The alliance map: A tool for managing fear and greed in alliances

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Abstract For alliances to sustain themselves, the synergies that are generated between partners must be greater than the conflicts that drive them apart. A good starting point to get to the root cause of conflicts in an alliance is to know your partner’s levels of fear and greed. In this article, I first offer a systematic way of evaluating fear and greed and then explain how to classify partners into four types (i.e., easy partner, fearful partner, greedy partner, and risky partner) and position them on a map. This map, the alliance map, highlights key areas of concern for managers dealing with each type of partner. This article offers an integrative perspective on alliance management, incorporating both relationally based and contractually based concerns that help to stabilize, develop, and strengthen the partnership in alliances.

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1. Making alliances work: Know your partner

Facing pressures of competition, organizations often are compelled to form alliances in order to survive and prosper. Yet many alliances result in premature terminations. For collaboration to occur, it is clear that companies require a good understanding of each partner—including its organizational structure, policies and procedures, and culture and norms.

Previous studies have examined issues such as managing formation dynamics (e.g., Ring, Doz, & Olk, 2005), choosing the right partner (e.g., Baum, Calabrese, & Silverman, 2000), structuring alliance governance mechanisms (e.g., Albers, Wohlgezogen, & Zajac, 2016), and monitoring alliance performance (e.g., Anand & Khanna, 2000) to reconcile differences between partners in order for alliances to succeed. While managing alliances requires a good understanding of how the partners allocate resources and share information, previous work has largely overlooked the key motivators—fear and greed—that drive partners apart (Hwang, 2005; Hwang & Burgers, 1999; Schmidt, Shupp, Walker, Ahn, & Ostrom, 2001). After all, the sustainability of an alliance is the balance of two opposite forces: the synergies that hold partners together and the conflicts that drive them apart (Castañer, Mulotte, Garrette, & Dussauge, 2014).
A good starting point to get to the root cause of an alliance conflict is to understand your partner’s levels fear and greed. In this article, I delineate a party's fear in an alliance as the product of two terms: the losses at stake (henceforth, ‘losses’) and the anxiety to be exploited (henceforth, ‘apprehension’) (Hwang, 2005; Hwang & Burgers, 1999). While the sum total may be the same for fear, it is important to differentiate between high apprehension with unlikely losses and low apprehension with likely losses. Likewise, there are two sources of greed: the amount of gains to reap (henceforth, ‘gains’) and the temptation to defect (henceforth, ‘temptation’). Again, while the sum total may be the same for greed, one might have a lot to gain but not much temptation, or have little to gain but high temptation. In sum, alliance managers need to identify all four factors—losses, gains, apprehension, and temptation—to understand the fear and greed that shape conflicts in an alliance.

In this article, I offer a systematic way of evaluating a partner’s fear and greed that I use to classify partners into four types: (1) easy partner (low fear, low greed); (2) fearfulful partner (high fear, low greed); (3) greedy partner (low fear, high greed); and (4) risky partner (high fear, high greed). The first step to manage an alliance successfully depends critically on how to position your partner on a map according to his/her fear and greed; this tool is called the alliance map. The alliance map is instrumental in pinpointing the key problems, symptoms, and potential solutions for each type of alliance partner.

2. Estimating your partner’s levels of fear and greed

As discussed above, alliance managers need to gauge the amount of potential losses and the degree of apprehension to determine a partner’s level of fear, as well as the amount of opportunistic gains and the degree of temptation to determine the level of greed. While potential losses and opportunistic gains are readily quantifiable, the same cannot be said of the more elusive concepts of apprehension and temptation.

This article derives the levels of apprehension and temptation in a relationship based on the construct of trust and future outlook studied in social science research. First, trust alleviates apprehension due to the expectation that the partner will behave ‘righteously’ (Ariño, de la Torre, & Ring, 2001; Burt & Knez, 1996; Sako & Helper, 1998). Opportunistic behaviors in a relationship, such as shirking, cheating, distorting information, and appropriating resources, entail risk. While trust does not reduce risk per se, as it is a state of mind rather than a course of action, the perception of risk would be lower if we trust others (Das & Teng, 2001). Further, favorable future outlook in a relationship renders cooperation easier because a promising future tends to suppress opportunistic tendencies (Axelrod, 1984; Kreps, 1990; Murnighan & Roth, 1983; Telser, 1980). When partners conduct themselves with an eye toward the future, they realize that it may not be wise to behave opportunistically in the short term because the collaboration may also be extended into other areas at a later stage (Ariño et al., 2001). Therefore, an alliance’s future outlook is self-enforcing and plays a significant role in containing temptation.

Together, estimating your partner’s trust in you and how he/she perceives the future prospect of the alliance is critical in determining the levels of your partner’s apprehension and temptation. Once your partner’s potential losses and opportunistic gains as well as his/her apprehension and temptation levels are determined, you are ready to estimate the degrees of your partner’s fear and greed. I propose a four-step approach to calculate scores for fear and greed as presented in Figure 1:

- Step 1. Estimate your partner’s trust in you and how he/she perceives the alliance’s future outlook.
- Step 2. Determine the levels of apprehension and temptation using trust and future outlook as inputs.
- Step 3. Estimate the amounts of potential losses and opportunistic gains.
- Step 4. Multiply potential losses by the level of apprehension to get the ‘fear score,’ and multiply opportunistic gains by the level of temptation to arrive at the ‘greed score.’
- Fear score: A higher score of fear suggests that your partner may be more likely to exit the alliance to avoid losses. A lower score suggests that your partner is relatively comfortable that he/she is not treated unfairly in the relationship.
- Greed score: A higher score of greed suggests that the partner may be more likely to behave opportunistically to reap short-term gains. A lower score suggests that your partner is less likely to take opportunistic action against you.
3. Four types of partners categorized by fear and greed

Knowing a partner’s level of fear and greed allows you to get to the root cause of conflicts in alliances. Evaluating fear and greed allows you to place your partner into one of the four categories. We discuss each partner classification below.

3.1. Easy partner

When the parties of an exchange trust one another and the future prospect looks promising, an alliance will enjoy high levels of relational quality (Ariño et al., 2001). This will lead the partners to expedite decisions, search for value-added opportunities, and draw on past experiences to project into future behavior. However, an easy partner does not necessarily guarantee cooperation. The key problem with an easy partner is that benefits obtained from the current relationship may be eroded gradually and ultimately be insufficient to hold the alliance together over time. Of course, your partner may simply be offered a more attractive option than the current alliance with you.

Consider the partnership between Ralston Purina (U.S.) and Taiyo Fishery (Japan) in the fishery industry. The alliance lasted for 20 years but was terminated suddenly by Ralston Purina. Why did Ralston Purina decide to exit? The alliance was terminated after Ralston Purina concluded that it had successfully acquired Taiyo’s local knowledge through the alliance (Beamish & Inkpen, 1995; Das & Teng, 2001). If knowledge resources form the basis of cooperation, the erosion of benefits from cooperation could occur over time simply due to local knowledge acquisition. Indeed, local familiarity could reduce the liability of foreignness without involving knowledge imitation or espionage. The
basis for collaboration for synergy could also be asset- rather than knowledge-centered. The alliance between IBM and the Russian computer maker Kvant is another case in point. IBM formed this alliance to circumvent tariffs on the importation of parts. When the Russian parliament decided to allow IBM to import parts free of tariffs, the alliance was immediately terminated by IBM.

In both cases, the alliances faltered because synergies generated from allying with Taiyo Fishery and Kvant no longer served the purposes that Purina and IBM respectively had intended. Managers need to be alert that either the current partner may acquire enough local knowledge to become independent or alternatives may open up that render the current alliance less attractive. An easy partner may act in ways that send positive signals such as consulting you frequently for local information, showing satisfaction about the alliance performance, and displaying low interest in other local partnerships. On the other hand, signs of trouble loom if the partner acts alone without consulting you, complains about the low performance of the alliance and not getting enough help from you, or scans for opportunities outside of the partnership.

When facing an easy partner, the key word to watch is benefit. Managers would do well by ensuring that adequate synergies exist to glue the partnership together over time. For example; in a Japan-Europe alliance; a European manager clearly understood this and was quoted as saying: “You must ensure that you always have something to offer to your partner—some reason for them to continue to need you” (Hamel, 1991, p. 89). Purina and IBM would have been less likely to exit if alliance managers of Taiyo Fishery and Kvant had heeded this advice earlier. It is a manager’s call of duty to maintain a mutually beneficial relationship to prevent an easy partnership from dissolving. Of course; to keep fear and greed at relatively low levels would also be helpful.

3.2. Fearful vs. greedy partner

Fearful partners typically are characterized by high apprehension and/or substantial potential losses. By contrast, greedy partners generally are characterized by high temptation and/or substantial opportunistic gains. Some alliances are more prone to fear and greed than others. Fear and/or greed may even be built into an alliance at its formation stage when partners are highly interdependent yet divergent in terms of cultural background, technological know-how, innovative ability, and/or reputation. Consider small high-tech R&D companies (e.g., biotech and IT industries) that seek to build alliances with well-endowed large companies. While large firms are eager to tap into small, high-tech R&D companies’ patents and technological know-how, small companies are typically apprehensive of losing such valuable resources.

The key problem in dealing with a fearful partner is that the partner may begin to feel uncomfortable or victimized and will exit the alliance to avoid losses (Das & Teng, 2001). Take the alliance between Northwest Airlines and KLM Royal Dutch Airlines (Northwest-KLM) as an example. By linking their hubs in Detroit and Amsterdam, the two firms offered transatlantic travel under one brand with highly encouraging results. However, the relationship soon soured despite its early success as Northwest became understandably concerned about KLM’s takeover attempt. A culture clash between Northwest’s heavily debt-financed approach and KLM’s cautious approach worsened the situation.

A fearful partner may exhibit symptoms of discomfort both in attitude and in behavior. For example, a Japanese manager had to contend openly with a persistently inquisitive European partner since he believed that the partner only saw the alliance as a shortcut to get mass manufacturing technology (Hamel, 1991). In the Northwest-KLM alliance, Northwest had shown a sign of uneasiness in averting a loss of identity and autonomy. A fearful partner may also show unwillingness to be exposed, display reluctance to commit, or send signals of distrust.

On the other hand, gains from opportunism can be huge, especially when specific know-how is involved. History of alliances is filled with stories of companies losing know-how, customers, or entire product lines. The loss of know-how to its partner that befell Varian Associates, a U.S. producer of advanced electronics devices, is a case in point. Reflecting on its joint venture, one of Varian’s senior executives concluded that what the partner had wanted to do was to acquire Varian’s technology, not to sell Varian’s equipment. In another case, U.S. company Avery’s partner had shown keen interest in getting access to Avery’s proprietary technical information on multiple occasions. Its partner finally was caught with the possession of confidential documents that belonged to Avery and the company subsequently was prosecuted under the U.S. Economic Espionage Act.

The key problem facing a greedy partner lies in his/her opportunistic behaviors such as shirking, appropriating the partner’s resources, distorting information, and delivering unsatisfactory products and services (Das & Teng, 2001). Sometimes partners may even have competitive in addition
to collaborative aims when they enter the alliance. A manager of a Western computer company in his firm’s trans-Pacific alliance commented that it took a long time for him to realize that the partner’s true intent was to prepare a platform to compete with his company (Hamel, 1991, p. 86):

A year and a half into the deal I understood what it was all about. Before that I was as naive as the next guy. It took me that long to see that [our partner] was preparing a platform to come into all our markets.

From a greedy partner’s perspective, the eventual termination of the collaborative venture may even be seen as a success once the goal has been accomplished. A greedy partner usually comes to the alliance with a hidden agenda. Alliance managers carefully need to observe the partner for signs and symptoms of hidden motives. Just like a fearful partner, a partner could exhibit symptoms of greed both in attitude and in behavior. He/she may show keen interest in taking control of staffing such as in the case of Varian. He/she may not only ask sensitive questions but also try to get access to proprietary information, patents, and know-how as in the case of Avery. In terms of time preference, a greedy partner would likely exhibit behaviors that prefer short-term gains over long-term benefits.

Managers need to differentiate whether their partners are the fearful or greedy type in order for alliances to be managed effectively, considering fear and greed stand at the opposite end of the spectrum. The effective ways to manage fearful and greedy partners in terms of managing exposure, making commitment, and relationship building are discussed in the following sections.

3.2.1. Exposure
When assessing your partner’s exposure to potential losses, it is important to view things from the other party’s perspective. Remember that what your partner is worried about may be different from what you think he/she should be worried about. In order to reduce a fearful partner’s potential losses, it may pay to structure the alliance in a way that minimizes his/her soft spots. Measures such as granting managerial control in areas where exposure is inevitable or guaranteeing reimbursement for damages could be helpful.

Similarly, in assessing a greedy partner’s opportunistic gains, it is important to gauge not what you are afraid to lose but what your partner might be anxiously going after. It is a good practice to wall off critical know-how and retain managerial control in areas where your exposure resources are of most value to the partner. In its alliance with Japanese suppliers, Boeing walled off critical research, design, and marketing functions and allowed their Japanese partners to share production know-how only. Boeing also denied access to technologies not required for the production of aircraft.

3.2.2. Commitment
Credible commitment is a powerful means to demonstrate your trustworthiness in order to reduce apprehension of a fearful partner (Gulati, Khanna, & Nohria, 1994). For example, Intel has licensed its innovative technologies to AMS, Harris, and NEC for many years. But why would Intel voluntarily give up its monopoly position? Users of breakthrough technologies often are reluctant to make the necessary specialized investments for fear of being locked in. By licensing the technology, the innovator makes an irrevocable commitment not to practice lock in, which alleviates the concern of a fearful partner. Indeed, it is not uncommon for a firm that has invented a new technology to give up its monopoly position and license the technology to competing firms. This is known as second sourcing in many markets, wherein buyers must bear specific setup costs to use a product and the seller can raise the price after the fact in order to appropriate the returns to the buyer’s specific investment.

By contrast, asking for credible commitment and damage reimbursement could be useful in dealing with a greedy partner. In the Volvo-Renault alliance, for example, a poison pill was negotiated to discourage any unilateral attempt to unwind the alliance. When Volvo terminated the alliance, it had to pay Renault a large sum under the terms of the agreement.

3.2.3. Relationship building: Trust and future outlook
Keeping things transparent and minimizing misunderstanding can keep apprehension in check for a fearful partner. In an alliance between HP and Canon, trust and transparency saved the alliance from a breakdown. Both HP and Canon had recognized that the market was ready for high-volume color laser printers. However, while HP wanted to get to market quickly, Canon preferred to wait to improve quality first. HP made clear to Canon that it did not want to break the relationship but would have to cooperate with Konica to explore the market opportunity. Mr. Takashi Kitamura, who was CEO of Canon at the time, was very unhappy but responded: “I understand your needs and constraints. Although I do not like your decision, I accept it” (Lewis, 1999, p. 115). By keeping Canon informed all along, HP had carefully prepared the ground for its move into color laser printers and minimized the
damage to the relationship with Canon. If alliance managers are capable of building trust while keeping the partner’s potential losses to a minimum, a fearful partner can be managed successfully.

An effective way to contain a greedy partner has more to do with what will happen in the future rather than present. It is a good practice for alliance managers to demonstrate that the future outlook is filled with valuable opportunities. Broadening the alliance scope by extending collaboration beyond the current project has similar effect. As long as the potential to cooperate in the future looks bright, temptation to take opportunistic action for current gains should be in check. A relationship can be cooperative and self-enforcing if the value of the relationship between partners depends on the extent of possibilities for future interaction (Gil, 2013). Bringing the potential for future cooperation in sight while keeping your partner’s opportunistic gains to a minimum results in the successful management of a greedy partner.

3.3. Risky partners

If your partner is both greedy and fearful, you might be in an uneasy situation. Some partnerships never really take off because they fall into this category. An alliance may sail into troubled waters over time even if it appears to be built for success in the beginning. This means that managers not only need to be alert in the formation stage of the alliance but they must also be sensitive to external changes and the partner’s strategies as the alliance evolves. To deal with a risky partner is problematic because both relationally and contractually based concerns are intertwined with intense fear and greed. All of the symptoms that appear in fearful and greedy partners, as discussed previously, could manifest with a risky partner. The severe conflicts that occurred in the alliance between Volkswagen and Suzuki are a case in point.

In 2009, Volkswagen (VW) purchased a 19.9% stake in the Japanese manufacturer Suzuki. While VW agreed to provide its advanced fuel-efficient technology to Suzuki, Suzuki agreed to provide VW with access to its small-displacement motors and presence in India. However, less than 7 months after they inked the partnership, the alliance imploded. Suzuki accused VW of not giving it access to its hybrid technology while VW blamed Suzuki for violating the agreement by procuring diesel engines from its European rival Fiat. A close examination of the VW-Suzuki alliance suggests that both greed and fear on the part of each party were very high from the beginning. While Suzuki hoped to develop a hybrid system with VW’s help, VW responded that it did not even share some sensitive hybrid information with its Audi subsidiary. Compared to VW’s apprehension of leaking valuable sensitive technologies, Suzuki had an even greater concern in the relationship, viz., its anxiety over losing management control. Yasuhiyo Harayama, a managing officer, said Suzuki was leery of VW’s attempt to exert control over Suzuki. According to him: “We stopped the use of VW’s 1.6-liter diesel because we don’t want to be controlled” (Greimel, 2015). In the end, Suzuki simply could not shake the suspicion that VW planned a power grab by acquiring a controlling share in it. Trust evaporated when Suzuki started to source diesel engines from Fiat even though Suzuki denied that this was against the terms.

Not only might alliance benefits erode over time, but the nature of a relationship may also transform itself from cooperative to adversarial with severe conflicts between partners. U.S. tech giant Cisco Systems has consistently failed in efforts to forge partnerships with other firms. It has attempted in the past to work with both Motorola and Ericsson in an effort to enhance its operations. However, after Google acquired Motorola, the company ceased being a partner of Cisco and became a competitor. Similarly, Cisco’s 2004 alliance with Ericsson, formed to modernize the wireline communications market, collapsed after Ericsson made a number of acquisitions that made it a direct competitor with its strategic partner.

Navigating out of troubled waters is difficult as the managerial actions required to contain greed and fear are inherently of a conflicting nature. Such conflicting managerial actions pose a fundamental dilemma: Actions that reduce greed are likely to increase fear, while those that reduce fear are likely to increase greed. Facing this dilemma, managers must evaluate whether it makes sense to stay in such an alliance after all. Unless substantial benefits can be expected to compensate for the high-risk premium in a relationship arising from intense fear and greed, it may not be advisable to stay in the alliance—exiting may become a more viable option. Gulati, Sytch, and Mehrrota (2008) argued that alliance managers often fail to consider explicit exit strategies when they form alliances. While exit planning is important for all alliances, a well-structured exit plan is particularly important when dealing with risky partners. Multiple exit-relevant contingencies that address the partner’s fear and greed need to be incorporated in the exit planning to avoid unexpected negative consequences.

Moreover, managers should be mindful of the peril of escalating commitment when facing a risky partner, which occurs when a decision maker persists in taking a course of action despite unfa-
Table 1. The alliance map

<table>
<thead>
<tr>
<th>PARTNER’S FEAR</th>
<th>Fearful Partner</th>
<th>Risky Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>• Problem: Partner exits to avoid losses</td>
<td>• Problem: Severe conflicts due to both relational and contractual concerns</td>
</tr>
<tr>
<td></td>
<td>• Symptom: Reluctant to be exposed; feels uncomfortable to commit; sends signals of distrust</td>
<td>• Symptom: All symptoms that appear in fearful and greedy partners</td>
</tr>
<tr>
<td></td>
<td>• Solution: Allow partner to protect soft spots; make credible commitment; keep things transparent and minimize misunderstanding</td>
<td>• Solution: Prepare a well-structured exit plan; beware of escalation of commitment</td>
</tr>
<tr>
<td></td>
<td>• Example: Northwest-KLM; HP-Canon</td>
<td>• Example: VW-Suzuki; Cisco-Motorola</td>
</tr>
<tr>
<td>Low</td>
<td>Easy Partner</td>
<td>Greedy Partner</td>
</tr>
<tr>
<td></td>
<td>• Problem: Erosion of benefits</td>
<td>• Problem: Partner behaves opportunistically</td>
</tr>
<tr>
<td></td>
<td>• Symptom: Consults you often for local information; content about alliance performance; shows low interest in other local partnership(s)</td>
<td>• Symptom: Attempts to control staffing; tries to get access to proprietary knowledge; prefers short-term gains over long-term benefits</td>
</tr>
<tr>
<td></td>
<td>• Solution: Ensure adequate benefits; maintain low greed and fear</td>
<td>• Solution: Protect your own soft spots; ask for credible commitment and damage reimbursement; foster long-term relationship</td>
</tr>
<tr>
<td></td>
<td>• Example: Purina-Taiyo; IBM-Kvant</td>
<td>• Example: Volvo-Renault; Boeing-Japanese suppliers</td>
</tr>
</tbody>
</table>

Vorables outcomes. Escalation of commitment in an alliance may occur for several reasons: individuals who initiate an alliance may be under self-imposed pressure to ensure its success; they may desire to preserve their own reputation that is closely tied to the alliance; they may be afraid that the failure of a relationship will cost them their job or position; their cultural values may prevent them from abandoning a partner; and the cost of exiting the alliance may be prohibitive (Adobor, 2006).

Misdirected persistence in pursuing an alliance with risky partners may cause the managers to waste a great deal of time, energy, and resources. As alliances evolve over time, escalation of commitment is particularly likely to occur when personal ties between managers in partnering firms develop. While personal ties are important to form the basis of trust, support joint decision making, and facilitate information sharing, they may have drawbacks. Strong interpersonal ties in alliances can sometimes prevent dissolution of faltering arrangements as feelings may prevent the making of difficult, yet prudent, termination decisions (Adobor, 2006). In order to combat this possibility, firms can reduce the downside of personal relationships by carefully managing the role of performance managers across the life of the relationship. Measures such as using project teams that attenuate the level of individual responsibility and monitoring the role and performance of managers with ties to partnering firms can help reduce tendencies to escalate commitment in an alliance.

To summarize my analysis, I offer the alliance map (see Table 1) as a managerial tool for alliance planning and management. The alliance map provides a fast yet comprehensive diagnosis of the problem an alliance partner might face, the symptoms to look for that signal a problem, and the appropriate courses of action to take for each type of partner.

4. Final thoughts

There are always two opposite forces at work in an alliance: synergies from corporations that uphold an alliance and the conflicts that drive it apart. Viewed in this light, managing alliances is like creating and sharing a pie where creating a bigger pie is only a precondition to succeed. Value creation alone may not allow a cooperative venture to be sustainable despite the fact that it makes economic sense.
Drawing on social science research on the obstacles to cooperation, this article identifies the two key motivators underlying conflicts in an alliance—fear and greed. The effectiveness of alliance management critically depends on how to handle your partner’s levels of fear and greed that impede cooperation. I present the alliance map as a frame of reference to help managers address key concerns facing different types of partners based on their fear and greed. This article offers an integrative perspective on alliance management, incorporating both relationally based and contractually based concerns that help to stabilize, develop, and strengthen the partnership in alliances.

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