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Bachelor’s Thesis

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Preface

This thesis is presented in part requirement for the International Business and Management Studies at Inholland University of Applied Sciences, School of Economics and Metropolia University of Applied Sciences, School of Business Administration. This study composes a strategic alliance model for Fira Oy as part of its market entry into the Swedish construction market.

My initial interest in the topic area was essentially driven by Fira's ambition to enter a new market through alliance in the near future. Most part of this ambition came from Anni Rouvinen, the development manager of Fira Oy, who guided me through the research process and who I thank for her inspirational devotion toward the business.

I would like to thank Michael Keaney for directing the initial phase of this thesis and Alex van den Born for guidance and support. I would also like to express my appreciation for the people that gave their time for interviewing and valuable information for my thesis.

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Lastly, I would like to thank my family and my partner for their continuous support and inspiration.

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Executive Summary

Strategic alliance is considered today as a natural and common alternative to employ when a firm plans to enter a new market with a stable and secure basis. In fact strategic alliance is more preferred entry option compared to acquisitions around the world across all industries. In alliances, like in all international operations there are risks, however many theorists as well as companies have understood the value of operating with a partner.

Fira Oy (further referred to as ‘Fira’), a construction firm in Finland has realised the potential in new markets and has decided to execute this prospect through strategic alliance with a local partner. Fira has done market research particularly in the Swedish market. It is a usual path for a Finnish company to expand its operations into the neighbouring economy.

Alliances have been studied theoretically and practically for years, yet still no clear model for success exists. This research ties the theoretical points of view with practise together to advice Fira in entering a new market through strategic alliance.

The framework for the research is organised in the following manner: Different theoretical strategic alliance modes are compared to find the most suitable for Fira and its operations. The second part of the research is to construct a partner profile by analysing the strategic and cultural characteristics of Fira. A cultural analysis is conducted to show the viewpoint of the employees toward Fira’s company culture. From the results a partner culture fitting Fira is identified.

The profile includes the strategic goals as well as the strategic capabilities the partner has to have. The strategic capabilities are discovered through a value chain analysis. Furthermore, the complementary capabilities to be performed by the partner for the alliance are determined.

The final part of this research is risk in alliances. As mentioned above, there is risk in all international operations. In alliances companies often think it is reduced by half since the partner is responsible for

half of the risk. However, risks often increase in other operational and environmental elements, making the risk factor one of the most significant factors to be considered when entering an alliance.

The objective of this research is to construct a strategic alliance model for Fira, a construction business entering the Swedish market. The framework forms a basis for any international strategic alliance Fira considers to join in the future.

1. Introduction

The focus of this research is to find a strategic alliance model for Fira, a construction business located in Finland as a part of the company's market entry strategy to the Swedish market.

Fira plans to enter the Swedish construction market through a strategic alliance with a local partner. As Fira has no previous experience in international alliances, theoretical perspectives on strategic alliances are compared and the company is analysed in this research. Both of these components form a basis for the strategic alliance model.

Furthermore, the aim of this research is to compare different modes of strategic alliance and based on the company analysis; compose a partner profile fitting Fira. Fira can use this profile in the partner selection process in the future. With the profile Fira can identify the partner(s), which is suitable with Fira. The two elements that form the foundation of this profile are: strategic and cultural characteristics. By analysing the strategic and cultural characteristics of Fira, a partner profile fitting Fira's characteristics is generated.

After the modes of strategic alliances are compared and partner profile is completed, different risk scenarios in international strategic alliances are presented, guiding Fira to avoid them.

The purpose of this research can be formed in the following way: To find a suitable strategic alliance model for Fira, a construction company headquartered in Finland entering the Swedish market.

2. Background

Framework of the research

According to Kaplan, Norton, and Barrows Jr. (2008) most successful firms use a four step strategic planning mechanism. The process starts with defining the mission and vision, continues with designating strategic goals, conducting a strategic analysis and finally formulating the strategy. This research concentrates on the strategic analysis stage.

Strategic alliance is a partnership where two or more organisations share resources and activities to pursue their mutual goals (Deresky, 2002; Johnson, Scholes, and Whittington, 2005; Hitt, Hoskisson, Ireland, 2007). Suleij (1998) discusses the number of strategic alliance: They have been increasing in all industries across the world since the 1970s (Glaister and Buckley, 1995; Ghemawat, Porter, and Rawlinson, 1986).

Market entry with a partner requires a broad understanding of the possibilities and issues arising. Selecting the right partner determines the success of the market entry and thus three constituents have been taken into consideration for this process: strategic fit between the partners, their cultural fit, and the existence of limited competition between the partners (Faulkner and Campbell, 2003). These elements form the basis for the company analysis of Fira, which will further result in a partner profile.

The final element in the research is risk in alliances. Strategic alliances commonly don't reduce risk for the parties involved; yet still many firms decide to form them. However, Reuer and Leiblein (2000) argue that investing in alliances has a positive effect on downside risk and thus risk would be reduced. Zhi (1995, p. 231) suggests a simple risk management process to be used in international construction projects (Berkeley, Humphreys, and Thomas, 1991):

1. Risk classification 2. Risk identification 3. Risk assessment 4. Risk response.

A risk management process should be put into place when necessary. However, in the scope of this research the risks in strategic alliances are illustrated through scenarios and no risk management process is employed as the partner is yet unknown.

Defining the characteristics of the partner profile

Faulkner and Campbell (2003) argue that there are three simple factors to be considered when finding a suitable partner: strategic fit, cultural fit and limited competition between the partners.

The strategic fit is the most complex part of the partnership requirements. Any company going international needs to perform an internal and external analysis. This research focuses on the internal aspects of strategy. An internal analysis concentrates on the company's capabilities and performance (Kaplan, Norton, Barrows Jr.; 2008). A tool often used for the internal strategic analysis is the value chain developed by Porter (1985), which determines the organisational elements that deliver value. This analysis determines the strategic characteristics of the company and furthermore identifies the complementary activities the partner needs to perform.

Many researchers have studied culture in the past decades, which has resulted in creation of selection of cultural dimensions (Cameron and Ettington, 1988). The cultural features can be measured through the organizational culture assessment instrument (OCAI), created from the competing values framework to examine the cultural view from within the company (Steinhoff and Owens, 1993). A culture of a company does not only strictly refer to employees feelings about working in the company: A culture is a perception of the employees view on the company's strategy.

It is rather simple to find out whether there is competition between the partners, however to make sure that there will be no competition between the partners in the future, a partner with complementary resources should be chosen as it is less likely to start competition (Johnson, Scholes, and Whittington, 2005).

Fira Oy

Fira is an innovative construction firm based in Finland. The company was established in 2002 and today is known for innovative solutions which keep the company expanding. Fira believes that the future lies in service construction, where customer needs are taken into consideration and brainstormed in the planning process of the project. Fira has created effective tools and workshops for the planning of the projects which have proven to work very well. In its vision Fira states that it wants to be the number one in the Finnish service construction industry. Fira also wants to enter into international markets with its innovative processes as the Finnish market in the long-term is too small for sustainable growth. Fira has a subsidiary in Finland, Fira Palvelut Oy, which concentrates in renovation section of the construction business and employs also a service model in its operations.

Service construction

In service construction the viewpoint of the client plays a bigger role than in traditional construction projects. The main idea behind Fira's thought is to enhance customer/client satisfaction by beginning interaction with the client at early stages of a project. The planning process is the most important part of the concept as it allows the stakeholders to plan the project as well as possible. The service concept allows a more comprehensive and versatile planning for the project. Service combined with the know-how and the skills of the employees constantly creates new tools and techniques for the future.

Traditional construction projects are heavily depended on money and time. The project costs 'are pushed' to as low as possible and the building is done as fast as possible. Service construction concept allows the different stakeholders to plan and re-plan the project before starting the building process. In traditional construction projects changes are almost impossible to implement, and the builder is responsible for them. In service construction the value is created for the customer through the fact that changes are possible and very likely. The service concept ensures that the building process can be managed easily due to the preliminary planning.

3. Research Problem and Questions

There is much literature on the subject of strategic alliances and their implementation, but far too often the theory does not coincide with practice. This research aims to create a theoretical framework for a strategic alliance in the selection of mode of alliance as well as in the partner selection process. Through this framework Fira Oy is steered in its market entry into Sweden.

The main question of this research can be composed from the introductory chapter in the following way:

What is the most appropriate strategic alliance model for Fira Oy, when entering the Swedish construction market?

The main question is supported by the following questions to give in depth results to the research problem:

1. What is a strategic alliance and what are the possible forms of alliances in the construction industry?
2. How do these different forms create sustainable added value and synergy?
3. What is the most suitable strategic alliance model for Fira Oy and what are the risks in strategic alliances?
4. Which elements make up the partner profile in the strategic alliance model and how do they effect the value creation and synergy?

The objective of this research is to find a suitable strategic alliance model for Fira, a construction company headquartered in Finland entering the Swedish market.

The focus will be on different strategic alliance forms and their differences. A framework is set for elements needed for a successful partnership: The strategic and cultural characteristics of Fira are analysed to compose a partner profile fitting Fira. Further aspects for the model are the risks, which companies often face in alliances. Through the research and analysis the most suitable strategic alliance form and a profile of the future partner are recommended for Fira.

4. Methodology and Limitations

The main approach of the research is first to compare the different forms of strategic alliances, and then analyse Fira's strategic and cultural character, which will make up the partner profile..

Secondary research includes common strategic alliance theories; partnership fit, and risk literature. For this research general strategic theories and industry related literature is used. Primary research comprehends interviews as well as an internal culture assessment tool, which is supported by a questionnaire. These elements are discussed in this chapter in more detail.

Data about strategic alliances are gathered in general and specifically in construction business. The strategic and cultural characteristics of Fira form the basis of the primary research: company analysis of Fira. By using the theoretical paradoxes, the risks and the foundation of partner synergy are identified.

Primary data are gathered from Fira through qualitative interviews to gain understanding of the construction industry, service construction business, and strategic qualities of the company. The general interview guide approach is used to keep the interview structured, but also enabling flexibility when necessary (Gall, Gall, and Borg, 2003).

An examination of Fira's strategic features and capabilities is conducted through a value chain analysis. The value chain of Fira is analysed to determine the complementary activities the partner needs to possess in a new market to add value and create synergy with Fira in the alliance. The analysis is based on the interviews as well as Fira's internal material.

Companies struggling with each other's cultures in alliances can obstruct the foundation of a mutual path and creation of sustainable competitive advantage. An analysis made on the company's culture is exercised to study how the strategic goals of the company are viewed by the employees, which further shows the possibilities for value and synergy creation within the alliance. Many authors have proposed different ways of analysing and organising a company culture through different aspects or features, e.g. Hofstede (1980) and Ernest (1985). In this research, an organisational tool the organizational culture assessment instrument (OCAI) is used. It has been developed from the competing values framework and it is used to analyse the culture of a company (Steinhoff and Owens, 1993). The reason for choosing this framework is that it derives from empirical research and is similar to several other methods of cultural analysis (Cameron and Quinn, 1999). A fixed OCAI questionnaire (Appendix 6) is filled in by employees from different organisational levels to gain an average viewpoint of the company. The results will be placed into the OCAI, which shows how the employees observe the company and how Fira's strategic goals are translated into operation. The results illustrate the cultural features the partner needs to possess to join in partnership with Fira.

This research shows the strategic and cultural characteristics the partner has to possess to be able to enter into an alliance with Fira; the strategic analysis will strongly rely on the findings from the value chain. This research does not compare the strategic goals of the partners since the partner in the Swedish market is still unknown. This research only gives an indication of the strategic qualities Fira should be looking for from a partner.

This research is a part of Fira's market entry strategy into the Swedish market, initially studied by Kovanen (2011) and Nevanlinna (2011). This research is conducted to advice the management on the path of international operations, especially in the formation process of a partnership. In this research construction firm, Fira operates in developing, engineering, designing, consultancy and contracting. Any construction business planning to expand their operations outside their national markets through strategic alliance may be interested in this research.

5. Theoretical Framework

5.1 Partnership-based Market Entry

In this chapter strategic alliance is defined and the different strategic alliance modes are laid out and examined. The basis for the formal structure of the alliance is given, which provides direction in recommending, which form of alliance to select.

5.1.1 Strategic Alliance

At the beginning of the internationalisation process a firm wants to diversify or expand abroad, but can't or doesn't want to use its own resources to do so (Dessler, 2004). The key to relatively fast and successful market entry is through partnering with a party already inside the targeted market.

Every organisation has to set up relationships in a new market. An organisation cannot decide unilaterally to interact with others; the other actors too have to be motivated. Once both parties have a motivation, they still might have to adjust to be able to interact with each other. When inside the network, there are strong incentives to either keep on cooperating or defeating other parties (Hokansson and Johanson, 2002). A company entering a new market needs to have access to the network and thus cooperating with someone already inside the network is ideal for a fast entry.

As the background chapter states strategic alliance is a form of cooperation with two or more organisations, which share resources and activities to pursue mutual goals (Deresky, 2002; Johnson, Scholes, and Whittington, 2005; Hitt, Hoskisson, Ireland, 2007). In an alliance the activities and resources are combined and they together create new sources of competitive advantage and synergy. Thus, an important factor in forming an alliance is that both of the partners benefit from the partnership.

Albaum, Strandskov, and Duerr (2002, p. 345) discuss the dimensions any alliance has (Spekman and Sawhney, 1990). They suggest that if some of these elements are missing, there might be incompatibilities between the partners' goals:

- **Commitment**: There has to be a mutual trust between the partners.
- **Communication**: Communication methods have to be laid down already in the initial stages of the alliance to avoid misunderstandings and conflicts in the future.
- **Coordination**: Tasks, power and decision making distribution have to be divided clearly.
- **Goal compatibility**: Strategic goals and values have to be aligned.
- **Interdependence**: The partners have to be depended on each other at some level. This derives from the fact that both of the partners should benefit from the alliance.
- **Planning**: Every step of the alliance should be planned. The plan can be referred to in later stages if something goes wrong.
- **Strategic advantage**: Both partners have to gain something from the alliance.

According to Hitt, Hoskisson, and Ireland (2007) alliances are formed to decrease competition, enhance the firms' capabilities, acquire resources, access more opportunities, and develop strategic elasticity. Motivations for alliances can be divided into three main reasons. Depending on the partners and their individual goals, the reasons to enter a partnership may vary (Doz and Hamel, 1998; Ernst and Halevy, 2000):

- Parties often seek **critical mass**: The partners share their resources to reduce costs, increase efficiency, and achieve a better end result for the customer.
- Parties often want to concentrate on the activities they have the best know-how and skills: **co-specialisation**. This can be best described through the value chain, where one partner takes responsibility of certain activities it knows best and the other one does the same on other activities.
- The last major motivator is **learning** from one another. Learning is linked with the co-specialisation, as at first partners do what they best know, but especially in the long term

they want to learn the skills and know-how the other one has. The learned skills can be used in the partners' home market, and thus the partnership results in learning also at home.

Pfeffer and Nowak have collected the different cooperative arrangements and the level of dependence between the parties to the following primary types (the division is used throughout this research):

Types of Cooperative Arrangements	Level of dependence between the parties
1. Franchising & Licensing	Low
2. Management/ Marketing/ Manufacturing/ Distribution –agreement	Low
3. Non-equity Alliance	Moderate
4. Equity Joint Venture	High

Table 1: Types of cooperative arrangements (adopted from Pfeffer and Nowak, 1976).

Franchising & Licensing

The franchisor allows the franchisee use it's e.g. brand, other brand features, concepts, and expertise for compensation (Czinkota, Rivoli, and Ronkinen, 1992).

The licenser permits the other party of the agreement to use one or more of its intangible assets such as architectural and engineering designs, intellectual property, technical know-how and skills for an agreed compensation (Onkvisit and Shaw, 2009). According to Albaum, Strandskov, and Duerr (2002) the license may include one or more of the following elements:

- Design of product
- Trademark, brand, logo
- Technology, know-how, business process

Through licensing the licensee is responsible for the risks, and investments made for e.g. manufacturing and distribution: Consequently the process for the licenser is very inexpensive (Hitt, Hoskisson, Ireland, 2007). The licenser has very little control over the international expansion itself as it only trades the right to manufacture and sell the franchiser's product in a new market.

Hitt, Hoskisson, and Ireland (2007, p. 274) argue that in franchising the partners should work strictly together to be able thrive to success (Michael, 2002). There should be high level communication systems set up for the partnership including feedback, training, and skills transfer systems. This also suggests that in franchising the partners have to spend more time and money as the commitment is more profound. Franchising is more common among service businesses as licensing can be found most often in manufacturing firms (Dessler, 2004).

Depending on the depth of the agreement, typically both franchising and licensing involve only a one-time transfer of the right, however the compensation for the right continues after the local partner has set up operations in the form of royalty arrangement. There may also be ongoing interaction between the partners on e.g. updated practises and know-how, quality control or brand recognition (Contractor and Lorange, 2002).

Management/ Marketing/ Manufacturing/ Distribution –Agreement

An agreement between the parties to cooperate with one or more elements, usually rather short-term or project based agreement; however it can also evolve to a long-term relationship (Contractor and Lorange, 2002).

This agreement is similar to a non-equity cooperative agreement. The difference in the scope of this research is that making an agreement on a specific task or part of the process involves the other party only in the agreed area. In the cooperative venture, both of the parties may work together in several activities and whose strategic goals are headed to the same direction.

Cooperation agreement has advantages such as (Albaum, Strandskov, and Duerr, 2002):

- Only little financial risk; minimum investment
- Strong control of the trademark
- Rapid entry to any market
- Locally made-label for the product in foreign sensitive markets

Especially in a management agreement the parties are linked together as interaction continues in the form of assistance and organisational tasks such as administrative or technical matters. Typically there is a one-time fee as well as continuous costs accommodated in the agreement (Contractor and Lorange, 2002).

Non-equity Alliance

An alliance such as project consortium or contract between companies that are involved in mutual activities, however this venture does not result in creation of a separate entity: Strict rules are formed in the beginning to administrate costs, profits, and to assign tasks to each party (Contractor and Lorange, 2002).

A non-equity alliance can also be a project-based partnership, very common in certain industries. Project partnering in particular can be seen as the first stepping stone into a long-term equity partnership (Thompson and Sanders, 1998; Cheng et al., 2000). Project-based partnerships, as the title suggests, focuses on short-term benefits particular to a project (Winch, 2000; Beach, Webster, and Campbell, 2005).

Hitt, Hoskisson, and Ireland (2007, p. 262) discuss that non-equity based alliances are less strict and require fewer obligation than equity joint ventures (Das, Sen, and Sengupta; 1998). Hitt, Clifford, Nixon and Coyne (1999, p. 299) argue that non-equity alliances are less formal by stating that they are not suited for complex projects: The project success should not be depended on the know-how and skills transfer from one partner to another (Bierly and Kessler; 1999). The line between complex and simple project can be fine and the partners may not even be able to recognise the form needed to bring together a complex project.

A non-equity alliance offers the following advantages and disadvantages:

Advantages	**Disadvantages**
• Parties may discover already during the foundation process that they cannot work together • Profit, control and risks shared according to the agreement • More flexibility in every aspect of the venture • Reduces risk if all terms are laid down in the contract • Contract easier to modify and cease compared to EJV • Allows to give more control for the management of either of the parent firms rather than complying with the amount of shares	• Foundation of the agreement can be time consuming and thus costly • Not always the most suitable business model even for projects • Consensus about changes in the contract may be difficult to achieve after the initial agreement

Table 2: Advantages and disadvantages of non-equity alliance (Folta, 2005).

Equity Joint Venture

In an equity joint venture (EJV) each party owns a share of the new venture business entity: Thus the profits, losses and risks of the EJV are shared according to the amount of shares invested by each party (Folta, 2005). A Joint venture is international (IJV) when one of the parent companies is headquartered outside the ventures home market (Anderson and Gatignon, 1986).

Contractor and Lorange (2002, p. 8) discuss the basics of joint venture as they state that both of the partners need to add value to the different parts of the value chain (Porter, 1985, 1986). Both of the partners also need to have the needed strengths to be able to cover different know-how of the venture. At last the parties also cannot have conflicting short or long term strategies (Contractor and Lorange, 2002).

EJV can be the best way to enter a new market due to entry with limited capital and resources, which minimize the risk, compared to setting up a subsidiary in the new market (Albaum, Strandskov, and Duerr, 2002): The local partner provides an unlimited source of knowledge in environment, regulations, and policies. Entering a market with a local firm decreases the level of hostility toward the foreign company by the market as well as the local government.

In the success of every alliance (also in EJV) the most important quality is communication between the partners: This suggests that choosing the partner is the most important element in the formation process (Albaum, Strandskov, and Duerr, 2002). Finding a compatible partner is extremely difficult, especially in equity joint ventures, however forming a good agreement in the beginning may assist anticipating any future disagreements (Albaum, Strandskov, and Duerr, 2002). There is a four step approach in joint venture formation:

Figure 1: Joint venture formation process (adopted from Albaum, Strandskov, and Duerr, 2002).

Advantages

- Builds scale quickly
- Obtains special expertise quickly
- Risk reduction through sharing project
- Rapid market access
- The local firm's involvement and contacts, which may make the multinational more acceptable in the local community.
- Bypass barriers to entry (knowledge local economy, culture, political systems)

Disadvantages

- Control lost to some extent
- Management complications due to conflict of interest from parent companies
- Share profits with partner
- Domination of the local market by the local partner so that the multinational remains insulated from direct customer contact
- Inability to work with the local partner for reasons of organizational culture, trust and national culture
- The venture is difficult to guide towards objectives

Table 3: Advantages and disadvantages of equity joint venture (Lynch, 2006).

The parent's goals and objectives can be achieved in a JV through cautious control over its own interests (Schaan; 1983). Elements for this control are such as choice of the partner, mutual strategic objectives and the JV organizational design.

Contradictorily, activities supporting the strategic goals of the parents are typically more closely supervised than activities overall (Geringer; 1986). This may lead to a problem in an activity not important to the parents; an element vital for the JV, which in worst case scenario may cause the desolation of the alliance.

Consideration of the management of the JV is important before formation; does one parent take a more dominant role or should both of the parents leave the daily operations to the local JV management? Both of these methods have been proven to work, but depending on the parents and the environment the options should be critically evaluated (Killing; 1983). Issues such as mentioned above can all be controlled with a preliminary contract between the partners indicating the responsibilities and rights for each.

5.2 Getting the Partner Right

This chapter explores the foundation of a successful alliance through a partner fit. However, in this research the only measurement of this ‘fit’ is going to be the analysis conducted on Fira, which reveals the characteristics needed from the partner, as the partner is yet unknown.

When the two companies are able to join in an alliance, it should be understood that the differences between the two parties first have to be brought to a mutual agreement on virtually every subject area imaginable. When looking for a partner fit three basic factors should first be taken into consideration (Faulkner and Campbell, 2003):

1. The synergy or strategic fit between the partners
2. The cultural fit between them
3. The existence of only limited competition between the partners

These three points provide a basis for a healthy alliance and will be discussed in this chapter.

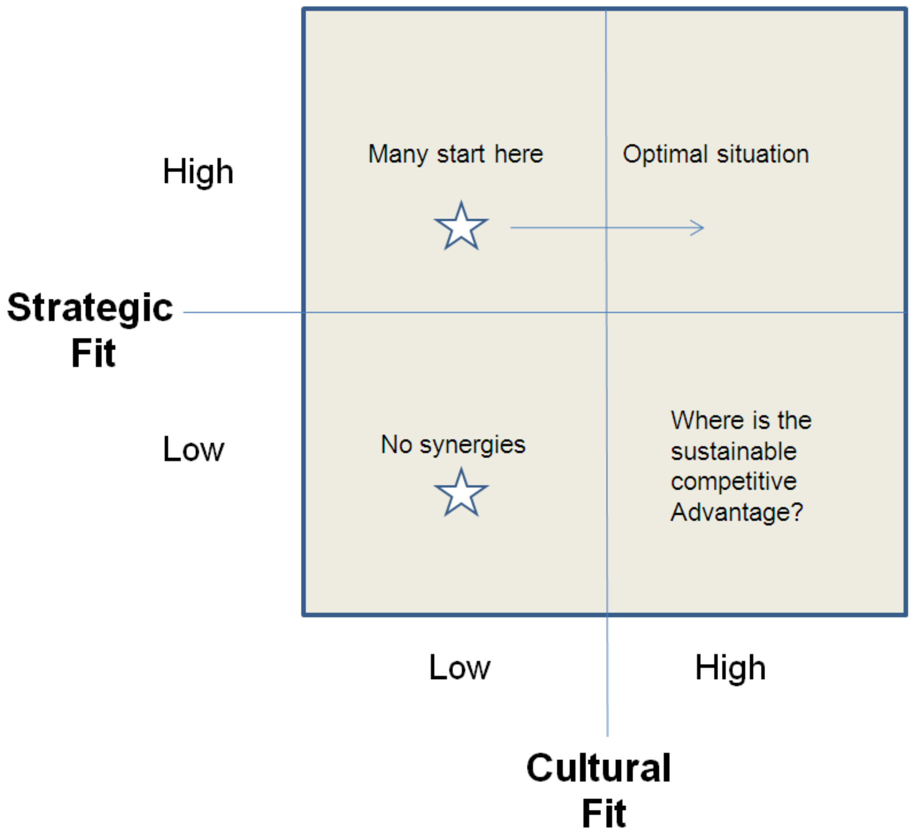

Figure 2: Alliances should target a strategic as well as cultural fit (Faulkner and Campbell, 2003).

5.2.1 The Strategic Fit

The first and definitely most obvious factor is the placement of the strategy. Having a common goal for the partners will make the decision making smoother and faster. This will assist with the start of operations in the entered market. The strategic fit suggests that there has to be a way for the alliance to identify a source for the sustainable competitive advantage, defined by the parent companies. The partners have to possess the needed strengths to be able to cover different know-how in the alliance. The parties also cannot have conflicting short or long term strategies (Contractor and Lorange, 2002).

Strategic Capabilities

The most important detail in finding the strategic fit is if an organisation wants to achieve competitive advantage, it must have (or obtain in the future) strategic capabilities the competitors either do not possess or are having difficulty reaching. Strategic capability is defined as the ability to perform at a level needed to stay alive and thrive by using the resources and competences of the organisation (Johnson, Scholes, and Whittington, 2005). A new development can be either a completely new market opportunity or a commodity that the competitors cannot compete against (Johnson, Scholes, and Whittington, 2005).

The capabilities are defined as the resources the organisation has as well as the level of effectiveness with which they are used, competences. Johnson, Scholes, and Whittington, (2005, p. 116) discuss that the term for further explaining competitive advantage this way is called **resource-based view** of strategy (Wernerfelt, 1984). This view helps to understand how some organisations are able to make greater profits compared to their competitors: by distinct capabilities.

Partnerships in a resource-based view are motivated by strategic resource needs and desires. This approach assists in investigating the motivation for alliances as well as the partner characteristics and capabilities. According to the resource-based approach, the main driver for cooperation is the need for complementary resources (Kogut and Chang, 1991; Gomes-Casseres, 1996; Eisenhardt and Schoonhoven, 1996; Doz and Hamel, 1998). It proposes that competent partners should have the capabilities the company is looking for in the value chain. Whether a company is thinking about decreasing costs and risks or complementing the capabilities it already has, it should weigh the objectives and motivation before choosing a partner to result in an improved collaboration in the partnership.

		Resources	Competences
Essential Capabilities	Tangible Intangible	Resources that exist only to meet the minimum necessities required by the customer.	Activities that exist only to meet the minimum necessities required by the customer.
Competitive Advantage Capabilities	Tangible Intangible	Resources that construct the competitive advantage and are difficult for competitors to achieve.	Activities that construct the competitive advantage and are difficult for competitors to achieve.

Table 4: Foundations of strategic capabilities (Johnson, Scholes, and Whittington, 2005).

The Division between Resources and Competences

Capabilities are divided into resources and competences (Table 4), as mentioned in the previous paragraph. An organisation's resources have been divided into the following main categories by Johnson, Scholes, and Whittington (2005):

- Financial resources: Tangible resources such as capital and cash.
- Human resources: Includes both tangible (people) and intangible resources (know-how, skills)
- Intellectual resources: Intangible assets e.g. brands, trademarks, business processes.
- Physical resources: E.g. buildings, machines, but also these assets' intangible abilities or condition.

Competences an organisation has are the 'how' of the capabilities. An organisation may have many valuable resources, but what it also needs to know is how to use them in the most effective way (Johnson, Scholes, and Whittington, 2005).

Strategic capabilities have been divided into two categories (Table 4): essential capabilities and competitive advantage capabilities. Every organisation needs the essential capabilities to even exist. It is the latter capabilities that create the margin in the value chain. Despite this division, an organisation cannot manage without both of them functioning properly. The level of essentiality of a capability changes frequently in an organisation and thus it is vital to develop the basic capabilities continuously.

The resources and capabilities have to both accomplish a level where the organisation can survive; the additional challenge is to achieve competitive advantage and even better: sustainable competitive advantage (Johnson, Scholes, and Whittington, 2005). The competitive edge may be a resource (e.g. a rare natural resource, which competitors have difficulty obtaining); however it will more likely be a competence an organisation has (Johnson, Scholes, and Whittington, 2005).

The Value Chain

Value chain analysis is a system which examines the strategic capabilities of an organisation as it recognises the activities, which add value and which do not. The analysis helps to understand where value is lost and created, which in turn gives an idea, which strategic capabilities of the organisation to develop or to acquire a partner for to achieve sustainable competitive advantage (Johnson, Scholes, and Whittington, 2005).

A value chain analysis should be conducted on a company looking to expand its operations through partnership as it helps to identify the value creating elements of the organization. A company cannot achieve above average returns unless the costs of producing the value are less than the value created (Porter, 1985). This will further help to identify the parts where the partner firm should be able to create value. A generic value chain is used to identify the resources needed from the partner.

A value chain consists of primary and support activities, containing nine elements, together creating the margin of value. Primary activities show the process, which a product goes through in the company from its manufacturing to after sales service: Support activities basically assist the primary activities with the administrational and organizational side of the company (Hitt, Hoskisson and Ireland, 2007).

Partner Synergy

When looking at the strategic fit of the companies there are a few terms that can be used to summarize the synergy that the partners are looking for (Faulkner and Campbell, 2003):

1. **Reciprocity**: The partners fuse the strength of their assets to gain power over competitors in a market.
2. **Efficiency**: The partners are able to fuse certain aspects of their operations by which they can create economies of scale/scope, lower transaction cost or achieve procurement. Lowering the

transaction cost and maybe even procurement would both provide a powerful stimulus for an alliance.

3. **Reputation**: When the partners work together they can use their established names to stimulate assumption of price/quality in a product or service to create a strong image for the venture.
4. **Legal requirements**: Some developing countries only allow foreign companies to enter the market if they form an alliance with an existing local firm. In the scope of this research, a partnership within the European Union market, the legal requirements are not relevant due to the nature of the EU law.

5.2.2 The Cultural Fit

In partnerships companies often struggle with each other's cultures instead of working together and finding a successful path. A culture of a company can be assessed with an organisational tool OCAI (organizational culture assessment instrument). It has been realised from the competing values framework to analyze the perception of culture within the company (Steinhoff and Owens, 1993). A culture of a company is not strictly: 'How do employees feel about the working in the company?'. A culture is a perception of the employees observation on the company's strategy and thus also part of the strategy of the company.

There are four main culture styles that appear from the framework; furthermore they are the foundation of the OCAI tool. The four clusters of the framework (clan culture, adhocracy culture, hierarchy culture, and market culture) are used for defining the core values, on which assessment about organisations are made (Quinn and Rohrbaugh, 1983).

Many authors have proposed different ways of analysing and organising a company culture through different aspects or features. E.g. Hofstede (1980) divided cultures into four dimensions of power distance, uncertainty avoidance, individualism, masculinity. Ernest (1985) narrowed it down to just two key dimensions: participative vs. non-participative orientation of people and reactive vs. proactive responses to the environment. The logic for using the competing values framework is that it originates from empirical research and it is similar to many other different methods of analysing the way people think (Cameron and Quinn, 1999).

In the competing values framework there are two dimensions, in which the four clusters of effectiveness are organised. First of the dimensions is a battle between flexibility-discretion-dynamism and stability-order-control. The second dimension is a battle between internal orientation-integration-unity and external orientation-differentiation-rivalry.

Four Clusters of Culture

The four clusters (Figure 3) define what people in the organisation see right and wrong; consequently, they identify the core values of judgement in the organisation. When applied in the OCAI, the following descriptions apply to each different cluster (Cameron and Quinn, 1999):

The Hierarchy culture:

- Formal structures and rules
- Effective leaders who coordinate and categorize everything well
- Goals are stability, certainty and efficiency

The Market culture:

- Result and success –oriented
- Leaders are demanding, challenging and tough
- Goals are competitive accomplishments and winning the competition

The Clan culture:

- Workplace is an extended family and friendly
- Leaders are teacher or parent figures
- Committed, loyal, and consensus –oriented

The Adhocracy culture:

- Work place is entrepreneurial and creative
- Effective leaders have great visions and take risks
- The organisation is always ready for innovation and the production of new products and/or services

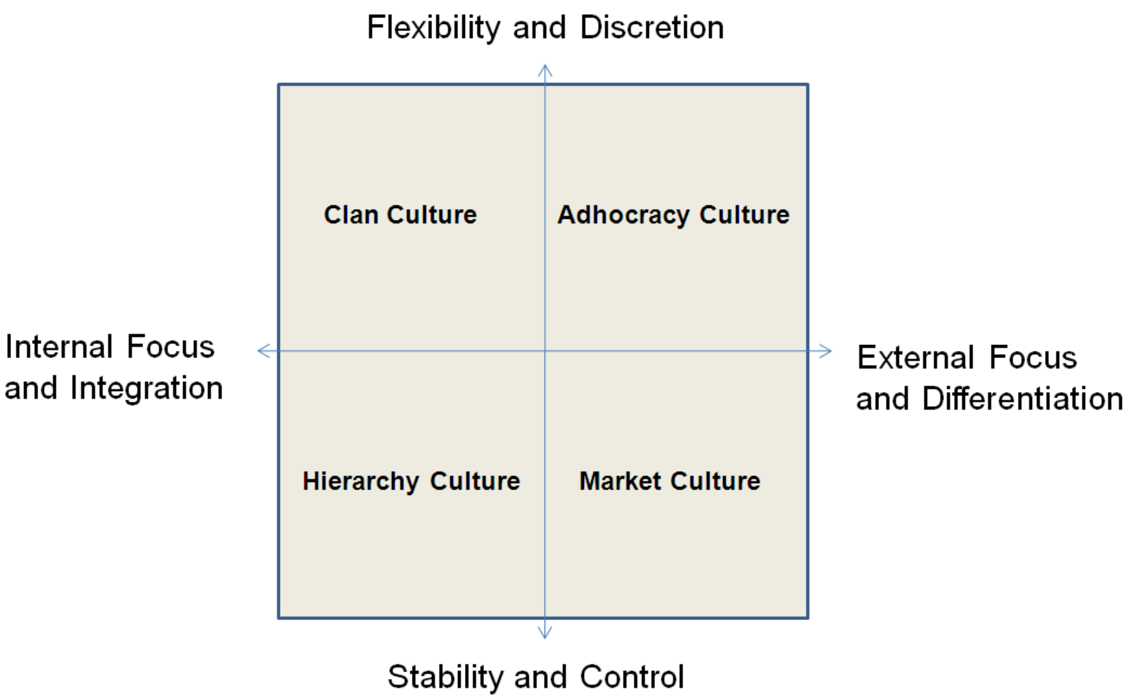

Figure 3: The competing values framework (Cameron and Quinn, 1999).

5.2.3 The Existence of Only Limited Competition

In the alliance it is important for the parent companies not to clash in their original markets. This can further result in a conflict of interest in the decision making process of the partnership. The parent companies may have a conflict of interest by deciding to invest profit received from the alliance back to their home markets. E.g. making a decision about the reallocation of profit from the venture company could result in the parent company's loss in another opportunity in its own market.

5.3 Risk

In this section the risks in strategic alliances are discussed to anticipate problems in the future. Since international alliances are the subject of this research, the risks have been fitted into this setting.

Risks in construction projects can be divided into two categories: Internal and external risks (Zhi, 1995). In international construction projects, especially in the external element the level of risk increases (Zhi, 1995). Alliances generally do not reduce risk for the parties involved; however still many firms decide to form an alliance together with someone else assumingly cutting down the risk factor by half. Reuer and Leiblein (2000) discuss the risk implications arguing that investing in international ventures has a positive effect on downside risk and thus risk would be reduced by a venture. Many researchers believe that even though the opportunities of alliances are worth the risk, failure is certainly an often occurring phenomenon (Coopers and Lybrand, 1986; Auster, 1992; Kogut, 1991; Harrigan, 1988; Porter, 1987).

The foreign and local companies (in this chapter both parent companies) seek in the alliance is value creation at another level than what one parent company is able to achieve on its own. When the companies have formed the alliance there are some scenarios of influence (Figure 4) from the parent companies that can negatively affect their synergy and further result in failure of value creation. The major problem areas are mostly identified in forms of paradoxes where different influences can decrease value (Russo; 1992, Goold, Campbell, and Alexander; 1994).

5.3.1 Scenarios of Influence

Partners work hard together to achieve a competitive advantage and to create more value through the alliance. Often this is the reason companies join in alliances. However, these influences can decrease value and can be explained in the following ways (Faulkner and Campbell, 2003):

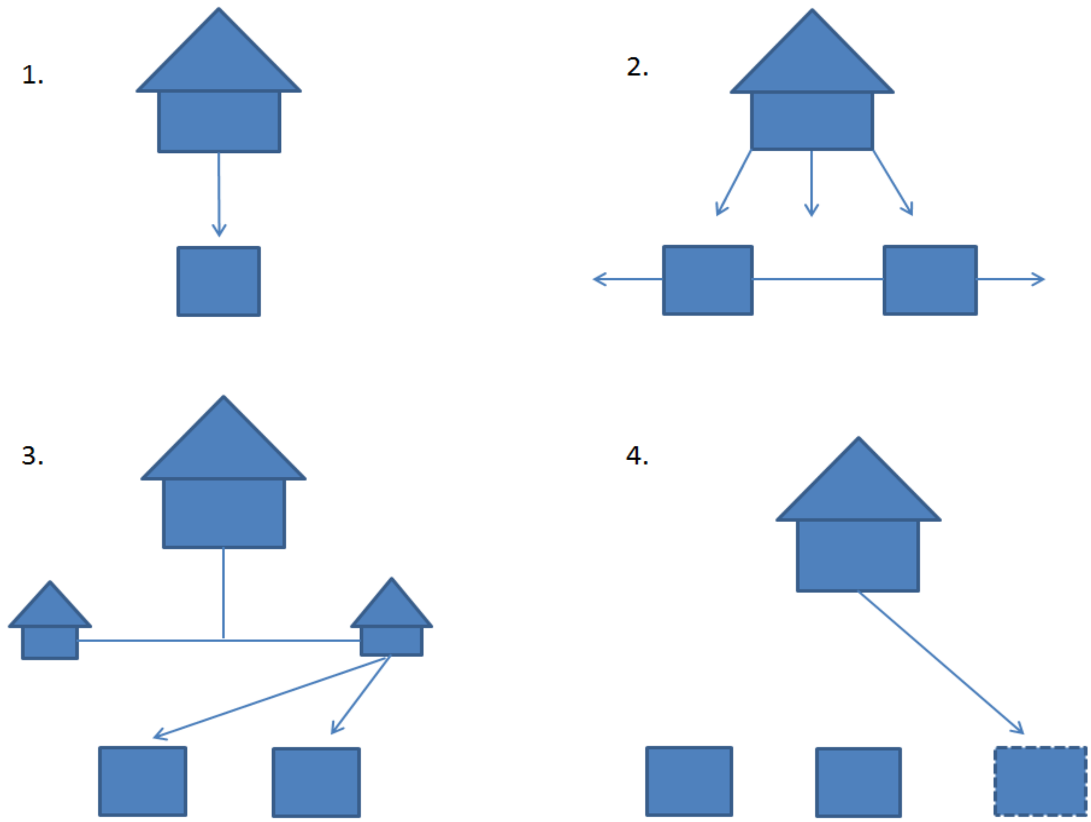

Figure 4**:** The value creation efforts by parent companies (Faulkner and Campbell, 2003).

1. Stand-alone Influence

The parent companies will always exercise certain influences to the venture. These influences are based on their need to gain value or profit from investment. They can result in making the wrong decisions. E.g. the company needs to reinvest money to gain competitive strength but the parent company wants to shift money to their accounts. A conflict of interest kills the company and the parent is left with only a little profit if not loss by making a decision based on its own needs rather than the company's needs.

2. Linkage Influence

Linkage influence refers to the parent company trying to create synergy but failing because the creation of synergy is more work and/or more costly than the benefits that the synergy might create or that synergy is forced on a company where it is not appropriate at all (Porter, 1985; Kanter, 1989; Wells, 1984).

3. Central Functions and Services

When a relationship is created between a parent and its daughter companies the parent company has the tendency of creating central functions and services that in time tends to be viewed as a necessity. The problem being that the parent company focuses too much on the other companies looking for synergy when actually they can create extra value by merging central functions and services with the other companies, downsizing on overhead on keeping employees sharp in every division. In other words, the parent companies can create economies of scale for themselves as well as the alliance.

4. Corporate Development

When making acquisitions or alliances parent companies tend to make these companies a success even though they might turn out to be hopeless. Low research and/or overconfidence are to blame. The poor track record of many ventures mentioned above failing to create value clearly shows the problems in creating synergy between the companies, which leads to the difficulty of creating value for the investors (Porter, 1987; Franks and Harris, 1989). An example to look at would be the Ferranti case where the electronics company was on the rise for a decade, and finally purchased a big player in the defence market. After two years Ferranti found out that the purchased company was part of various fraud contracts and Ferranti ended up losing almost as much as it had purchased the company for making in bankrupt within five years (Museum of Science and Industry, 2008).

Other influences can be explained through different paradoxes.

5.3.2 Paradoxes

These paradoxes explain the difficulty of value creation through contradiction (Faulkner and Campbell, 2003):

10% Versus 100% Paradox

This paradox references to the power that managers form the parent company try to have when they set down rules for the venture. The paradox forms when the manager from the parent company makes a decision for the venture company which should've been made by the manager of the venture company: the manager from the venture company spends 100% of his or her time understanding the market where the venture company is in where the manager of the parent company only spends approx. 10% of his or her time on the venture's market.

Assuming both managers are fully capable of their job and want to do what is best for the company this should show that the venture company's manager is in a better position to make the decision than the parent company's manager.

This paradox is linked more to acquisitions and not so much to partnerships thus the likelihood of this paradox coming to pass in the beginning will be unlikely.

Enlightened Self-interest Paradox

This philosophy states that persons who act to promote the interests of others (or the interests of the group or groups to which they belong) in the end serve their own self-interest. For companies this could mean that it does well by doing well.

The manager of the parent company might do something that affects the venture company in a positive way. This makes the venture company successful, but in the end the parent company whose manager did the good deed might gain more from the well doing of the manager than the venture company.

This scenario is not very likely as the connection between the venture company and its parents companies might not be as close.

Beating the Specialist Paradox

This paradox represents the difficulty of decision making in a venture. The mother company hires somebody from outside to do a job as a specialist because it is thought that he/she can create value better than a central staff's member. However, there is no line drawn between whether it is better to hire a specialist from outside or to draw someone already inside the company to do the job. It will be difficult to define in advance who will do the job better.

The manager may notice that a job needs more attention and cannot be managed by someone who just came in from outside and getting to know the company. One may also notice that it is easier to bring someone from outside to do a job when he/she is better at it than anyone else in the company. The mother company might want to cut costs in everything by tendering the jobs or even outsourcing them.

Beating the Odds Paradox

According to this philosophy, parent companies are expected to be able to do anything such as buying for less and selling for more; however this is not possible in a normal competitive market. Acquisitions are expected to do miracles and create value for shareholders from scratch. Companies have tried to beat the odds of the new business ventures going wrong and they will continue doing so.

6. Primary Research

The primary research is conducted through a company analysis of Fira, based on the strategic and cultural characteristics fit laid out in chapter 5.2.

6.1 Strategic Fit

As discussed in chapter 5.2.1, a resource-based view of strategy (Wernerfelt, 1984) is applied to describe the basis for competitive advantage, which consecutively is a motive for forming an alliance. According to this view the capabilities of an organisation define its success. This argument is also valid for alliances: The more complementary resources the partners can offer to the alliance, the more likely it is that the alliance is able to create exceptional competitive advantage, value, and thrive.

In this research the capabilities of Fira are examined as the partner is still unknown. Yet, knowing the capabilities of Fira assists in determining the capabilities needed from the partner. The value chain is used to examine the strategic capabilities of an organisation, and thus finding the complementary capabilities the local partner needs to possess. The second element in the strategic characteristics is the strategic goals Fira has outlined, which also affect the partner profile composed. Therefore Fira's strategic aims are also described briefly below.

For the purpose of this chapter, three employees from different fields of expertise in construction business were interview from Fira and Fira Palvelut. The paragraph, which after a name in brackets appears, indicates the person interviewed. The list of interviewees can be found in appendix 2.

6.1.1. Strategic Goals of Fira Oy

Fira's strategic goals are to become an attractive player in the Finnish market through strong network and brand image, create value through customer and partner focused business model, develop tools and techniques for value creation, expand internationally through service construction concept and innovative solutions, and grow continuously with the right people. The values at Fira are trust, interaction, creativity, and activeness. Fira's strategic map consists of five core elements:

- Service construction business process
- Sincere and open business model
- Customer experience, where trust is created mutually
- Fundamental know-how
- Energetic employees who work together effectively

6.1.2 Primary Value Chain Activities of Fira Oy

Fira's service construction concept can be seen throughout its value chain. The most significant difference to traditional construction and naturally its competitors is the preliminary marketing and research activities.

Marketing & Sales

Marketing and sales is the first and possibly the most important step for Fira's future in construction projects. Fira attends diverse events around Finland for promotional and recruitment purposes, which has benefitted it in terms of brand and company awareness in the Finnish market.

In this activity Fira has successful tools for sales and marketing relying on the fact that the market is known (in Finland). Successful tools and techniques can be defined as strong marketing techniques such as monitoring and scanning sales leads, which result in direct contact with possible clients and attending public events (Salo).

Preliminary Research

In this stage Fira works together with the possible client in order to solve issues arising and find the different stakeholders of the project. The goal of this stage is to investigate the client's and users' needs, develop initial cost estimates, risk assessment, and plan for every aspect of the project (Salo).

In the service construction concept this entire activity creates value to the customer. At this point the customer does not necessarily have to know what he/she wants (Salo). Fira's workshop tool has been created for integrating the customer's need with the building solutions of Fira. The basis of the workshop is the customer's need, which results in customer satisfaction as well as improved quality in the building process.

Fira does not sell the entire project at once to the customer (traditional construction), the service is rather cut into small sprints enabling effortless buying decision making for the customer as he/she knows what he/she is buying at every step of the way (Salo). If the client is not satisfied with Fira's work, plans can be modified and/or the client can withdraw from the project.

Preliminary Design

As the preliminary research, this activity is performed before the start of the building. This activity is not directly performed by Fira, but by an outside resource or a partner of the project consortium. Fira steers the design process at all times (Latvala; Salo), while negotiating with the main architect as well as the client. Different aspects of the project are to be settled in this activity: space for building, the internal design, and the purpose of the building.

By the end of this stage the building permit for the project is applied. The client is still able to withdraw from the project at this stage; however the losses for Fira and the client are minimal due to the division of work (sprints): Fira charges a relatively small amount for the preliminary stages (Salo).

One of Fira's advantages compared to competitors is that all costs, risks and solutions are transparent to the client and thus there is no untrustworthiness in the relationship (Salo). Another advantage of Fira is when it is able to join a project at early stages, no solution is decided on, which may result in a problem during the building process (Latvala). Planning the project properly will also avoid additional costs during the process (Latvala).

Design & Building

Designing the project consists of processing the design of the building together with an architect, designers for different aspects of the construction process, the client and Fira. The design activity begins at early stages but continues with the building process.

Fira manages construction projects and has around three employees directly on construction site. Builders, materials, and machines is bought as a package from subcontractors and thus Fira only has to manage the subcontracting teams, which simplifies communication and pushes costs to the minimum (Latvala).

In certain fields of construction Fira has one of the cheapest solutions in the market and thus has an advantage over the competition (Latvala). Another competitive advantage is at its best when it joins a project at early stages and is able to affect the planning and design of the project (Latvala; Salo). This results in better risk management, cost saving, and effectiveness to both Fira and the client.

Fira has the ability choose the right solutions as it has understanding of the whole construction process: The client and the designer may not have this capacity (Salo). Fira’s projects tend to be always on time, which has been facilitated by the careful planning and designing process prior to building (Latvala).

Service

This activity is conducted after the construction has finished. Fira gives a certain guarantee for the product; if there is maintenance needed within the guarantee period, the problem will be fixed. The maintenance activities are also outsourced to subcontractors. Fira rarely has to carry out this activity, which illustrates the quality of work (Latvala).

6.1.3 Support Value Chain Activities of Fira Oy

Firm Infrastructure

General management is a core element in the infrastructure of Fira due to their business model (service construction) where Fira has employees only in the management level of construction projects. Their skills and know-how are the biggest resource of the company.

The organisational hierarchy of Fira is relatively small so far, which assists in aspects of the management processes such as internal communication. Many of the infrastructure activities are outsourced to either the office operator or other firms. This decreases costs as all administrational tasks are always tendered.

Human Resource Management

For recruitment purposes public events, newspapers and Fira's website are used. Fira has close connections to several higher educational institutions in Finland: A trainee program for engineering students has been developed to integrate students effortlessly into working life already at early stages of studying.

Fira outsources most of the building activities because it mainly performs specific and special building services, where different professionals are required. Having an own workforce would result in uneven workload for many employees (Latvala).

Many aspects of the organisation are adjusted to be compatible so that the processes could be even franchised to another party (Salo). All administrative tasks are organised in IT systems so that employees can access e.g. training materials, sick leaves, vacation regulations, and time reports.

Procurement

Fira rents its office space, small warehouse and housing for its employees. Machinery and materials used in construction projects is bought as a package together with the subcontractors. In this activity the costs are at minimum as Fira tenders all materials bought and does not own any of the fixed assets.

R&D

Fira continuously researches and develops new tools and practises for the following industries: parking, care, energy, and one-time builders. R&D is indicated for value creation in the end, bringing better solutions to the customer will effect positively into the value margin.

Sales & Marketing

Sales and marketing is an ongoing process where new contacts have to be found and old relationships have to be maintained. Thus, the steps already mentioned in the primary activities should be regarded valid in this section as well.

Technological Development

For most of the part IT is outsourced. Internal IT processes are developed together with the IT support and an outside IT developer. IT as a support activity plays a large role in construction projects, where a few management employees are at the site working away from the office for longer periods of time. Communication may be difficult and having a supporting operating system, brings the office closer to the employees (Kokkonen).

6.2 Cultural Fit

Generally when two cultures come together employees not only have to pay attention to two sets of managers, but they also may have to adapt to the other company's fashion of working. The parties are both separately performing ideally, but in the alliance they are also supposed to work ideally together and offer resources together (human or capital). This is the point where many ventures fail as they don't get the most out of the partnership, taking too much time to find the common way of cooperation.

Assumed that Fira will most likely face problems with the culture of the partner, making a cultural analysis on Fira's culture will help it define the kind of partner (kind of culture characteristics) the management should be looking for. To achieve the best result from OCAI an employee from all the hierarchical levels of the company should take part in the questionnaire (Appendix 6) to see if the culture is perceived in the same way by everyone working in the company.

As Fira has a relatively flat hierarchical structure the results are expected to be rather similar. However, people working in the construction sites may view the company very differently from the people working at the office. As Fira is a relatively small enterprise, it is assumed that every employee is familiar with one another. After identifying the culture of Fira, conclusions about the partner's cultural characteristics can be drawn. The transition from one management to another for Fira should proof to be smoother with fewer changes, transaction costs and less time for the alliance to form.

OCAI results

Taking into account the assumptions discussed previously, the results of the questionnaire were both aligned, as well as contradictory compared to the assumptions. In the figure (Figure 5) there are two states of mind: the red line indicates the culture of the organization today; the green line specifies what is preferred in five years from now by the employees. The results tell clearly that the state the organization is now can be specified better seeing that one culture is powering the organization. However, indicating the preferred state in five years was more difficult; seeing the stability of the figure, every culture scoring between 40 and 60. This could indicate that the atmosphere within the employee community is unstable, as future is unclear. This in turn could indicate that strategic vision and mission for the future are imprecise to the employees. However, this can also mean that different departments see the company differently in a few years time, even though the strategic goals of the management are clear.

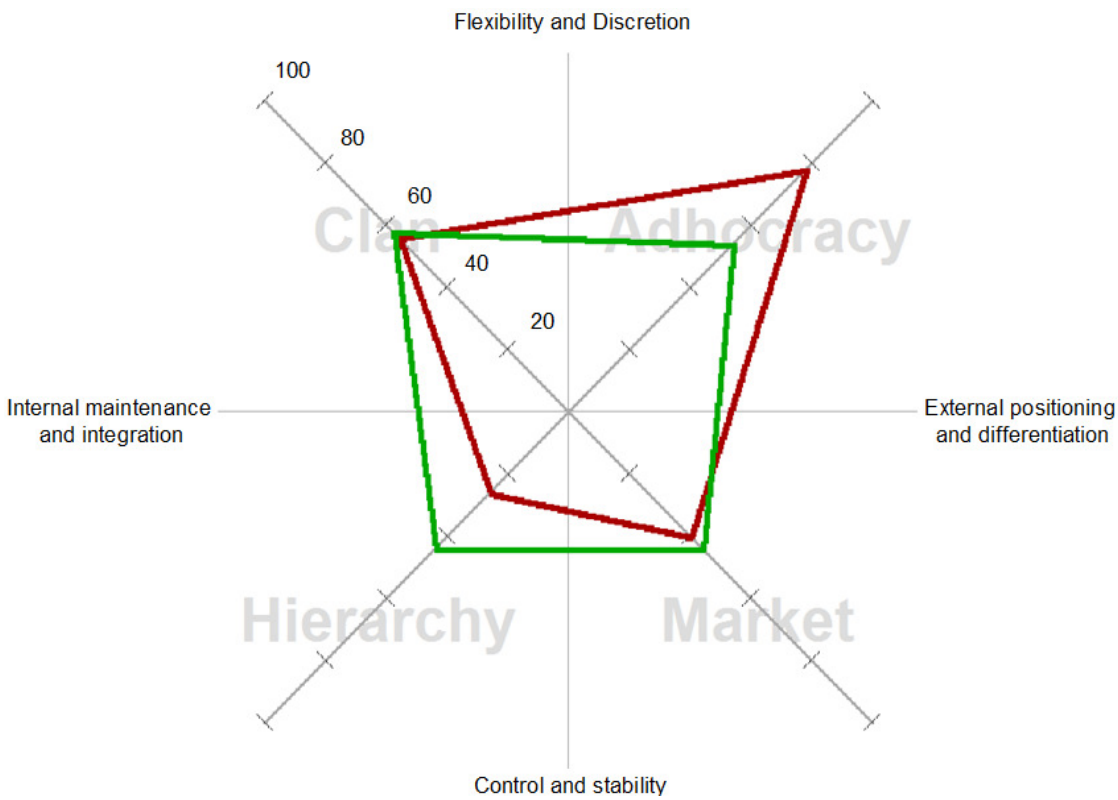

Figure 5: Results of the cultural assessment.

7. Discussion of Findings

In this chapter the findings from secondary and primary research sources are discussed to further accommodate the formation of recommendations in the last chapter.

7.1 Mode of Strategic Alliance

The basics of strategic alliances were formed in the theoretical framework chapter 5.1.1. The following table sums up the most significant elements in comparison:

	Responsiveness to the speed of market (e.g. entry-exit)	**Asset Management**	**Risk of losing assets to partner**	**Spreading the financial risk**
1. Franchising & Licensing	Fast	According to the agreement	Intermediate risk	Maintains risk
2. Management/ Marketing/ Manufacturing/ Distribution –Agreement	Intermediate	According to the agreement	Intermediate risk	Decreases risk slightly
3. Non-equity Alliance	Intermediate	According to the agreement	Intermediate risk	Decreases risk slightly
4. Equity Joint Venture	Slow	Managed together	Low risk	Decreases risk

Table 5: Influencing factors in alliances (adjusted from: Johnson, Scholes, and Whittington, 2005).

Franchising and licensing agreement (Figure 6) can be used to protect the assets of the mother company: Receiving compensation for the elements used in the local partner’s processes is common. If Fira wants to gain knowledge of the industry and conquer it in the future, franchising or licensing a local organisation may be a step to the wrong direction. As Fira will not conquer the market, the local partner will, by using Fira’s tools and techniques. If the partner wants to obtain the business idea of Fira (service construction), the partner would have to be more tied to Fira’s organisation: not only by a franchise or licence agreement.

To illustrate the relationship more precisely, a figure (Figure 6) has been constructed to demonstrate the type of agreement. For Fira this would indicate franchising or licensing its operating system, and service construction tools to the local partner. This transfer should include training the local staff in the system and processes.

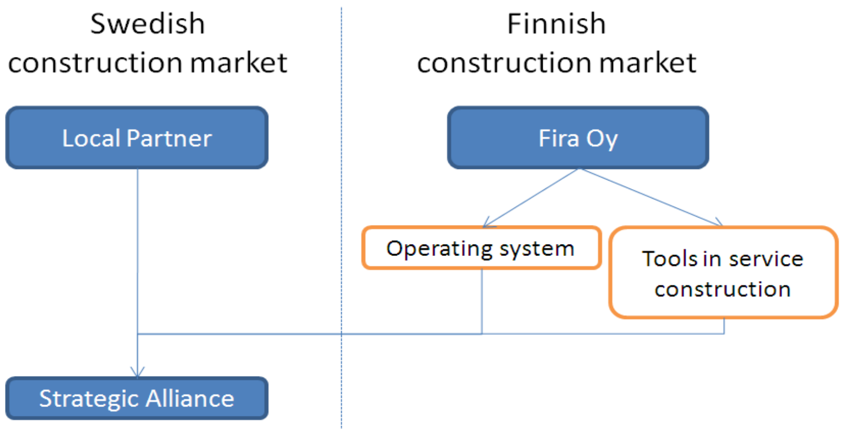

Figure 6: Franchising/ licensing scenario.

The management/ marketing/ manufacturing/ distribution –agreement (Figure 7) may be part of a project consortium in the new market. However, Fira needs a partner that has relationships to all stakeholders needed for a construction project. Thus making an agreement with one partial stakeholder will not help Fira to form a complete consortium.

In reality this agreement could be a building contract between Fira and a local contractor, who does the building process entirely. This also suggests that Fira should know the market and have a network of architects, designers, possible clients, and contractors as the client should be already known when the contract is made with a contractor.

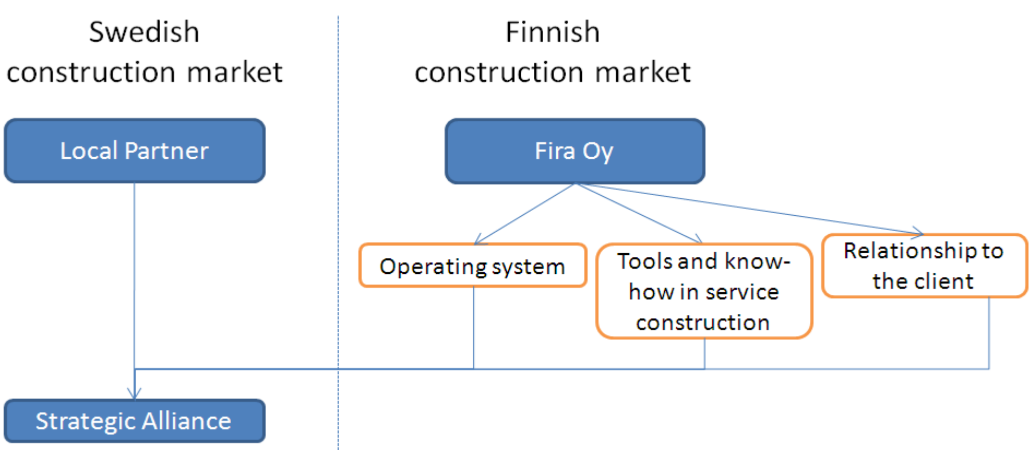

Figure 7: Contract scenario.

The last two forms of alliance (Figure 8 and 9) are separated from the rest by the fact that cooperation is deeper between the partners in terms of performed activities. Either of these forms are options for Fira when entering a new market as they will form a stable basis for the market entry. In both non-equity and equity alliances the local partner is able to support Fira where needed. It is also through profound cooperation how the business idea of Fira (service construction) can be applied in a new market.

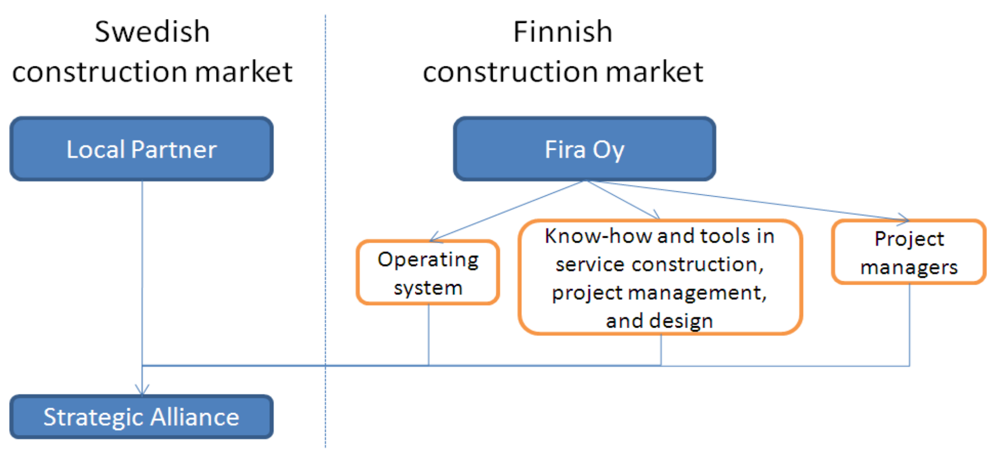

Figure 8: Non-equity alliance scenario.

A non-equity alliance (Figure 8) could be employed in the beginning of the entry and as the cooperation is managed well in a series of projects the partners could move on to an equity-based venture, sharing additional features.

In the non-equity alliance Fira would transfer its know-how and tools for service and customer-oriented design and building, project managers, and its operating system. This mode is largely depended on a contract between the partners and most likely would be motivated by a common construction project in the Swedish market.

There is less risk involved in a non-equity alliance than in an equity joint venture. The rules and regulations can be established in the contract before operating. Activities performed by each partner do not have to be as integrated as in an equity based venture, and thus the formation process requires less time.

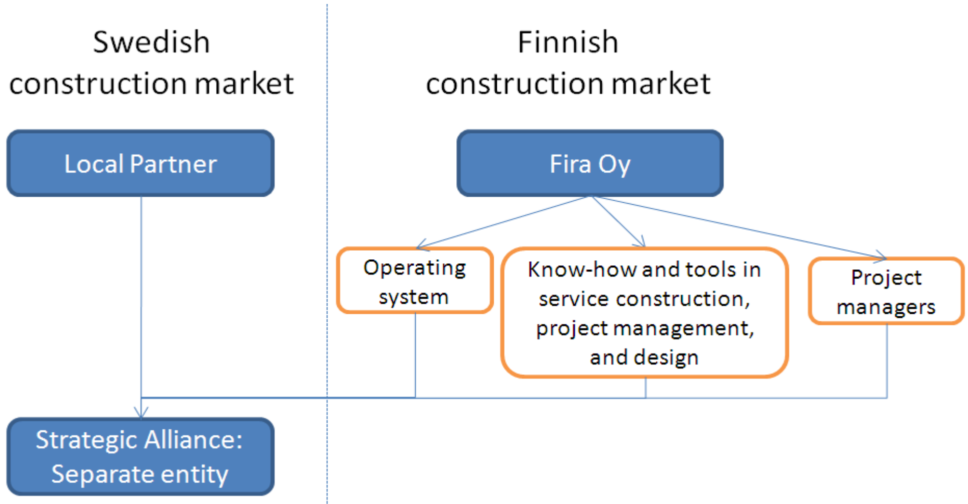

Figure 9: Equity joint venture scenario.

In an equity joint venture (Figure 9), partners may need to know each other well to be able to identify, which organisation performs each activity more efficiently. However, after an analysis is conducted on the companies, their performance may improve and they can gain additional competitive advantage.

In an equity joint venture Fira has full access to the local market, as well as the local partner has access to Fira's expertise, tools, and techniques. Fira may not be able to protect its intellectual property unless a specific contract is constructed between the partners. Furthermore, Fira is able to gain market access possibly for a longer period of time. Setting up a joint venture with a local partner supports Fira in integration to the market. Local stakeholders will welcome a foreigner with a Swedish partner more sympathetically than a foreigner entering the market alone.

7.2 Strategic Fit

The strategic characteristics of Fira were discussed in chapter 6.1. This chapter summarizes the strategic capabilities Fira has, how Fira crates its value margin, and which elements the partner has to possess to deliver complementary resources to the alliance.

7.2.1 The Value Chain Analysis

Primary Activities

The media is a central feature when it comes to networking, thus it would be more than an advantage for Fira gain media-access in a new market. Attending events and seminars can be also easily imitated in the Swedish industry. References from previous projects are significant for any new client. Fira does not have any references in the Swedish market yet, and comprehending them from the Finnish market may be difficult for a local client. The local partner should have a wide range of references in the market.

The local partner has to have a wide network to different levels of decision makers, media, and other stakeholders in the Swedish market. This is the only channel through which Fira's tools and techniques can be exploited properly. The partner also has to be able to integrate Fira into the network so that both of the partners can communicate to the stakeholders involved.

In preliminary research and design Fira has its own tools, it already uses in Finland; such as Fira's workshop (Firan VerstasTM), where different stakeholders are brought together in several occasions to discuss the issues and possibilities of a project. The partner has to possess the network and relationships to bring together an entire project consortium. A partner with either connection to design professionals or an in-house design department is required for Fira's entry to be successful. Fira has to be the controller in the design progression, client relationship, and the know-how, which enable the cost reduction and client satisfaction. The least Fira has to do is train the local partner these processes and values.

Fira can send at very maximum a few employees to Sweden for project management purposes of the partnership, however recruiting Swedish market specialists may turn out to be difficult in Finland. The more adequate choice would be to have a partner that already has management personnel for construction projects, and either has in-house employment for building purposes or a reliable subcontractors. As in Finland, it may be cheaper to purchase materials and machines as a package deal with the employees from the subcontractors also in the Swedish market.

Support Activities

The key to Fira's competitive advantage is the expertise and know-how the employees have. The partner should have competent staff to Fira's standards. Having the partner execute possible recruitment in Sweden may be simpler as they will have the knowledge of the market as well as the people.

The partner should have a high level of internal communication processes and infrastructure to support employees working at project sites. Fira's operating system (folder structure, site documentation, and process descriptions) is being developed to a point where it could be franchised to a partner abroad. However, it should be considered that a system cannot transfer the know-how and idea behind Fira's service construction business to the partner.

7.2.2 Partner Synergy

The different components needed for the partnership to gain additional value were discussed in chapter 5.2. Here the components are presented from a concrete point of view.

1. **Reciprocity**: The physical assets Fira has available are their office building and equipment as well as the infrastructure for the venture. As the product offered is going to be service based the biggest asset for Fira is their human resources.
2. **Efficiency**: Both of the partners may be efficient on their own, however in a partnership they may be able to be even more efficient by integrating part of the operations and focusing on the activities they perform best.
3. **Reputation**: Fira is known to be a good service provider in the Finnish market. However, Fira lacks strong brand awareness in the Swedish market. This is what the partner needs to already possess when entering the alliance with Fira.

7.3 Cultural Fit

These findings are derived from results of the questionnaire (Appendix 6) and further inserted into the OCAI (Figure 5).

The culture of Fira today is highly future-oriented, as the hierarchy and market cultures attained the lowest scores. These cultures are both seen as older forms of organization from the early industrialization ages until the 1960s: The clan culture was born after the 1960s and the adhocracy in the 1980s (Cameron and Quinn, 1999).

The employees see Fira today as an innovative, visionary, and entrepreneurial organization; adhocracy scoring the highest points in the assessment. This result was expected as Fira defines itself as an innovator in the construction business, making new tools for its processes as well as investing into R&D unlike its competitors. Innovations promote the company growth, and the employees are the largest resource of it.

Second highest score was given to clan culture. This result was also expected, as the organization is small, entrepreneurial and the employees work close together. In Fira the most significant element is the shared values of the business model: Service construction. Employees adapt to the organization easily and gain these values to be part of the family. The shared values commit the employees to the company and increase loyalty in the organization.

In five years time the employees see Fira as a traditional and mature organization: Traditional cultures have more effect than today. The most significant factor is that family values keep their position throughout the growth of the organization and it is what keeps the organization together. Innovation decreases and provides opportunities for market and hierarchy cultures: As the organization grows the level of bureaucracy increases naturally. Management and employees both look for stability rather than risk taking in innovation and investment. Stability may come through more strict rules in processes, which can already be seen in the improvements applied inside the organization today, such as procedure guidance in the building process provided on an online platform.

In five years the innovation is still part of the organization, as with the family, it is the central factor and motivation for the business. However, new innovations are not produced as before, using the mature tools has turned out to provide a sustainable competitive advantage and thus investing into new ones would be ineffective: More valuable is to advance the existing methods.

7.4 Risks

These findings are originated from the theoretical background in chapter 5.3. Risk in strategic alliances is illustrated through influences. Each scenario is described taking the future alliance into consideration.

Stand-alone Influence

In the alliance both of the parents should align their goals for the venture (e.g. ROI, payback period, mission, and vision). Stand-alone influence alerts the partners that the venture has to assemble its own decisions and objectives based on the market it is in. It should be building on a healthy future, rather than pushing the alliance beyond its limits, consequently destroying it before it even had the chance to bloom.

Linkage Influence

Fira organises its back office system by outsourcing much of the administration processes. This system has been developed on basis of the needs and capabilities of the company, and most of all due to the fact that Fira wants to concentrate solely on its business. In an alliance this might not be the most efficient and beneficial way to work for either of the parties. Pushing or pulling the string by both of the parent companies' in their own way of synergy can cause destruction in the partnership. When entering a new market, a completely different set of parameters may be required for the system.

An element working well for Fira in its home market can result in major bottlenecks and loss of efficiency in the alliance, turning synergy into anergy.

Central Functions and Services

Fira is about to start its first partnership in Sweden. Central functions and services thus do not exist yet. When a possible problem occurs, keeping an exit-strategy in mind might prove to be helpful: employing the local partner to cover some services might end up being problematic when the alliance is dissolved and Fira needs to relocate these services back to the local partner. This issue should be kept in consideration, especially in equity-based ventures, rather than in other forms of alliances.

Corporate Development

For Fira corporate development could indicate three things it should keep in mind from the beginning. Fira should focus on the end goal at all times, which can also turn into a problem if Fira hopelessly commits to something that clearly is not working. Fira should set some parameters to be able to keep the focus during the whole process to see where it is headed to.

8. Conclusion

The objective of this research was defined as 'finding a suitable collaboration model for Fira when entering the Swedish construction market'. The strategic alliance model comprised the mode of alliance, strategic and cultural characteristics of Fira, which compose the partner profile, as well as risks arising from alliances.

Literature in strategic alliance has been studied and different modes of alliance have been compared to construct a strategic alliance model for Fira Oy to enter the Swedish construction market successfully.

Data for Fira's strategic capabilities were discovered through interviews with employees from Fira and Fira Palvelut to furthermore conduct a value chain analysis of Fira. Through the analysis the complementary capabilities needed from the partner were discovered.

The OCAI questionnaire was filled by employees to get an average perspective of Fira's culture. The results of the questionnaire were inserted into the OCAI instrument and figure constructed to illustrate the current and future situation. From the OCAI the culture suitable to Fira was discovered.

In the following chapter results from this research is formulated into recommendations to guide Fira in the market entry through strategic alliance.

9. Recommendations

The recommendations are assembled based on the theoretical background and the analysis conducted on Fira.

9.1 Form of Strategic Alliance

There is a clear division in the level of risk, responsibility, and trust involved in different modes of strategic alliance.

As mentioned in the findings of the research, Fira can enter the new market through franchising (or licensing). However, through franchising it is not able to conquer the market directly; it rather supports the local partner's goals and leaving Fira with only the financial compensation. From the findings it can be also clearly concluded that a building contract with a local contractor cannot be employed. The contract requires Fira to already have a client and other parties when signing the contract and since Fira does not have an existing network in the market; it will be difficult to gather all the stakeholders for a project.

The following two modes recommended by this research have the most potential: Non-equity alliance and equity joint venture. Based on the discussion in chapter 7.1 the preferred form is non-equity alliance. Fira is able to achieve a relatively fast and stable market entry with both options; however a non-equity alliance involves less long-term risk than equity joint venture. In non-equity based alliance Fira will be able to protect its know-how and tools better by forming a contract with the local partner. Therefore, Fira is able to receive all the needed complementary elements from the partner by negotiating them into the contract.

9.2 Partner Profile

9.2.1 Strategic Capabilities

The partner's strategic goals need to be sufficiently aligned with Fira's objectives. This suggests that the partner has to be able to adapt (at least partly) to Fira's business model by adjusting its focus from price-centrality towards client- orientation. The partner has to employ professionals that have the expertise required for a construction project, but also the ability and eagerness to learn. The values of the partner should evolve approximately in the same areas as Fira's: Trust, interaction, and creativity.

The findings from the value chain analysis have been transformed into a figure (Figure 10) illustrating more concretely which complementary strategic capabilities are to be provided by Fira and which capabilities should be covered by the partner.

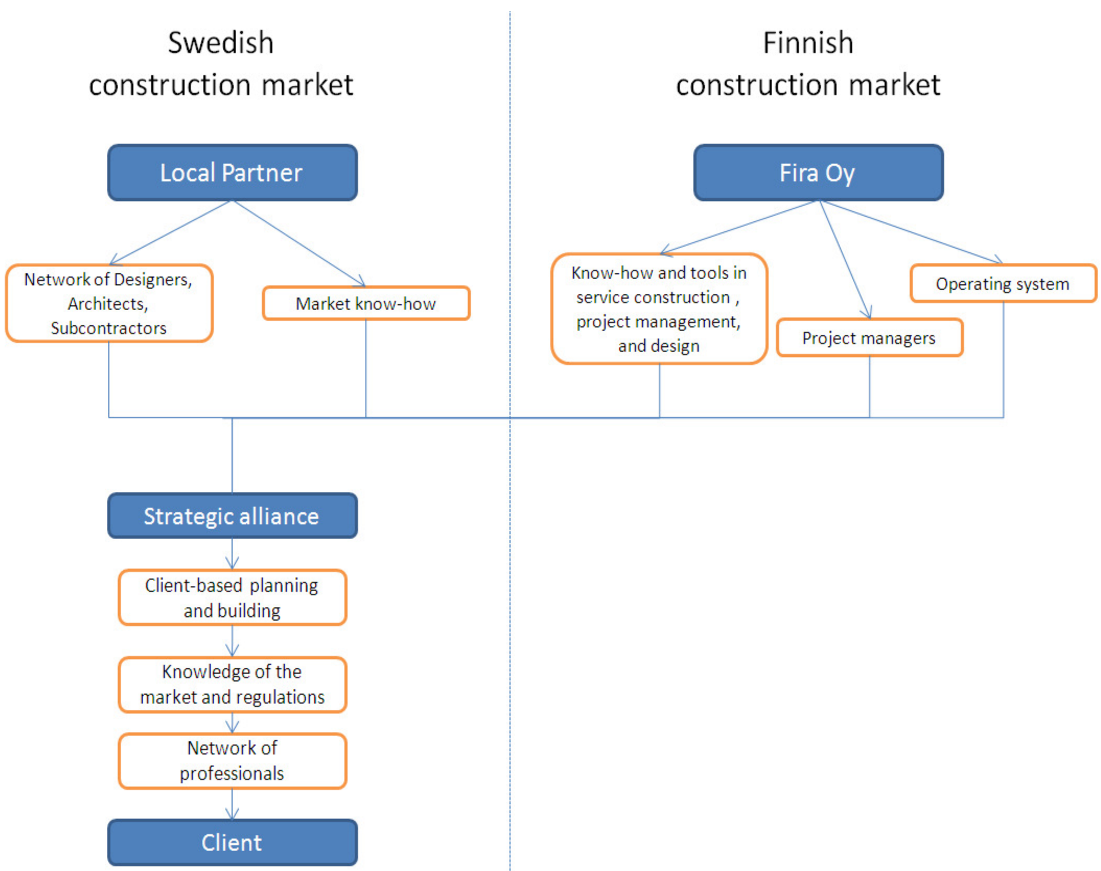

Figure 10: Activities provided by each partner to the alliance.

The local partner should be a small or medium sized contractor in the Swedish market. The reasoning behind this is that large construction firms may not have interest in joining in an alliance with a small enterprise from outside the market even if they would have the resources for it. A small contractor may have the capacity to only operate locally however; Fira is medium sized firm in Finland thus adopting will not be difficult. The local partner should be able to act as the main contractor in projects, whereas mentioned earlier Fira only contributes its know-how. This means that the partner needs sufficient connections with architect and design firms in Sweden, which have knowledge and understanding of the local regulations. The architect also has to be able to work together with Fira (or the local partner with the know-how from Fira) in the customer-oriented planning process. The local partner may have its own building staff or a subcontracting associate. Based on the findings, the competitive advantage in Sweden is going to be that a project should be joined as early as possible by the local partner (and Fira) so that the design, costs and building process can be influenced the most, resulting in client gratification as well as cost- and time- efficiency.

The findings indicate that Fira should bring the know-how it has in the Finnish market in service construction including efficient building, customer-oriented design and planning process. Fira should also consider employing its operating system into the alliance. Depending on the partner, Fira should also be able to bring a few project managers at least in the beginning for training and knowledge transfer purposes. However, this should not be the long-term plan. Fira also gives the partner access to its building model, which will benefit the local partner enabling them to compete with other local firms.

Both of the parties will benefit from the alliance as Fira gains access to a new market, and the local partner obtains the right to use Fira's know-how, which results in cost- and time-efficient building process and customer satisfaction.

9.2.2 Cultural Characteristics

The cultural character the partner company needs to possess is a family like atmosphere that keeps the organization together and its path clear. This also suggests that employees need to know each other on some level to be able to make an informative decision with the help of their team at any time. The partner needs to possess hierarchical levels higher than Fira as it just started to develop them further. Bureaucracy might work better when in a partnership as processes are more formal, thus employees will know what to do.

Innovation has to be an important driver and employees have to be given time to develop new improvements. Research and Development will take the partnership to success. The partner should be able to develop tools and techniques for the partnership even though Fira will be the main actor in innovation. The partner should also aim for success through realistic goals. Competitiveness will come later on in the partnership and thus orientation should not yet be result based, unless the result is the best customer experience in the market. Certain competition may be healthy between the partners; however this might create unnecessary friction.

9.3 Risk

Fira should take into consideration the risks represented in this research. Many alliances fail due to improper planning by the companies before forming the alliance. Knowing this Fira should be able to see the possible risks beforehand and to avoid them. Also a risk management process should be put into action when a suitable partner is found.

Aligning the goals of the companies will make them aim for the same goal in the end. If this is made before joining in the alliance, both of the companies know where they are. On the other hand, Fira should keep its own strategic goals consistently in sight to be able to assess whether the alliance is going in the correct direction for Fira. On the other hand, defending Fira's own goals may end up costing the alliance.

Approaching a new market openly and carefully will make things easier for the alliance. Fira should not expect that its systems necessarily are the most efficient and effective in the new market. It may have to adapt to the local partner's structure. Consensus is the key to success, this way the partners can trust and depend on each other.

9.4 Summary of Recommendations

Based on this research it is recommended for Fira to adopt a non-equity based alliance when entering the Swedish construction market. The model of the alliance may change and is highly depended on the partner chosen by Fira in the future. Non-equity based alliance is proposed because the rules in the alliance can be regulated by the contract made between the partners.

The partner profile is thus constructed based on the recommendations.

Local Partner Profile
Small or medium sized contractor
Connections to designers and architects
Own building staff or subcontractor connection
Own project management staff
Knowledge of local regulations
Similar strategic goals and values as Fira
Family oriented, but depended on hierarchy
Innovation as the main driver in the future
Ability to adapt to another process
Eagar to learn

Table 6: Partner profile.

According to this research the alliance is able to create value through the model wherein both of the partners provide their distinguished know-how and skills. This leads to a situation where the alliance is born with complementary capabilities of the partners, also ruling out competition between the partners as mentioned in the background chapter. The profit is divided according to the contract made between the partners, e.g. according to the percentage of resources used from each partner.

9.5 Further Research

In this part suggestions for further research are represented such as national regulations in a new market Fira enters, building an exit strategy, and risk analysis.

If Fira selects to enter Sweden with a partner through non-equity alliance; contract law and national regulations should be carefully reviewed. If an equity joint venture is selected as a mode of entry, several aspects should be examined: E.g. financial share in the venture, local partner's financial status, and tax regulations.

The risks in alliances were generally discussed in this research; however when choosing a partner, Fira should conduct a risk analysis on the potential partner as well as set up a risk management process. A comprehensive process in international construction projects was introduced by Zhi (1995).

Another risk aspect Fira should take into consideration is constructing an exit-strategy. Having an exit-strategy will ease the process of breaking up the alliance. If an exit-strategy is considered before entering an alliance, the terms can be laid down easily into the contract. Fira should also review the market entry motivation and opportunity: Is the market interesting? Does Fira have the required differentiation in the market? How does Fira get the right people?

Research should be conducted in the following steps in the partner selection process. How can a partner contractor be selected? Fira should select components it will use in discovering the right partner it wants. After choosing a partner a communication process should be developed and set up to avoid misinterpretations. The last step Fira has to take in the strategic planning process is strategy implementation. This may happen in the next few months or it can take years to occur.

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Appendices

Appendix 1: Interview Methods

For the purpose of this research three interviews were conducted to professionals in construction business, employed by Fira Oy and its subsidiary in Finland. These interviews' primary qualitative outputs have been analyzed.

All interviews were carried out by using the general interview guide approach enabling structure, but also flexibility when necessary (Gall, Gall, and Borg, 2003). Subject areas were known to both the interviewer and the interviewee beforehand. For each subject area potential questions were formulated beforehand. During the interviews, most of the potential questions were asked. For each interview separate questions were formulated as the interviewees represented different levels of organisation as well as different areas of expertise. All interviews were conducted by phone through internet in Finnish.

The subject areas were steered by the theoretical framework: the analysis made on Fira Oy from strategic point of view. The interviews objective was to gain understanding of the business, Fira's business model, operations, and service model.

Appendix 2: List of Interviewees

List of Interviewees	
Henry Salo	Fira Oy, Project Manager
Jyrki Latvala	Fira Oy, Project Manager
Sami Kokkonen	Fira Palvelut Oy (Fira Oy´s Finnish subsidiary), CEO

Appendix 3: Interview: Henry Salo

Name: Henry Salo
Organization: Fira Oy
Job title: Project Manager
Date: 27.4.2011

Fira's Operations

Marketing and Sales Activities

Can Fira's marketing and sales tools be employed in another market?
Fira's tools in Finland are based on the fact that Fira knows the market. In Sweden the partner has to have a network and a wide scale of relationships so that Fira's tools can be used there. In Finland and in Sweden the most important thing is personal relationships in the industry.

How does Fira keep in contact with old clients? Are there approaches which can be used in Sweden?
It is rare that clients stay as continuous customers since in the building industry it is very common not to build often. New clients are found through following different sales leads and contacting them. In Sweden the partner has to integrate Fira into its network.

Preliminary Research Activities

Which elements are parts of the preliminary research activity?
First is the identification of the customer's need, which leads into the planning process. Part of this process is: environment and property evaluation, financial plan, risk plan and project plan. This plan comprehends the whole project.

What does Fira do different at this stage compared to competitors?
Fira helps the customers to realize their needs and desire for the building. The client doesn't have to have a clear picture in mind at this stage.

Preliminary Design Activities

Which elements are parts of this activity?
The design is steered by Fira to keep focusing at the customer's need. The design is processed through the motivation of the client.

What does Fira do different at this stage compared to competitors?
All costs, risks and solutions Fira provides are delivered to the customer so that trust is created between the parties. Fira is the only player in the industry to have a well-developed tool for keeping customer focus throughout the project. Fira doesn't sell the whole project to a client; it rather splits it to give space for the customer to decide.

Who is responsible for bringing in the architect?
According to the law, every project in Finland has to have a responsible architect. The client may have their own favourite one and thus Fira does not have to bring in their own. Fira has connections to many architect firms in Finland: In Sweden the partner has to have this connection.

Does Fira profit from the preliminary stages already?
The first contract includes the planning process and includes a content set by Fira beforehand. The contract is worth a little in a construction project. Fira does not profit much from the preliminary stage, only if the client chooses Fira for the building process as well.

Does appropriate design help at later stages of the project?

Yes, good planning also helps with keeping the costs of the project within the framework set in the beginning. It is Fira's advantage to get a hold of a project in the beginning so that the design can be affected the most. Problems occur when someone else is responsible of the building than the planner.

IT Activities

How have the technological elements been developed at Fira?

The operating process was launched earlier this year including the document folders, site documentation, and process descriptions. This process will be developed to a point where it can be franchised to a partner.

Appendix 4: Interview: Jyrki Latvala

Name: Jyrki Latvala
Organization: Fira Oy
Job title: Project Manager
Date: 12.5.2011

Fira's Operations

Design and Building Activities

What aspects make Fira better than its competitors in the building process?
Fira is at its best when it is the main actor in a comprehensive building project. This also means that Fira is part of the design and planning process of the project. Planning helps with the building process as nothing has to be thought through anymore, everything is set. It also avoids risks during the building process. This approach to building is the cheapest and most effective for Fira and the client. The biggest resource for success is the know-how Fira's employees have.

Are Fira's projects usually ready on time?
Yes, better than competitors. Again, good planning prevents delays.

What kind of network is needed at the building stage? Why is it outsourced?
The main actor is the building team which is outsourced. Fira only constructs special purpose buildings and so different professionals are needed in every project. It would be expensive for Fira to keep certain professionals in their payroll even when there is no work for them.

Service Activities

How is the guarantee service executed?
Fira gives guarantee for its buildings: normally between 2 and 10 years. If there is a problem with a part of the building Fira fixes it. First it is investigated whose fault the mistake is: the subcontractor or Fira to find out which party has to pay for the work. Then Fira hires a subcontractor to do the work.

Partnership

What kind of partner should Fira have when entering the Swedish market? (Architect or contractor)
A contractor, which has interest in working together with Fira, should be chosen. The contractor should be responsible for the building process. This leaves Fira with the responsibility of teaching the local partner the process model. Fira also has to be on top of the design process at all times to ensure the customer focus.

What could be the major risks in the market entry with partner?
The failure of the partner after Fira has taught them the process. In the end Fira is the one that fails to further expand in Sweden if the partner does a mistake. Another part is the possibility of copying Fira's tools and techniques. This should be managed with the contract between the parties.

Appendix 5: Interview: Sami Kokkonen

Name: Sami Kokkonen
Organization: Fira Palvelut Oy
Job title: CEO
Date: 20.5.2011.

Fira Palvelut Oy

Could you describe the beginning process and motivation for starting a subsidiary of Fira?
Fira as a mother company had been actively asking for people in renovating business in the industry. The market was interesting as it was growing. The vision became to offer better service also in renovating buildings. Then the two right people were found who had the know-how and entrepreneurial desire to start a new firm.

Which of these aspects could be taken into consideration when Fira enters the Swedish market? Which could be learning points?
Same aspects could be used in Sweden: Whether the market is interesting? Whether Fira has the needed differentiation in the market? How does Fira get the right people? The only difference is that the partnership will be abroad.

Partnership

What kind of partner would fit Fira best? (Architect- contractor)
A contractor would be a comprehensive partner, taking care of the main process. It is important that partner engages in Fira's service construction model and does not start to do things on its own way. The contractor should have project management employees who Fira can train. This will ensure the service model.

Do you think it is realistic that the person taking Fira into Sweden will grow from inside Fira?
Yes and no. It is important that there are some employees from Fira in Sweden to create the networks and teach the local partner; however it should not be only one person, but rather a team of people.

Do you think it's possible that the partner copies Fira's tools and leaves the partnership with them?
It should be made clear in the beginning that the model of the partnership should not motivate the partner to do this.

How should Fira use the profit gained from an alliance abroad?
Invest it back to Finland, but so that the Swedish alliance survives with cash flow from its own operations.

Where do you think lie the most risky elements when entering Sweden with a partner?
- The management in Finland has to use their time away from Finland. The organization structure has been widened to able international operations.
- Miscalculations in culture, entry mode, and size of investment and/or the knowledge of the market can lead easily to market exit.
- Personal relationships play a big role. They can bring opportunities, but they can also ruin the market entry for good.

If these risks are identified properly and managed well, the entry should go smoothly.

Fira's Operations

Should Fira pay attention to certain aspects of construction projects?

Risk management and quality management should be monitored better and processes for these should be developed into more wide-scale versions. Fira trusts its employees, but what happens when the people in Sweden are not known? This is why processes should be set up before the market entry.

<u>Should Fira concentrate on certain activities in a project?</u>
Fira should bring its know-how. Good planning before market entry is important so that the focus of what Fira is supposed to do does not disappear.

<u>Is communication with the management easy? Should the methods be developed?</u>
Communication is a central part of business. At the moment the communication between employees in the office and the construction sites is sometimes difficult since people at sites cannot always attend meetings in the office. The methods are being developed and taken into practice as soon as possible. In Sweden it is also vital to have good communication between Fira and the partner. A systematic process should be set up to teach the service model as well as keep the communication flowing after the set-up.

HRM
<u>How much should be invested in training?</u>
The main point of training should be that the employee wants it. The system should be changed from push to pull where an employee can acquire information and is helped to gain more education. Also what should be considered is where the company is headed and as a basis what do the employees need to know to get there.

Marketing and Sales
<u>Previous projects have suggested Fira to use project banks to bid for projects in Sweden. What do you think about this as an entry mode?</u>
At the beginning of its operations, Fira Palvelut Oy contacted possible clients to introduce the new service model and to interact with the client. In the end, in many projects that the company bid on, the offer was in top three, but what made the difference with the other bidders was that we had interacted with the client at first.
In Sweden Fira might not be able to compete with price and especially against local competitors who already have relations to the clients. Thus using the project banks might not be the best idea because the client cannot be interacted with before bidding.

Appendix 6: OCAI Questionnaire

The OCAI tool has been developed from the competing values framework to analyse the perception of culture within a company. The questionnaire model is fixed and thus if any changes are made the results can be contaminated. The questionnaire was answered by 6 employees of Fira Oy, from different hierarchical levels and diverse fields of expertise to ensure the best average result. The questionnaire is filled in twice: the culture of the company today and in five years. The results of the questionnaire are inserted into the instrument and the end results are derived from it.

Questionnaire

This questionnaire consists of six categories. You have to divide 10 points among these four alternatives depending on the extent to which each alternative is similar to your own organization. Give a higher number of points to the alternative that is most similar to your organization. Fill the questionnaire twice, first the organisation culture today, second the state you wish the culture is in five years. For example, in question one, if you think alternative A is very similar to your organization, alternative B and C are somewhat similar, and alternative D is hardly similar at all, you might give 5 points to A, 2 points to B and C, and 1 points to D. Be sure your total equals 10 points for each question.

Category	Style	Points
Dominant organizational characteristics	A: Personal, like a family	
	B: Entrepreneurial, risk taking	
	C: Competitive, achievement oriented	
	D: Controlled and structured	

Category	Style	Points
Leadership style	A: Mentoring, facilitating, nurturing	
	B: Entrepreneurial, innovative, risk taking	
	C: No-nonsense, aggressive, results oriented	
	D: Coordinating, organizing, efficiency oriented	

Category	Style	Points
Management of employees	A: Teamwork, consensus, and participation	
	B: Individual risk taking, innovation, freedom, and uniqueness	
	C: Competitiveness and achievement	
	D: Security, conformity, predictability	

Category	Style	Points
Organizational glue	A: Loyalty and mutual trust	
	B: Commitment to innovation, development	
	C: Emphasis on achievement and goal accomplishment	
	D: Formal rules and policies	

Category	Style	Points
Strategic emphasis	A: Human development, high trust, openness	
	B: Acquisition of resources, creating new challenges	
	C: Competitive actions and winning	

	D: Permanence and stability	

Category	Style	Points
Criteria for success	A: Development of human resources, teamwork, concern for people	
	B: Unique and new products and services	
	C: Winning in the marketplace, outpacing the competition	
	D: Dependable, efficient, low cost	

Appendix 7: Literature Review

Literature Review

Metropolia Business School

Prepared for Michael Keaney

Stella Ruissalo

1. The Research Subject

The goal of the thesis is to create a working model for an international joint venture. I have been asked by Fira Oy to research different ways of working together with a foreign partner. Fira is expanding its operations into Sweden and thus would like to know deeper how local companies work. The end goal of the research is to build a working model for the two venture parties to work successfully together.

This research will generally help Fira to identify its strengths and weaknesses both in the Finnish and Swedish construction industry. It will also look into different types of joint ventures that will be used for building the model. These two factors will then help Fira to decide what kind of partner they should be looking for and what kind of partner will most likely to be able to fit into Fira's company culture.

The research will also discuss the cultural possibilities as well as the risk element of international joint ventures.

2. Fira Oy

Fira is an innovative construction firm based in Finland. Since 2002 the firm has been developing complex projects to demanding customers. Fira believes that the future lies in service construction, where the customer's need creates the focus of the planning process of the project. Fira has developed effective tools and techniques for the planning of projects as one of the first actors in the industry.

In its vision Fira states that it wants to be the number one in the Finnish service construction industry, but it also wants to enter into international markets with its innovative products. The firm is growing rapidly as the turnover has doubled since last year as well as the amount of staff.

3. References

There is much literature available about strategic alliances in general as it is already a relatively researched subject. The literature shown here will form the basis for the research.

Sirower (1997) discusses and questions why failure is common mainly in business acquisitions. His work can be also well used as a reference for risks in international partnerships. Alliances generally do not reduce risk for the parties involved, however still many firms decide to form e.g. a joint venture together with someone else to assumingly cut down the risk factor by half. Reuer and Leiblein (2000) discuss the risk implications in their article Downside Risk Implications of Multinationality and International Joint Ventures. They argue that investing in international joint ventures has a positive effect on downside risk and thus risk would be reduced by IJV.

Contractor and Lorange (2002, p. 8) discuss the basics of joint venture as they state that both of the partners need to add value to the different parts of the value chain (Porter 1985, 1986). Both of the partners also need to have the needed strengths to be able to cover different know-how of the venture. At last the parties cannot have conflicting short or long term strategies (Contractor and Lorange, 2002).

4. Research Problem

As mentioned before the subject of strategic alliances has been researched by a number of people already. However, putting together theory and practice often fails which tells us that the theory doesn't meet the manager or company or the theory is too rough to be relevant for certain scenarios.

Many researchers believe that even though the opportunities of alliances are worth the risk, failure is definitely an often occurring phenomenon (Coopers and Lybrand, 1986; Auster, 1992; Kogut, 1991; Harrigan, 1988; Porter, 1987). The major general problem areas are mostly identified in forms of paradoxes such as stand-alone-paradox, linkage-paradox, central functions and services-paradox (Russo, 1992; Goold, Campbell, and Alexander, 1994). It would appear that the general research provides us with a model on how of preconditions to avoid failure rather than achieving success.

Fira has already done market research in the Swedish construction market as well as market entry possibilities and strategies. This forms the need for a model that they will work with and thus the need for my research. At the very least the history and geographical distance should work out in the favour of Fira (O'Grady and Lane, 1996).

By identifying the strategic and cultural characteristics of Fira we can correctly identify the possible partner profile for them, basically in any new market they are planning to enter through an alliance.

There are three areas of interest for research:

1. Culture; a popular tool is the OCAI - organisational culture assessment inventory (Steinhoff and Owens, 1989).
2. Strategy; e.g. the alignment of purpose for both companies to ensure the avoidance of the agency.
3. Organisational design / work methods; often underestimated but a bottleneck when it comes to combining forces within the joint venture. Finding similarities in this field at the partner company will speed up and simplify the venture.

When having researched the current position and ambition of Fira a model that allows the two companies to work together as one can be created.

5. Summary

I have presented that I have so far properly researched and discussed the topic of my choice for my bachelor's thesis. I have presented the client that I will be conducting the study for as well as the background of the Firm's need for the research. I've also discussed the relevant literature that points out different perspectives and it will be used for the theoretical part of my research.

I will have to look into cultural aspects e.g. by using and analysing the company culture that Fira has to define the kind of partner it will need. I will also research the risks that may be facing Fira in the future partnership.

I believe that the major problems will be fitting the partner into the culture of Fira as well as the communication between the two parties. In theory I may be able to find a perfect partner profile that fits the culture, but in practice the two parties may have different views in simple things like the framework that Fira wants to work within.

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Appendix 8: Research Proposal

IRP Research Proposal

Inholland Hogeschool

International Business and Management Studies

Stella Ruissalo

446379

24/5/2011

1. Title

Finding a collaboration model for a business entering a new market through strategic alliance with the orientation for construction business

2. Background

I've been asked to conduct research for a construction company, Fira Oy as they are expanding operations into a new market. Fira plans to enter the Swedish construction market through a strategic alliance with a local partner. As Fira has no previous experience in international ventures, I have been asked to compare theoretical perspectives and analyse the company internally to able to find a suitable collaboration model for the partnership. These two features will help me to form a successful path for Fira and its partner company to join their forces.

2.2 Fira Oy

Fira is an innovative construction firm based in Finland. The company was established in 2002 and today is known for innovative solutions which keep it growing. Fira believes that the future lies in service construction, where customer needs are taken into consideration and brainstormed in the planning process of the project. Fira has created effective tools and workshops for the planning of the projects which have shown to work very well. In its vision Fira states that it wants to be the number one in the Finnish service construction industry, but it also wants to enter into international markets with its innovative products.

2.3 Key Literature

Strategic alliances and especially international alliances have been researched very well and there is a lot of literature available on the subject. I've considered my options and gathered the most relevant literature to the particular industry and to Fira.

Contractor and Lorange (2002, p. 8) discuss the basics of joint venture as they state that both of the partners need to add value to the different parts of the value chain (Porter, 1985). Both of the partners also need to have the needed strengths to be able to cover different know-how of the venture. At last the parties also cannot have conflicting short or long term strategies (Contractor and Lorange, 2002).

Alliances generally don't reduce risk for the parties involved, however still many firms decide to form an alliance together with someone else to assumingly cut down the risk factor by half. Reuer and Leiblein (2000) discuss the risk implications arguing that investing in international alliances has a positive effect on downside risk and thus risk would be reduced by a venture.

Sirower (1997) discusses and questions why failure is common mainly in business acquisitions. His work can be also well used as a reference for risks in international partnerships.

Now that the basic theoretical stepping stones for this research have been provided, further literature is examined on the influences after the venture has been formed. From the literature we can understand that putting together theory and practice often fails, which tells us that the theoretical mindset doesn't meet the manager, the theory is too rough to be relevant for real-life situations or the manager is a poor analyst.

Many researchers believe that even though the opportunities of alliances are worth the risk, failure is definitely an often occurring phenomenon (Coopers and Lybrand, 1986; Auster, 1992; Kogut, 1991; Harrigan, 1988; Porter, 1987).

The major general problem areas are mostly identified in forms of paradoxes where different influences can decrease value of the venture (Russo 1992; Goold, Campbell, and Alexander 1994). These influences can decrease value and can be explained in the following ways (Faulkner and Campbell, 2003):

Stand-alone influence

The parent companies (Fira and partner) will always exercise certain influences to the venture. These influences are based on their need to gain value or profit from its investment. These influences can result in making the wrong decisions (e.g. the company needs to reinvest money to gain competitive strength but the parent company wants to shift money to their accounts. A conflict of interest kills the company and the parent is left with only a little profit if not loss by making a decision based on its own needs rather than the company's needs.)

Linkage influence

Linkage influence refers to the parent company trying to create synergy but failing because the creation of synergy is more work and/or more costly than the benefits that the synergy might create or that synergy is forced on a company where it is not appropriate at all (Porter 1985).

Central functions and services

When a relationship is created between a parent and its daughter companies the parent company has the tendency of creating central functions and services that in time tends to be viewed as a necessity. The problem being that the parent company focuses too much on the other companies looking for synergy when actually they can create extra value by merging central functions and services with the other companies, downsizing on overhead on keeping employees sharp in every division. In other words, the parent companies can create economies of scale for themselves as well as the daughter company.

Corporate development

When making acquisitions, alliances or new ventures parent companies tend to make these companies a success even though they might turn out to be hopeless. Low research and/or overconfidence are to blame. The poor track record of many ventures mentioned above failing to create value clearly shows the problems in creating synergy between the companies, which leads to the difficulty of creating value for the investors (Porter 1987). An example to look at would be the Ferranti case where the electronics company was on the rise for a decade, and finally purchased a big player in the defence market. After two years Ferranti found out that the purchased company was part of various fraud contracts and Ferranti ended up losing almost as much as it had purchased the company for making in bankrupt within five years.

Further Developments

It appears that the general research provides us with a model on how to avoid failure rather than how to achieve success. Fira has already done market research in the Swedish construction market as well as market entry possibilities and strategies. At the very least the history and geographical distance should work out in the favour of Fira (O'Grady and Lane, 1996).

For further analysis of Fira its values and strategic aspects will be studied. For this analysis will be used the theoretical model competing values framework, which helps to identify the diverse approaches to organisational design, the life cycle of the company, the quality of organisation, effectiveness, leadership roles, and management skills. The four clusters of the framework (clan culture, adhocracy culture, hierarchy culture, and market culture) are used for defining the core values on which assessment about organisations are made (Quinn and Rohrbaugh, 1983).

3. Problem Statement, Research Questions and Objectives

As explained in the background, Fira has no previous experience in partnerships outside of the national market and thus needs to gain knowledge of the strategic possibilities that it has when entering a new market, the risks that an international venture brings, and the value and synergy creation every venture needs to be able to be successful. Also as seen in the background, there is an overflow of literature on the subject of strategic alliances, but far too often the theory doesn't meet practice. This research will fill the gap between the theorists and the reality, using Fira as the case in practice.

The main question of this research can be composed from the introductory chapter in the following way:

What is the most appropriate strategic alliance model for Fira Oy, a business entering the Swedish construction market?

The main question is supported by the following questions to give in depth results to the research problem:

1. What is a strategic alliance and what are the possible forms of alliances?
2. How do these different forms create synergy and sustainable added value?
3. Which elements make up the partner profile and how do they effect the value creation and synergy?
4. What is the most suitable strategic alliance model for Fira Oy and what are the risks in it?

The objective can be then formed from the research problem:

The purpose of this thesis is to find a suitable strategic alliance model for Fira Oy, a construction company headquartered in Finland entering the Swedish market. The focus will be on different strategic alliance forms and their differences. A framework is set for elements needed for a successful partnership: The strategic and cultural characteristics of Fira are analysed to create a partner profile fitting Fira. Further aspects for the model are the risks, which companies often face in alliances. Through the research and analysis the most suitable strategic alliance form and a profile of the future partner is selected for Fira Oy.

4. Methods

The main approach of the research is first to compare the different forms of strategic alliance, then analyse Fira's strategic and cultural character, which make up the partner profile suitable for Fira. Secondary research include common strategic alliance theories, partnership fit, and risk literature. For this research general strategic theories as well as industry related literature is used. Primary research comprehends interviews as well as an internal culture assessment tool, which is supported by a questionnaire. These elements are discussed in this chapter in more detail.

Data about strategic alliances are gathered in general as well as particularly in construction business. The strategic and cultural characteristics of Fira form the basis of the primary research: company analysis made on Fira Oy. By using the theoretical paradoxes, the risks and the foundation of partner synergy are identified.

Primary data are gathered from Fira through qualitative interviews to gain understanding of the construction industry, service construction business, and strategic qualities of the company. The general interview guide approach is used to keep the interview structured, but also enabling flexibility when necessary (Gall, Gall, and Borg; 2003). Interviewers were chosen with the fact that they had experience and vast knowledge of the subject areas.

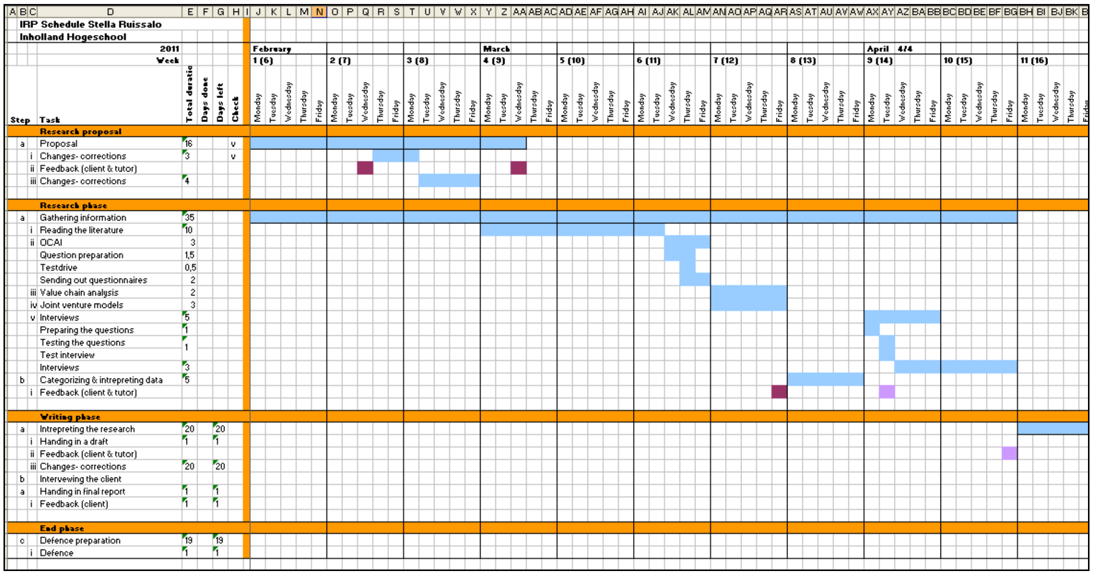
Analyzing Fira's strategic features and capabilities will be conducted through value chain analysis. The value chain of Fira is analysed to determine the complementary activities the partner needs to possess in a new market. The analysis is based on the interviews as well as Fira's internal material.

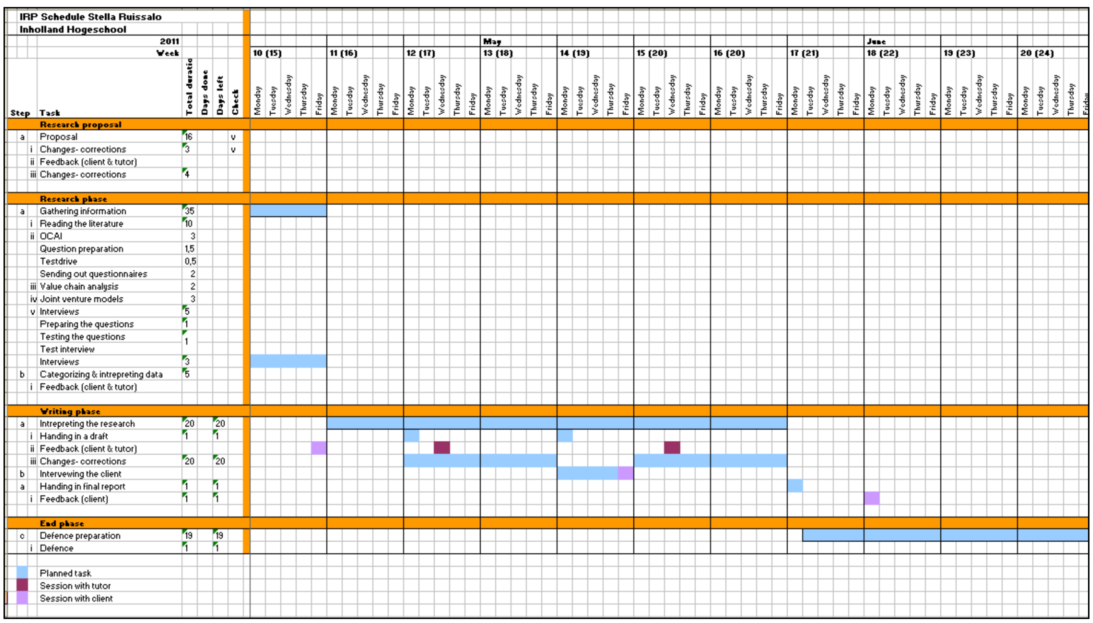
Companies struggling with each other's cultures in alliances can obstruct the foundation of mutual path and creation of sustainable competitive advantage. An analysis made on the company's culture is exercised to study how the strategic goals of the company are viewed by the employees, which further shows the possibilities for value and synergy creation within the alliance: For this an organisational tool the OCAI (organizational culture assessment instrument) is used. A questionnaire is filled in by a few employees from different organisational levels to gain an average viewpoint of the company. The results will be placed into the OCAI, which shows on average how the employees observe the company. The results show the cultural features the partner needs to possess to join in partnership with Fira.

This research studies the strategic and cultural characteristics the partner has to possess to be able to enter into an alliance with Fira; however the strategic analysis will strongly rely on the findings from the value chain. This research does not compare the strategic goals of the partners since the partner in the Swedish market is still unknown. This research only gives an indication of which type of partner and strategic qualities Fira should be looking for.

This research is conducted to advice the management on the path of international operations, especially in the formation of a partnership. In this research construction firm, Fira Oy operates in developing, engineering, designing, consultancy and contracting. Any construction business planning to expand their operations outside their national markets through strategic alliance may be interested in this research.

5. Schedule





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