Current internationalization of firms and markets as reconfiguration in densely connected networks

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Abstract
International strategic alliances is an important phenomenon in contemporary markets. Their existence is an aspect of "collective competition". The alliances undergo changes in terms of membership (entry, exit) and degree of integration between the members. We analyse the dynamics of alliances with a "markets-as-networks" view, seeing alliances as embedded in a wider, dynamic network context, where strategic actions by firms initiate changes in the network structure, i.e. how firms are directly and indirectly connected to each other as cooperating or competing. Two cases from the freight forwarding industry are used to illustrate our analysis. We formulate a number of propositions pertaining to internationalization of the firm and more specifically to the dynamics of strategic alliances. As both internationalization of the firm and of a market have reached high levels of international interdependencies, strategic actions by individual firms are to a great extent conditioned by such interdependencies.

Key words:
Internationalization, strategic alliances, corporate strategy, network dynamics

Background
There are two important aspects of internationalization of the firm during the last couple of decades. First, international growth takes place more by linkages to existing resources through M & As and strategic alliances than by organic growth and green field investments. Second, international integration of geographically dispersed resources and activities has become of increasing importance (Johanson & Mattsson, 1988). Since this process has been going on for some time, international interdependencies between firms in terms of cooperation and competition is growing. Concepts like "collective competition" (Gomes-Casseres, 1998) and "alliance capitalism" (Dunning, 1996) have been used to symbolize this type of network governance structure.

Not only will M & As and the formation of alliances change competitors to cooperating partners, but also those firms suppliers, customers and other partners will be affected. This implies that strategic actions by firms not only serves to reconfigure the market structure but also will intiate further reconfiguration processes when other competitors or partners react (i.e. "domino effects" according to Hertz,1998).
Our purpose is discuss a focal firm´s strategic actions within a focal alliance and how that can be seen as influenced by not only the developments within the focal alliance but also by other network processes implying structural change.

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First, we briefly describe two cases of alliance dissolution in the freight forward industry. Second, we present our conceptual framework. Third, we identify, and exemplify, five interdependent processes influencing the development of the focal alliances. Finally, we formulate a number of propositions about reconfiguration processes and their implications for internationalization of the firm.

Two cases of alliance reconfiguration.

The empirical background is from earlier studies of the freight forwarding industry (Hertz 1993) The same focal firm, ASG a relatively large diversified, Swedish international transport company, is involved in both alliances. The first case is a dyadic alliance (between ASG and Danzas) while the second is multiple firm alliance, a world wide airfreight organisation, Waco.

ASG and Danzas

After the world-wide strategic alliance between ASG and Danzas, was formalized in 1992 the two companies, each with a world wide net of representatives, started to restructure their respective nets of local representation. The idea was to avoid double representation at a specific destination. Thus ASG broke relationships with some 20-30 of their agents outside of Scandinavia and also sold out subsidiaries. Danzas broke relationships with representatives in Scandinavia. In some cases a representative could continue to represent the alliance during a short transition period.

The major reason for the alliance was that both firms had experienced problems to keep their nets of representatives intact because of acquisitions by competitors, bankruptcies, etc. Since the representatives and the competitors were often themselves international companies, any change in ownership or affiliation could have influences in many countries. Thus ASG experienced problems on the European continent and Danzas in Scandinavia. ASG and Danzas had regarding some countries, such as for the traffic between France and Sweden a rather long history of succesful cooperation. ASG was strong in Scandinavia and Danzas was strong on the European continent. It soon showed that even if on the surface the geographical fit between the alliance partners seemed good there were some network aspects that made it difficult to effectively restructure the network.

1. Some important ASG customers preferred to continue their relationship with an ASG subsidiary or an ASG representative and did not want to switch to the Danzas representative.
2. Danzas did not have enough present customers with important transports to Scandinavia from the Continent to create profitable transport systems together with ASG´s transports from Scandinavia to the Continent
3. Several ASG subsidiaries, after changing ownership, continued to take part in the transportation industry and continued to interact with each other.
4.The Danzas representatives for overseas traffic could not as effectively serve the old ASG customers as did the old ASG representatives.

After a few years the two CEOs, who took the inititative to the alliance were replaced. ASG lost sales in Europe, major reasons being the four network aspects mentioned above.

Furthermore, ASG was disappointed that Danzas did not have the integrated systems that ASG had expected. In 1995 the alliance agreement was unilaterally broken by ASG.

ASG prepared for the dissolution before it announced the break-up to its alliance partner. It planned and negotiated future cooperation with a new set of representatives several months before the actual break-up. This involved to integrate the activities of an independently run, but by ASG fully owned, organization, ERT and to buy back some of the old subsidiaries. In spite of this conflict, cooperation between ASG and Danzas continued locally with a few Danzas subsidiaries.

In 1998 Danzas, now fully owned by Deutsche Post, launched a take over bid for ASG in competition with the Swedish Post. Thus, in 1999, the old alliance between ASG and Danzas was replaced by a common ownership. The restructuring of the nets of represenatatives will take a new turn....

WACO and ASG

In 1973 ASG left one strategic alliance, the international airfreight network *Constar*, to become a member of WACO, a newly established international strategic alliance. While the Constar alliance was a loosely connected network, WACO demanded a stronger commitment by the members to the alliance. WACO was based on exclusive cooperation between strong local airfreight agents world-wide. WACO gradually increased the number of WACO agents. However, ASG kept some of its other important international dyadic alliances such as with *Schenker* (joint venture in the Far East) and with *Emery* (in the United States).
The WACO network became increasingly integrated over time. This caused conflicts in ASG´s relationships to Schenker and Emery because several of the WACO agents were in direct competition with these companies in other parts of the world.

Emery broke its cooperation with ASG. ASG switched to the new WACO agent, *IFI* for the US. After some time IFI offered ASG the opportunity to acquire 50 percent of the company and ASG did so. This was against the WACO-agreement, since ASG then not only represented the Nordic countries but also the United States. ASG therefore had to leave the WACO group. To have time to find, plan and negotiate alternative solutions ASG stayed in WACO almost a year, as long as the contract formally permitted. Some 20 agents had to be exchanged and new representatives to be found for ASG Sweden and for the airfreight subsidiaries in Denmark, Norway and the U.S. ASG set up a subsidiary in the U.K., taking over some personnel from the WACO agent. Similarly, in Australia, ASG made a greenfield investment and also acquired two small companies.

ASG´s former agents, linked to WACO, became competitors to ASG and its subsidiaries. As ASG´s new subsidiaries internationalized further, this competition became stronger.This also served to increase competition with Schenker and it became necessary to break the strategic alliance with Schenker for the Far East. Thus the Schenker and ASG nets became competitors.
The WACO alliance switched from ASG to an airfreight firm, *ISA*, which could cover the Scandinavian countries. As a result of adherance to WACO, ISA had to switch from their 25 existing international agents to the new WACO agents. In the US, however, WACO had difficulties to find a good agent as a substitute for IFI, on an exclusive basis, and had to settle for a combination of non-exclusive agents.

The conceptual framework

The basic idea in this paper is that when both the firm and the market are highly internationalized, to understand the dynamics of further internationalization of the firm one need to consider its dynamic market context. Arguments to consider embeddedness when both the firm and its context are internationalized (the ”International Among Others” case) are presented in Johanson and Mattsson (1988) and further developed to consider dynamic aspects in Mattsson (1998). One approach to consider embeddedness aspects for further internationalization of highly internationalized firms is to focus on the internationalization of an MNC´s subsidiaries, ”internationalization of the second degree” (Forsgren, 1989). This approach questions the ability of central management of an MNC to integrate activities across subsidiaries, i.e. the firm should be considered as a network rather than a hieararchy. It also shows that a subsidiary´s network connections contribute to the subsidiary´s performance and strategic influence (Forsgren and Andersson,1996).

In a markets-as-networks view the generic governance structure is networks of multidimensional exchange relationships between actors. Actors can be positively connected, implying a synergetic, cooperative relation or negatively connected because they compete to develop exchange relationships with a third party. More distant connections in a network are, from a focal actor´s point o view, indirect and complex. The sign of the connection might change or become less distinctly positive or negative. Sometimes two actors might be connected in a partly positive and partly negative way, causing tensions between the two actors.
Examples of sign changes are when two competitors merge (causing a development from negative to positive connection between the two) and when an alliance partner or agent is acquired by a competitor (causing a change from positive to negative connection). Each actor has a network *position* in a specified network. The position describes how it is connected to the other actors (to what external resources it has access and with which actors it competes) and the nature of its internal resources. *Strategic actions* are aimed at influencing network positions and thereby also how actors are connected to each other. Strategic actions by one actor may cause strategic reactions by other actors (*domino effects*). The *strategic objectives* are defined in terms of desired future network positions of the actor and other actors, e.g. partners and competitors. An important base for strategic actions is the actor´s *network theory,* i.e. the actor´s set of systematic beliefs about network and production system structure, processes and performance and the effects of its own and others´ strategic actions.

The larger the number of network connections that are common to two, according to some criteria defined networks, the more the two networks *overlap*. Overlaps influence *overlapping* processes (i.e.changes in overlaps) and vice versa. The *timing* and *speed* of strategic actions is important due to the interdependency between the concurrent network processes. The opportunity set changes over time and structural changes also take time, therefore timing and speed are important as dimensions of strategic action in the type of network context that our cases describe.

Analysis

The cases describe continous efforts to reorganize international networks in the freight forwarder industry. Studies of such processes shows a time consuming process that involves a

complex internal reorganization and also restructuring of relationships to customers (Ludvigsen, 2000).
In order to attain structural fit a reconfiguration of alliance internal resources is needed. One example is that double repesentation at a specific destination is to be avoided.These efforts are driven by the increasing need to develop and effectively coordinate international transport systems caused by the customers´ increasing international coordination of *their* production and distribution systems. The high interdependencies in transport systems make it necessary to have a mutual representation and to rapidly replace any representative. The focal firm and the focal alliance network is however not the only ones undergoing change. We can identify five types of interdependent processes interrrelated with the *internal development of a focal alliance* (We identify this as the A-process):

1.The customers´ network processes in general.
(E.g.Customers need to more effectively coordinate their international production/distribution systems and therefore demand internationally coordinated transport services.)

2.The process relating customers and the focal firm.
(E.g. the development of strong relationships between ASG´s subsidiaries and some important customers, turned out to be detrimental to the development of the ASG/Danzas alliance.)

3.The concurrently existing other freight forwarder alliance processes.
(E.g.the development of ASG´s alliances with Schenker and Emery and the development of WACO influenced each other. The existence of the ASG/ERT relationship facilitated ASG´s break-up with Danzas and was thus detrimental to the development of the ASG/Danzas alliance.)

4.The focal firm´s process aimed at dissolving its relationship with partners in a focal alliance.
(E.g. ASG planned for the break-up of the ASG/Danzas and of its membership in WACO before the actual break-ups occurred. Activities aimed at dissolving an alliance relationship or the whole alliance obviously has a negative influence, even if a multi firm alliance survives.)

5.The focal firm´s process aimed at developing a new or joining another existing alliance
(The planned break-up was strongly related to plans for a new alliance, in the ASG/Danzas case with ERT and with new representatives to replace Danzas for most destinations.)

An example where all 6 processes are recognized:
Assuming that customers´ generally demand more integrated transport services (process1), if the focal firm has important such customer relationships (process 2) and if competing alliances strive to fulfil such demands (process 3), then there is a pressure on the focal alliance to organise for more effective internal integration (process A). If a focal firm finds that the present alliance cannot effectively do that, there is a pressure to develop a new alliance or to join another alliance (process 5). This will make it more likely that the firm must break some or all existing alliance relationships (4). Time constraints may force the focal firm to prepare for a break-up of its existing alliance (process 4) by preparing for a new alliance (process 5) concurrently with on ongoing A-processes. The reason for this is that the customers´ demand for service provison (processses1 and 2) cannot be satisfied without representation at the relevant destinations.

Propositions

1.Strategic alliances are inherently unstable due to overlapping processes in the network context (related to the processes listed above) that change the structural fit and the sign of connectedness between the actors.
2. The higher the interdependence between actors, involved in collective competition, the more influential will the domino effect be on strategic actions.
3.Actors, involved in the development of an existing alliance need to concurrently plan for its potential dissolution by preparing for alternatives.
4. Actors´ network theories are important determinants of the timing and speed of strategic actions.
5. Dyadic alliances should be regarded as multiple firm alliances due to the strategic action potential of subsidiaries.

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