Background: The Background of this thesis dates back to November of 1999 when Sweden arranged its largest manifestation ever in a developing country, namely South Africa. The origin of this study lies within the frame of Trade & Industry, more specifically a seminar on small business partnerships. At the seminar companies with less than 20 employees from both countries were introduced to each other with the long term goal of establishing partnerships between the two countries. These companies awoke our interest in the process of creating a partnership.

Purpose: With this thesis, we hope to contribute to a higher level of knowledge about small business partnership creation. We also intend to give normative guidelines as for what may be important to have in mind when creating partnerships. We will do this by describing the initial stage of collaboration between small companies and by discussing how initial conditions may affect the parties’ collaboration.
Delimitation: Our focus is on the strategic objectives and context of collaboration, and we have looked upon these factors without taking corporate culture or external factors, such as political environment, business climate etc., into account.

Proceed of the Study: As well as participating in the manifestation and at the seminar we have conducted interviews with representatives from eight companies.

Results: In creating a small business partnership, companies often heavily depend on one key-person. Communication between companies will contribute to a clearer value-creation scenario – and misunderstandings can be avoided. Furthermore, flexibility, openness and equality between partners will substantially ease the process of creating partnerships.

Nyckelord
Keywords
Staffan Hárd af Segerstad, SME, business collaboration, partnership, co-operation, alliance, South Africa.
Many people have been involved in the process of making this thesis. Firstly we would like to give thanks to Lars Bäckström for coming up with the idea for this project and for giving us the chance to spend six weeks in the “Rainbow Nation” – South Africa. A big thanks also goes out to our supervisor Staffan Hård af Segerstad who had the patience to discuss our ideas and visions over and over again, putting us on the right track.

Of course we would like to thank all our interviewees that took the time to talk to us, sharing their experiences. Thanks also to Per Lind and Per Carlstedt, organisers of the small business seminar in Johannesburg.

Finally, we would like to thank all our friends in the “South Africa group” for a wonderful time in South Africa.

Henrik & Janna
CONTENT

1 INTRODUCTION 1

1.1 THE BACKGROUND OF THIS STUDY 1
1.2 INTRODUCING THE PROBLEM 1
1.3 FORMULATING THE PROBLEM 3
1.4 PURPOSE OF THE STUDY 4
1.5 DELIMITATION 4
1.6 WHO SHOULD READ THIS THESIS? 4
1.7 DISPOSITION 5

2 SOUTH AFRICA AND SWEDEN - CHARACTERISTICS 6

2.1 AN INTRODUCTION TO SOUTH AFRICA 6
2.1.1 SOUTH AFRICAN ECONOMY 7
2.1.2 SOUTH AFRICAN SMALL BUSINESSES 8
2.2 AN INTRODUCTION TO SWEDEN 9
2.2.1 SWEDISH ECONOMY 10
2.2.2 SWEDISH SMALL BUSINESSES 10

3 METHOD 12

3.1 OUR RESEARCH – OUR APPROACH 12
3.2 IS OUR STUDY TRUSTWORTHY? 14
3.3 CAN OUR RESULTS BE USED OUTSIDE THIS STUDY? 17
3.4 KNOWLEDGE THROUGH REASONING OR EMPIRICAL FINDINGS? 18
3.5 CHOICE OF THEORETICAL FRAMEWORK 19
3.6 CHOICE & COLLECTION OF PRIMARY DATA 19
3.7 INTERVIEW DESIGN 21
3.8 CRITICISM OF SOURCES 22

4 COLLABORATION – AN INTRODUCTION 24

4.1 COLLABORATION DEFINED 24
4.2 MOTIVES FOR CO-OPERATION 26
4.3 COLLABORATION IN INDUSTRIALISED VS EMERGING MARKETS 31
4.4 COLLABORATION FOR INTERNATIONALISATION OF SMALL FIRMS 33

5 INITIAL CONDITIONS OF CO-OPERATION 35

5.1 PAST EXPERIENCES AFFECT COLLABORATION 36
5.2 EXPECTATIONS 38
5.3 THE SCOPE OF COLLABORATION 39
5.3.1 STRATEGIC SCOPE 39
5.3.2 ECONOMIC SCOPE 40
5.3.3 OPERATIONAL SCOPE 41
5.3.4 SCOPE ISSUES 41
LIST OF FIGURES

Figure 1 Initial Stage of Collaboration ___________________________ 3
Figure 2 It is important to be aware of one’s values ________________ 16
Figure 3 Potential Partnerships and Interviewees ___________________ 21
Figure 4 The Pyramid of Co-operation - Adapted version ____________ 24
Figure 5 The Logics of Alliance Value Creation ____________________ 28
Figure 6 The Relationship of scope to Value Creation Logic _________ 43
Figure 7 Motives for Co-operation between case companies _________ 60

LIST OF TABLES

Table 1 Seven Rationales for collaboration __________________________ 30
Table 2 Summary: Scope Issues ________________________________ 77
1 INTRODUCTION

In this chapter we will start by introducing the background of this study. We will continue by discussing the problem which this study deals with, we will formulate our problem and the purpose of this study. At the end of the chapter we will give you the outline for the remainder of this thesis.

1.1 THE BACKGROUND OF THIS STUDY

The background of this study dates back to November of 1999 when Sweden arranged its largest manifestation ever in a developing country, namely South Africa. The main goal of this project was to lay a foundation for a long-lasting and broadened partnership, which will further develop the political, economic and cultural relations between these two countries. The manifestation involved among other events five themes that were discussed at seminars and workshops:

- Trade and Industry
- Co-operation in the university and research communities
- Peace support activities
- Social issues such as democracy and human rights
- Cultural issues

The origin of this study lies within the frame of Trade and Industry, more specifically a seminar on small business partnership. At the seminar, which took place at Gallagher Estate outside Johannesburg, Swedish and South African small enterprises (SEs) (defined from the Swedish side, through the Federation of Private Enterprises, as companies with less than 20 employees) were introduced to each other. The long-term goal of doing so was the establishment of partnerships between South African and Swedish companies. During the seminar, some of the companies started discussing the possibility of entering some sort of collaboration. It was these companies that awoke our interest in the process of creating a partnership. Some of these same companies also became the base for our research.

1.2 INTRODUCING THE PROBLEM

Collaboration between companies has increased immensely over the last decade. Almost every day we can read about a new mega-merger, but the partnerships that make headlines tell only part of the story of globalisation.

---

1 Ministry of Foreign Affairs, March 1999
2 Definition of The Swedish Federation of Enterprises in Lindmark/Johannisson, 1996
3 Cyrus, Friedheim, Sep 1999
today. It has been predicted that for instance strategic alliances will number more than 20,000 world-wide by the year 2000, although the failure rate is high.\textsuperscript{4} Much has been written about alliances in the management literature of today, though, this mostly involves large corporations. Less has been written in this kind of journals and literature about different collaborative forms between small companies, and yet less about partnership creation between small companies. Small companies seem predominantly concerned with their domestic markets. Markets further afield are perceived to risky, too difficult to break into, or entailing too many costs. In the creation of international collaborations between small companies there are areas that need attention – virtually everybody encounters some sort of problem during the initial stage of a partnership.\textsuperscript{5}

Underlying every business partnership formation are partners’ expectations that value will be created\textsuperscript{6}. However, it is not evident how this value should be obtained. For example, a potential alliance partner, does he have a value creation perspective that respects and supports his counterpart’s collaborative objectives? Or will he view collaboration as a way to achieve an independent objective in a zero sum game atmosphere? Since business collaborators rarely have the same strategic objectives, their views of value creation are likely to be different. Yet, they have to be compatible.

How a firm benefits from a business partnership is highly dependent on what each partner is committed to do and actually does over an extended period of time. While not all contingencies can be identified during the formation process, there are ways that may sort out many of the problems that plague business collaborations.

These are areas that business partners have to deal with, especially in the initial stage of a partnership. Problems concern what is going to be the areas of interests included in the alliance – its strategic scope. It concerns each partners benefits and contributions to the alliance – the economic scope of the alliance. And it concerns who is actually to do what in the alliance – its operational scope. How each partner acts will be affected by previous experiences within the area of business collaborations and by expectations on the alliance. These parts just mentioned constitute what we call the strategic context of an alliance.

The above factors apply to partnerships in general, but there are perhaps issues that are particular to partnership formation between companies from

\textsuperscript{4} Cyrus, Friedheim, Sep 1999
\textsuperscript{5} O’Doherty, 1995
\textsuperscript{6} Andrew, 1999
industrialised and emerging markets, such as Sweden and South Africa. Collaboration is often a mutual desire and there is an obvious win-win potential to the situation. However, they have been proved to be hard to pull off and highly unstable, much more so than alliances between companies from similar economic and cultural backgrounds. Many have failed to meet expectations or have required extensive restructuring. Many differences result from ownership structure, objectives, culture, and management styles. Usually the partner from the industrialised country is also financially stronger, and has more developed technologies. These are factors that have to be dealt with, since they may affect the process of collaboration.

1.3 FORMULATING THE PROBLEM

The foundation of a successful business partnership is laid during the initial formation process. It is at this time that the analytical and political dimensions and issues have to be dealt with in such a way that clear and realistic objectives are established and that the foundation for trust and behavioural consonance is laid. The initial phase of a partnership is hence an important and delicate process where many settlements are made.

Figure 1 Initial Stage of Collaboration

---

7 Vienna University of Economics and Business Administration; An emerging market is a country making an effort to change and improve its economy with the goal of raising its performance to that of the world’s more advanced nations.
8 Makino, ShigeDelios, Andrew, 1996, Dymsa in Contractor/Lorange, 1988, Mackinsey Quartely, 1997
9 McKinsey Quarterly, 1997
10 Makino, ShigeDelios, Andrew, 1996
11 Lorange/roos, 1992
12 Our own illustration
For collaboration partners, the interests of their respective companies are the most important. This makes the alliance multi-focused; although partners agree that the alliance is created to induce value – still, they may enter the alliance with different underlying beliefs. They may have dissimilar opinions on what goals the alliance should have and they may have different opinions on how to operate the alliance.

In order to understand the views that exist, one needs to elucidate the strategic context of alliances. In this thesis we will try to clarify issues concerning the initial stage of small firm collaboration. In particular we will highlight and describe differences and similarities between small companies from industrialised and emerging markets that would like to collaborate. We will thoroughly discuss areas of incompatibility and misunderstandings that may exist between companies that are to create a co-operation

1.4 PURPOSE OF THE STUDY

With this thesis, we hope to contribute to a higher level of knowledge about small business partnership creation. We also intend to give normative guidelines as for what may be important to have in mind when creating a partnership.

We will do this by describing the initial stage of collaboration between small companies and by discussing how initial conditions may affect the parties’ collaboration.

1.5 DELIMITATION

Organisational and cultural factors are of decisive importance for the outcome of an alliance. It is true that, no matter how good a match between partners on a strategic, economic and operational level, if the organisational match is not there, the partnership is likely to fail. So, in real life, one could not focus on just one of these issues. However, this is more or less what we will do in our study. Our focus is on the strategic objectives and context of collaboration, and we will look upon these factors without taking corporate culture or external factors, such as political environment, business climate etc., into account.

1.6 WHO SHOULD READ THIS THESIS?

We believe that this thesis might be relevant for small companies who are about to create an international, or perhaps even, domestic partnership. It could also inspire small companies who would like to go international, but
have not the means of doing so alone. Another evident target group is, of course, the companies in South Africa and Sweden that took part in our study. We also think it may be of value to business students interested in international business co-operations.

The focus of our study is on the initial phase of partnership creation between small companies in the two countries Sweden and South Africa. However, we do believe that our discussion may be of use to companies from other parts of the world that are about to enter a business partnership as well, and in particular for companies a such situation from industrialised and emerging markets.

1.7 DISPOSITION

We start this thesis by presenting the countries and environments of the managers of the companies we have studied.

Chapter three explains how we carried out our study and what type of research we have done.

Chapter four and five constitute our theoretical framework, where we first introduce the concepts and motives of collaboration. Then we go through what is referred to as the initial conditions of collaboration.

In chapter six we share with you the things we found the most interesting in the interviews we made with managers from small companies in Sweden and South Africa.

Chapter seven and eight is our analysis where we discuss what our interviewees have said by using our theoretical framework.

Chapter eight contains the conclusions we have drawn from our theoretical and empirical research. In this chapter we also give suggestions on further research.
2 SOUTH AFRICA AND SWEDEN - CHARACTERISTICS

In this chapter we will briefly present the characteristics of the Swedish and South African nations. We will also give a broad introduction to their respective economies as well as the significance of small businesses. The purpose of this chapter is to give a background to the context of this thesis and may be useful when reading coming chapters.

The relationship between Sweden and South Africa has quite a long history, dating back to the times of apartheid. Sweden was an eager advocate of sanctioning South Africa and tried to influence the UN. In 1979 Sweden introduced an investment ban and in 1987 trade with South Africa was banned. When apartheid was abolished, trade with South Africa has picked up and South Africa has become one of the most interesting markets for foreign investors.

In South Africa today there is an increasing interest in black/white partnerships and alliances incorporating foreign trade or investment partners. In more developed countries partnerships and alliances are far more prevalent than in South Africa, where racial segmentation, oligopolistic exclusiveness and sanctions as well as disinvestment have prevented such developments in the past. Lack of experience and the effect of economic stagnation have also strengthened distrust around partnerships in the past.

Political changes and a new economic strategy, are currently generating strong interest in joint ventures and other collaboration forms, with particular attention to black-owned or -controlled enterprises. The South African government would like to see that foreign partnership initiatives give due attention to black partners, contribute effectively to capacity building among emergent enterprises and fit in generally with the framework of the so called Reconstruction and Development Programme.

2.1 AN INTRODUCTION TO SOUTH AFRICA

South Africa, also called the Rainbow Nation, is situated at the most southern part of the African continent, the country is three times the size of Sweden. There are eleven official languages, which indicates the many cultures that reside within the country limits. Blacks, whites, coloureds and Indians constitute the main groups.

---

13 Swedish Trade, 2000
The Dutch arrived in the middle of the 17th century and they established a trade station in the Cape area. Approximately 100 years later, the English arrived and the colonisation boomed. During the 20th century oppression of the blacks worsened. In 1948 the conservative National Party won the election and with them apartheid was introduced.

The protests from the democratic movement with the liberation organisation ANC in front was brutally struck down. Eventually the international community reacted and a boycott of South Africa was initiated.

The reformation process was initiated in 1990 by the newly appointed president F.W. de Klerk. The ANC-leader Nelson Mandela was released from his 27-year prison term and the ANC were allowed to work in the open. Negotiations of democracy started although the political violence, which took more than 10.000 lives, interfered with the process.

The 27th of April 1994, the first democratic elections were held. ANC got two thirds of the votes while the National Party only got about 20 percent.

Mandela was appointed President and head of a coalition government consisting of the ANC, the Nationalist Party and the Inkatha Freedom Party. The Nationalist Party now is in opposition.

### 2.1.1 South African Economy

South Africa today faces many challenges. Unemployment is high and economic inequality is among the highest in the world. The countries large reserves of minerals are still the base for the economy. Gold, coal and diamonds are part of the most important export goods, although declining world market prices makes it even harder for the already strained economy.

South Africa’s economy has deteriorated during the past decades, partly because of the sanctions. During the 90s, however, the recovery has begun and growth has increased several years in a row. Inflation is under ten percent and both import and export has experienced an increase. Also, the capital drain has decreased and the government is looking to reduce the budget deficit15. Growth in 1997 was three percent16 and deficit in the trade balance is richly compensated by an increase in foreign capital.

---

15 Swedish International Development Cooperation Agency, 1999
16 CIA World Factbook 1998
The South African business community is a dual one\(^{17}\), in the sense that many traditionally “white” companies are similar to companies in the developed world whereas most “black” companies are similar to companies in the developing or undeveloped world. However, as a market, South Africa is classified as a middle income developing or emerging economy.\(^{18}\)

### 2.1.2 South African Small Businesses

All over the world it has been recognised that the small business sector plays an important, if not critical role in the economic and social development of a country. MSEs (Micro- and Small Enterprises) are important for the absorption of labour, the penetration of new markets and a general expansion of economies in creative and innovative ways.\(^{19}\)

The development of small enterprises in South Africa is an important issue today. The small business sector has been neglected during much of the century following the discovery of diamonds and gold, and the establishment of a modern, capitalist economy with almost exclusive white control. While the importance of large industrial, mining and other enterprises for the growth of the economy cannot be denied, there is significant evidence that the labour absorptive capacity of the small business sector is high.

The average capital cost per job created is usually lower than in big business and its role in technical and other innovation is vital for many of the challenges facing South Africa’s economy.\(^{20}\)

Given South Africa’s legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment and more equitable income distribution. This would help activating competition, exploit niche markets (both internally and internationally), enhance productivity and technical change, which in turn would stimulate economic development.

In South Africa today, approximately 90% of registered companies are small and middle size, with up to 200 employees. All in all, they are responsible for about 45% of the nation’s total production and employ

\(^{17}\) Nafziger, 1990


\(^{19}\) Johansson/Lindmark 1996

\(^{20}\) Parliament Of The Republic Of South Africa, 1995
almost 20% of total workforce (the formal sector). Almost 40% of manufacturing industries work in these smaller companies.

Compared to large industries in South Africa and in other countries, small businesses face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. The constraints relate, among others, to the legal and regulatory environment confronting SMEs, the access to markets, finance and business conditions, the acquisition of skills and managerial expertise, access to appropriate technology and the quality of the business infrastructure in poverty areas. In the South African context the constraints have been particularly hard on entrepreneurs in rural areas and on women.21

The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities into larger and better earning enterprises.

With the rapid expansion in the range and number of small enterprise all over the country, South Africa faces a great challenge in the sphere of small-business-orientated education and training. Just like training, finance and business conditions, technology is often seen as an important factor influencing the success of small enterprises, but it is not always accessible to them.

This applies to both ends of the technology spectrum, which means sophisticated technology needed for the competitiveness of small enterprises in the modern manufacturing and services sectors, and “appropriate” technology for small enterprises operating in the labour-intensive, low-skill spheres.22

## 2.2 An Introduction to Sweden

Sweden is situated in the very north of Europe and together with Norway, Denmark, Finland and Iceland it forms the area called Scandinavia. It is a land of open landscape and deep forests, lakes and archipelagos. Rune stones and burial mounds, a land of long shadows, mountains and the Midnight Sun.

---

21 Lundahl/Moritz, 1996
22 Parliament Of The Republic Of South Africa, 1995
Ethnic group are whites; Lapp (Sami), a people originating from the far north of Sweden; foreign-born or first-generation immigrants 12% (FINNS, Yugoslavs, Danes, Norwegians, Greeks, Turks). The official language is Swedish.

Aided by peace and neutrality for the whole twentieth century, Sweden has achieved an enviable standard of living under a mixed system of high-tech capitalism and extensive welfare benefits. It has a modern distribution system, excellent internal and external communications, and a skilled labour force.

### 2.2.1 Swedish Economy

Timber, hydropower, and iron ore constitute the resource base of an economy heavily oriented toward foreign trade. Privately owned firms account for about 90% of industrial output, of which the engineering sector accounts for 50% of output and exports. Agriculture accounts for only 2% of GDP and 2% of the jobs.

In the early 90’s, however, budgetary difficulties, inflation, high unemployment, and a gradual loss of competitiveness in international markets have clouded this extraordinarily favourable picture. Since 1993 Sweden has had a higher industry growth than the average OECD country and EU country.

The growth has been most favourable in segments such as telecom and pharmaceuticals. While Sweden has lost income from exports in the more traditional industries, new business segments, such as IT, has more than compensated for this.\(^{23}\)

Sweden has harmonised its economic policies with those of the EU, which it joined at the start of 1995. Sweden decided not to join the Euro system at its outset in January 1999 but statements has been made, which implies Sweden will join later on. Annual GDP growth is forecast for 2.6% in 2000.\(^{24}\)

### 2.2.2 Swedish Small Businesses

During the 90’s small businesses have become the focus of society’s interest, probably because many puts their faith into small businesses when

---

\(^{23}\) Närings- och Teknikutvecklingsverket of the Swedish Department of Finance, 1999

\(^{24}\) CIA World Factbbok, 1998
it comes to reducing unemployment.\textsuperscript{25} This has not always been the case, only a few decades ago, large enterprises were almost completely dominating the political sphere. When these large companies encountered more and more problems during the 60’s and 70’s, small businesses came into focus.

The number of employees in SMEs increased significantly, from 950 000 to 1 125 000 between 1985 and 1990 while the number of employees in large corporations were stable during the same time period. In 1990 SMEs passed large corporations concerning the total number of people employed.\textsuperscript{26} Small and medium sized enterprises are defined as companies with up to 200 employees and today this group constitutes 97,5\% of Swedish companies.\textsuperscript{27}

The increased number of small businesses can be explained by the increase in the demand for services. Approximately two thirds of small business are active in the service sector. Information technology has also contributed to stimulate small business in many areas.\textsuperscript{28}

\textsuperscript{25} Statens Offentliga Utredningar 1998:77
\textsuperscript{26} Johanisson/Lindmark, 1996
\textsuperscript{27} Statens Offentliga Utredningar 1998:77
\textsuperscript{28} Ibid
3 Method

In this chapter we will explain to you how we carried out this study and why by trying to clarify our approach to subjects such as science, truth, knowledge, and how to attain this knowledge.

3.1 Our Research – Our Approach

One usually differs between two methodological ways of approaching a problem; quantitative and qualitative methods. These two methods are tools and their usefulness depends on the character of the scientific questions that are asked.29

“If one pinches a little worm, its body will always contract. If one pinches a human being however, one never knows what will happen: sometimes her body will contract too, sometimes she will send out a sound, sometimes she might not react at all, but instead pinch back a year later.”

One thing that distinguishes human behaviour is its unpredictability and its capriciousness compared to other animals and things. But the fact that it is hard to predict human behaviour does not mean that it is impossible in every aspect. We support a dualistic view of man, meaning that human beings are partly unique, and partly similar to other mammals30. Man then, is considered to consist of the two dimensions body and soul. Its spiritual side is expressed through feelings and to study these properly a qualitative approach is needed. The physical side on the other hand should be studied through more positivistic methods within the field of biology and anatomy for example.

When the target of the study is thinking and acting individuals and their role in an organisation, and when the purpose is to understand these peoples’ experiences from their perspective, then a qualitative approach is particularly useful. For us, it is necessary and important do develop an understanding for the phenomena which we are examining. We do not attempt to totally alienate ourselves from the phenomena and even if a certain degree of objectivity is necessary, we do not feel this is a central issue – as it is according to the positivistic ideal. In this thesis, the purpose is to study people, their thoughts and experiences – hence, our approach will be qualitative.

29 Kvale, 1997
30 da Silva/Whalberg in Starrin/Svensson, 1994
A quantitative approach on the other hand is usually more formalised and has a generalising intention. It is important to make comparative analysis and test the results so that they are valid over the spectra you wish to examine. Statistical methods are frequently used in a quantitative approach.31

However, the difference between qualitative and quantitative studies is actually smaller than one might expect. Analysis and interpretation of a qualitative survey is subjective in character, but this also goes for quantitative studies. The fact that data in this type of study is coded in seemingly exact figures and that these data then can be analysed statistically does not eliminate the fundamental subjectivity of how the research assignment has been specified, what theoretical models that direct the survey nor now the results will be analysed.

Our approach is also hermeneutic. What impact, then, has the hermeneutic approach on the process of our study? Firstly, the knowledge we generate through the hermeneutic ideal is limited in time and space and separate phenomenon can only be understood in its’ proper context. Further, it is not always possible to draw a line between fact and judgement, senses can communicate knowledge that cannot be reached by common sense. Since we with energy and soul are trying to penetrate and take part in the phenomena that we are studying, it is sometimes hard and perhaps not always necessary to conduct entirely impartial research. Personal experiences are often necessary prerequisites to attain scientific knowledge.32

Our research consists of informal interviews with managers of small companies in Sweden and South Africa. A qualitative approach means that we collect, analyse, and interpret data that we feel cannot be quantified in a meaningful way.33 Instead, our approach is less formalised and has primarily an understanding purpose.

Understanding is a central concept of hermeneutics. A distinguishing feature of the hermeneutic tradition is the so-called hermeneutic circle34, which can be expressed in several ways; “there can be no comprehension without pre-comprehension” or “understanding of a part presupposes an understanding of the whole” or “to understand, you must already have

---

31 Holme/Solvang 1991
32 Lundahl/Skärvad, 1992
33 Lekvall/Wahlbin, 1993
34 Molander, 1988
understood”35. This means that we start off with a certain “pre-understanding” of the topic we will study – then we move into the hermeneutic circle. In this circle, or spiral, we develop a deeper understanding through interplay between the understanding of the whole and the understanding of the parts. One could say that understanding of a whole is more than understanding the sum of its parts. And if we go back to our study one more time, we will have a new pre-comprehension and may understand the phenomena differently compared to the first we studied them. Understanding is a relation between the situation and the one who studies it.

3.2 IS OUR STUDY TRUSTWORTHY?

Are certain methods and results objective, meaning they provide us with generally applicable truths? We do not think so, at least not when it comes to qualitative research, which is what we are doing here. In human and social sciences, research has to deal with an “objectivity problem”36. The researcher might not be able to avoid colouring his or her study by own opinions. In addition, the relation between the researcher and the study object is quite often complicated. For example, someone being interviewed might not behave normally since they know what they say and how they act will be evaluated and analysed.

Taking hermeneutics as a starting point means putting subjectivity and objectivity in relation to each other. It is in this relation, in a lingual and social context, that content, things and actions with a meaning co-exist.37 It is about realising the general relation between the object being studied and the person studying this object. If you study a foreign culture as a neutral “observer”, you are fooling yourself because you are not neutral. Instead you have chosen a way to describe them that is seen as more accurate than their own description of them selves.

According to Lundal/Skärvad there are three different positions concerning the relationship between valuation and knowledge, which is usually referred to as objectivity.38

1. Complete objectivity is attainable and should be striven for.
2. Complete objectivity is not attainable, but the greatest impartiality possible should be striven for.

35 Widersheim-Paul/Ericsson, 1991
36 Molander, 1988
37 Ibid
38 Lundal/Skärvad, 1992
3. Deliberate subjectivity is justifiable in social science, since it is, according to this approach, impossible to distinguish between the subjective and the objective.

What knowledge is then depends on scientific approach along with its demands on what is to be looked upon as scientific knowledge. A supporter of the positivistic tradition would not give much scientific credit to the conclusions of someone belonging to the hermeneutic tradition and vice versa. We believe that complete objectivity is not attainable in social and humanistic sciences, but it is important to be impartial, honest and open. This means to openly show our valuations and opinions as well as trying to elucidate how these affect our study.

The rules that one refers to in the assessment of a discussion should, in principle be intersubjectively valid, meaning that every one should be able to agree with them. This is however very difficult. One way to achieve higher objectivity in a study is to present it with support and argumentation in an open and comprehensive manner – and by doing so make it assessable to others.

We will deal with this objectivity-subjectivity dilemma by explaining our standpoint with the help of Skärvad/Lundal’s criteria on objectivity.39

Separation of Facts & Opinions: We do not think it is possible to do research in social sciences without being influenced of our values and culture. However, we do not intend to deliberately distort the information we present. Hence, we will do our best to carefully point out what are others’ thoughts and what are our thoughts. Unfortunately, it is not always easy to realise what these values represent and how they affect the study.

39 Lundal/Skärvad, 1992
**Impartiality:** We do not intend to bias the results of our study in order to serve one nor the other’s purposes.

**Unprejudice:** Of course we cannot avoid being affected by our basic conditions and values, so in a way we cannot be completely unprejudiced. However, we believe it is very important to try to keep an open mind and be able to reassess our standpoint.

**Versatility:** Versatility means working with several frameworks and theories at the same time in order to illustrate the chosen area of research from as many perspectives as possible. This is often difficult for an individual researcher to obtain due to specialisation in specific fields, along with the chosen methodologies for the carrying through of a study. We will however, try to be as versatile as we can.

**Intersubjectivity:** When it come to investigations or surveys, Max Weber once wrote that \(^{41}\): “It is and will remain true, that when one has carried through a methodologically correct production of evidence within the field of social science, even a Chinese should be able to acknowledge it.” This might be hard to achieve in real life, but it is, according to Weber, a theoretical condition that one should strive to meet as well as possible. It means that the results of a study should be independent of the person who carried it through. We do not think that would be possible in our case, since the interviews we did involve on the one hand our interpretation of the respondent’s answers, and on the other the respondent’s interpretation of our questions. What we can do however is to give the reader a good description of how we carried out our study.

---

\(^{40}\) Ibid

\(^{41}\) Free Translation from Molander 1988, p248
3.3 CAN OUR RESULTS BE USED OUTSIDE THIS STUDY?

Generalisability, Validity and Reliability are terms that come from the positivistic tradition of scientific research. However, they can be conceptualised so that they suit qualitative research too, even though certain qualitative researchers think that they oppress a creative and emancipatory qualitative research. In qualitative research today, concepts such as validity and reliability are often replaced by the terms trustworthiness, credibility, and confirmability when discussing the value or truth of scientific results.\textsuperscript{42}

Can our results be used by other companies, or when looking at other companies that are thinking about entering a partnership? We do not think that the results from our study should be used as a tool of prediction of the success of potential partnerships. Nor should they be used as to predict whether or not companies that have started discussing partnering with each other eventually will enter a collaboration. However, we hope that they can be of use for companies that are thinking about entering some sort of collaboration by drawing their attention to initial conditions of a partnership - conditions that often affect the development of the relationship.

Generalisability usually means that conclusions drawn from a smaller selection can be applied to a larger population that has not been subject to the same research. However, when the purpose is to find out about individuals’ opinions, perceptions and feelings the term generalisability needs another definition. Lantz suggests that we define generalisability as the extent to which the research increases the understanding on a general level of what has been studied.\textsuperscript{43}

This means that we in our study can comment on the specific situation of our empirical cased and generalise on a phenomena level, meaning that perhaps we can provide a frame of concepts that may be useful when studying companies in the initial phase of an alliance. The content in this frame however, is not generalisable, but case-specific. Someone else can use our frame, but has to fill it with the content of the partnership creation he or she is interested in understanding.

\textsuperscript{42} Kvale, 1997
\textsuperscript{43} Lantz, 1993
3.4 KNOWLEDGE THROUGH REASONING OR EMPIRICAL FINDINGS?

Science always aims at getting as reliable and valid results as possible. There are different methods, or processes, as for how the scientists can get “true” results from a research project. Induction is usually described as moving from the specific to the general, while deduction begins with the general and ends with the specific.44

Deduction has mathematics as its role model. In the history of the deductive approach, science had a limited amount of ground clauses, from which all other clauses should be deduced in a logical manner.45 This means that the researcher forms hypotheses based on a certain theory, which then get tested on reality. Through logical inference the researcher then gets the results.46 In the box below we have put a simple example of deductive reasoning.

![Deductive Reasoning Example]

The word “induction” means general ways or methods to conclude from an individual level to a general one. As opposed to deduction, the inductive approach says that pure thinking is not enough to understand ground clauses. Empirical observation is needed too. This means that from specific phenomena (perceptions) in reality, a more general conclusion is drawn. Here is a simple example of induction too.

![Inductive Reasoning Example]

Abduction on the other hand is based on what could be seen as a combination of induction and deduction. This is also the method that we have used when carrying out our study. Abduction means that a general theory or pattern is used in order to explain and interpret a specific case. Studying several individual cases then reinforces this interpretation. This refines the comprehension of the empirical cases at the same time as the theory gets adjusted.

![Abductive Reasoning Example]

---

44 Widersheim-Paul/Ericsson, 1991
45 Molander, 1988
46 Widersheim-Paul/Ericsson, 1991
In our study, we started out with a theoretical understanding for the situations that we were to study. This understanding, or pre-comprehension, is also the base for the questions we have asked in our research. As the research went on however, we readjusted our questions and somewhat modified our theoretical framework. We also did second complementary interviews when we felt we had not got the information that we needed. This means that we have had the sort of interplay between theory and reality that corresponds the most to the abductive approach.

3.5 CHOICE OF THEORETICAL FRAMEWORK

The bulk of the literature we have chosen treats initial stages of alliances. Though, the literature treating this subject is mainly aimed at large corporations, therefore literature on SMEs, treating SMEs in general also have been used. This, since the subject of alliances between small businesses has been very hard to find. It has also been necessary to look into literature treating alliances between emerging and industrialised markets, such as South Africa and Sweden.

Literature has mainly been found in academic management literature, articles and books but more practical books on partnership creation written by consultants have also been of help.

The basis for our theoretical framework is mainly secondary data, that is, information collected and documented by someone else. In this case secondary data consists of books and articles. The articles have been a useful source of recent findings in the field of business partnership and alliance creation. These articles have also enriched our SMEs focus.

3.6 CHOICE & COLLECTION OF PRIMARY DATA

In this thesis we have to some extent used empirical findings, these are mainly based on primary data. We have a total of four cases, each involving two companies. The reason for this is that we wanted to obtain a certain richness in our reasoning by looking at our topic from several angles.

We have conducted one interview at each company, thus, in total eight interviews. This includes on-site interviews, telephone interviews and e-mail questionnaires. We tape recorded all our face-to-face interviews as well as telephone interviews.
The interviews were later written down word for word. As for the interviews with our Swedish interviewees, we have done our best to translate the quotations we have used in this thesis into English.

In the three cases we have used e-mail questionnaires we have followed up by a smaller telephone interview if we felt we lacked information or wanted to clarify something. In all cases the respondent was the person responsible for the alliance and in all cases this was the head of each company.

So how did we go about collecting our primary data? We first started this thesis by doing research on our chosen topic. We then went to Johannesburg and participated in the so called “Small Business Partnership Seminar”, where Swedish and South African companies were supposed to meet and start discussing partnership.

It was our original plan to find people from the companies that had started discussing partnership with each other and to do interviews with them in the evening after the seminar. This proved to be too optimistic. As it showed, most people only stayed for a short time in Johannesburg and they did not want to spend their time being interviewed by us – but rather they wanted to make new business contacts, a fact that is very understandable.

However, we managed to make a few connections, which later proved to be valuable. Since we were going to stay in Cape Town for some time after the trip to Johannesburg, we decided to try to get in touch with some of the South African companies that originated from Cape Town and then interview their Swedish potential partners when we got back to Sweden.

We did manage to get a list of the South African companies from Cape Town that had got in touch with Swedish companies. There were four of them and we decided to contact them and try to schedule an interview with each of them.

Luckily, they were all willing to be interviewed, but unfortunately, the list mentioned above, was wrong – only two of these four companies had actually started discussing partnership – the other two had not managed to get in contact with anybody, although they wished to do so. So, we were left with only two relevant interviews – too few.

Fortunately, we had talked to one Swedish company that was going to Durban after the Johannesburg seminar. They had told us, they were sure to get in touch with a potential partner, so back in Sweden we contacted them
and hence, we managed to get our third case – although we could not do these interviews in person.

At the seminar, we had also talked to one company, which already had a partner in South Africa and we decided to contact them as well. We were in luck! They were also willing to participate in our study – but again, it was impossible to do these interviews in person, instead we used telephone interviews and e-mail questionnaires.

Below – our final list of cases and interviewees, and the primary type of “interview”:

**Figure 3 Potential Partnerships and Interviewees**

- Johan Levine, Levcoj: On-Site Interview
- Brian Johnston, Fabconsult: On-Site Interview
- Morare Manaka, Manaka Cell: E-Mail Questionnaire
- Eskil Olsson, Eskil Olsson International: Telephone Interview
- Richard John, Lejn: E-Mail Questionnaire
- Sune Bergs, Sune Bergs Engineering: On-Site Interview
- Anders Karlsson, Merconda: E-Mail Questionnaire
- Lars-Erik Andersson, Largo: Telephone Interview

### 3.7 Interview Design

We have used an interview form, which can best be described as a directed open interview.47 The interviews were meant to let the respondent describe his subjective view of reality, although, we had set the initial context of the interview. We had prepared an interview document with the questions we wanted answer to. However, these questions were of a “open” character, which allowed the interviewee to speak freely. This also allowed us to come up with resulting questions as the answers and the discussion.

---

47 Lantz, 1993
proceeded. One consequence of this is that our interviews are more like conversations that strict interviews. Of course, we tried to get all our questions answered in one way or another. Sometimes we also had to ask the same question several times, but in different shapes, if we felt we had not got an answer to what we were asking.

The reason for using this type of interviews was that they were made in the initial stage of the study and we were not quite sure what we were looking for. Although we had read some literature treating the subject of alliances we had not yet decided exactly what we wanted to treat in our thesis, therefore we found the chosen interview form to be the most convenient. Although, by doing this we got information, which we had no use for in our thesis.

3.8 CRITICISM OF SOURCES

Most of the literature we have used is focused on alliances between large multinational corporations. When these books talk about contextual issues of alliances, the focus is often on making the different organisational units understand and accept the partnership. Since we write about small companies, we have tried to adapt these implications for large corporations to a small company context. In doing so, we have tried to be as careful and accurate as possible. However, there is still a risk of not getting the correct line of reasoning. We want the reader to be aware of this.

Management books written by consultants tend to be rather deterministic in its approach to business partnership creation. Often, the normative advice provided in these books seem to be based on generally applicable rules as for how to create a successful partnership, no matter who you are, what you do or where you are. So when using this type of literature, we have done our best see through its normative and deterministic approach.

When looking at factors concerning attitudes, expectations and underlying opinions it is very difficult to know if the respondent is showing his true colours or if he, deliberately or undeliberately is hiding something. Since we have used cases involving two companies just beginning partnership discussions this fact may come in to play since this is a sensitive stage and they probably do not want to say something that might upset the other party. However, this is always a risk when using interviews and when studying peoples’ attitudes and opinions.

Also, it would have been better to do all the interviews in person but unfortunately this was not possible. The interviews made by e-mail
questionnaires have in all cases however, been enriched by follow-up telephone interviews. We have not had the possibility to meet all our interviewees more than once, or in some cases not at all, which we know limit our analysis as well as increase the risk of us drawing inaccurate conclusions.
4 Collaboration – An Introduction

This chapter will serve as an introduction to inter-organisational collaboration. We will start by giving you a little prelude to the concepts of business collaboration since different types of partnerships lead to different degrees of commitment and interdependence between the involved parties. After that, we will present some all-embracing objectives of why companies choose to collaborate. Finally, we will link these objectives to the value creation that the collaborators hope to obtain.

4.1 Collaboration Defined

There is a whole spectrum of different types of business collaborations as well as definitions of how these should be categorised. In today’s literature there are almost as many definitions as there are authors. First we need to establish what we mean by when we talk about business co-operation.

We have chosen not to stick to any of the narrow definitions of what a partnership or an alliance is. The things we want to focus on are aspects that affect collaboration between companies. The formal design of the alliance is of less importance to our primary discussion. However, the form affects the aspects that we will bring up in this thesis in different ways and to different extents, but it is not a categorisation in itself that we are looking for. It is rather the degree of commitment and interdependence following from the chosen partnership form that we are interested in. When we talk about alliances and, or partnerships, we basically mean any kind of collaboration between companies that is supposed to last for some time.

Figure 4 The Pyramid of Co-operation - Adapted version

---

48 Segil, 1996
Business partnerships come in virtually all sizes, shapes and classifications. They exist in both the private and public sectors and sometimes bridge them. They can be between two people who share the same office, or they can transcend industry and national borders. They can be composed of organisations ranging from the world’s largest to its smallest. They can exist for an indefinite period of time. Or they can, if the partners wish, operate for a very limited time. They can exist for a number of reasons and they can involve virtually anyone.49

Within our definition of business collaboration, or partnerships stated above – let us give you some examples of the different shapes collaboration can take. Below, an attempt is made to roughly classify the more common types of alliances, ranging from more informal co-operative ventures to a merger between two companies. The traditional form of alliance is the joint venture. However, this form has been joined by a number of new forms of collaborations.50 Note that the list below is no more than an example of the many collaborative forms that exist.51

- **Joint Marketing/Distribution** – One company co-operates with another in order to market and/or distribute the products of both companies or one company only.
- **OEM** – One company manufactures products to be sold by another company.
- **Licensing** – One company manufactures a product for sale under another company’s label.
- **Private Label** – One company manufactures products to be sold under another company’s label.
- **R&D** – Two companies join in a research project for the development of new technology and/or products for mutual benefit.
- **Technology transfer** – One company transfers knowledge of its technology to another company for payment or other value.
- **Joint venture** – Two companies co-operate in the creation of a new separate business entity in order to reach mutually compatible goals.
- **Equity investment** – One company purchases a part of another company’s equity for cash, stock or other remuneration.
- **Take over** – The complete acquisition of one company by another.
- **Merger** – Two companies merge together into one company.

Many companies start out with an informal co-operative venture, or the first step on the pyramid - joint marketing distribution. When time passes and the collaboration deepens, they move up the pyramid to other forms of co-operation forms. Hence, it has lately been increasingly important to manage inter-organisational collaboration over time than exclusively concentrating on crafting the initial formal partnership design.

---

49 Bergquist et al., 1995
50 Doz/Hamel, 1998
51 Segil, 1996
It is more common that international collaboration starts with a low commitment form. They are less risky and require a lower commitment of human resources and capital investment.\textsuperscript{52}

Depending on the degree of commitment of the types of partnerships shown in the figure above, aspects that we are going to discuss later on in this thesis will have different importance and effects on the relationship between potential partners. Hence it is important to know that different types of partnerships involve different needs and degrees of commitment and interdependence from the parties.

4.2 MOTIVES FOR CO-OPERATION

Even though partnerships cost both time and money, many organisations still realise that they are a better alternative than going alone. Alliances and other types of co-operation become more and more important for organisations all over the world. Why at this time in our history do people find partnerships so attractive? The reasons vary, of course, to whoever supplies them. But there exists, however, some general theories.

The most fundamental reason for companies to collaborate is that they hope to create some sort of value by doing so. It has been proved to be important to have a clear picture of the kind of value that is supposed be generated from collaborating. If the parties are unaware of this, then how are they supposed to know whether or not the partnership is successful?\textsuperscript{53}

Given the challenges that most partnerships face, it becomes essential trying to fully appreciate all the benefits partners can expect from the collaboration so they do not lose their sense of purpose when confronted with unexpected setbacks. They should at least be clear about values, purpose and mission, because this clarity also helps to sort out areas of tension between the parties\textsuperscript{54}.

Business partners who attempt to assess potential benefits often fall into one or both of two traps: (a) making excessive ambitions and overly optimistic assessment of benefits and (b) defining the range of potential benefits too narrowly.\textsuperscript{55} Ambitions are either too grand to be realised or so narrowly defined that other value creation opportunities are overlooked. Whether facing an excessively ambitious or overly narrow plan for the

\textsuperscript{52} Segil, 1996 and Johansson/Vahlne, 1990
\textsuperscript{53} Samli/Erdener Sharif, 1996
\textsuperscript{54} Berquist et al., 1995
\textsuperscript{55} Doz/Hamel, 1998
scope of the alliance, the essential point remains the same. Discovering the full range of potential benefits is a prerequisite to building business partnerships that creates value.

Most types of business partnerships serve one or several strategic imperatives. Doz and Hamel are talking about two different kinds of races in order to illustrate these strategic imperatives. One is the race for the world, which means attempting to make the most of global opportunities. The other is the race for the future, which refers to leading the technological development. If a company is racing for the world, it will form a business partnership to do what it cannot do alone, which may be one or more of the following:56

- **Build critical mass globally or in a specific market**
- **Learn quickly about unfamiliar markets and become an insider**
- **Access skills concentrated in another geographic area**

These are the most common requisites for winning the race for the world, or globalisation-race so to speak. Each represents an opportunity for the alliance and its partner firms.

The partner that is racing for the future may also find that collaborating has its own means of creating value:

- **Building nodal** positions in coalitions aimed at creating new markets
- **Creating new opportunities by combining skills and resources**
- **Building new competencies faster than would be possible through internal efforts**

The strategic use of partnerships in the races for the world and to the future seems quite different on the surface. However, they do share a set of underlying logics. Doz and Hamel mean that these are what managers should look for as they create and design their partnership, set objectives and score-keeping procedures, and guide day to day activities. In the figure below these underlying logics are linked to the technological and globalisation races. (The figure will be further explained below)

---

56 Doz/Hamel, 1998
57 The company becomes a “node” in a network, from which it can lead the development of new industries and competitive arenas …
The underlying fundamental imperatives that drive companies to form alliances for both technological and globalisation reasons are:

- **Gaining competitive capabilities through co-option**
- **Leveraging co-specialised resources**
- **Gaining competence through internalised learning**

These are the fundamental imperatives that drive companies to form alliances: the need to position themselves strategically and gain competitive capabilities through the co-option of rivals and complementary firms; the need to combine their resources through co-specialisation so as to access new markets and create or pursue new opportunities they could not consider on their own, and the need to learn through alliances, both to overcome skill deficits and to acquire new competencies.

Thus, alliances create value in different ways depending on the motives they serve.

---

58 Doz/Hamel, 1998
Figure 5 presents a comprehensive view of the various imperatives of the races for the world and the future and of the collaborative strategies through which companies respond to them.

The different motives or value creation logics for entering a partnership presented above call for different types of partnerships. These are also shown in Figure 5. The different value creation logics can be categorised into at least three distinct and all-embracing types of business collaboration: co-option-, co-specialisation-, and learning and internalisation.59

- **Co-option.** Co-option turns potential competitors into allies and providers of the complementary goods and services that allow new businesses to develop. Doz/Hamel use the term co-option in the sense that (a) potential rivals are effectively neutralised as threats by bringing them into the alliance and (b) firms with complementary goods create network economies in favour of the coalition. Both competitors and complementers need to be co-opted into coalitions, or in other words, they need to be brought into one’s own camp.

- **Co-specialisation.** Co-specialisation is the synergistic value creation that results from the combining of previously separate resources, positions, skills and knowledge sources. Partners bring together their different resources to the alliance. This type of collaboration create value when those resources are co-specialised, that is they become much more valuable when brought together in a joint effort than when kept separate.

- **Learning and internalisation.** Co-operation may also be a means for learning and internalising new skills, in particular those that are tacit, collective and embedded (and therefore difficult to obtain in other ways). Core competencies are not for sale on an open market. When these skills can be learned from a partner, internalised, and exploited beyond the boundaries of the alliance itself, they become all the more valuable. This means that the learning one gains from a partner often can be leveraged broadly into other activities and businesses beyond those covered by the alliance.

In the initial phase of a partnership it is important to critically assess the prospective benefits from co-operating to each party. Depending on the value creating logics of the alliance, these benefits accrue through gaining

---

59 Doz/Hamel, 1998
scale and/or scope, and/or complementarily, and they do it in different ways.60 For instance, benefits can accrue by gaining access to markets, gaining access to technologies, sharing risks, saving on costs, sharing investments, saving time et cetera.

It has been observed that conflicts and tensions that afflict alliances tend to accumulate around the key areas of value creation and capture.61 Managers who understand the different logics of value creation are therefore better prepared to predict where conflicts are likely to erupt and be most intense.

Contractor and Lorange in their turn suggest seven more or less overlapping objectives for companies to collaborate, which we believe can be matched with Doz and Hamel’s overall purposes. Contractor and Lorange’s seven rationales for co-operation are shown below:

**Table 1 Seven Rationales for collaboration**

<table>
<thead>
<tr>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Reduction</strong></td>
</tr>
<tr>
<td>Product portfolio diversification</td>
</tr>
<tr>
<td>Dispersion or reduction of fixed cost</td>
</tr>
<tr>
<td>Lower total capital investment</td>
</tr>
<tr>
<td>Faster entry and payback</td>
</tr>
<tr>
<td><strong>Economies of Scale and/or Rationalisation</strong></td>
</tr>
<tr>
<td>Lower average cost from volume</td>
</tr>
<tr>
<td>Lower cost by using comparative advantage of each partner</td>
</tr>
<tr>
<td><strong>Complementary Technology and Patents</strong></td>
</tr>
<tr>
<td>Technological synergy</td>
</tr>
<tr>
<td>Exchange of patents and territories</td>
</tr>
<tr>
<td><strong>Co-opting or Blocking Competition</strong></td>
</tr>
<tr>
<td>Defensive joint ventures to reduce competition</td>
</tr>
<tr>
<td>Offensive joint ventures to increase costs and/or lower market share for a third company</td>
</tr>
<tr>
<td><strong>Overcoming government-mandated investment or trade barrier</strong></td>
</tr>
<tr>
<td>Receiving permit to operate as “local” entity because of local partner</td>
</tr>
<tr>
<td>Satisfying local content requirements</td>
</tr>
<tr>
<td><strong>Initial International Expansion</strong></td>
</tr>
<tr>
<td>Benefit from local partner’s knowledge</td>
</tr>
<tr>
<td><strong>Vertical Quasi Integration</strong></td>
</tr>
<tr>
<td>Access to materials</td>
</tr>
<tr>
<td>Access to technology</td>
</tr>
<tr>
<td>Access to labour</td>
</tr>
<tr>
<td>Access to capital</td>
</tr>
<tr>
<td>Regulatory permits</td>
</tr>
<tr>
<td>Access to distribution channels</td>
</tr>
<tr>
<td>Benefits from brand recognition</td>
</tr>
<tr>
<td>Establishing links with major buyers</td>
</tr>
</tbody>
</table>

As shown above Contractor and Lorange also use the term *co-opting* when describing blocking competition as one of the main objectives as to why

---

60 Lorange/Roos, 1992  
61 Doz/Hamel, 1998  
62 Contractor/Lorange, 1988
firms choose to collaborate. Complementary technologies and patents, initial international experience and overcoming government-mandated investment or trade barrier seem to correspond the most with what Doz and Hamel call co-specialisation of resources. Vertical quasi integration can clearly be linked to the value creation logic of gaining competence through learning and internalisation. Risk reduction and economies of scale and/or rationalisation however, can probably be found in more than one of Doz and Hamel’s general motives for collaboration.

What makes the distinctions between co-option, co-specialisation and learning/internalisation so important, is that the partnership should be both conceived and managed according to its value creation logic. If this consistency is not maintained throughout the course of the partnership, disappointment is bound to follow.

One specificity of partnerships between small companies is that the collaboration process often is concentrated on one person, the entrepreneur, and his knowledge and experience. All decisions, negotiations, impressions and motives depend on this person. The personality of this same entrepreneur affects not only the small company, but also almost all of its external contacts. In order to understand how a small company works, one therefore has to understand the entrepreneur.

We think that Doz and Hamel’s overall categorisation of the different motives for engaging in partnerships is clear and simple in structure. Therefore this is the terminology we will use most of the times when discussing different types of partnerships.

4.3 COLLABORATION IN INDUSTRIALISED VS EMERGING MARKETS

In the case of collaboration between companies from industrialised – and emerging markets there are some common characteristics concerning the purpose of creating a partnership as well as some typical problems that often occur in this creation. Several studies suggest that alliance creation between companies from industrialised and emerging markets often follow certain patterns. The company from the emerging market usually engages with a company from an industrialised country since this provides an

63 Ellram, 1992
64 Johannisson/Lindmark, 1996
65 Makino, ShigeDelios, Andrew, 1996, Dymsa in Contractor/Lorange, 1988, Mackinsey Quartely, 1997
appealing way to accelerate entry and reduce the risks and costs of going it alone.\textsuperscript{66}

Companies in emerging markets can find the idea of an alliance equally attractive. The local company would benefit from the acquisition of essential technology, business-know how and trade marks, which is often faster and more effective than alternative approaches to learning. Internal development, for instance, is often slow and uncertain. Even purchased technologies require time to learn and may be linked to other company-specific skills.\textsuperscript{67} For other local companies in emerging markets, alliances may appear to be the only way - short of selling the company outright - to survive once the home market has opened to new entrants bringing global brands or technology. This is independent of what sort of partnership is created.\textsuperscript{68}

There are not that many studies of alliances between small companies from industrialised and emerging markets. But one, focusing on manufacturing joint ventures between SMEs from industrialised and developing countries, draws the conclusion that the local partner provides a combination of local financing, an existing plant and facilities, most of the management, its marketing expertise and relationship with the government and other important groups. The manufacturing technology, the product know-how, technical training and business expertise contributed by the foreign SME lead to a more efficient manufacturing and marketing operation, introduction of new products, or improvement of existing products.\textsuperscript{69} Even if this particular study was concentrated on only one type of collaboration, we believe that it could be relevant for other types of collaborations too.

Local firms have the general advantage of better information about their country; its economy, its language, its law, and its politics. To a foreigner, the cost of acquiring this information may be considerable.\textsuperscript{70}

A firm that invests abroad has an ownership advantage, which is transferred across borders, but as a consequence of investing abroad, the firm has the disadvantage of being foreign\textsuperscript{71}. This disadvantage stems from a lack of local knowledge of social, political and economic conditions in the host country\textsuperscript{72}. Thus, a stock of local knowledge is required to mitigate

\textsuperscript{66} Ouma, 1997  
\textsuperscript{67} Doz/Hamel, 1998  
\textsuperscript{68} Makino, ShigeDelios, Andrew, 1996, Dymsza in Contractor/Lorange, 1988  
\textsuperscript{69} Dymsza, in Lorange/Contractor, 1998  
\textsuperscript{70} Makino, ShigeDelios, Andrew, 1996  
\textsuperscript{71} Hymer, 1976  
\textsuperscript{72} Beamish, 1984
such disadvantages. Partnering with a local company is a way of overcoming these downfalls.

Given this pattern of mutual benefit, it is not surprising that alliances account for at least half of market entries into Latin America, Asia, and Eastern Europe. Yet the popularity of alliances between emerging market and global companies, and their apparent "win-win" character, can mask their difficulty. They are hard to pull off and often highly unstable - much more so than alliances between companies from similar economic and cultural backgrounds. Many have failed to meet expectations or have required extensive restructuring. Indeed, in recent years, numerous high-profile joint ventures in Asia and Latin America have been dissolved, restructured, or bought out by one of the partners.73

These challenges do not however, mean that companies from the industrialised world should avoid partnering with companies from developing countries. It has even been argued that different strategic objectives among business alliance partners are healthy.74 This is also quite typical for many business collaborations; that the goals are different, but complementary. However, these types of partnerships do call for some extra attention. The way to reach mutual gain, even though there exists a long-term divergence in goals, is to stress the mutual recognition of these issues among the partners, so that the complementary issue becomes the common driving force in the otherwise different strategic objectives.75

4.4 COLLABORATION FOR INTERNATIONALISATION OF SMALL FIRMS

Forming a partnership is a common means for small businesses of going international. International partnerships provide a quick and affordable way of gaining market access.76

Many SMEs are often dependent on co-operation with other firms, in order to get external resources, access to customers, product ideas and information. Business partnerships thus can be an effective means of penetrating foreign markets.77 Medium-sized and larger companies usually have more financial resources and consequently can afford to hire personnel in order to get access to knowledge and social networks.78 As

73 McKinsey Quarterly, 1997
74 Ohmae, 1989
75 Lorange/Roos, 1992
76 Hertz/Mattson, 1998,
77 Hertz/Mattson, 1998
78 Holmlund, Kock, 1998
stated above, firms in general, and also many larger firms prefer to go through a partnership when entering a new market, though not primarily for financial reasons.

In small and medium-sized companies the personal resources become crucial, since the internationalisation process often centres on one person and his knowledge and experience. Most small exporters lack a specific export department. The key actor in the internationalisation process of a small business is the decision-maker of the firm.79

The two far most important ways of taking the business abroad are agents and own salesmen. This may be a natural choice for SMEs engaging in international business as they often lack resources to make larger investments in foreign market and may not be willing to take on larger risks. Cheap and easy modes to choose are agents or own salesmen visiting the customers. The benefit of using an agent is that he is already embedded in a business network and that he usually has the needed relationships.80

Furthermore, by using an agent as intermediary, the exporting SME can compensate the lack of resources such as knowledge about foreign markets and capital as well as minimise the risk. This corresponds well with Doz and Hamel’s discussion on co-specialisation in order to gain local market knowledge. It also corresponds with the patterns in partnerships between companies in industrialised and emerging markets. Risk in the introductory stage can be a significant obstacle for the SME, that generally is not able to absorb risk in the same way as bigger firms are able to do. An agent can be the best solution if the export market is far away.

A major drawback, however, is a lack of contact with the customer and end-user. If co-operation problems arise the agent may have all vital information. Using an agent can be seen as a passive way of starting exporting and leading to limited control over the agent.81

79 Holmlund, Kock, 1998
80 Ibid
81 Hertz/Mattson, 1998
5 Initial Conditions of Co-operation

In this chapter we will treat factors concerning how the partners look upon the partnership and how this affects collaboration. We will discuss how collaboration is perceived by the parties, partner expectations and the desired scope the partners see in the collaboration.

In the previous chapter we discussed different objectives for engaging in partnerships as well as the value-added that is supposed to be generated. What also need to be considered in the alliance discussion are factors that will affect the relationship and the actual collaboration between the partners. Now we come to the part that was illustrated in Figure 1 Initial Stage of Collaboration. It has even been shown that the initial conditions of a business partnership have a disproportionately large impact on how collaboration will develop later on.\(^{82}\) It means that the foundation of a successful partnership is laid during the initial formation process.\(^{83}\)

This is the stage where the parties establish what the alliance will look like. It is also the stage where they get to know each other and create a mutual image.

In small companies the entrepreneur commonly is seen as making the difference between success and failure and generally most of the international business activities are centralised around this person.\(^{84}\)

As the partners begin to learn from each other they will also begin to periodically re-evaluate collaboration, which will move the partnership away from the initial conditions.\(^{85}\) We will not further develop this re-evaluation process in our thesis since, as mentioned before, our focus is on the initial phases of partnerships. However, it is very important to remember that the initial conditions of an alliance will not solely determine its fate. A business partnership should not be seen in static efficiency terms, but from an evolutionary perspective, meaning it is the initial conditions together with the co-operation participants’ ability to learn and adapt to each other over time that, in the end of the day, will determine the success of the partnership. Some studies even suggest that the hallmark of

---

\(^{82}\) Doz, 1996
\(^{83}\) Lorange/Roos, 1992
\(^{84}\) Holmlund, Kock, 1998
\(^{85}\) Doz, 1996
successful alliances that endure is their ability to evolve beyond initial expectations and objectives.\textsuperscript{86}

The initial and strategic context of an alliance combines three elements:\textsuperscript{87} First, it involves the way the partners frame the alliance, or in other words, how each partner look upon partnership in general. Secondly, the ambitions the partner hopes to fulfil through collaboration, what expectations the partners have on the alliance and thirdly, the scope the partners see in the alliance.

This initial and at the same time strategic context places the alliance within the partner’s broader corporate strategy, giving the alliance its strategic scope. It is also within the initial context that the partners place the alliance in one or another category of relationships, which in turn sets the tone for the partners’ interaction. Finally, the strategic context within which partners place the relationship also sets their expectations about its benefits.

5.1 PAST EXPERIENCES AFFECT COLLABORATION

Previous experiences of business collaboration affects the way managers and their companies conceive collaboration and what they want to achieve with it. Doz and Hamel label this \textit{Framing}. They mean that framing is an essential part of the initial context that affects collaboration directly.\textsuperscript{88} A frame provides a consistent set of definitions, perspectives, rules, and assumptions for the involved parties that stem from past experiences with interorganisational collaboration. Hence it is useful for guiding “sense making,” for quickly coming to grips with a situation, and for accumulating some forms of learning and excluding others. At the same time, and precisely because it provides a structured receptacle for experience, an inappropriate frame is pernicious.

The partners’ action routines are borrowed from their organisational and the strategic contexts that preside over the inception of the partnership and they are harder to adjust than partnership-specific conditions. In so far as partnerships bring together firms with different technologies, markets and experiences their organisational contexts are likely to reflect these differences and make collaboration more difficult.\textsuperscript{89}

\textsuperscript{86} Bleeke, 1991  
\textsuperscript{87} Doz/Hamel, 1998  
\textsuperscript{88} Doz/Hamel, 1998  
\textsuperscript{89} Doz; 1996
Past experience leads managers and their companies to frame their relationships with partners in unique ways, and these may be inappropriate for the new partnership that is to be created. There are several possible variants of this problem. The parties might put different meanings to similarly labelled frames. This means that even when both parties talk about the same things, they understand them differently. A frame borrowed from an old context might be applied in a situation with the new partner.90

Patterns of interaction usually develop over time, but they may be heavily influenced by dominant individuals, such as founders, or groups.91 While people may act in new ways, there will be a tendency to use past stories, myths and experiences (which form part of the individual’s store of cultural knowledge), as a basis for determining action. These patterns of interaction become recursively recreated over time and ultimately become shared knowledge. This shared knowledge is then used by organisational members to make sense of past experiences and provides a framework for interpreting situations and deciding present and future actions.92 In other words, whilst the interplay between individual sense-making and group discourse is complex, it is also critical to an understanding of how reciprocal patterns of influence are formed and reconstructed within organisations.93

The problem of inappropriate framing is enhanced by the fact that most managers today have had some experience with acquisitions, alliances, or some other form of co-operation between companies. Few come to the table without a set of experience-shaped prejudices about what alliances are for and what makes them either successful or problematic.

At least initially, people are unsure of the trustworthiness of persons or companies they have never dealt with before. In business partnerships, therefore, managers match observed (actual) behaviours against expected (co-operative) behaviours.94 The better this match, the more confident one becomes in placing trust in a partner. Lewis described this process as follows95:

"People learn differently from negative and positive experiences. Just one unpleasant incident . . . . imprints the event on your memory. Like touching a hot stove, you keep your distance after that. A good experience,

90 Gulati, 1995
91 Schein, 1983
92 Rawson/Himings/Greenwood,1980
93 Bloor/Geoffrey/Dawson/Patrick, 1994
94 Parkhe, 1998
95 Lewis, 1990
by contrast, must be repeatedly reinforced before people accept the pattern”.

5.2 EXPECTATIONS

Some expectations are explicit and shared; these reveal themselves during the negotiation stage of the collaboration and provide the common basis for its start. In addition to explicit and shared expectations, most partners probably harbour private expectations that they do not share with their allies – revealing them could damage the co-operative relationship. These may concern the final state of the relationship. Secret thoughts or wishes about end states between allies are not the only unshared expectations. The full nature of the expected exchange between partners may not be explicit.

High expectations are a common source of problems. To make the collaboration more palatable to executives and line employees, future benefits from co-operation are often overstated. Successful negotiations between partners also contribute to inflated expectations. At the conclusion of the deal, commitment is made to what is usually an overly optimistic view of the future. Companies may overestimate the expected contributions of their partners. Partners may also knowingly overestimate their own contribution.96

If partners fall prey to unjustified optimism, disappointment is bound to follow. Excessively sanguine expectations set a nearly inescapable trap for the partners: as partnership performance is judged against initial expectations, plan and reality will not match and the partnership may well be terminated prematurely for no other reasons than its overly rosy initial expectations. Beyond pleading for realism in the initial assessment of a business partnership, it is difficult to prescribe methods for avoiding the expectations gap.

The quality of the initial assessment is the best guarantee that expectations will be in line with future outcomes.97 The more robust the value creation logic, and the more compatible the long-term strategic interests of the partners, the less likely they are to embrace unrealistic expectations. Top management can play a role here by remaining temperate in its representation of partnership benefits, and by reminding everyone of the effort required in obtaining them. Overselling the gains and understating the pain is usually a recipe for disaster.

96 Young/Gilbert/McIntyre, 1996
97 Gulati, Nitin, 1994
Another way to temper undue enthusiasm is to create substantial overlap between those who negotiate the partnership and those charged with implementing it. Operational managers who know that they will have to live up to commitments are less likely to allow these commitments to escalate.\textsuperscript{98} It is here important to note that in the case of business partnerships between small firms, the person negotiating the partnership and the one implementing it is likely to be the same person.

5.3 THE SCOPE OF COLLABORATION

The scope of a business partnership has three dimensions; areas of interests, net benefits and joint operations. Interests determine a partnership’s strategic scope and usually encompass its widest territory. Benefits underpin its economic scope; some benefits accrue within the collaboration itself, while others accrue separately to each partner. Joint activities provide operational scope, which is typically the narrowest definition of the co-operation territory.\textsuperscript{99}

5.3.1 Strategic Scope

A partnership must be structured so that it is the strategic intent of both parties that it will actually succeed.\textsuperscript{100} Strategic scope consists of the specific product-, market-, or activity-areas of interest that the partners want to include in the alliance.\textsuperscript{101} For instance, if two automobile companies enter an alliance to develop engines, then the entire automobile engine business of the two companies is the strategic scope.

It includes the number of business functions the alliance encompasses, the number of products in the alliance, as well as the number of markets the alliance serves.

In addition it also includes a time frame, or a planned duration of the alliance.\textsuperscript{102}

If a partnership is to succeed, both parties must have desired strategic scopes that are reconcilable. It is therefore important that this match is quite explicitly stated and established in the initial stage of the partnership. The two parties will come to the table with more or less different strategic objectives, and will seek different benefits from co-operating in relation to

\textsuperscript{98} Walton, 1996  
\textsuperscript{99} Doz/Hamel, 1998  
\textsuperscript{100} Lorange/Roos, 1992  
\textsuperscript{101} Doz/Hamel, 1998  
\textsuperscript{102} Killing in Contractor/Lorange, 1988
their respective strategies. The two different desired strategic scopes must, however, be sufficiently compatible to leave room for co-operation, which is not necessarily so easy.

For instance, if one party has a predominantly short-term intention, while the other wants to be in it for a longer period of time, they may have difficulties in establishing a matching strategic scope.

Another important question at this point is also whether each party shows its true desired strategic scope. This is a question that is hard to answer. It needs to be addressed carefully though, by trying to understand the strategic position from which each party comes.

Companies that learn new skill together or from each other find less difficulty with strategic scope, in particular, if they serve different markets or segments. Each will have its separate strategic ambitions for its own markets and will learn from the other.

Strategic scope is also less likely to be a source of conflict in co-option alliances. Because strategic scope drives co-operation, strategic scope conflicts would likely prevent the partnership from being initiated.

5.3.2 Economic Scope

Economic scope is defined by the range of activities that take in place within the partner firms on behalf of the business partnership.

It is important that what is being put into the alliance in terms of resources and what is generated from it, is reflected upon. If two companies put in 50 percent each into a partnership, they should be able to get 50 percent each of the benefits accrued. It is therefore important that the alliance is transparent enough to allow insight of all parties. It is likewise important that agreements have been reached on how the benefits of the alliance should be measured and controlled, which not always is that easy.

The interests and attitudes of alliance partners cannot be fully understood if the full economic scope of an alliance is not considered. The benefits of the alliance to the partners may namely accrue largely outside of its operational scope.

103 Lorange/Roos, 1992
104 Ibid
105 Doz/Hamel, 1998
Decisions on economic scope are most critical when companies in the same business form a co-specialisation alliance. Here, mismatched or misunderstood economic scopes can lead to severe conflicts.

Thus, partners must recognise that the economic scope of co-operation is wider than its operational scope and develop a comprehensive view of each partner’s benefits and contributions.

5.3.3 Operational Scope

The operational scope of inter-organisational collaboration is what is actually done jointly by the partners. The simpler the task that a partnership has been created to carry out, the simpler may be its operational scope. Partners may decide to minimise or maximise this operational scope.

Minimising joint activities has several advantages. First, the needs for coordination and integration are reduced, which translates into practical savings on the cost of collocation, travel, integrated teams etc. Second, because fewer activities are shared, minimising the operational scope reduces the risk of unintended leakage of technology or skills from partner to partner. Third, limiting operational scope may circumvent the problem of cultural distance by reducing requirements for two very dissimilar companies to work together closely.

However, minimising the operational scope of a partnership can be costly, especially if later developments call for expansion. A broader operational scope normally provides a larger exchange surface on which members of the partner firms can interact, communicate and learn from each other.

Therefore, in the planning process of joint activities, it is important to think about what would constitute a sufficient interface to facilitate joint learning.

5.3.4 Scope Issues

All three kinds of scope – strategic, economic and operational – can create conflicts that may erupt in very different places. Operational scope conflicts emerge at the interface where partners work together. One partner may, for instance want to work more closely with its partners, while the others may want to keep allies at arm’s length.

---

106 Contractor/Lorange, 1998
107 Doz/Hamel, 1998
108 Berqvist et al, 1995
Economic scope difficulties typically manifest themselves at the boundary between those activities that are jointly performed and those that are not. Strategic scope difficulties manifest themselves mostly around market competition and situations in which each partner may push its own products rather than the products of the alliance.\textsuperscript{109}

If there are problems within one of the three scopes, there is a great risk that there are tensions within the other scopes as well.

This interconnectedness between strategic, economic and operational scopes in partnerships means that issues of scope need to be considered in the light of the partnership’s value creation objectives. How the partnership is connected, strategically, economically and operationally with other activities the partners leave outside the alliance, or even perform through other, needs to be very carefully considered up front when conceiving a new collaboration.

All three types of scope are important to all three types of value creation logic, but in different proportions. Market and competitor-driven considerations of strategic scope are key to co-option partnerships, as their benefits are often more strategic and accrue outside the co-operation proper. Conversely, in co-option collaborations, the operational scope is often unimportant, as partnership success does not imply closely integrated joint tasks.

In co-specialisation alliances the economic scope often matters the most, as benefits and costs often accrue in activities that are closely related to that of the alliance but not part of its operational scope.

In learning partnerships all three scopes are important, but the operational scope conditions what learning, and how much learning, can take place.

Doz and Hamel summarise and highlight the relationship between alliance scope and value creation logic, which is shown in the figure below.

\textsuperscript{109} Doz/Hamel, 1998
### Figure 6: The Relationship of Scope to Value Creation Logic

<table>
<thead>
<tr>
<th>Strategic Scope</th>
<th>Co-option</th>
<th>Co-specialisation</th>
<th>Learning and Internalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Interests must be similar</td>
<td>Strategic materials must be compatible and result in comparable performance expectations</td>
<td>Differences in strategic market scope and similarities in skill sets and required capabilities facilitate co-operation</td>
<td></td>
</tr>
</tbody>
</table>

**Economic Scope**
- Each partner must find enough benefits in the alliance to remain committed to its continuation
- Minimise interpartner trade by making the alliance a stand-alone joint venture or manage trade in as neutral a fashion as possible
- There must be careful separation of value creation performance from value appropriation costs

**Operational Scope**
- Usually unimportant
- Depends on the demands of the joint task and on concerns for skill leakage to partner
- Must provide enough of a window for learning from the partner or from a joint learning ground

Even though the figure above is not be considered as a deterministic key answer to different scope issues that will appear in business partnerships, it can serve as guidance to what may be important in the three all-embracing categories of collaboration.

---

110 Doz/Hamel, 1998
6 PARTNERSHIP CREATION IN REALITY

In this chapter we present our empirical findings. We have processed our interviews in order to present the most relevant outcomes from our interviews. We try to do so in a fashion that will be friendly to the reader.

6.1 CASE I - LEVCOJ GENERAL ENGINEERING LTD & BERGS ENGINEERING AB

Johan Lewin from Levcoj General Engineering Limited and Sune Bergs from Bergs Engineering has met once in South Africa, since then, they have had about three conversations over the telephone.

6.1.1 Company Presentations

Levcoj is a welding company situated just outside Saldhana Town, a two-hour-drive north of Cape Town. There are four working founders and five permanent employees in the company, although extra staff is hired when needed.

The founders of Levcoj used to work in major welding projects all over South Africa, but were tired of travelling around. Therefore, when they started the construction of Saldhana steel plant the people there made a proposal to Johan Lewin and his colleagues, to start their own business. And so they did. They created the company in March 1997 and started the production in October the same year. There have been ups and downs, but on the whole they have, since the beginning, been able to live off their business.

The largest customer is, not surprisingly, the Saldhana Steel plant, but Levcoj says he also has a lot of other valuable contacts in the business.

The company is currently discussing a joint venture with a Danish company, Danita, who will supply capital and machinery, something which Levcoj is in lack of. Other countries have also been interested in Levcoj, for example one from the USA, but they wanted to completely take over Levcoj. Johan Lewin still wants to be in control of his company so he turned the American offer down. They have just moved to larger facilities and are eager to expand.

Bergs Engineering AB makes manufacturing equipment for companies involved in making sheet metal, springs, threads and bands, mostly out of
steel. It is a very specialised niche and customers are found all over the world. The company is located in Falun, Sweden and currently has about ten employees. They have a rather high turnover per employee, which is a result of them working with a large number of suppliers. Each sale is worth at least 1,5-2 Million SEK and the yearly turnover is about 15 million SEK, thus, the company has few customers but each individual sale is large. The clientele interested in their products are very large companies, which means Bergs Engineering has to look all over the world for customers.

Sune Bergs founded Bergs Engineering in 1985 and they started their internationalisation process in 1991. Today the company has employed sales personnel in the U.S. but apart from that they mostly do direct business with their clients.

### 6.1.2 Dedicated Entrepreneurs

Johan Lewin is one of the founders of Levcoj and has a background in welding. Levcoj is his second company. Previously he has been involved with twelve other welders, but he left them since he felt that too many wills were involved, which Lewin thinks affected the effectiveness of the company in a negative sense.

Today, Lewin is a leading and driving force in the company and he is eager to develop Levcoj’s activities and competence.

Sune Bergs is the founder and director of the Bergs Engineering and he is also the initiator and driving force in his company behind the idea of partnership with a South African company. He started the company after working at an international firm in Canada. There, he spent twelve years working with export and he has started companies in both Canada and the USA.

### 6.1.3 Skills versus Market Entry

Levcoj finds itself in a situation where the managers would like to develop the business further. However, they have neither the money nor the skills to do so. They are therefore looking for a partner who could provide capital, machinery, technological- and managerial skills. They see Bergs Engineering as being able to provide some of these above-mentioned factors to the company. One way to do this would be to work with Bergs Engineering on particular projects.
Sune Bergs sees the South African market as emerging. Particularly interesting is the fact that South Africa has a car manufacturing industry and their suppliers are often users of the type of machinery Bergs Engineering sells. Hence, they are looking for customers in South Africa and maybe also a company which will be able to provide customer support to future clients. They primarily consider Levcoj as a company that will be able to create contacts within the steel industry, but they are also open for solutions that not yet have been considered.

6.1.4 Different Ideas on Collaboration Forms

Lewin hopes that they can work together with Bergs Engineering although they are not really in the same line of business.

“There will be a very long time before we can establish something.”

Lewin says. He hopes that they can work together as a corporation with particular projects where they get connected in a way where Levcoj does all the fabrication and Bergs Engineering transfer the technology skills. Lewin says the benefits for Bergs Engineering are Levcoj’s connections, that they have the “right colour” and that they have connections, even in the government. He is also hoping that they will be able to do some work on Bergs Engineering’s current orders. But he admits:

“Probably it will be more expensive, because he has got most of his clients in Europe.”

He continues:

“The idea is to work together on specific projects”.

If Bergs Engineering can get some clients in South Africa, Lewin is hoping that Levcoj and Bergs Engineering can do the orders together in a new joint venture company, although he thinks it will be a matter of years before anything like this can happen.

Sune Bergs is looking for customers in South Africa and wants someone who is familiar with the South African market to help them create contacts with large companies that may be interested in Bergs Engineering’s products. They do not see Levcoj as a joint venture partner, as the differences between the two companies are too big. They do however see Lewin as useful since he has contacts in the South African steel industry.
Sune Bergs says:

“We always have to do the business directly with the customer, since our business is very specialised and the transactions are very large.”

Sune Bergs speculates that Bergs Engineering can supply Levcoj with certain technical specifications and that Bergs Engineering, in return, could get some work done, mainly in terms of contact creation.

What kind of time perspective this would have is hard to say, according to Sune Bergs:

“It could be a couple of months.”

Sune Bergs sees two developments of this co-operation:

“If we were to sell him blueprints or something like that, then there would be a question of separate deals. But if he could establish interest for our machinery, then it would be a question of an on-going co-operation. Our deals normally take several years from the initial contact until the final sale.”

6.1.5 Mismatch?

Levcoj is a very small company and are in need of technology, both in terms of machinery and skills, and capital. What they primarily are looking for is a company which is in the exact same line of business as they are, just with another, more advanced, technology. They have had connections with a Danish company but due to unexpected circumstances this potential partnership has been slowed down or may not happen.

Bergs Engineering wants a company that in the short run could help them market the company and in the long run a company that could provide certain technical support to customers:

“What we would really want is a company that works with steel bands.”

6.1.6 Mutual Respect

Lewin is very impressed with the technology of Bergs Engineering. He says:
“He only have twelve people working for him but the lowest order they can take is 10 million Rand (authors note: approx. 14 million SEK), for one machine, and that is the lowest. At the moment he is doing an order for 20 million Rand.”

Sune Bergs says that:

“Mr Lewin has shown a great interest and commitment and this is sometimes worth more than formal background. Many times before I have seen that the successful channels not always have been the most conventional. If he keeps showing interest maybe something might turn up.”

Sune Bergs continues:

“As I understand it, he has the will to do more than running a simple welding shop. My opinion, without knowing him very well, is that he has the talent of being an entrepreneur. I cannot say what this may lead to, but through the ambition that he is demonstrating, he should be able to accomplish something. I think he acknowledges our technological edge and hope that he can be a part of future businesses.”

Sune Bergs proceeds:

“I have not actually offered him to be our ‘contact creator’ in South Africa, but he is showing an interest and I have promised to send him more of our brochures. Just the other day he came and asked us for help in submitting an offer on a very large quantity of coil stoppers to Saldhana Steel, this would have been a very large business deal for him. Unfortunately, we could not help him since it was to short notice, but if he can get that type of orders, it shows he has a certain capacity.”

6.1.7 Challenges Ahead

“The biggest challenge will be to acquire the high technology skills since Levcoj never have been exposed to that kind of technology before.”

Lewin states. He also recognises the need for marketing of Bergs Engineering in South Africa in order to get potential clients interested:

“That will take a hell of a lot of work.”

Lewin says.
The largest challenge for Bergs Engineering is to find a partner that, apart from creating contacts also can provide technical support to customers.

“It is good to have a local service opportunity.”

6.1.8 Future Collaboration?

Sune Bergs says:

“We will continue to serve Mr Lewin with brochure material and the rest is up to him. We do not have any special plans of doing a large drive in South Africa, but if we can create some contacts with companies that would be interested in our technology, that would be good.”

Lewin states:

“We are really looking for a long-term relationship with the Swedes and we are actually looking for a niche product we can manufacture also, so that is exactly what we are looking for – the machines.”

6.2 CASE II - FABCONSULT & ESKIL OLSSON INTERNATIONAL AB

Eskil Olsson from Eskil Olsson International AB and Brian Johnston from Fabconsult have met twice – the first time at the seminar in Johannesburg and then a second time in Cape Town, the hometown of Fabconsult. The background of this case is a little bit special since it does not only involve these two companies. It all concerns an environmental project that will be carried out in Cape Town and Fabconsult is trying to gather companies that will be able to take on this project, mostly smaller entrepreneurial enterprises. One could look upon Fabconsult as the architect, in the sense that they will try to put the right parts together to form a whole. This means Eskil Olsson International is not only going to work with Fabconsult but with other companies as well.

6.2.1 Company Presentations

Fabconsult was formed in 1999, although Brian Johnston has had a similar company before. The company is primarily involved in developing local businesses. Also, they bring companies together in various projects that require expertise from different areas. The company heavily depends on partners and partnerships.
Founded in 1992 Eskil Olsson International is both owned and run by Eskil Olsson and his family. The company has five employees and a turnover about one million SEK. The company is developing an environmental system, which is quite unique since it is not only parts of a system, but a totality. Normally, Eskil Olsson designs the system and then licenses it to someone else to manufacture and sell. Eskil Olsson says:

“I work towards companies that are interested in developing products within sewage systems, but we do not use contracts – a handshake gives them permission to manufacture the products.”

Eskil Olsson International has international co-operations, mostly in form of the licensing described above, all over the world, for example in India, Argentine and France.

6.2.2 Consulting and Research Backgrounds

Brian Johnston has worked as a consultant previous to creating Fabconsult. He is also vice chairman of a company called the Business Opportunity Network, or BON. It is partly through this network that he gets his business opportunities. His strength, according to himself, is in his local connections.

Eskil Olsson, which started the company, has worked internationally for the Swedish International Development Co-operation Agency (SIDA), the World Bank and the European Union. He has a background as a scientist and has developed both systems and components within his field. A lot of his work involved standardisation and that is what has been driving the development of his company, Eskil Olsson International.

6.2.3 Motivators for Partnership

Fabconsult’s business concept is to bring companies together to meet special needs, or requirements. What Fabconsult need to do is to identify the skills needed in a certain project and to find the companies that can fulfil those requirements.

Another motivating factor is Fabconsult’s commitment in developing businesses of the previously disadvantaged groups. In this particular project there would be a focus on bringing in local “black” companies.

Eskil Olsson has family in South Africa and has spent quite some time there. As far as the partnership goes, it is a project, limited in time, and for
Eskil Olsson it is an opportunity to sell his system. However, he must be involved as far as the entire installation of his system. He says:

“I have to put quite some time and effort into this.”

### 6.2.4 Ideas on Partnership Design

Brian Johnston is proposing a new venture. He has already a name for this venture but will wait with the registration until the parties involved are established. Brian Johnston also has an idea on the constellation of the ownership in the new company. He proposes that the company should be 51% black owned and that Eskil Olsson International’s stake should be 26% - which would give him a financial say in the company. Also, he thinks that quality control and R&D should be run from the Swedish side. There will be a conference about this project in March and Fabconsult hope that he can announce the creation of the new company then. But, Brian Johnston says:

“When the local government is involved the winds grind very slow.”

Brian Johnston sees this project as a pilot and he has plans to take the project nation-wide and maybe even international.

Eskil Olsson International is looking to sell a license on his system. He has proposed to Fabconsult and the client in this project, that they start off with a pilot study, just to show that the system works. He has also proposed that the products should be delivered from Sweden and put together in South Africa. Eskil Olsson thinks it is a good idea that Fabconsult is the driving part in the project, although he says that they together should look for other partners in the construction and plastics industries. Eskil Olsson feels that their role in the company could be limited and when his services are no longer needed he will pull out. He says:

“We have to start by setting up a contract which dictates what each partner should do, how it should be run, what industries should be involved and who should be responsible for the project.”

### 6.2.5 Desired Partner Characteristics

Fabconsult has actively searched for companies possessing the necessary technology for waste management solutions. What he likes about Eskil Olsson International is that it is an entire system and that it is created by an entrepreneur who started in “the kitchen”.

~ 51 ~
This involves both Fabconsult and other players in the project. It is important to find suitable companies which has both the size and technology needed in order to set this system up on site in South Africa. This includes companies which will be prepared to take care of the waste after it been handled by Eskil Olsson Internationals system.

What appeals to Fabconsult is Eskil Olsson International’s technology – or rather the solution in his waste management system. Fabconsult is very interested to have Eskil Olsson International as an equity partner, this because he wants Eskil Olsson International to be able to:

“Enjoy the fruits of our success so that he will remain interested in our manufacturing.”

6.2.6 Positive View of Future Collaboration

Brian Johnston claims:

“I do not really have a lot of fears. I think the essential element in a successful relationship is commitment and I think the commitment is there from our partners in Sweden, the Swedish government and from our local government.”

He continues:

“The challenge would be, probably, within the transfer of skills and expertise to the local people because there will be so many people wanting to be a part of this opportunity. There will be a difficult process screening for quality and so on.”

Although he later admits:

“Maybe the biggest challenge is the Swedish co-operation right now, the fund, you know, getting the ball rolling.”

(Authors note: the Swedish – South African Partnership fund which partly funds partnerships between South African and Swedish companies)

Eskil Olsson International sees the biggest challenge in finding the right companies for the project and in financing a pilot project. Olsson says:

“If we can finance the pilot, I think it will all work out.”
Although there are other issues that still is unclear to Eskil Olsson International. Olsson says:

“We are planned to start in January 2000. I have some questions about that; Who is in need of the system? Is it the municipality? Is it the constructor? Or is it somebody else? Who is supposed to run the facility in South Africa? The municipality, the constructor or the consultant? Who can design and build the facility? These are the kind of questions that has to be considered. What are the needs concerning partnerships? And I also have a couple of questions concerning the time frame.”

6.2.7 Who Will Finance?

Fabconsult is passionate about this idea and sees it as an opportunity for smaller local companies to get involved. Fabconsult also hopes this project will be much bigger. Brian says he is even hoping it could be taken outside South Africa, to Angola, Mozambique etc.

Fabconsult do not see their own money going in to the project, although they will work hard:

“We put a lot of time in, two months already, in terms of research and so on. We would continue to do so as a bare minimum. If we ask you what you bring to the table in return of equity stake, we will continue to charge 400 Rands/Hour for the next six months, but then convert that into an equity stake. Jaa, that is unfortunately how we have to do business here.”

Eskil Olsson International is rather flexible when it comes to his role in the project, although he does not plan to put his own money into the project:

“I do not need to.”

He claims.

6.3 CASE III - MANAKA CELL LTD & MERCONDA AB

Manaka Cell and Merconda are two technology driven companies. They got in touch during the day’s of the seminar in Johannesburg and directly afterwards they met in Kimberly, the hometown of Manaka Cell.

6.3.1 Company Presentations

Manaka Cell Ltd. is a retail company that targets businesses and consumers directly through a network of sales agents and direct response mail order or
e-commerce. They negotiate with manufacturers who would like to use their retail base for selling their products to end-users. Their advantage is the organisation with sales agents who understand the culture and needs of the local market.

Merconda AB is a recently started virtual network company. Their idea is to capture and commercialise ideas within mobile data communication. They work with a hand-held computer system and GPS satellite positioning systems connected with a mapping system. They have developed their own software for renting and booking. The company physically is situated in Mora/Orsa, Sweden. The company has about ten persons which either are employed or working on a freelance basis. They already have collaboration with a British company. Anders Karlsson has previously worked with concept development and company education in a self-employed entrepreneur.

6.3.2 High Demand in South Africa?

Morare Manaka says:

“There is a demand for security related products in South Africa and firstly we want to determine if the products they have will be able to satisfy the need.”

He continues:

“The demand for new electronic and telecommunication products is growing at an interesting rate and at the same time manufacturers globally who would like their products to be sold in this market is very high.”

Merconda is looking for a strong local partner who will be able to market and sell their products. Anders Karlsson says:

“In this business, South Africa is considered one of the largest future markets.”

The reason for them to not establish their own subsidiary is that they deliberately want a small company and that this way it will be much faster to create something in South Africa. The objective of Merconda is, within a ten-year period, to have established themselves in about ten different markets.

~ 54 ~
6.3.3 Joint Venture Plans

If the products are satisfactory Manaka Cell want an exclusive sales and distribution agreement. They then want all licences for operating in Africa. If this works out Manaka Cell wants to take it a step further and in a year the possibility of a joint venture should be considered. They see the partnership going into a full-scale operation in September 2000 in order to be in business for the festive season.

Merconda is looking for the possibility of a joint venture in the future. In the beginning they will have project managers that will be responsible and they will travel between the countries. The plan is to be in business sometime during the fall of 2000.

6.3.4 Perfect Match?

Manaka Cell is looking for manufacturers who can supply the right kind of merchandise. Important about a future partner is that they share the same vision, both concerning short and long term expectations. Also that they have an ability to sustain the business through company size and innovative ideas etc.

Merconda is looking for a smaller company but they have to have contacts with larger companies. They want something that looks like their own company structure in Sweden.

“The most important is a knowledge of programming and able businessmen that can negotiate on a boardroom level.”

6.3.5 Positive Thinking

Morare Manaka says:

“I am rather anxious than worried to know the perceptions and expectations of the other parties to the deal. The challenge is to create a trustworthy business relationship in satisfying the need. Time to reach consensus is of paramount importance.”

Merconda is most worried that the partner does something behind their back after the co-operation is initiated. They also see a challenge in getting started and getting the first business-deal.
Manaka Cell is hoping for them to become the number one distributor of electronic and telecommunication products with unique methods in the whole of Africa.

Merconda is hoping for this partnership to become their largest market in the future.

6.4 CASE IV - LEJN & LARGO

Lejn is situated outside Durban, South Africa and Largo has its head-office in Gothenburg, Sweden. Largo and Lejn has had a co-operation for about six years already, however, there are plans on taking the co-operation a step further by forming a joint venture.

6.4.1 Company Presentations

Lejn has twelve employees and has a turnover of about seven million Rand per year. They work with partner agencies that are supplying them with different technologies that they in turn sell on the South African market. Lejn started as a spin-off company to another agent. Richard John was working there and started Lejn by buying the machinery department of this company.

Lars-Erik Andersson started Largo in 1971 and the company has two main businesses. They are partly working as an agent in Scandinavia importing colour measurement instruments. For 15 years now, they have also had their own development of software that produces recipes for colouring of different materials. When using this software with the imported instruments Largo can provide an entire colour matching system. This has been a very successful concept permitting Largo to get onto the export market.

6.4.2 Upcoming Joint Venture

Andersson says:

"We have had plans for a joint venture and we have a registered name, Largo Africa."

The idea is to place part of the software development in South Africa because they are expanding there and Largo thinks they can get good programmers. They do not feel the distance is of importance in this line of business. Largo feels this has to be done rather soon since they do not have enough programmers in Sweden.
Lejn, on the other hand, has not thought much about this joint venture so far. Richard John says the matter has not yet been discussed further.

6.4.3 Ownership Structure

Andersson says:

“We have not really discussed the exact structure yet, but I think Largo should own most of the new company. On the sales side he should work with his company as backup and perhaps contribute with new products as well. Also, we have a good name with all our other agents that we are selling for in Scandinavia and we have offered to take care of their business in South Africa too. This means we have a strong foundation to start from, because those products will sell in South Africa as well.”

John believes in equal ownership:

“I would imagine it being a partnership where it would be sort of fifty-fifty between Largo and Lejn.”

He continues:

“It all depends on, at the end of the day, who does what and who puts up what capital.”

Although Lejn is very flexible concerning the structure of the joint venture between the two:

“For me, it would be anything that Lars-Erik wanted, because I would get along with it.”

Although, Andersson sees other parties involved in the deal as well:

“We have our tentacles out, after the expo in Johannesburg we went on safari, where I met a guy who had 150 employees. And he was willing to help since he has experience – but we have not made any decisions yet, although we have to make one soon, because we are in serious need of programmers and it is not easy in Sweden.”

Lejn, on the other hand, in not in the same rush as Largo, Richard John registered the name “Largo Africa” last year and not much has happened since then. He thinks the joint venture plans might take a step forward next time Lars-Erik Andersson visits South Africa. John also says that in case
someone else with mutual interest would like to be involved in the venture, he sees no problems with that.

6.4.4 Development of Mutual Trust

Largo and Lejn started the co-operation six years ago. Lars-Erik Andersson states:

“When he had ordered the first machine, I went down there and sold it with a full money back guarantee, meaning he would get the money back if he was not satisfied after six months. I did this because I wanted him to have confidence in us from the beginning.”

Andersson continues:

“They are really easy to do business with. I might have been lucky finding people that are open. I think the most important is being open, not to ask for money and securities directly – we have handled it all very openly, even if this does not mean that you should be naive. Today the co-operation with the South African agent is the most successful we have.”

Lejn has a similar view and he states:

“The only problem I have ever had working with the Swedes is the difficulty in obtaining a Visa to get into the country.”
7 ANÁLYSIS PART ONE

In this chapter we will discuss what our eight companies want to achieve through collaborating with another company from a theoretical perspective. We will use almost the same structure as in the theoretical framework, which means that we start off with the companies’ motives for co-operation.

7.1 MOTIVES FOR CO-OPERATION

Most of the companies would like to start off with a low commitment design, where interdependence is low, but there is one that would like to create a joint venture straight away. Sooner or later, most of our case companies would all like to have a closer type of collaboration.

None of the potential partnerships we have studied can be classified as a potential co-option alliance, meaning the companies would like to join with a competitor in order to decrease competition. That type of alliance should not be common among this type of small businesses in international alliances. All of them are instead based on co-specialisation of knowledge and/or resources, learning of skills, or a combination of the two.

The Swedish companies want to expand on, or quickly enter the South African market. They need local marketing expertise and access to already developed social, political and economic relationships. The South African companies on the other hand, all want technology in one way or another. Some of them want to include Swedish high tech products in their product range, while others want to learn the actual technological skills so that they can ameliorate their manufacture processes and products. This corresponds very well with previous studies of alliances between companies from industrialised and emerging markets.

Looking at the motives for collaboration in the light of the discussion on collaboration as a means of going international for small firms (chapter 4.4), we realise that we can draw clear parallels to our Swedish case companies. None of the Swedish companies have stated that a lack of financial resources is a primary reason for entering South Africa through a business partnership with a local actor. However, with regard to the size of these companies, we believe entering the South African market alone would not be possible for any of them, at least not at present. It would also be far too risky entering South Africa alone. Entering through collaboration may well be the natural choice for our Swedish interviewees when
engaging in international business as they probably lack resources to make larger investments in foreign markets and may not be willing to take on the risks involved in doing so.

In the figure below we have adapted the earlier figure 5, showing the three value creation logics to suit our empirical situation.

**Figure 7 Motives for Co-operation between case companies**

In the case of Levcoj/Bergs Engineering, it looks like collaboration will start off informally and with a very low degree of commitment. One could say their starting point would be even beneath the commitment pyramid presented in chapter four. The reason for this should be that these two companies are not a perfect match and that the value creation scenario is not evident at first glance.

It will probably be up to Mr Lewin and Levcoj to be a driving force if there is to be any form of collaboration or alliance. This is because the value-creating scenario is more evident from Levcoj's standpoint since that would be learning/internalisation – they are looking to acquire knowledge and technology, which Bergs Engineering possesses. Bergs Engineering on the other hand is primarily looking for very large customers in the South African steel industry and even though Levcoj has some connections in this business it is difficult for Bergs Engineering to assess the value of these connections.

The benefit for Bergs Engineering could be that of co-specialisation, they might be able to use the resources of Levcoj (their connections) in order to get in touch with potential clients or future partners. The value creating
scenario from Bergs Engineering’s point of view is rather unclear and thus, this may explain why the motivation is not as high as from Levcoj’s side.

Bergs Engineering’s standpoint is that if Levcoj can create some good connections or find other opportunities then Bergs Engineering will take them up on this and start collaboration. However, Bergs Engineering do not want to waste their time and money before it is clear that some sort of value can come out of the deal.

In the case of Fabconsult and Eskil Olsson International, there are several companies involved and Fabconsult will be the company that puts all the other parties in touch with each other. Eskil Olsson International, will be one of these companies and they will supply the project with a certain type of system/machinery/designs. Since this concerns a specific project they will not start out low on the pyramid, instead a separate venture company will be created as soon as possible.

Value creating factors for Fabconsult is co-specialisation, since Fabconsult wants to put previously separate companies together in one company in order to meet the need from the client. The underlying value creation logic from a social and economic perspective, however, is of course one of internalisation and learning of technology involved in waste management.

For Eskil Olsson International co-specialisation also is the motivating factor – they will sell their product with the help of Fabconsult. Eskil Olsson International would probably only provide a license for the project, they would not even have to manufacture the products. This creates an easy way to get access to this new market and perhaps create interest from other potential clients in South Africa.

This alliance also follows the pattern of collaboration between industrialised and emerging markets. Fabconsult is looking for relevant technology and Eskil Olsson International is looking to gain market access fast and easy by selling licenses.

Manaka Cell and Merconda both have stated clearly that they are looking for a joint venture within a year. They will start out low on the commitment pyramid with a distribution agreement and then Manaka Cell want all licences for operating in Africa and after that a joint venture will be the next step – if the previous arrangements are successful, that is. Hence, they will try to move rather fast up the steps of the pyramid. In terms of value creation these companies will benefit through co-specialisation. Merconda will benefit by using the sales network and connections of Manaka Cell,
they will gain market access cheap and easy. Manaka Cell will benefit through the exclusive rights of Merconda’s technology and hence, an opportunity to sell their products in Africa. This rather clearly follows the pattern for alliances between industrialised and emerging markets. Merconda is looking for cheap and fast market entry and Manaka Cell is looking for appealing technology.

Largo and Lejn have collaborated for some time. But according to Largo, they are on their way to take a step up on the pyramid by creating a joint venture company. In the beginning, as in other cases, Largo saw an easy and less expensive way to get access to a new market while Lejn has benefited from having the exclusive rights to the Largo’s technology. The new company would have as a goal to establish themselves in other African markets as well. The value creation scenario is once again co-specialisation – a combination of the two companies’ resources, in this case Largo provides technology and Lejn market knowledge and distribution channels. The creation of this alliance also has followed the pattern of alliances between industrialised and emerging markets as discussed above.

7.2 SUMMARY

All of the companies will benefit from co-specialisation except in the case of Levcoj and SBE, where Levcoj instead will benefit from learning/internalisation. The Swedish companies are looking for easy, quick and financially advantageous ways to get into the South African market, something they believe they can achieve by collaborating. The South African companies are all looking for the technological expertise the Swedish companies can provide them with.
8 ANALYSIS PART TWO

Now we move on to the initial context of collaboration, where we discuss matters such as the interviewees’ past experiences of business collaboration along with expectations and desired scopes in the current partnership situation.

8.1 PAST EXPERIENCES OF COLLABORATION

How the alliance is conceived by our interviewees and how they think it should be designed is to a large extent dependent on previous experiences of business partnerships. At first, we did not think there would be such a strong relation between previous alliances of our case companies and new ones they are planning, as suggested the theories in our frame of reference, but when we looked at our cases we saw that such a relation actually may exist.

Because of the fact that our case companies are all quite small and categorised by an informal “family” atmosphere, framing here is to a large extent dependent on just one person, namely our interviewees that are to create the partnership. This is also typical for co-operation agreements in small firms. The one who closes the deal is also the person who will implement the collaboration between the companies.

Levcoj and Bergs Engineering have some previous experience of alliances. Levcoj is planning a joint venture with a Danish company and Bergs Engineering has a couple of pre-sales agents in America. As for the potential partnership between Levcoj and Bergs Engineering, the parallels between the parties’ earlier experiences and what they hope this new one will lead to is quite clear.

Levcoj is eventually hoping to work with Bergs Engineering as a corporation with particular projects, while Bergs would prefer some sort of marketing, or pre-sales arrangement. Lewin says that if possible he would like to have the same arrangement with the Swedish company as the one he is planning with the Danish company:

“The idea is to, if he can benefit maybe from the Sweden-South Africa Partnership fund, why not...If it is possible we could do the same thing with the Swedes.”
Clearly, this corresponds to the kinds of co-operative agreements they have had before.

However, both parties are aware of the fact that what they are hoping for might not become reality, at least not in the short run. They are aware that they have different needs and different skill levels and that this in turn will render collaboration more difficult.

Fabconsult and Eskil Olsson International are both used to working with external actors; Eskil Olsson International through licensing and Fabconsult through consulting. Actually, both are used to working as consultants since Eskil Olsson International not only sells its equipment to the licensee. He also instructs the licensee through the process. They do not however, usually put their own capital into the different projects they are involved with. This could mean that they both are used to work intensively with other companies, but without commitment in terms of putting equity into the deal. They withdraw when the mission is completed.

Fabconsult often works with people that have their own companies or are about to start up a business. Hence, normally, it is obvious that these people put money into the company. This might be a reason to why Brian Johnston so clearly sees Eskil Olsson International as an equity partner in the project they are planning to carry through. He has even calculated a specific percentage for this:

"The company itself would probably be 51 percent black owned, or previously disadvantaged owned. I believe that they significant stake from his (Eskil’s) part would be 26 percent, which would give him board of directors, a financial say in the running of the company."

The fact that Eskil Olsson International normally does not put any money into licensing deals might be a reason to why he says he will not have to put any money into it this time.

Merconda is already collaborating with a company in England. Manaka has not yet any other partnerships, but is hoping to get together with a British investor in a short period of time. Supposedly then, one could say that Manaka cell has no previous experiences of partnerships. This could mean that Manaka has a somewhat more open mind toward the design of the potential alliance with Merconda compared to our other case companies. However, Morare Manaka might be previous personal experiences which we are not aware of.
However, Manaka does have an opinion on how the collaboration between the two should proceed. As in most other cases, Morare would like to start off with a sales- and distribution agreement, i.e. a looser collaboration form, but with the intention of eventually tightening the relationship.

Lejn has several partnerships with companies outside South Africa. Since Lejn is an agent for several international companies, the arrangements with all companies are similar in structure. Largo was the fourth or fifth of Lejn’s partners.

Largo has chosen to start up subsidiaries in Denmark, Norway and Germany, but in all other countries they work with agents. The sales agreement Largo has with Lejn is one of their oldest. This agreement has worked out very well and according to Largo they are now discussing to deepen the partnership by creating a joint venture in South Africa, where they could even put some R&D. Lejn on the other hand seems to be pleased with the current situation, although he seems to be equally pleased if a joint venture was to be created.

Exactly how the previous experiences of business partnerships described above affect the potential alliances between our case companies is difficult to say. What we can say however, is that it strongly affects the way each company conceives the collaboration they are about to establish. We can also see that the experiences our interviewees have had before to a great extent direct the way they conceive their new business relations. These previous experiences could facilitate co-operation in new alliances, but they are more likely to keep the parties from approaching each other the way they would like to.

8.2 EXPECTATIONS

First of all, it is difficult for us trying to analyse the implicit expectations since we do not know much about them. We have through our questions tried to make some of these expectations explicit and this is what we will focus on – the differences in the statements/expectations of each partner in the potential alliance. In this section we will only go into the extent of the partners expectations – does one partner have higher expectations than the other – what does this mean? We will then in later sections treat the expectations within each scope.

It appears that the expectations from Levcoj’s side are higher than Bergs Engineering’s expectations on the potential partnership. Again, the explanation can be traced back to the clarity of the value creation scenario.
Levcoj has a clearer view of where his benefits can be obtained – from transfer of knowledge and technology from Bergs Engineering. Bergs Engineering on the other hand does not have a clear value creation scenario, hence, the expectations from this side are not as elevated. As quoted in chapter 6.1.8 Future Collaboration?, Sune Berg states that if there is to be a future collaboration, Johan Lewin first has to prove that he can find the right kind of contacts. Levcoj on the other hand has clear expectations of what can be the result of the co-operation.

Fabconsult is the driving force behind the waste management project and as that, they have high expectations on this project. He is a true visionary who gave us, during our interview, a colourful picture of the project he wishes to carry through as well as the benefits it will lead to.

“I definitely want to take this to national government and repeating the success of what we are doing in other provinces, and that is where entrepreneurs like Olsson and myself will make a lot of money. When we take the technology, firstly to South Africa, and then into Angola, Mozambique, and all the others in the region. We have a very long-term view about it... And our network of environmental solutions will keep us in the fore front – will keep the pot boiling. ”

There are undoubtedly reasons to be optimistic about such a project that Fabconsult has been assigned to lead. However, because of this unquestioned optimism, one cannot help to wonder if some factors, perhaps satisfactory discussions with potential partners, have contributed to inflated expectations.

Now, this does not mean that Fabconsult’s expectations are unfounded. After all, he is the head of the project, and may is most probably the one with the clearest picture of how the project will develop. There is a risk that he might be disappointed if things turn out to be more difficult than expected.

Eskil Olsson International also has expectations on the project, but he seems to have a “cooler” attitude towards the project. We can also see that Eskil Olsson International has a somewhat more passive role in the actual project, even though he most certainly will have a big influence in the technical aspects of it. He also feels there are a lot of unanswered questions, which makes expectations rather diffuse and might cause some concern with Eskil Olsson. Again the value-creation scenario is much clearer to Fabconsult since he is the manager of the project as a whole and has an overview which Eskil Olsson International may be in lack of.
Anders Karlsson, the manager and owner of Merconda believes that through the partnership with Manaka Cell, he will achieve:

“That this deal will turn South Africa into our biggest market.”

From this, we draw the conclusion that his expectations on this business cooperation are very high. He has identified great potential in collaborating with Manaka Cell, and even though his biggest fear would be if Manaka were to do something behind his back, he is still very optimistic to this potential collaboration.

Manaka Cell has high expectation on the partnership too. He states that through the partnership with Merconda he hopes

“To become the number one distributor of electronic and telecommunication products with unique methods in the whole of Africa”

And also:

“To be reliable and have up to date information on the emerging market. This will enable us to provide what is needed at the appropriate time.”

It is clear that the two have great ambitions for this partnership, and that they want devote lots of efforts to it. This does not necessarily have to mean that they are unjustifiably optimistic.

Turning to the case of Largo and Lejn, clearly, Largo is the driving force behind this planned joint venture. The new venture would carry their name and basically consist of products they are providing while Lejn would handle sales. Lejn’s position seems to be that if Largo wants to create a venture, they will be interested but they will not do anything themselves in order to make the venture happen. It is all on Largo’s initiative. Hence, Largo have higher and more developed expectations than Lejn. Largo already has formed an idea about the structure of this company while Lejn will wait and adapt to Largo’s wishes.

The fact that Lejn has such a flexible standpoint concerning this new venture may actually be good for its outcome. He seems to want it to happen, but has put Largo in charge of its creation since he has a somewhat clearer picture of how it should be designed and why. Hopefully, Largo’s inflated expectations will not be a problem for the creation of this joint venture. Since Lars-Erik Andersson and Richard John already know each
other well, they may well be able to communicate their expectations and ambitions so that they will come to an equal level of aspirations.

8.3 THE SCOPE OF THE ALLIANCE

Our potential alliances all have similar value creation logics. The Swedish companies all want market access and the South African ones are in need of acquiring new technology in one way or another. There is a strong relationship between a partnership’s value creation logic and the importance of the different scopes of an alliance. Does this imply that our four empirical cases also could face similar scope issues? Now, let us take a closer look at the three different kinds of scope in our four potential partnerships.

8.3.1 Strategic Scope

When an alliance is based on differing value creation logic, as is the case of Levcoj and Bergs Engineering, then deciding on the what areas of interest should be included in their alliance may be problematic. Bergs Engineering primarily wants someone to find customers for his business and would therefore like to use Johan Lewin as someone who can provide contacts in large companies. Levcoj on the other hand would like to learn how to manufacture more complex welding products.

However, Lewin is a man with many contacts in the South African steel industry and would not mind helping Sune Bergs to get in touch with potential buyers.

The two companies do have some mutual areas of interest. In this case this would mean that Lewin should create contacts for Bergs Engineering on the South African steel market. Sune states during our interview:

“If he has contacts in the industry that are suitable customers to us, then one might imagine him to be the one helping us to create these contacts, even though he does not have the technical capacity to help us directly. We know that we have to do our deals face to face with the customers, since what we do is so specific.”

Let us take a look at Bergs Engineering’s ambitions that lie outside the shared strategic scope. Sune would like to find someone who could eventually sell his products. In the long run, he also vaguely considers starting up a production unit in South Africa. He does not believe however, that this is something Levcoj could do for them. He needs someone with higher technological skills from the start.
Levcoj also has ambitions that lie outside the shared strategic scope. Levcoj would in the long run like to manufacture for Bergs Engineering and in order to do this they would need to acquire technology from Bergs Engineering. It will take a lot for it to happen this way because of the technological gap between the two companies. However, Sune also says he would not at all mind providing Levcoj with technical expertise in some form in exchange for work in some form.

To summarise, the two companies have some shared expectations on areas of interest in the alliance, although in the long run they these expectations differ.

Clearly, the strategic scope between the two will need some thorough examination. There is also the question of time, Bergs Engineering is used to working with a long-term perspective since their deals are very large and require lots of thought from the buyer’s point of view. We can see a difference in the perception of time between the two parties, where Levcoj has a shorter time perspective than Bergs Engineering. Although, this will probably not be a problem in this case since neither of the parties heavily depends on the partnership in order to survive or to gain profits.

The desired strategic scopes of Eskil Olsson International and Fabconsult have more areas in common than the case just treated above. The activities and areas of interest that should and could be included in this partnership correspond to what both parties want to achieve, on an overall level. Eskil Olsson International wants to sell his waste management licence and see to it, that it is properly built and used. Fabconsult on the other hand has been assigned to bring together people in a waste management project. He has done some research on waste management systems and thinks that the system offered by Eskil Olsson International could be the best one. Hence, the desired areas of interest are compatible in this case.

The expected time frames for this project also seem to match. They both see the conference in March 2000 as the kick-off for the project and they both want to actively begin a pilot project some time this same year. Concerning time frames, Fabconsult sees the joint venture company existing for a very long time, even though Fabconsult’s involvement might be limited in time. Eskil Olsson International has the same view; they are flexible when it comes to them working on this project.

One reason to why these two companies seem so compatible could also be that they have not shared any really long-term ambitions for the alliance. The discussion between Fabconsult and Eskil Olsson International stops
with the carrying through of the waste management project in the Cape Town region. What comes after that has so far been left open. Another possible reason is that Eskil is offering a complete concept, or system, for taking care of waste. It would not be possible to implement just a few parts of the required activity-areas - all areas must be involved. Brian Johnston has examined this concept and accepted it as the best model.

All in all, as far as we can see the match between Fabconsult and Eskil Olsson International is good. They do not disagree on any specific strategic issues.

Merconda and Manaka Cell seem to have the most compatible match between desired strategic scopes. Anders Karlsson of Merconda wants Manaka Cell to sell and distribute its products in South Africa and Morare Manaka wants to get an exclusive sales- and distribution agreement for the products Merconda has to offer. Both companies are looking to co-operate with a small and innovative company, something that they also consider themselves to be.

The parties’ envisioned time frame and duration of the potential partnership also seem to be the same for both companies. Both would like to start this year, even though Manaka’s preferred start date is a few months earlier than the one of Merconda. Both would also like to deepen co-operation within a year’s time if the deal turns out to be a successful.

We have found a difference concerning the markets these companies want to collaborate on. Merconda is primarily interested in the South African market, while Manaka cell on the other hand would like to include the entire African continent in the deal. However, this difference does not have to cause that many problems. Anders is hoping that this deal will result in Merconda’s largest market, which makes us believe that if Manaka proves to be able to sell the Merconda product range in other African countries, then why not give it a try?

To summarise, we do not consider strategic scope to be an area of tension for the partnership between Merconda and Manaka Cell. They seem to match each other’s needs well. They also seem to understand each other’s ambitions in the deal.

As mentioned before, Largo and Lejn have had a well functioning co-operative agreement already for some time. According to Lejn, the agreements are simple and they work on mutual trust.
Today, Largo would like to broaden the strategic scope of the collaboration by creating a joint venture and moving some of the R&D to South Africa. Largo says it would be easier to find the necessary programmers there, since it is so hard to find any available ones in Sweden. This joint venture is already registered in South Africa as “Largo Africa”.

Lejn does not seem to be equally enthusiastic about the creation of a joint venture, even though he during a second telephone interview admitted that they do plan to create a joint venture. He said:

“It certainly is an option. We have registered a company, but we have not sort of discussed it any further.”

The first time we asked him he said:

“The current situation is working well and therefore I do not see any reason to change”

The reason for these two different statements may well be that Lejn perhaps does not think as much about this joint venture as Largo. But it is also possible that the first time we asked, Lejn did not really feel he wanted to communicate that much information to us on the subject. At least it is clear that Lejn has not elaborated as much on the possibility of a joint venture as has Largo.

One can say that the parties’ future plans on what areas of interest should be included in the partnership and how probably will be strategically similar, even though Largo at present has gone further in these plans than Lejn. Today, though, their desired strategic scopes can be said to be somewhat out of rhythm.

8.3.2 Economic Scope

Where will benefits accrue in the potential partnership between Levcoj and Bergs Engineering? Again, the fact that these two companies have different long term value creation logic render the agreements on economic scope more difficult.

Bergs Engineering states that they are willing to give Lewin some sort of “finders fee” if he manages to connect Bergs Engineering with a potential buyer. Now, as long as the “partnership” stays intact, economic scope will not be much of a problem.
However, if they agree to broaden their co-operation to include other, less compatible areas of interest that would allow Levcoj to learn new skill and Bergs Engineering to sell and/or produce their products, the situation would be more complex. Sune suggests that:

“If we were to supply him with technical expertise and if we then agreed to get some compensation for this, for instance by him doing some kind of work for us down there – it is impossible to say what he might find.”

This could turn out to be a feasible solution for both parties. Thus, there are several possibilities as for how to design the economic scope for a deeper collaborative deal between Levcoj and Bergs Engineering, even though these alternatives are quite distant at present.

Economic scope is the one of the most interesting aspects of the case Fabconsult and Eskil Olsson International in terms of whom should contribute with what and what each of them should get out of the collaboration.

As mentioned previously, Fabconsult wants Eskil Olsson International in the project as an equity partner. Although, Eskil Olsson International do not count on investing any money in the project. It appears that Eskil Olsson International wants to contribute by selling his the licence and by assisting in setting up the system. Fabconsult does not see the need to put their own funds into the project either, although they are willing to contribute by putting in man-hours. There are some question marks here. Who will put money into the new company? The municipality? Another partner yet to join the project? Brian says:

“Once we have the partners on the Swedish side all sorted out, we will then engage with the local community, find stakeholders, who could play a role in the local community by giving a stake in the black empowerment side of the company and thereby facilitate the finance.”

Since this project has not proceeded very far there are still a lot of practical aspects that need to be considered before the economic scope fully can be understood. Also, this project compared to our other cases are likely to have a complex economic scope since there are many partners that will be involved, companies, both foreign and local, as well as the local municipality.

Regarding Manaka Cell and Merconda. These two companies are considering creating a co-specialisation alliance. In such a case the
economic scope often matters the most, as benefits and costs often accrue in activities that are closely related to that of the alliance but not part of its operational scope.

Since the type of co-operation the two companies would engage in is one of co-specialisation of resources, decisions on economic scope have to be made carefully since this area is often a source of conflicts it is not correctly understood and matched by each partner. According to Doz and Hamel the best way to overcome economic and financial conflicts between co-specialisation partners is to minimise inter-partner trade by making the partnership a stand-alone joint venture or manage trade in as neutral a fashion as possible. This is exactly what Merconda and Manaka Cell are intending to do. Both companies would like to eventually create a joint venture for Merconda’s products on the South African, or perhaps even African market.

We do not know how the potential joint venture between Merconda and Manaka Cell will be designed. However, we do know that they count on getting financial and administrative help with the creation of their joint venture from a so-called “Sweden South Africa partnership fund” and that they both are aware of the importance of making partnership decisions carefully.

If, or perhaps when, Lejn and Largo start planning their joint venture more seriously, the question of who will put equity into the deal will come up. When we asked Andersson about this, he says that Largo would own most of it, even though Lejn would be responsible for his respective activity areas of the business. However, he also said that they had discussed these things yet, and therefore could not speculate any further.

If they are to start up an R&D department in South Africa, and hence deepen their joint activities, a joint venture is probably a good idea since it otherwise could become difficult to see where profits are generated from their joint activities. It would also facilitate the administration of joint activities, which could get very complex when exchange surface on which the parties interact, communicate and learn from each other become larger.

Further, in a more complex collaboration, it is important that both parties still can measure the contributions of the activities performed together as well as separately. A joint venture would at least render this measure- and control process a bit easier, since most of their joint activities would be performed within an entity separate from their own companies.
8.3.3 Operational Scope

If Levcoj are to function as a “connector” between Bergs Engineering and potential buyers, the operational scope, or joint activities, of their business relationship will be minimal. One could even say that they in practise then choose not to work together at all. This means that their collaboration would remain very uncomplicated, where they would not have to adapt to each other, or even try to integrate activities.

However, if they would expand their collaboration to include what they intentionally desire from a partnership, the situation would change. Minimising operational scope can be costly, if later developments call for expansion.

A decision to expand their alliance will to a large extent depend on whether Lewin manages to find fruitful contacts for Bergs Engineering. Since the two companies have no clear plan as for how to proceed further with the partnership, it is difficult to say how joint activities will develop. They both want to get different things out of a partnership in the long run, but neither of them have completely excluded each other from these long-term ambitions. They could eventually find a way to deepen their relation in the future. Yet again they could also realise that their aspirations are completely incompatible.

In the case of Fabconsult and Eskil Olsson International, just as the economic scope of this collaboration, the operational scope will be complex because of the many actors that eventually will be involved. With regard to Fabconsult and Eskil Olsson International there are some discrepancies between the two parties. Fabconsult sees the manufacturing of Eskil Olsson Internationals system being done in South Africa while Eskil Olsson International thinks it might be a good idea to put the system together in Sweden and ship it down to South Africa and assemble it there.

However, at the same time Olsson says that the South Africans that are involved in the project have to learn the technology of the project. This is an important part of the waste management project, and may therefore become an area of tension between the two. They will have to agree on this point since it also says something about confidence in each other’s competencies.

As mentioned earlier, an important part of this waste management project is the people who will work with it on an operational level. Brian Johnston tells us that:
“For the first time, there will be black entrepreneurs involved in waste management. I think that kind of innovative solutions coming from the previously disadvantaged groups will make us a force to be reckoned with.”

Concerning these people who will carry through the project on an operational level, Eskil Olsson International has nothing against the idea of bringing together local entrepreneurs from the Cape region to constitute the base of this waste management project. He also thinks that it is one of the fundamental parts of a project like this, to create employment for local people.

There are still many questions concerning operational scope that will have to be sorted out relatively soon. Eskil is a little worried because of the geographical distance between Sweden and South Africa and says that there may be problems for him to follow up the activities down there. But, he also says he has relatives living in South Africa that they could take care of this.

Olsson also says that he does not think it will be a problem for the South Africans to receive the technological know how involved in his waste management system. However, he is not sure that the people involved are trustworthy, which is quite normal in the beginning of a new relationship.

Operational scope is on an overall task level rather uncomplicated in the relationship between Merconda, who will manufacture and Manaka Cell, who will sell and distribute the manufactured products. However, even if the two companies have separate tasks in the partnership, they will still have to learn each other’s activity areas. Manaka will have to learn about the technology of Merconda’s products in order to accurately instruct and consult customers in South Africa, while Merconda has to learn about the needs of the South African customers.

Further, since both companies aim to deepen the relationship in the near future, expanding the operational scope will probably not be as problematic in this case as it can be for partners that deliberately have minimised joint activities in a business partnership.

There is a potential area of tension involved in the design of joint activities between the two parties. The Swedish manager has expressed a fear that Manaka Cell could do something behind his back by starting a similar business. This is of course a question of trust, and will hopefully not be a problem once the two companies have worked well together for some time.
and thereby proved themselves trustworthy. However, in the beginning it might be difficult to design joint activities so as to prevent involuntary leakage of skills.

Until now, Lejn and Largo have had an agreement that allows them to work together, yet separately. They have, so to speak, managed to minimise operational scope, and have a successful partnership at the same time. The needs for mutual co-ordination and integration have through this partnership constellation been reduced compared to a closer form of collaboration.

When they decide to start off with “Largo Africa” their joint activities will increase, which will lead to a greater need of organisational integration. Even though they might be in charge of the respective competencies, they will have to work closely together in a joint venture and therefore carefully sort out each party’s responsibilities.

Since the two companies seem to trust each other, the problem of unintended leakage of skills will not be that great. Finally, Lejn and Largo seem to get along very well together, which also is an important factor if a close partnership is to succeed.

8.4 SUMMARY

In this chapter we have established that small business partnerships, as in our cases, often are heavily dependent on one key-person from each company. These persons, naturally, depend on previous experiences to a great deal in the partnership creation process.

Expectations depend on the clarity of the value-creation scenario.

In the table below we try to summarise the different cases’ position on the different scope issues.
### Table 2 Summary: Scope Issues

**Case I - Sune Bergs Engineering & Levcoj**

- **Strategic Scope:** Differ
- **Economic Scope:** Differ
- **Operational Scope:** Uncomplicated

**Case II – Fabconsult & Eskil Olsson International**

- **Strategic Scope:** Close
- **Economic Scope:** Differ (Investment misunderstanding)
- **Operational Scope:** Complex (Mismatch)

**Case III – Manaka Cell & Merconda**

- **Strategic Scope:** Very Close
- **Economic Scope:** Close
- **Operational Scope:** Uncomplicated (Trust issues)

**Case IV – Lejn & Largo**

- **Strategic Scope:** Close (Timeframe question)
- **Economic Scope:** Unclear
- **Operational Scope:** Minimised so far (Trust exists)
9 CONCLUSIONS

In this section we will go back to our purpose and formulation of problem. We will try to answer the questions asked and discuss the outcome of our study by referring to our chosen purpose.

In this thesis we have described situations that face small businesses in the initial stages of a collaboration/potential alliance. We have done so by comparing actual cases with an extensive frame of reference and by trying to understand our interviewees with help from the different theories presented in chapter four and five. These theories have been mainly on partnership creation, but also on partnerships between companies in industrialised and emerging markets as well as small business co-operation.

Our purpose was to reach a higher level of knowledge about the initial phase of partnership creation. We wanted to do so by describing what we consider to be important areas in this process. We also wanted to discuss how the initial conditions of our case companies might affect their co-operation.

As we have penetrated the work of the different authors in our theoretical framework, and examined our four case studies, several interesting aspects have been brought to our attention.

Among the companies studied, it is clear that it is preferred to start off collaboration with a low commitment design. Usually these types of collaboration cannot be called alliances yet. This probably has several explanations. The value creation logic is not evident to the parties’, that is, it is not clear that the potential partnership will produce the results that each partner is hoping for, or expecting. The reason for this might be that the potential partners do not know each other, or each other’s businesses. It might also be a result from the way that the companies we have studied were introduced to each other in the first place. Since most of them were matched together at a seminar with a limited number of participants, the choice of potential partners was limited. Hence, some of them did not find exactly what they were looking for, but decided to try anyway with the potential partners that were available at the time.

Further, in the initial stage of collaboration, trust has not yet been established. There may be insecurity about the other partner’s capacity and/or intentions. As the parties start interacting the value creation scenario will become clearer. The parties will re-evaluate each other as well as the
chosen collaboration, which will result in more realistic and compatible ambitions. Remember the evolutionary perspective we brought up in chapter 4.

The companies we have studied follow established theories on collaboration between industrialised and emerging markets. The company from the industrialised market is looking for quick, cheap and easy market access to an attractive upcoming market. The company from the emerging market is looking for developed competitive technology to boost their business on the home market. But perhaps, in our cases this can be partly explained by the context in which we got in touch with our case companies.

Since we are dealing with small companies, many of them in a stage of growth and it would have been virtually impossible for our Swedish companies to establish a subsidiary on their own in the South African market. This follows the theories on co-operation between small companies that want to expand internationally, as presented in our framework.

All our cases except maybe the case of Bergs Engineering and Levcoj, are eventually hoping for the creation of a joint venture – a “true” alliance. Even though Fabconsult states he wants to start directly with a joint venture, collaboration has already begun and the creation of a joint venture will not come instantly. Even in this case they will start out below the pyramid of collaboration.

Maybe surprisingly, our case companies have to a large extent used past experiences of inter-organisational collaboration when conceiving their new business relationships. Why is this? One explanation may be that it is easier for them to do things the same way as before. If you design the partnership in a way that has been done before then it will probably be considered easier since they know how to do it. It is always safer and easier if you walk on familiar territory.

When it comes to potential partners’ expectations on collaboration, it seems, not surprisingly, like the initiator of the collaboration also has the highest expectations on the future co-operation. This can also be linked to the desired value creation of collaboration. The party who is the driving force in the partnership formation process also has the clearest picture of what kind of value he wants to obtain through collaborating with the other party.

Initially, this one-sided clarity of value creation logic may also put this same driving force in a situation where he is holding higher expectations
than his counterpart. A clear value creation scenario for one of the companies seems to lead to more explicit expectations, as is the case for Levcoj in the discussion with Sune Bergs Engineering, where the advantages for Johan Lewin are more evident than for Sune Bergs. Before two potential parties reach a stage where they agree to actually begin collaborating, both parties will have to have a clear idea of why they should collaborate with each other as well as of the value that should be generated from it. This, we believe may eventually equalise the parties’ expectations, but also put them on a more realistic level.

When driving forces can be found in both companies, expectations seem to be more balanced, as in the case Merconda/Manaka Cell. These two companies also have clearer value creation logic in the deal. Of course, there is always the risk, in cases where both parties have high expectations, that they will become disappointed in a later stage. However, it is extremely hard for us to know whether or not some of our cases will eventually find themselves in a situation where their expectations will not be met.

Turning to the different scopes of collaboration, we found that our interviewees had thought about these to different extents. We are actually quite surprised that they had thought as much of them as they had, taking into account that they have just started discussing a partnership with another company.

It seems like strategic scope is the scope that the companies we have studied have discussed the most. This is also the scope with the most obvious link to the underlying motives of collaboration as well as its value creation logic. There seems to be no point in starting discussing economic and operational scope if the parties cannot come to terms with the strategic scope. Because, if two potential partners cannot find compatible areas of interest in the partnership, then why bother with financial and operational subjects. Then why collaborate at all?

Economic scope is something that our case companies would like to deal with more thoroughly at a later stage in the collaboration process. This also goes for operational scope, even though joint activities seem to be easier to conceive at such an early stage as our case companies are in. In other words, in the initial stage of collaboration, the parties can imagine what may be done jointly by the two parties on an operational level more easily than how resources and benefits should be measured, controlled and divided between the companies.
9.1 RECOMMENDATIONS

Finally, we have put together some recommendations, aspects we think are important to consider, on an overall level, in the creation of a partnership.

Communication – In this study we have established that the more companies communicate the closer will be their value-creating scenario. The more the parties’ communicate the more likely they are to bring up issues in which they do not agree. If they communicate well enough in an early stage, the more likely they are to either solve the issue or go their separate ways before it is too late/will be too costly. Communicating will lead to more realistic value-creation scenarios for both parties.

Equality – It is important that the driving forces from each of the partners are somewhat on an equal level. A partnership should be created because both partners can benefit from doing so. If there is an imbalance the partnership is likely to run into trouble, mainly because one partner may be lacking the same commitment as the other which is bound to lead to conflict, sooner or later. Equality will not only equalise the efforts of the progress/initialisation of the partnership, but also set expectations in a more realistic light, through clearer value creation logic and mutual understanding.

Flexibility – As we previously have established, companies are likely to use old frames when creating a new partnership. If both partners do this there will probably be conflict. Therefore, flexibility in the partnership creation process is needed in order to create a partnership on both partners’ terms.

Openness – One aspect in which we think our case companies really have succeeded in is openness. It is crucial to be able to see the other parties’ point of view, to see differences as opportunities instead of problems. Keeping all doors open may result in unexpected opportunities.
10 IMPLICATIONS FOR FURTHER RESEARCH

In our purpose we state that one of our objectives with this thesis is to contribute to increased knowledge about small business partnership cooperation. We believe that we have done so, but there are still areas that we would have liked to explore, even though we decided not to do so in our study.

One area which we considered taking into our study was the cultural aspects and affects of collaboration creation. It would have been very interesting to study the organisational match between companies in South Africa and Sweden, both on an organisation level a national culture level.

It would also have been interesting to study cultural aspects of partnership creation on a professional level, i.e. partnership formation in different professional cultures, or areas.

It is clear that cultural differences and/or similarities affect collaboration in different ways. Above all, it certainly affects the initial stage of collaboration. Add the small company aspect to this and one has a research project that we would find very exiting.

We also think that some sort of follow up on our study could be interesting. To actually see how the relationships between the companies we have studied evolve over a longer period of time or after a certain period of time.
REFERENCES

Articles


Ellram, Patterns in International Alliances, *Journal of Business Logistics*, 1992, Volume 13, Issue 1

Gulati, Dec 1995, Social Structure and Alliance Formation Patterns: A Longitudinal Analysis, Administrative Science Quarterly; Volume 40, Issue 4


Makino/ShigeDelios/Andrew, 1996, Local Knowledge Transfer and Performance: Implications for Alliance Formation in Asia, Journal of International Business Studies; London


Parkhe, Building Trust in International Alliances, Journal of World Business, Winter 98, Volume 33, Issue 4

Ranson, Stewart; Hinings, Bob; Greenwood, Royston, The structuring of Organizational Structures, Administrative Science Quarterly, Ithaca; Mar 1980; Volume 25, Issue 1


Walton, 1996, Partnership satisfaction: Using the Underlying Dimensions of Supply Chain Partnership to Measure Current and Expected Levels of Satisfaction, *Journal of Business Logistics*; Oak Brook, Volume 17, Iss. 2


**Books**


Dymsza, Killing, Contractor, Lorange In Contractor/Lorange, 1988, *Co-Operative Strategies In International Business*, Lexington Books, Massachusetts


Holme, Solvang – *Forskningsmetodik – Om Kvalitativa och Kvantitativa Metoder*, Studentlitteratur, Lund


Molander, 1988, *Vetenskapsfilosofi*, Thales, Stockholm

Nafziger, 1990, *The Economics of Developing Countries*, Prentice Hall


Ouma, 1997, *Information Resources and Technology Transfer Management in Developing Countries*, Routledge


Internet

Accessed: 1999-02-02

South Africa at
gopher://gopher.anc.org.za/00/govdocs/white_papers/smallbiz.txt

Accessed: 2000-01-23

Swedish Trade at www.swedishtrade.se/sydafrika
Accessed: 2000-01-04

Vienna University of Economics and Business Administration
(http://speth08.wu-wien.ac.at/inst/vw4/sikl/old/ss98/h8871334/main.htm)
Accessed: 2000-02-12

Other

Närings- och Teknikutvecklingsverket (Finansdepartementet), Svenskt
Näringsliv på rätt väg? Bilaga 3 till LU 1999, Sid 80

Statens Offentliga Utredningar, 1998:77, Kompetens i Småföretag,
Småföretagardelegationens Rapport, Del 3

Swedish Ministry of Foreign Affairs, Swedish Focus on South Africa
1999, Newsletter No. 4, March 1999