Preparing for the negotiation process of SME alliances in emerging markets

Abstract: The topic of this paper is the internationalisation of Small and Medium-sized transnational corporations (SME TNCs) by means of cross-border collaborative ventures. Technological advances are transforming the international economic environment and escalating the entry of SMEs into new markets overseas. In this context it becomes of utmost importance to take the perspective of SME managers to understand this new phenomenon. We examine the perceptions of British and German managers regarding prospective alliances with a partner-firm based in a big emerging market. The case of Brazil is taken as a suggested example. Conflicting perceptions regarding prospective contributions from the emerging market partner firm, such as 'technology' and 'capital', are identified as possible obstacles for negotiations. The case for use of this or similar knowledge in the informal phase of negotiations of alliances is made. The paper further discusses the implications for International Business practitioners, researchers and policy makers.

Introduction

The pattern of transformational change that the International Economic Environment has undergone in recent years is expected to escalate the entry of small and medium-sized transnational corporations (SME TNCs) into overseas markets. Drivers for globalisation, such as advances in telecommunications and transport (UNCTAD, 1999), seem to establish a synergistic effect with the fast growth of Big Emerging Markets (BEMs), respectively facilitating and attracting the interest of SME TNCs to these markets. SME TNCs attempt to maintain their competitiveness by establishing "international potfolios of locational assets" (UNCTAD, 1995). The ever rising competition in the international business environment drives SME TNCs to develop these strategies. Moreover, SMEs account for a large share of TNCs (UNCTAD, 1998; Fujita, 1998; UNCTAD, 2001), although traditionally the image of TNCs has been mainly associated with very large and powerful organisations (UNCTAD, 1999). For instance, SME TNCs account for over half of TNCs in Italy and Sweden in 1996 (UNCTAD, 1999).

Furthermore, the literature suggests that SMEs' impact on national systems of innovation is very important (UNCTAD, 2005).

Big Emerging Markets (BEMs) such as China, Brazil, India, and Mexico are increasingly important in the world arena (Cavusgil et al. 2002). So much so that the centre of gravity for international business is expected to shift towards these countries and regions in the next 20 years. A number of BEM-based firms should become large players on the world's 500 largest enterprises (Govindarajan & Gupta, 2000). The international business literature regarding non-developed markets tends to be very limited, although lately a few countries and regions such as China and, Brazil / Mexico have been attracting the attention of researchers (see Yeung & Mok, 2005; Trevino & Mixon, 2004; Schlevogt, 2000; Kotabe et al., 2000),. Opportunities for Business in emerging markets may involve high technology projects. A number of areas of high-technology attract both government and private attention in these markets. The recent acquisition of IBM's PC Unit by a Chinese company, Lenovo, is an example of this trend. BEMs particularly in Latin America and in the countries in transition (including China) are expected to show a strong technology driven growth at the start of the Millennium (Santos & Leal Filho, 2005; Simos, 2000), contrary to commonly encountered assumptions in the literature (UNCTAD, 2005). Clusters of high technology firms and science parks should receive a high volume of these investments (Business Week, 1998). By setting operations in clusters, SMEs will gain "access to skills, common services, physical and knowledge infrastructure, networking, support for partnerships, branding, marketing, production systems, innovation, technological watch and co-financing from private and public players" Vossen (1996). Particularly for SMEs in high technology sectors, industrial clusters seem to be "a perfect environment" (European Commission, 2003). Moreover, mirroring recent developments in transition economies in Eastern Europe, where economic integration is seen as preceding the political integration process (Clegg et al., 1998), emerging markets may find similar paths for economic development.

This paper addresses the potential for conflict generation in the start-up phase of alliances in atypical business environment, such as one might expect in BEMs. By analysing the importance allocated to a list of prospective contributions from alliances' partners based on the literature, it is possible to identify some conflicting perceptions. The study aims to indicate some of the most relevant conflict generating issues that might be expected in the informal phase of negotiations of alliances. In this context it is both important and illuminating to take the perspective of SME managers to understand this new phenomenon.

The background of this research is the biotechnology industry. Modern biotechnology, normally associated with genetic engineering, emerged at the end of last century and was viewed as capable of promoting an unparalleled technological revolution for humanity. It is portrayed as a way to solve humanity's major problems: malnutrition, disease, energy, and pollution (OTA 1984, p.65), as well as a very promising technology for sustainable development in the next century (EU White Paper 1994, p.115). As the development of this technology is done, mainly, in a few developed countries (Shan and Song 1997), and humanity's major problems are concentrated in less developed economies, it is very important to find ways to facilitate the transfer of this knowledge. This biotechnological revolution, having originated in the United States, and expanding, later, to other developed countries, has only started to reach emerging economies. The utilization of various forms of cooperation between firms of emerging economies and firms of developed countries, among which are alliances and non-hostile M&As, can accelerate the process of transfer and adaptation of advances already reached in developed countries, as well as the development of new products and processes. For instance, over 75% of SMEs in Japan consider M&As as an important strategy (UNCTAD, 1999). By further examining the gap in technology between developed and emerging economies, and the problems associated with the expansion of technological knowledge, one can see a possible answer, namely, co-operation among firms, in general, and, more particulary the transnational strategic alliance.

The increasing importance of Transnational Strategic Alliances (TSAs) alongside transnational production has been pointed out by several authors (Buckley & Ghauri 2004, Hagedorn & Duysters 2002, Contractor, F., & Lorange,P. 2002, Dunning, 1997; Lorange & Roos, 1993; Hennart, 1988; Shan et al., 1994; Raveed & Renforth, 1983). Co-operation opportunities have been used not only by large established corporations but also by smaller companies. These co-operative agreements may be utilised to enter emerging markets as well as to expand the technological knowledge to those economies.

Buckley and Casson (1988) draw attention to the fact that co-operation success relates to characteristics of the management of the venture itself. Traditional forms of entry, particularly those based on financial ownership and tight control, are being substituted by alliances based on the complementarity of resources and skills (see Glaister & Buckley, 1997), mutual trust, and on the ongoing development of business relationships (Lane & Beamish, 1990). Particularly at the initial stages of preparation for the negotiation process, including the partner selection stage of the collaboration, managerial perceptions could be decisive. The main focus of this paper is on the differences in managerial perceptions of potential partners' contributions in an alliance and its implications to the negotiation process at the alliance formation stage. The paper addresses this gap in the International Business literature. There are very few studies on negotiations between companies of developed industrial economies and their counterparts in BEMs. These numbers become even smaller when considering negotiations for alliances in this context. Practitioners, researchers and policy-makers should be made aware of the relevant aspects of business negotiations in BEMs. When facing a negotiation, executives should feel as well prepared as the management literature suggests (Cavusgil et al. 2002), so that they may walk through their negotiation path “under the shade” (i.e., protected from the blazing sun), to use a Latin American expression.

BEMs and biotechnology

Brazil may be seen as representative of other BEMs (e.g. China, Mexico, India) for high technology, in general, or biotechnology in particular. Brazil’s legislation was modified to allow patenting of genetic engineered micro-organisms in the last decade, and therefore the country does not have a substantial number of alliances connected to modern biotechnology (De Mattos et al., 2002). However, the inflow of foreign investments in this area has increased substantially since 1997, particularly associated with large companies such as Monsanto, Hoechst-Schering, Dow Chemical and Du Pont (Chemical Week 1999 & 2000). In certain niche markets (e.g., soybeans) Brazil is about to take on a leadership position regarding the export of genetically modified products (Griffin et al. 2005, USDA 2005). This trend is expected to continue as Brazil joins the international development of this promising scientific area and in certain markets. Small and Medium-sized Enterprises (SMEs) as well as larger companies are expected to contribute and benefit from this trend. The more formal recognition of Intellectual Property Rights (IPRs) in BEMs is expected to attract more Foreign Direct Investment (FDI) to those countries, particularly FDI involving high-technology (Mansfield 2000; Maskus & Yang 2000). Brazil and its recent legislation concerning pharmaceutical patents (including biotechnological products) are part of this picture. Intellectual Property Rights (IPR) legislation is expected to act as an incentive for the internal development of this technology, or its adaptation to the local market (World Bank 1999).

The Biotechnology sector in Brazil

Intermediary biotechnology in Brazil is well advanced in Universities, as well as in private and government research centres. Some genetically modified products are expected to reach the market very soon as Brazil and other Latin American countries adjust to changes in patent regulation affecting the biotechnology sector (The Economist 2004, Cunnigham 1999).

Brazil is the world's largest producer of coffee, second largest producer of Soya beans, and the world's third largest producer of corn (USDA 2005, Chemical Week 1999 & 2000), and therefore has an enormous potential market for agricultural biotechnology products. The country also presents a very high potential for growth in other biotechnology areas, such as pharmaceutical products. Brazil has the potential to become one of the three largest emerging markets for pharmaceuticals in the world (De Mattos 1999). The recognition of pharmaceutical patents (including biotechnological products) in Brazil is expected to act as an incentive for the internal development of this technology, or its adaptation to the local market.(see World Bank 1998, pp.26-27)

Theoretical Background

Business Negotiations

Cross-cultural business negotiations are not easy tasks. Developing a negotiation strategy in advance is one way to increase the chances of success (Weiss 1994a & 1994b; Ghauri & Usunier 2003).

Partners' contributions to alliances in BEMs, which are the focus of this study, are strongly associated with business negotiations of collaborative arrangements. In this regard, differing expectations from partners of an alliance can become a potential source of conflict (De Mattos et al. 2002). This study aims to identify partners' expected contributions that are more likely to generate conflicts during the negotiation process. It is important that these differences are brought to the negotiation table, since they could hinder all stages of the negotiation process and implementation of the alliance.

For instance it is expected that each party will have a number of objectives or a desired outcome when considering a strategic alliance. These objectives may evolve, for instance, according to the changes in the perceptions of the parties around a certain item of the negotiation. Preparation prior to negotiations could lead to the emergence of common and complementary objectives rather than emphasising conflicting objectives (see Ghauri & Usunier 1996). Moreover, a list of potential contributions would not only speed up the process of negotiation, but would also establish a clear path for discussion and understanding of each other's views. Finally both short-term and long-term expectations over potential contributions from the partners would be expected to directly affect the negotiation process (Ghauri & Fang 2000). The stronger the long-term expectations are, the more likely it is the conclusion of a deal. The short-term ones are connected to the aspects of the current negotiation. Assuming that most of these expectations were developed prior to the negotiation process based on the available information, it would be reasonable to expect that steps could be taken in order to pre-empt possible conflicts and strengthen the favourable (common and complementary) objectives.

Perceived Differences in Partners' Contributions to the Alliance

Geringer (1991) points out the importance of partner selection with regard to International Joint Ventures (IJV) and, by implication, to other forms of international collaboration among firms. In the study, he suggests that the choice of a partner may influence the "overall mix of available skills and resources, the operating policies and procedures, and the short and long-term viability of an IJV". Other authors highlight the time and effort senior management spend in finding the right partner (Lane & Beamish, 1990; Young et al., 1989). Lane and Beamish (1990) suggest that this is true particularly in Less Developed Countries (LDCs), the reason being that executives in these countries are likely to be more relationship oriented than North Americans or, by implication, other Anglo-Saxon cultures such as the British.

Millson et al. (1996) list several items a firm needs to be aware of concerning a prospective partner for a new product development alliance. Stopford and Wells (1972) affirm that the inclusion of partners in entering foreign markets may be seen as a response to <u>costs</u> (potential conflicts) and <u>benefits</u> (potential contributions) from a prospective partner, in addition to the need to complement resources.

Millson et al. (1996) propose two stages closely connected to the intention of pursuing an alliance, namely: “awareness” and “exploration”. In the stage designated the “exploration stage” the assessment of the partner’s needs is included. Furthermore, a successful alliance is based on co-operation towards meeting the needs of both partners over the long term (Lane & Beamish, 1990). In addition, Dong et al. (1997) suggest that each partner should identify areas of potential disagreement or conflict and remain aware of this throughout the duration of the venture. According to Lane and Beamish (1990), successful joint ventures, and by implication successful alliances, need to recognise the specific long-term needs of the venture, those of prospective partners and how these needs may be filled.

The importance of potential partners’ contributions, as pointed out by Stopford and Wells (1972), depends upon the strategy of the firm, and on the availability of each factor under examination. What Stopford and Wells mean by strategy is the ongoing total strategy for the firm and its impact on the venture, the availability of factors would include company internal resources. Geringer (1991) points out the need for research of the differences in criteria weighting based on culture and nationality. On the other hand, a recent study (Glaister & Buckley, 1997), could not support this claim regarding the importance of these issues concerning British firms’ collaborative ventures with firms of developed industrial countries. Another recent study (Dong et al., 1997) indicates differences in the perceived importance of contributions between culturally different foreign investors. Furthermore, in certain emerging markets (e.g. Latin American countries) business deals and partners may be found in circumstances as fortuitous as cocktail parties (see Lane & Beamish, 1990). However, it is likely that any executive involved in a potential alliance will have a mindset that will value the potential contributions of each of the partners. Specifically this may well result in objective or subjective weightings of the contributions (Cavusgil & Ghauri, 2002).

The literature presenting lists of alliance partners' contributions and conflicts is somewhat limited. Eight publications with detailed lists of potential contributions of partners were found (Stopford & Wells, 1972; Raveed & Renforth, 1983; Beamish, 1987 & 1994; Erden, 1997; Dong et al., 1997; De Mattos et al., 2001; Geringer, 1991; Glaister & Buckley, 1997[1]).

Four different perspectives of "partners contributions" can be examined in the context of transnational alliances, between the firms of developed and emerging markets. Each partner perceives contributions deriving from their own firm, as well as those contributions brought in by the other partner firm.

Expected contributions and their influence in the negotiation process

It would be expected that a good preparation for negotiations should include the examination of each of the contributions expected from the partner as well as one's own potential contributions to the alliance. Based on the literature including detailed lists of potential contributions of partners (see references in the previous section), a list of the 18 most relevant contributions from the local economy partners was compiled and it is shown below (see De Mattos et al. 2002 for detailed comments on each contribution). The exploratory survey described in the coming sections will identify some of the most relevant conflict-generating partners' contributions.

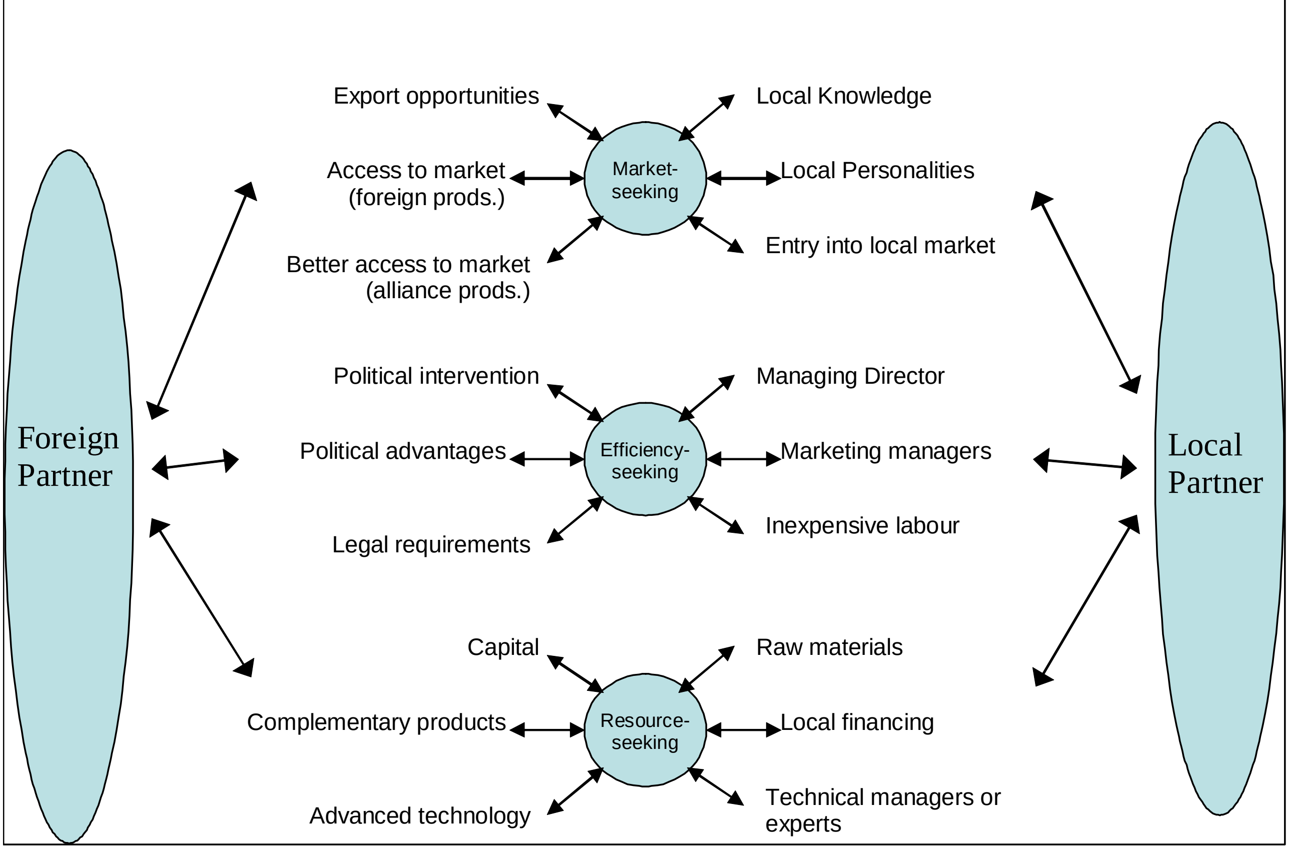
1. Accessing capital:
2. Accessing raw materials:
3. Gaining access to general knowledge of the economy, politics, and customs:
4. Gaining access to knowledge of local financing:
5. Guide to important personalities in the local scene:
6. Avoiding political interventions:

[1] Although only examining developed countries, Glaister and Buckley (1997) found some supporting evidence of the variation regarding the relative importance of selection criteria with the primary geographical location of a collaborative venture.

7. Attaining political advantages:
8. Meeting governmental (legal) requirements for local ownership:
9. Faster entry into the local market, considering the existing alternatives to the foreign partner:
10. Better access to the local market for goods produced by the alliance than would have been possible with a wholly owned subsidiary:
11. Better access to the local market for goods produced abroad by the foreign partner:
12. Better export opportunities for goods produced by the alliance:
13. Appointing a suitable Managing Director:
14. Appointing suitable marketing managers:
15. Appointing suitable managers or experts in production, R&D or other technical area:
16. Hiring inexpensive labour:
17. Adopting advanced technology:
18. Bringing complementary product lines to the venture:

All of the above partner contributions may be aggregated further by using a simple model for categorising FDI motives initially suggested by Buckley and Mathew (1980). The categories suggested by these authors are Market-seeking, Efficiency-seeking, and Resource-seeking (Figure 1).

Figure 1: Groups of alliance-partner contributions



Research question

The main objective of the study is to identify prospective conflicts or congruencies of the partners' motives for establishing an alliance in a big emerging market. Research questions or hypotheses could be associated with each one of the 18 contributions shown in the previous section. For example, the following research questions could be associated with the contribution accessing capital.

Q1 - Is accessing capital considered to be a contribution of "greatest importance?

Q1a – Should the answer to Q1 be positive, are there differences in perceptions of executives from the developed European countries surveyed and/or their counterparts from the Big Emerging Market relative to accessing capital?

Q1b - Should the answer to Q1 is positive, are there differences in perceptions from the group of European executives categorised as "most compatible" and the group categorised as "least compatible" relative to accessing capital?

Further to identifying the contributions potentially generating conflict, the following research question could also be examined.

Q2 - Do the contributions showing conflicts in perception belong to one (or more) group of generic motives for alliances (market, resources, efficiency)?

It is expected that identifying the group (or groups) of motives that are most common could generate a better understanding of the negotiation process. The negotiators would be able to generate business alternatives that would be more attractive to their prospective partner. This mechanism could lead to insights on the prospective partner's perspective.

Methodology and Data Collection

The data were collected by means of questionnaires completed in face-to-face semi-structured interviews. A total of 55 interviews were carried out in 53 firms. Of the 55 interviews 29 were

British executives (28 firms), and 26 German executives (25 firms)[1]. Most of the interviewed executives were managing directors and several of them could be classified as 'owner-managers' The UK firms were located mainly in the South of England. The German firms were situated three cities that are known to have a high industrial concentration in the biotechnology sector: Berlin, Dusseldorf, and Munich. The firms were sampled randomly from two directories --Bio Technologie (1996) and Coombs and Alstn (1996). Approximately 65% of the firms contacted by fax and telephone agreed to participate in the survey. The case for equivalence and comparability between respondents is strengthened by the choice of locations near universities and research centres, which facilitates spin-off companies, and the environment of the biotechnology sector itself, which must promote innovation for its survival.

Germany and the United Kingdom were selected for this study, because they are considered to be the two most active countries in the European biotechnology sector (Ernst & Young 1995). Brazil was chosen as representing emerging economies presenting large potential markets. The interviews were tape-recorded, after obtaining prior consent from the interviewees. This method was accompanied by taking hand-written notes during the interview. The language of communication was English. It is worth pointing out that all German executives were quite fluent English speakers. After the completion of the interviews, some selected sections were transcribed verbatim. The data from Brazil was collected in a previous study in that country (see De Mattos & Sanderson 2001).

During the interview, the respondents were asked, after proceeding through the questionnaire, to choose, without ranking, the three contributions they perceived as "of greatest importance" to the establishment of an alliance with a BEM partner firm. A triangulation approach was followed in the analysis. An exploratory quantitative analysis was carried out using frequency tables and Chi-square test results. Qualitative comments of the respondents during the interview were also used.

Table 1: Highlighting the Conflicts of the Perceived Importance of Potential Contributions "OF GREATEST IMPORTANCE" from Emerging Economy Partner Firms

Key:

Potential Contribution
(frequency)
% over respondents

Difference in Percentual Frequency (Less than 20% point differences not always represented)

Rank over frequency	All (74 exec.)	European (55 exec.)	Most Compatible (18 exec.) Top third	Least Compatible (18 exec.) Lower third	British (29 exec.)	German (26 exec.)	Brazilian (19 exec.)
1st	C9 (38) 51%	C9 (27) 49%	C9 (11) 61%	C17 (8) 44%	C9 (15) 52%	C3; C9 (12) 46%	C9 (11) 58%
2nd	C3 (31) 42%	C3 (21) 38%	C3 (8) 44%	C1 (7) 39%	C10 (11) 38%	C1; C10 (9) 35%	C3 (10) 53%
3rd	C10 (25) 34%	C10 (20) 36%	C10 (7) 39%	C9 (6) 33%	C3 (9) 31%	C4; C5 (5) 19%	C2;C10;C11 (5) 26%
4th	C1 (19) 26%	C1 (15) 27%	C1;C14 (4) 22%	C10; C18 (5) 28%	C1; C17 (6) 21%	C2; C14) (4) 15%	C1 (4) 21%

38*** 28* 27* 15^{+} 22^{+}

Summary of the mentioned contributions:
c1.Capital; c2.Raw materials; c3.General knowledge;
c4.Local financing; c5.Local personalities;
c6.Political interventions; c7.Political advantages;
c8.Governmental requirements; c9.Speed of entry into local market;
c10.Access to local markets vs. subsidiary;
c11.Local market for foreign partner's prod/s; c12.Export opportunities;
c13.Managing Director; c14.Marketing Director; c15.Technical personnel;
c16.Low cost labour; c17.Technology; c18.Complementary products.

* p<0.1
*** p<0.01
$^{+}$ p<0.15

Findings

The four most frequent choices in each group of analysis

This survey examines differences and similarities examines the four (4) most frequent choices of potential (future) contributions "of greatest importance" from European executives to the establishment of an alliance with an Emerging Market Partner Firm (EMPF). The firms are clustered in seven (7) groups of analysis, although the focus remains on the comparison of groups of firms by country, and by compatibility. Thus the groups of analysis are: Fifty-five (55) 'European Executives' of which twenty-nine (29) were British executives (BE), and twenty-six (26) German Executives (GE), the group of firms most compatible to alliances comprising 18 executives and the firms least compatible to the establishment of alliances, regardless of their country of operation or national background. The analysis emphasises the responses up to the fourth rank of frequency distribution for each group as shown in Table 1. The analysis tries to identify contrasts focusing on the four higher ranks in frequency.

Several differences in perceptions relative to the importance of prospective contributions in cross-border alliances were identified. The most relevant contrasts are highlighted below.

When considering the model for FDI motives used to categorised alliance-partner contributions, the main source of conflict seems to be mostly associated with market-seeking strategies ("Gaining access to general knowledge of the (local) economy, politics, and customs" , "Faster entry into the local market, considering the existing alternatives to the foreign partner"), but also to a lesser extent, with resource-seeking strategies ("Adopting advanced technology") from investing firms. The conflicts identified are commented on below for each one of the four ranks considered.

Firstly the contributions in the first rank (highest frequency), it should be noted that "Speed of entry into the local market" (contribution C9) has been chosen by all groups of analysis, except the group of Least Compatible (LC) firms. Eleven out of eighteen (61%) executives of Most Compatible (MC) firms chose "Speed of entry" as a contribution "of greatest importance", whereas only approximately half (31%) of that number chose it among the executives of LC firms. The latter, by reverse reasoning, corroborates the importance of that item. Executives of LC firms seem to underestimate the importance of a local partner in speeding up the entry process in a foreign market. With regard to the literature, the foreign executives in the Beamish (1987) study saw this contribution as unimportant. This could generate a conflict situation in which the (least compatible) partner-firm would very possibly follow one of the following approaches: first, their managers could remain unaware of operational details that may prove helpful in establishing the firm in the new environment, or in a more extreme situation executives of the LC partner-firm may became so enmeshed in their framework of reference that it will jeopardise the whole operation of establishing the alliance. Should the alliance have been a way to "buy" local acceptance, the failure would be very difficult to recover from. Considering the respondents grouped by country the high frequency of responses concerning "speed of entry" are relatively uniform (BE- 52%; GE - 46%). However it is interesting to note that Brazilian executives present the highest percentage (58%) of choice of this contribution. This may indicate their awareness of the importance both of their potential market, and of their capability to increase the speed of entry of a foreign partner in that market. Moreover in an unpublished study carried out in Brazil[2], among experts in biotechnology connected to governmental agencies, universities, and research centres, the percentage of responses was even greater (67%), although this contribution (or its equivalent in Portuguese) was placed in second rank, whereas "general knowledge" was placed in the first rank with 73%, i.e. eleven (11) out of fifteen (15) specialists selected it.

[2] Refer to De Mattos (1993).

Incidentally, GE were the only group to place the contribution "general knowledge" (C3) at the same level (1st rank), reflecting part of the literature on potential contributions. By contrast, only 31% (9 out of 29) of BE marked this contribution as "of greatest importance". This difference however could only be considered as significant if one takes an exploratory approach, therefore should be contemplated as indicative. A possible explanation could be connected to the support British companies can count on concerning information on foreign countries (e.g. DTI desks). This resource may provide executives with more confidence in terms of relying less on local partners' knowledge. Moreover, considering the second rank over frequency (second line in table 1), "general knowledge" (C3) is chosen by four of the groups of analysis. More specifically this contribution was marked with high frequency by the group of the MC firms (44%) and by the Brazilian executives (53%). Some of the available literature on collaborative arrangements between developed and developing countries firms points this out as the most expected contribution from the Emerging Market Partner-Firm (EMPF). Its high frequency in the group of MC firms seems to corroborate that idea, although it comes in second position. The profusion in development and availability of information systems, covering emerging economies such as Brazil, may have led to an increase of confidence on the part of executives in regard to "general knowledge of the local (emerging market), politics and customs". In addition it would be reasonable to assume that its importance would depend on how culturally distant that particular country or region is perceived by the executives, or in other words how unfamiliar the executive is with that country or culture. This contribution does not appear in the four first ranks for the group of LC firms, however show a significant difference between the MC and LC group of firms. This fact by reverse reasoning strengthens the importance of this contribution. It also shows indirectly the importance of the alliance with a local partner firm as a strategic choice concerning emerging economies entry mode.

The group of LC firms has ranked “technology” (C17), in the first position (highest frequency) with 44% (or 8 out of 18) of the respondents. This was also the strongest difference between the MC and the LC firms ($p<0.01$). This defines a group of executives that have expectations not usually foreseen by German, British or Brazilian entrepreneurs operating in the area of biotechnology. It should be noted that several studies in the literature (e.g., Beamish, 1987; Erden, 1997; Waack & Vasconcellos, 1989), present technology as the most important contributions of the foreign partner. It also stands to reason that any transfer of technology, particularly involving advanced technology, will only be effective when between teams of similar level of expertise. Finally there seems to be a considerable number of companies with similar (and unexpected) needs, and this indicates the need for further analysis.

It should be noted that the attraction the emerging market potential market (or the Brazilian potential market, as it stands) seems to exert upon BE. Considering the first and second ranks, BE focus on contributions relating to the local market (“speed of entry” and “access to local market vs. subsidiary”), whereas GE divide their attention placing alongside those two contributions, two others (“general knowledge” and “capital”). Alongside a similar concern for the market, the GE has shown a concern for “capital” (C1) as an expected contribution “of greatest importance” from an EMPF. This could be an indication of limitations on the availability of capital for biotechnology investments in Germany. This was indeed mentioned in most interviews, particularly by executives of firms operating in the north of the country (Braunschweig and Berlin). On the other hand it could be an expected attitude underlining German business culture as indicated by the words of an executive interviewed: “Capital is important as a sign of commitment”. Capital was ranked in fourth place by both the British (21%), and by Brazilian (21%) executives. This indicates the existence of national differences in perceptions regarding the valuation of the contribution ‘capital’ by the GE.

With regard to the third rank in the frequency distribution (third line in table 1), "access to local market vs. subsidiary" (C10) is placed in that position by four groups of analysis. Seven out of eighteen (39%) of the MC group of executives, or firms, pointed out this as a contribution "of greatest importance". This could demonstrate the belief that an alliance with a local partner will permit better access to the local market when compared to the establishment of a wholly owned subsidiary. Contrasting with this result, 28% of LC executives marked this contribution as "of greatest importance". Ranking "local financing" (contribution C4) in the third position GE strengthen the idea of their constant financial concern. Alongside it, the GE expresses concern in accessing the key people ("local personalities" - C5). This shows another contrast with BE as both contributions were not among the four higher ranks of that group. As a last observation, Brazilian executives, contrary to BE and GE, list the contribution "local market for products manufactured abroad by the foreign partner" (c11) at this level. It is reasonable to assume that an established distribution network on the part of the Brazilian partner firm would contribute to this end.

In the fourth rank or level, "capital" (C1) was positioned by all groups except the LC and the GE which have already ranked it in higher positions. "Raw materials" (C2) is ranked in the fourth place by GE and in third by Brazilian executives. This could indicate an awareness of the benefits biotechnology companies might gain using the micro-organisms which may be found in certain emerging countries, especially those with tropical forests as is the case of Brazil. The easy access to these resources might become more difficult as Emerging Economies turn them into sovereignty issues according to the biodiversity convention (Rio de Janeiro 1992). By contrast, BEs do not place "raw materials" as a contribution "of greatest importance". Some could argue that this reflects better the current situation of the sector. In most areas of commercial biotechnology raw materials play a very small role. Another observation is that 22%

of the MC firms indicated marketing expertise, as embodied in the "marketing director" (C14) of the venture, as one of the contributions "of greatest importance". This corroborates other contributions connected to the market indicated by this group (C9, C10) as important. This contribution is not placed in the four higher ranks of the LC firms. In a similar fashion, four (4) GE out of twenty six (26) marked "Marketing Director" as being a contribution "of greatest importance". At first this could seem to contrast with the very high rank of the market expectations connected contributions (C9,C10). A possible explanation is that global marketing strategies adopted by biotechnology products, particularly pharmaceuticals, would determine the decrease in importance for local market expertise. Another possibility is that the executive perceives the market as an attractive factor in order to start an alliance, but will only ponder the pragmatic approaches on how to deal with it at a later stage. This is could lead to differences in perceived importance depending on the time length the executive is focusing upon at the time of his/her answer.

Conclusions and Implications for Research and Practice

What this paper has attempted to show is that the potential of any trans-national alliance can be significantly influenced by the perceptions and expectations of the principal parties involved. More specifically the some of the potential areas for mistrust and conflict can be isolated and defined and that their source seems to be rooted in differences in national culture, business practices, and the local business environment. National differences may become a burden when outsiders fail to spot the subtleties that exist between their own culture and that of their overseas partners.

Contributions to theory

First, as illustrated in the paper, expectations concerning alliance partners' contributions may vary. This was evinced by the comparisons carried out, that is (1) between the group of most compatible firms and the group of Least compatible firms ; (2) among groups of firms of different nationalities. When considering the model for FDI motives used to categorised alliance-partner contributions, the main source of conflict seems to be mostly associated with market-seeking strategies, and also, to a lesser extent, with resource-seeking strategies from investing firms.

With regard to the research questions, the contributions associated with conflicting perceptions are: (1) considering the groups of firms from different countries, only one contribution was identified that is, General knowledge of the local economy; (2) considering the groups of most compatible and least compatible firms, three contributions were identified as perceived differently, that is technology, speed of entry, and also general knowledge.

These differences in perceptions and expectations may be anticipated to generate conflicts between partners, and consequently hinder the maximisation of the alliance's potential benefits. The increasing number of technology-related collaborations of TNCs in emerging markets (World Investment Report 1998) strengthens the importance of this topic. One way of addressing and potentially pre-empting this problem is by identifying and examining these differences and similarities. This paper is expected to add to the development of this area. It is expected to complement the available tools of both policy-makers and managers.

As Buckley and Casson (1988) suggest, managerial aspects are important to the success of alliances. International Managers operating in different business environments should be aware of these potentially conflict generating sources. Whatever the causes of conflict, the potential impact of identified differences in perception that can effect business operations cannot be underestimated. They should be considered when engaging in negotiations with prospective cross-border partners.

Recommendations to practitioners and governments

In this context, as a pragmatic measure, check lists of expected contributions could be used on the initial meetings or negotiations concerning the establishment of a cross-border alliance. However, the process of isolating and dealing with the various potential areas of conflict by constructing checklists from the literature may be termed a technical or calculative solution. The use of such lists can assist in building trust between parties in an alliance negotiation. International Business Executives or Managers, especially those in charge of international operations, should be able to amplify their perception concerning differences between their home environment, and an operation theatre abroad. Particularly relevant are the differences in expectations concerning partners' contributions to the potential venture. This would entail research prior to carrying out an assignment overseas. In order to avoid unnecessary initial conflicts and improve the chances of a successful collaboration, managers ought to maximise their understanding of their own concerns and preferences.

Understanding these results in the light of the associated background might bear fruits at the time one extrapolates the findings to similar situations. In considering extending the results of any study from the literature to other situations or countries limitations are important and should be considered. Executives should consider that these findings represent a picture of a moment in time.

These perceptual conflicts could also be present in 'Industry – University' agreements, especially important in cutting edge technology sectors. The implications for policy makers are that the existing differences in perceptions among executives suggests that these might also exist between executives in the industry, and governments keen to promote alliances. In the process of fostering co-operation between these groups, governments should accommodate the potential for conflict. For instance, one way of avoiding conflicts would be the discussion of the general contributions each party expects. Moreover, pre-empting a potential conflict of expectations could be relatively more important here considering that academics in general would tend not to concentrate on the shorter-term targets dictated by a competitive business environment.

In the authors' view the subject is under investigated and more research needs to be done. To provide workable concepts and ideas for practitioners there needs to be more case material which tracks the evolution of alliances between partners from developed and emerging markets. The dynamics of such alliances is an important research topic for as alliances develop differing relationships and differences may emerge. There may well be a discrete set of stages which such alliances go through which in turn have associated differences in perception. This would have important implications for the design and management of strategies within partnering organisations.

Finally the propositions herein may be applicable to all alliances not just those between firms in developed and emerging markets. Whilst the study was concerned with alliances between firms in emerging and developed economies it could be argued that the cultural dimensions are more relevant than the differences in overall industrial development.

With respect to future research, possible causes for the differences that were indicated in the paper may be associated with differences in history, culture, or aspects of the circumstantial business environments, among others. These causes may be examined by future research. Furthermore although partners may agree that a contribution is important they may differ as to who is to be assigned responsibility for it. This gap could be dealt with by further studies on business negotiations on alliances in BEMs. As long as there are differences in business practices, researchers of the above topics are expected to help both practitioners and policy makers to deal with increasingly competitive business environments.

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[1] **British, and German** refer to executives operating respectively in the United Kingdom, and Germany. However the nationalities follows the respective country of operation in the United Kingdom. In Germany two firms had non-German executives who had nevertheless been living in that country for more than 15 years.