaction partners. Such choice can be based upon different criteria, like specialization of the possible interaction partner, spatial proximity, common experiences, personal ties between members of the respective organizations, etc. (Boles et al, 2000; Evans & Laskin, 1994). However, it is difficult to weigh these criteria and to take a rational decision about a partner. Furthermore, most models about such decisions pay attention to the different actors, and not to the interaction between the actors (Gössling 2003a). Therefore, it is hardly possible to judge the interaction qualities of a possible future interaction partner, since the interaction quality only exists within the interaction, and not apart from it. Therefore, the second problem is to choose an appropriate interaction partner.

In the second phase of the life cycle, the general questions are comparable to the questions before a partnership starts. An actor has to evaluate whether or not the collaboration is advantageous for her and whether the interaction partner is still the appropriate partner. Both questions are difficult to answer because of the difficulties to compare the actual situation with a hypothetic situation. A point of reference is missing. So, the third problem is the decision whether or not to maintain the collaboration at all; and the third problem is the decision whether to continue the relationship with the actual interaction partner. The negative answers on these two questions lead to a move towards the last phase of the life cycle of a relationship. However, this phase also asks for decisions and actions, since the actor needs to know when and how to end the partnership in an appropriate way. Therefore, the fifth problem is the decision about when to end a relationship; and the sixth problem is the question about how to end the partnership, in other words: how to continue the relationship with a former collaboration partner in another way.

In each of these phases, actors can take right or wrong decisions. A wrong decision is a probable reason for failure of collaboration. However, there are systematic reasons why collaborations can fail, given certain assumptions about actors. Economic assumptions about rationality and egoism propose that actors collaborate as long as it is profitable for them to do so. However, if it is profitable not to collaborate, actors will behave opportunistically. They will use guile in order to make the highest profit possible in a given situation, even if their collaboration partners perceive their behaviour as unfair and if they ruin their reputation (c.f. Gössling 2003). In a more elaborated approach, actors pay attention to their reputation but still behave opportunistically as long as the possible gain is higher than the possible loss by means of a bad reputation.

To give an illustration, consider a manufacturer who develops a product together with a second manufacturer. These two consider collaborating with each other because of the possible joint use of input factors. In such a setting, the classical team problem occurs: every party will be interested in putting as little effort into the common project as

they possibly can without being uncovered for doing so. However, small product development teams with intensive collaborative settings will provide sufficient internal monitoring. In the development phase, actors have an incentive to collaborate and to contribute knowledge and information in order to efficiently use the input factors and to allow for progress in the project. However, with respect to marketing activities, services, etc. the two manufacturers might be competitors. Such a situation is a possible source of conflicts, since the goals of the collaboration partners are only partially congruent.

However, even if the interests of the interaction partners were congruent, there might be reasons for them to collide in the cooperation. Actors possess their specific habits, customs, and informal institutions (Schlicht, 1989; Gössling, 2003 and Gössling in this volume). These behavioural assets prescribe behaviour, on the one hand, and reactions upon behaviour, on the other. That means, that different behavioural settings can lead to a conflict and eventually to collisions between interaction partners, if, first, the prescriptions about behaviour are significantly different, and, second, the prescriptions about reactions upon behaviour lead to negative reactions upon behaviour of the respective partners. That is often the case in collaboration between partners with different nationalities (Shaughnessy, 1995); it can as well be the case in collaboration between actors from different regions, different educational backgrounds, different countries, etc. Such behavioural differences can lead to miscommunication, misunderstanding, bad feelings about the interaction, etc. In other words, the perception of the interaction can be negative. This perception of the interaction, however, is an outcome variable.

Summarising, as table I shows, we have analysed three general possible reasons of collision, namely (I) wrong decisions of interaction partners in different phases of the life cycle of collaboration, (II) conflicting interests and incentives, and (III) differences in habitual behaviour.

Table I Challenges during the life cycle of collaboration

<i>Life Cycle</i>	<i>Cognitive</i>	<i>Motivational</i>	<i>Customary</i>
<i>Start-up</i>	Choice	Common Goal	Proximity
<i>Maintain</i>	Evaluation	Team	Setting Similarity/fit
<i>End</i>	Evaluation	Payoff	Mismatch

Failure of collaboration: a search for explanatory factors

While the previous section discussed general possible reasons of collision in collaborative efforts, this section concentrates on the ultimate form of collision, namely the failure of inter-organizational relationships. The aim of this part of the paper is to present an overview of factors influencing collaborative failure as found in selected literature. To realize this aim, a limited literature search was performed using ABI Inform and the Web of Science as data sources and using (combinations of) "collision", "failure", "inter-organizational relationships", and "joint venture" as key words for our search activities.

Interestingly, the vast majority of the research in inter-organizational relationships and networks concentrated on decisions and motives to enter into collaborative efforts. A substantial literature has emerged variously attributing causality for joint ventures and other types of collaborations to the political economy of international trade and globalisation, the emergence of new competitive environments, the impact of innovation and new

technologies, the value and importance of a network economy, and the superiority of hybrid forms of organisation as governance structures.

Surprisingly, there exists a relative lack of research on the failure of inter-organizational collaborations (see also: Park and Russo, 1996). As was already indicated in the first section of this paper, a high percentage of joint efforts tend to fail. Given this fact, it is odd that the pitfalls of collaboration, which apparently are many, seem to be understudied. Of course, one important reason that many linkages end is that it is so intended. That is, they are designed with a finite goal or set of tasks, with a termination anticipated thereafter. By contrast, our focus is on collaborative ventures without fixed durations. From this point of view, the end of the coalition can be associated with unfavourable or unexpected experiences or outcomes. Therefore, the question is what factors cause such failure?

In order to come to a concise presentation and discussion of our findings, we use Oliver's (1990: 421) definition of inter-organizational relationships as our organizing principle. She defines these relationships as "the relatively enduring transactions, flows, and linkages that occur among and between an organization and one or more organizations in its environment". From this description, it becomes clear that any relationship encompasses at least three elements: organizations (collaborating actors), interaction (transactions, flows, and linkages), and an environment (e.g. market, sector, region, country). Here, we argue that (combinations) of the features of these three building blocks of inter-organizational relationships can contain sources of failure.

In the Tables II-IV, we present the results of our limited literature search and subsequently the most eye-catching findings are discussed briefly. The sources of failure are described in such a way that in all cases they increase the probability of failure.

Environmental factors influencing failure rates

Two of the four environmental factors presented in Table II refer to features of an economy. Beamish (1985) argues that investments (in collaborative efforts) in the developing world generally are viewed as less stable than investments in industrialized countries. The political uncertainties that often exist in such economies tend to have a negative impact on the stability of relationships. Blodgett (1992) points at another dimension of an economy, viz. its level of openness. Her argument runs as follows: an open economy allows companies greater freedom to alter terms of agreements as compared to economies that are characterised by high levels of restrictions. This greater freedom provides partners the latitude to engage in strategic breaching, which impedes partnership stability. Kogut's (1989) assumption that high growth rates in an industry increase partnerships failure rates is comparable to an argument found in organisational ecology. Given resource scarcity, higher growth rates in an industry imply that there is increased competition for these resources. Since it is harder for partnerships to acquire the necessary resources, failure rates are higher.

Table II Environmental factors influencing failure rates

<i>Factor</i>	<i>Author(s)</i>	<i>Impact on failure rates</i>
State of development of an economy	Beamish (1985)	Joint efforts in developing countries have a higher failure rates
Level of concentration in an industry	Kogut (1988)	Higher levels of industry concentration increase failure rates
Industry growth rates	Kogut (1989)	High growth rates in an industry increase failure rates
Openness of an economy	Blodgett (1992)	Collaborative efforts in an open economy have a higher failure rates

Organisational features influencing failure rates

The factors presented in Table III all represent features of organisations or organisational behaviours of (one of the) partners impacting on the probability of a failing coalition. Park & Russo state that coalitions between partners who are direct competitors have a higher probability of failure because parental goals conflict often directly. Together with Zollo, Reuer, and Singh (2002) and Pangarkar (2003), they also argue that a lack of past experience in collaborating with external partners is a potential pitfall. Past experience in collaboration (if it is regarded as positive) signals a positive reputation on the one hand, and fulfilling relation obligations in the past on the other hand. Moreover, Park & Russo theorize that bounded rationality and failure rate are connected. Given bounded rationality, it is impossible to contractually specify every possible contingency involved in managing the cooperative effort. Combined with higher levels of uncertainty, this increases failure rates. Although applied in a specific setting by Levinthal and Fichman (1998), namely auditor-client relationships, one could argue that a growth of the diversity of the business activities of one of the partners impedes on the quality of the relationship, since with growing diversity there is a growing possibility that goal misalignment in the partnership will occur. The last factor discussed is the relationship between opportunistic behaviour and failure rate. Park and Ungson (2001) propose that coalitions fail because of opportunistic hazards as each partner tries to maximize its own individual interests instead of collaborative interests.

Table III Organisational features influencing failure rates

<i>Factor</i>	<i>Author(s)</i>	<i>Impact on failure rates</i>
Partner is a competitor	Park & Russo (1996)	Direct competitors increase failure rates
Level of experience a partner has with collaboration	Park & Russo (1996)	Lower levels of past experience with collaboration increase failure rates
Size of a partners	Levinthal & Fichman (1988)	Smaller size of partners increases failure rates
Bounded rationality of actors	Park & Russo (1996)	Higher levels of bounded rationality increase failure rates
Diversity of activities of one of the partners	Levinthal & Fichman (1988)	Growth of the diversity of the activities of one of the partners increases failure rates
Political behaviour of one of the partners	Shenkar & Yan (2002)	Increase of political behaviour of one of the partners increases failure rates
Opportunistic behaviour of one of the partners	Gulati, Khanna, Nohria (1994) Park & Ungson (2001)	Higher levels of opportunistic behaviour of one of the partners increases failure rates
Cultural background of the partners	Gill & Butler (2003)	Higher levels of cultural distance between collaborating partners increase failure rates

Features of relationships and interaction influencing failure rates

Table IV describes features of relationships and interaction between collaborating partners, which impact on failures rates of coalitions. Killing (1983) argued that dominance of one partner in a relationship lends stability to the coalition. There is growing evidence, however, that shared (equal) decision-making may in fact be a more stable arrangement. The reasoning is that unequal division of ownership, and thus of decision-making rights, gives the majority holder greater possibilities to dictate terms.

Table IV Features of relationships and interaction influencing failure rates

<i>Factor</i>	<i>Author(s)</i>	<i>Impact on failure rates</i>
Level of dominance in relationship	Killing (1983)	Equality between partners in a relationship increases failure rates
Distribution of decision-making rights	Beamish & Banks (1987)	Unequal distribution of decision-making rights increases failure rates
Frequencies of renegotiations between partners in a relationship	Blodgett (1992) Arino & de la Torre (1998)	Renegotiations of contract terms of a relationship increase failure rates
Organizational form of the relationship	Gomez-Casseres (1989)	Hybrid forms have a higher probability of failure
Level of (inter)dependency in a relationship	Park & Russo (1996) Gil & de la Fe (1999)	Higher levels of (inter)dependencies between partners increase failure rates
Number of multiple ties in a relationship	Park & Russo (1996)	Fewer multiple ties in a relationship increase failure rates
Level of trust	Levinthal & Fichman (1988) Baird, Lyles, Li & Wharton (1990)	Lower levels of trust in a relationship increase failure rates
Number of partners engaged in a collaborative effort	Park & Russo (1996)	Greater number of partners engaged increases failure rates
Task complexity	Levinthal & Fichman (1988)	Higher levels of task complexity increase failure rates
Level of relation-specific investment	Levinthal & Fichman (1988)	Lower levels of relation-specific investments increase failure rates
Time dependency of relationships	Levinthal & Fichman (1998) Park & Russo (1996)	Failure rates increase with time initially
Level of inter-organizational coordination	Park & Ungson (2001)	Higher costs of inter-organizational coordination increase failure rates
Level and direction of reinforcements in a relationship	Arino & de la Torre (1998)	Negative feedback and reinforcement between partners increase failure rate
Extent of alignment of partner strategies	O'Connor & Chalos (1999)	Lower levels of alignments of partner strategies increase failure rates

Blodgett (1992) as well as Arino and de la Torre (1998) ascribe value to the idea that renegotiation of a collaborative arrangement, like many acts, is easier if it has done before. On the basis of this theoretical idea, it is hypothesized that coalitions that previously experienced renegotiation of collaborative terms will tend to be unstable than ones that have not. Instability increases probability of failure.

As to the pattern of interdependencies between partners in a relationship, Park and Russo (1996) discern two forms. In one form, contributions of partners to the coalition are not integrated, but lie in a sequential path, as when one partner designs a product for

the other to manufacture. In the other form of interdependence, the partners' contributions represent a pooling of their knowledge bases and competences, as when partners jointly develop and manufacture a new good. In neither situation do the interests of the collaborating partners necessarily match. In case of sequential interdependence, one partner's gain comes at the direct expense of the other partner. Integrative interdependence asks for ongoing (shared) decision-making between coalition partners, especially if organizational complexity is greater, as a result partners are guaranteed to clash on occasion. The most serious threat to partnerships in which integrative interdependencies are important is the chance that important know-how, like knowledge about manufacturing processes and technologies, will leak to or be appropriated by a partner. Subsequently, this know-how could be used to undermine the other's competitive advantages. This would seriously impact on the probability of failure.

Researchers within both organizational theory and economics have discussed the importance of attachment or commitment between partners. A critical element of these discussions is that one or both partners make substantial investments to facilitate and improve the effectiveness of the relationship. An important attribute of these investments is the extent to which they are unique to a particular relationship. Williamson (1975) further developed the implications of such relation-specific investments. He states that the attachment between partners is strengthened over time as the two collaborating partners invest in dedicated equipment and develop expertise specific to the organization's need. Since relation-specific investments, by definition, lose (part of) their value when applied to another coalition, parties become locked into their existing relationships. Contrary, a lack of relation-specific investments by one or both partners, signals lack of attachment or commitment and therefore increases the failure rate of relationship.

The last item we will discuss is the time dependence of a relationship and how it is related to failure rates. The management of relationships does not end with the consummation of the coalition, but needs to be viewed as an ongoing task. At the time of completion of a coalition agreement, expectations for success hold by the partners involved are the highest. From this phase forward, much information about the coalition is released to the participating actors, and learning takes place. The balance of power may shift (Bleeke and Ernst, 1995). Assurance of reciprocal trust may be confirmed or turns out to be false, as an initial stock of goodwill during this 'honeymoon period' (Levinthal and Fichman, 1988) is expended. Furthermore, outcomes of the coalition could differ from what was expected at the start, leading to a wish to end the joint effort. For these reasons, scholars hypothesized that failure rates of coalitions would increase with time initially. However, in the long run failure rate of coalitions are expected to decline. One reason for this is that the longer inter-organizational relationships survive, the more established its organization, momentum, and legitimacy will become. Another reason could be that the initial levels of reservations and fear decline as the coalition produces outcomes, which are close to initial expectations of participating actors. In sum, with regard to time dependency of relationships scholars (Levinthal and Fichman, 1988, Russo, 1992, Park and Russo 1996) expect failure rate to be non-monotonic, taking an inverted U-shape form.

Conclusions

We have discussed three general categories of reasons for failure of collaboration: The first category can be referred to as cognitive reasons, the second category motivational

reasons, the third group habitual, communicational, or behavioural reasons. In order to understand - and to avoid - failure, it is important to decipher these reasons of failure and to analyse whether one or several of these possible reasons of failure is given. Therefore, three questions are important: First: Upon which criteria can an actor base her decision about collaboration and collaboration partners? Second: How can actors set incentives for their interaction partners in order to support the common goal, especially given the assumption that contracts are systematically incomplete? Third: How can interaction partners learn about the habitual behaviour of their interaction partners, on the one hand, and cope with the respective habitual behaviour, on the other hand? The first question is especially relevant, given the observation that collaboration tends to be seen as an efficient way of organising, while it is not necessarily efficient (Miles and Snow 1992). Actors have to be aware of the fact that continuous evaluation of the joint performance is important for guaranteeing organisational performance. Especially stability of inter-organisational relationships can lead to neglecting the blunders that decrease the efficiency of the relationship. In other words: Inter-organisational relationships are a hybrid form that is appropriate for certain coordination problems, thus, for coordination problems where the coordination forms "firm" or "market" is inappropriate or suboptimal. A close and stable relationship between interaction partners resembles in several aspects a firm; thus, the suboptimal coordination form will be achieved.

The relevance of the soft-factor fit between organisations should not be underestimated. Our limited literature review of the factors influencing failures of coalitions revealed that: (1) scholars propose a wide variety of possible failure factors, which can be categorized in three main groups (environmental, organizational, and relational); (2) relational aspects tend to dominate factors causing coalition failure. This last finding stresses the need to focus research on process indicators describing ongoing interactions between partners in coalitions over time. Therefore, we propose a more detailed analysis of failures in inter-organisational relationships, especially with regard to the question how different settings of habitual and relational behaviour collide. These aspects are often connected to (inter)organisational culture. The relationship between organisational culture and business performance is an important field of research (c.f. Hofstede 1997), however, until recently, there is not much research about the relationship between organisational cultures and performance of inter-organisational relationships.

We propose a detailed analysis of failure. Our systematic allows for such an analysis in the different phases of the life cycle of collaboration. Such an analysis would be helpful for understanding failure, and, furthermore, for avoiding failure.

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