

# Partner Selection in International Strategic Alliances: The Case of the Information Industry

H. Nakamura

**Abstract**—This study analyzes international strategic alliances in the information industry. The purpose of this study is to clarify the strategic intention of an international alliance. Secondly, it investigates the influence of differences in the target markets of partner companies on alliances. Using an international strategy theory approach to analyze the global strategies of global companies, the study compares a database business and an electronic publishing business. In particular, these cases emphasized factors attributable to "people" and "learning", reliability and communication between organizations and the evolution of the IT infrastructure. The theory evolved in this study validates the effectiveness of these strategies.

**Keywords**—Database business, electronic library, international strategic alliances, partner selection.

## I. INTRODUCTION

THE ways to enter the global market are through green field investment, merger and acquisition (M&A), partnerships with local companies, and joint ventures. Forming alliances has become an important strategy in the rapidly changing information service industry. In strategic alliances, partner selection is an important factor because an organization cannot be established on its own; the relation between the core organization and external partner(s) is also important [20], [26], [33], [37], [40].

"Organization relation theory" analyzes relations among organizations. Further, the business ecosystem has adopted the living-world ecosystem framework into business administration.

This study aims to extract facts concerning partner selection from cases of strategic alliance. A qualitative investigation is effective for analyzing a small number of cases [13]. Chandler [7] and Mintzberg [28] used descriptive methods to examine organizations. The present inductive study is based on these previous studies. Chandler studied the organizational structures of representative companies in the United States, while Mintzberg analyzed the strategic change of a famous German car company.

## II. LITERATURE REVIEW

### A. Theory of Inter-Organizational Relations

Companies cannot survive without being involved with stakeholders. The theory of organizational relations aims to theoretically elucidate inter-organizational relations, and it is

Hironori Nakamura is with the Aichi Gakuin University, Nagoya, Aichi 4580003 Japan (phone: +81-90-9129-6535; fax: +81-52-877-2480; e-mail: hironori.nakamura@gmail.com).

based on previous research on inter-agency relation theory. Furthermore, the basic concept of analyzing inter-organizational relations was presented as the inter-organizational power, communication, behavior, and variation within the organizations [39].

There are various analytical perspectives in inter-organization relation theory: An interchange perspective, an organization set perspective, a power-based perspective, and a resource-based perspective. The dominant perspective is the resource-based approach [6]. About Analysis Perspective of Organization Relationship, previous research has been organized in Table I.

TABLE I  
ANALYSIS PERSPECTIVE OF ORGANIZATION RELATIONSHIP

Perspective	Prerequisite	Concept	Condition
Resource based [6], [9], [11], [25], [38]	Acquisition of resources from external environment	Other organizations have power over the core organization	Resources of other organizations are important
Organization set [12]	Organizational interaction	Provision and feedback	Mutual relationship between focal organization and boundary personnel
Collective strategy [1], [5], [29]	Analyze organization association	Homogeneous or different?	Collaboration/symbiosis
Institutional theory [27]	Organizations embedded in an institutionalized environment	Inter-organization network giving legitimacy	Legitimate
Transaction cost [8], [14], [36]	The analysis unit is a transaction	Minimize transaction costs	Market, organization

Source: Based on [39, pp.1–62], summarized by author

According to Yamakura [39], "The alliance is that two or more companies combine to do business that cannot be done alone." The advantages and disadvantages of alliances are listed in Table II.

TABLE II  
ADVANTAGES AND DISADVANTAGES OF AN ALLIANCE

Advantages		Disadvantages	
Resource acquisition	Internal development earlier than external development	Loss of independence	Constraints from other companies
Learning	New behavior	Conflict	Conflict of interests
Cooperation	Continuing support from other companies	New competitor	Lose competitive advantage
Brand value	Restoration	Lose personality	Lose sight of essence

Source: based on [39, pp. 216-225], summarized by author

Strategic alliances operate under three conditions: (1) a product-level collaboration that preserves the independence of

each partner even after consultation between the two companies; (2) ongoing collaboration among companies; and (3) partner independence. [24], [42].

The formation condition of the partnership consists of internal factors (reciprocity relationship) and external factors. External factors are based on trust and power theoretical framework of the partnership [41].

In the present study, the following case studies have been analyzed from an organizational and dynamic perspective: Keyence, Toyota Motor Corporation, and Matsushita Electric Industry [1], [2], [4].

Other studies have verified the inter-company relationship and business model philosophies that accompany changes in the corporate environment and secure competitive advantage. The development of the industry is thought to have changed from a relation enclosed by power to an open, global, competitive environment. A strategic theory for market value creation and sustainable industry growth has been indicated as important [23].

Partnerships between venture companies and large companies have also been studied in the literature. This feature is based on the development of information and communication technologies and changes in the social and market structures. Suppose the origin of the alliance has strategic importance. It is assumed that intentional relationship building is necessary. This case study focused on a partnership between Fujitsu and Amdahl Corporation [35].

#### *B. Business Ecosystems*

The competitive strategy theory assumes that the business ecosystem involves competition among the system's inhabitants (i.e., individual companies) [10].

Research on overseas value creation systems (VCSs) has described resource fundamentals, organization sets, cooperative strategies, institutionalists, and population ecology [22], [30], [31].

The business ecosystem approach is a metaphoric analogy based upon characteristics of natural ecosystems. The business ecosystem concept has evolved into "platform leadership" [18] and "keystone strategy" [21].

A keystone strategy, including external factors, considers the entire industry as a single ecosystem. In the conventional management strategy theory, "industrial structure" and "market" are regarded as parts of the external environment. A business ecosystem is one in which the inside and outside of a company are connected seamlessly.

Business ecosystems and innovation have been well studied. Not just the technology itself, but the ecosystem has supported the industry [1], [3]. The success of the new business ecosystem is not easy. So: "companies of all varieties need to rebuild their value chain" [41]. The alliance emphasizes the development of innovation, and the ecosystem innovation emphasizes the commercialization of innovation [15]-[17].

We conducted corporate analysis of the business ecosystem that seamlessly connects the inside and outside of the company to the "industrial structure" and "market," considered external to the company in conventional management theories [39].

The management of an alliance is necessary for each of its three phases: (1) start of alliance, (2) continuation of alliance, and (3) termination of alliance.

### III. CASE STUDY

#### *A. Global Alliance of Specialized Database Companies*

##### 1) Outline of Company A and Company B

Company A was a global company.

From 1987 to 1993 the global publishing group was reorganized. Company B was acquired by company A in 1996.

Company B had been founded in 1872 and published the most prestigious case books in the United States along with official case collections.

##### 2) Outline of Company C [32]

Company C is a Japanese legal publisher, founded in 1948, which issued a loose-leaf-style law collection. It was aggressive in computerization. In 1988, Company C issued a case search system on CD-ROM. In 2000, Company C opened a legal portal site.

##### 3) The Japanese Market

In 1995, Microsoft released Windows 95, which gave the IT industry a great boost. In Japan, some legal information providers also worked on researching database provisions via the Internet. In 2001, Company C began distributing its database through the Internet. In 2002, the competitor announced an Internet-based database and a "law school class support system." [45]

The market expanded against the background of judicial reform as an external factor.

In 1999, the Judicial System Reform Council was established in the Japanese Cabinet [46].

For expanding the mechanisms to solve legal cases, a law school modeled on a United States-type law school was born. This was a great opportunity for American-type legal information enterprises to enter the market.

##### 4) Contents of Partnership

The partnership between Companies A and C was comprised of two points: (1) the use of platform technology of A and XML content of C and (2) the development of an online Japanese information service of Japanese law. The two companies aimed to cooperate and promote commercialization.

The negotiating manager of Company A shared the following seven points to Company C during the formation of the alliance:

1. Negotiate with relationship in mind [19]
2. Designate alliance managers and leaders
3. Maintain relationships and communication at all levels
4. Hold periodic, planned, personal meetings
5. Ensure people exchange and information sharing
6. "Blameless reviews" of alliance health
7. Be flexible: expect the unexpected

We gained a common recognition that how to overcome obstacles such as language and distance on the second and third points is an important subject in the future.

The negotiating manager also indicated “Seven Rules of Trust in the Virtual Corporation” [19]. On these points, there is no difference between Japanese companies and foreign ones. Especially, in the case of American companies, negotiations are not established without trust between managers. This seems to conflict with the business world; however, the points of strategic alliance negotiations are set out as follows:

1. Trust is not blind
2. Trust needs boundaries
3. Trust demands learning
4. Trust is tough
5. Trust needs bonding
6. Trust needs touch
7. Trust needs leaders

TABLE III  
TIMELINE OF THE DATABASE COMPANIES

Description	
2001	·First contact: A and C ·Meeting of practical personnel
2002	·Conclusion of confidentiality agreement ·After the fifth consultation, “A mutual common awareness was born [and a] concrete goal has come to be seen.”
2003	·Development-related management ·Market research conducted jointly ·A and C top managements talk
2004	·Conclusion of strategic alliance
2005	·Some workshops
2006	·Joint venture established

#### 5) Business Model of Company A

The business model of A is (1) Collect free information (2) Add valuable value information by the editor (3) Provide useful functions.

#### B. Case of Electronic Library

##### 1) Outline of Company D [34]

Established in 1986, this company is an electronic library business. It began its business by converting data from analog to electronic. The distribution business began in 2000.

In the United States, more than 90% of libraries have introduced Company D’s electronic library system. Globally, this system exists in 28,000 libraries in 36 countries. Company D enjoys 85% and 80% market shares in New Zealand and the UK, respectively, where, this system is a *de facto* standard [43].

##### 2) Outline of Company E

Established in April 1999, this company is a distributor of e-books. Initially, it implemented its services for mobile phones, and in 2006, it launched e-book distribution service. In addition, it started “brokerage” of e-book content.

TABLE IV  
TIMELINE OF THE ELECTRONIC LIBRARY

Description	
2012	·Business partnership
2014	·Strategic alliance ·Field trial at a Japanese hand-held library
2015	·Started distribution of Japanese comic content in the United States

#### 2) Alliance

Company D expanded globally mainly in English-speaking countries. When considering entering Japan, it was in contact with several companies involved in electronic books, including Company E.

Company E was highly interested allying with Company D because D was the *de facto* standard in many countries already. Electronic book distribution was Company E’s core business, and it had a policy for partnerships in its peripheral projects. The core business conducts M&A.

The alliance between them was smooth because both companies’ positions were the same. Both companies are distributors of e-books and electronic libraries, but they are not publishers or retailers.

Company E initiated the partnership, and the negotiations were conducted in the United States.

As system-based companies, their understanding of each other’s systems meant a mutual understanding of each other’s business.

Company D congratulated Company E when it was listed in 2013. The listing served to establish trustful relations between the companies, and the partnership was finalized at this time. After that, D M&A was made by Company F. Company F was a Japanese IT company, and an electronic book store (Company D) was added to the business. Company D is managed from the United States. Company E felt that it would be easy to work as a stable shareholder. Company E and Company F are working in e-book.

The common purpose of Companies D and E was to create a lifestyle that incorporates the use of regional libraries. They wanted to take up a role at the children’s libraries recently added to the local libraries. In addition, they wanted to provide opportunities to touch books, whether through a cellphones or through rentals.

Alliance details:

1. D’s content to be distributed through D’s network
2. Digital library business in Japan to be expanded
3. D’s content to be offered in Japan

#### IV. FINDINGS

The advantage of an alliance is that companies can easily acquire the resources and information that they need. This enables them to (1) learn about new corporate behavior and thinking styles, (2) acquire continuous support from other companies, and (3) further the company’s prestige. The two cases are classified in Table III.

Case A and case B were analyzed in the analysis framework of the alliance.

#### V. CONCLUSION AND IMPLICATION

This article shows that it is possible to understand the background of partner selection in strategic alliances. Partner selection was examined by the organization relation theory and business ecosystem in the literature survey.

In this study, the global alliance of specialized database companies and electronic library has been presented. In both

cases presented herein, first, US companies advanced into English-language countries. Next, when entering Asia, they implemented strategic alliances with local companies. It is not easy for overseas companies to respond to local environments by themselves. For this case, partner selection is important. At the time of partner selection, we discovered the following:

- (1) Factors attributable to "people" and "learning," such as resources, customer base, and tacit knowledge, etc. are important when negotiating and making an alliance.
- (2) Reliability and communication between organizations (at each level within the hierarchy) are important.
- (3) The evolution of the IT infrastructure made it possible for the information service industry to expand overseas.

This paper is based on the results of these two cases. In other words, a generalization usually has limitations. Hence, more research is needed to fill in the gaps created by the limitations.

TABLE V  
ANALYSIS FRAMEWORK FOR PARTNER SELECTION

	Case A	Case B
Content	Japanese language; Legal information;	Japanese language
Communication	Abundant communication for each level and job	Abundant communication
Computer	Internet service	Internet service
Commitment	Support of top management	Support of top management
Trust	Both companies; Trust in management and the team in charge of the company	Both companies; Trust in management and the team in charge of the company

#### ACKNOWLEDGMENT

The authors would like to thank Enago ([www.enago.jp](http://www.enago.jp)) for the English language review.

#### REFERENCES

- [1] R. Adner, & R. Kapoor, (2016). "Right tech, wrong time." *Harvard Business Review*, 91(11), pp.60-+. This article discusses innovation not only the technology itself but also the ecosystem that supports it.
- [2] R. Adner, (2006). "Match your innovation strategy to your innovation ecosystem." *Harvard business review*, 84(4), pp.98-107.
- [3] R. Adner, (2012). "A sad Lesson in Collaborative Innovation," *Harvard Business Review*, May 09, 2012., <https://hbr.org/2012/05/a-sad-lesson-in-collaborative-innovation>
- [4] I. Akaoka, & K. Hioki, (2005). *Strategy and organizational partnership composition*, Tokyo. Japan: Chuokeizai-sha, pp.17-18.
- [5] W. G. Astley, & C. J. Fombrun, (1983). "Collective Strategy: Social Ecology of Organizational Environments." *Academy of management review*, 8(4), pp.576-587.
- [6] J. Barney, (1991). "Firm resources and sustained competitive advantage." *Journal of management*, 17(1), pp.99-120.
- [7] A. D. Chandler, (1962). *Strategy and structure: Chapters in the history of the American enterprise*. Massachusetts Institute of Technology, Cambridge.
- [8] R. H. Coase, (1937). "The nature of the firm." *Economica*, 4(16), pp.386-405.
- [9] K. S. Cook, (1977). "Exchange and power in networks of interorganizational relations." *The sociological quarterly*, 18(1), pp.62-82.
- [10] P. J. DiMaggio, & W. W. Powell, (Eds.). (1991). *The new institutionalism in organizational analysis* (Vol. 17). Chicago, IL: University of Chicago Press.
- [11] R. M. Emerson, (1962). "Power-dependence relations." *American sociological review*, pp.31-41.
- [12] W. M. Evan, (1966). "The organization-set: Toward a theory of interorganizational relations." *Approaches to organizational design*, pp.173-191.
- [13] U. Flick, (2010). *Qualitative sozialforschung*. Rowohlt Taschenbuch.
- [14] T. Fujisawa, (2012). "International Strategic Alliances of the Multinational Enterprise: Internalization Type Versus Network Type." *Shogaku RonKenkyu, Kwansei Gakuin University*, 59(4), pp. 33-53.
- [15] S. Iriyama, (2017). "Management Theories of the Global Standard : No.33 Ecology-based evolutionary theory, Ecosystem interaction accelerates corporate evolution". *DIAMOND Harvard Business Review*, 42 (6) pp.130-141.
- [16] N. Furr, K. O'Keefe & J. H. Dyer, (2016). "Managing Multiparty Innovation." *Harvard Business Review*, 91(11), pp.76-+, This issue puts emphasis on the development of innovation, but ecosystem innovation places emphasis on the commercialization of innovation.
- [17] M. Ihrig, & I. C. Macmillan, (2017). "How to get ecosystem buy-in." *Harvard Business Review*, 95(2), pp.102-107. This issue summarizes the conceptualization process of innovation.
- [18] A. Gawer, & M. A. Cusumano, (2002). *Platform leadership: How Intel, Microsoft, and Cisco drive industry innovation*. pp. 29-30. Boston: Harvard Business School Press.
- [19] C. Handy, (1995). "Trust and the virtual organization." *Harvard business review*, 73(3), pp.40-51.
- [20] N. Hubbard, (2013). *Conquering global markets: secrets from the world's most successful multinationals*. Springer.
- [21] M. Iansiti, & R. Levien, (2004). *The keystone advantage: what the new dynamics of business ecosystems mean for strategy, innovation, and sustainability*. Harvard Business Press.
- [22] T. Inoue, (2010). "Business systems, business models and business ecosystems: a review of value creation systems." *Waseda Shogaku*, (423), pp.539-579.
- [23] F. Isada, (2007). *Dynamism of the Relationship between Organizations and Competitive Advantage*. Tokyo. Chuokeizai-sha.
- [24] S. Ishii, (2003) *Strategy and organization of intercompany Alliances*. Tokyo. Chuokeizai-sha,
- [25] J. Kallinikos, (1985). *Control and influence relationships in multinational corporations: the subsidiary's viewpoint* (Vol. 19). Coronet Books.
- [26] J. Kim & A. Parkhe, (2009). "Competing and cooperating similarity in global strategic alliances: an exploratory examination." *British Journal of Management*, 20(3), pp.363-376.
- [27] H. Leblebici, G. R. Salancik, A. Copay, & T. King, (1991). "Institutional change and the transformation of interorganizational fields: An organizational history of the US radio broadcasting industry." *Administrative science quarterly*, pp.333-363.
- [28] H. Mintzberg, (1972). "Research on strategy-making." *Academy of Management*. Vol. 1972, 1, pp. 90-94.
- [29] H. Mintzberg, B. Ahlstrand, & J. Lampel, (2005). *Strategy Safari: A Guided Tour through the Wilds of Strategic Management*. Simon and Schuster.
- [30] J. F. Moore, (1993). "Predators and prey: a new ecology of competition." *Harvard Business Review*, 71(3), pp.75-83.
- [31] J. F. Moore, (1996). *The death of competition: leadership and strategy in the age of business ecosystems*. HarperCollins Publishers.
- [32] H. Nakamura, (2014). "Successful Factors for the International Strategic Alliance in a Legal Information Service Company." *Research Paper of JAFTAB*. Japan Academy for International Trade and Business, 2014(3), pp.20-39.
- [33] H. Nakamura, (2014). "Global Markets and Strategic Alliances." *The Shogaku Kenkyu The Business Review of Aichi Gakuin University*, 55(1), pp.39-76.
- [34] H. Nakamura, (2016). "International Strategic Alliances in an Electronic Library." *Research Paper of Japan Academy for International Trade and Business*, 2016(5), pp.1-20.
- [35] Y. Nakamura, (2013). *Alliance Innovation*. Hakuto-Shobo.
- [36] J. E. Oxley, (1999). "Institutional environment and the mechanisms of governance: the impact of intellectual property protection on the structure of inter-firm alliances." *Journal of Economic Behavior & Organization*, 38(3), pp.283-309.
- [37] S. Takeda, (1992). *International strategic alliance*. Tokyo. Dobunkan.
- [38] M. R. Van Gils, (1984). "Interorganizational relations and networks." *Handbook of work and organizational psychology*, 2, pp.1073-1100.
- [39] K. Yamakura, (1993). *Interorganization relations*. Tokyo, Yuhikaku.
- [40] M. Y. Yoshino, & S. Rangan, (1995). *Strategic alliances: An entrepreneurial approach to globalization*. Harvard Business School Press.
- [41] M. Wessel, A. Levie, & R. Siegel, (2016). "The Problem with Legacy

Ecosystems." *Harvard Business Review*, 91(11), pp.68-+. This issue with Legacy Ecosystems discusses how to make value in the digital age from creative destruction of the ecosystem.

[42] Z. Shumei, (2004). *Management on Partnership between Firms*. Tokyo. Chuokeizaisha.