

# **Transformation of Strategic Alliances in Emerging Markets**

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# **Transformation of Strategic Alliances in Emerging Markets, Volume II**

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United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2021

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**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-80043-749-4 (Print)

ISBN: 978-1-80043-748-7 (Online)

ISBN: 978-1-80043-750-0 (Epub)



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***To the memory of***

*My parents Ato Abraha Ghebrekidan and Weyzero Jeddah Tesfazghi and my brother Engineer Kubrom Abraha whom I remember for their never-ending love and care*

*Desalegn Abraha*

*My parents Syed Abdul Halim and Salema Begum and my brother Syed Azmal Hyder whom I miss for guidance and inspiration*

*Akmal S. Hyder*

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# Foreword

The research work on *Transformation of Strategic Alliances in Emerging Markets* is divided into two parts: Vol I and Vol II. This book is a continuation of Vol I. Vol II starts with case studies, which are included in chapters 1 and 2. Chapter 1 contains cases on Alliances in Fast Complete Adapting countries, while chapter 2 reports cases on Alliances in Medium Complete Adapting Countries. Chapter 3 takes up a discussion and analysis on the cases in different phases following the theoretical framework of the study. The results of the study are reported and discussed in relation to the applied theories in chapter 4. Chapter 5 is devoted to conclusions on the key issues of the study. Finally chapter 6 covers research and managerial implications along with comments on the strategies found applicable to emerging markets.

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# Preface

The appropriateness and timeliness of publishing this book is beyond doubt as it deals with how the long-term business relationships and networks have changed over time in emerging market alliances. Initially, the alliances were established among Swedish firms and firms in Eastern and Central European countries (ECE). There have been several differences among the alliance partners, i.e., the Swedish and their local partners. Specifically, the Swedish and the local partners have experienced different attitudes, beliefs, ways of thinking, cultures, traditions, ways of conducting business, concept of time, modes of communication, negotiations, etc.

In early 1990s, many Western firms entered into the complexity of ECE, which we introduce in this study as European emerging markets, without having the necessary preparations. Many promising business ideas failed due to lack of knowledge about the ECE emerging markets in regards to social, cultural, political, legal, and human features. It became clear to Western managers that adequate preparation is a prerequisite for success in the region. However, there has been good sign that networks of relationships and competence in dealing with those networks are gradually developed. This study focuses on the changes that have taken place in motives, resource contributions and exchanges, learning, in relationships and networks development, performances. and the general environmental factors within which the alliances function.

Initially, all European transition markets followed the socialist ideology and had almost the same economic structure, but during the last 30 years of transition, things have undergone many changes. Success in adopting market economy and changing policies have created several gaps among these emerging markets. It has therefore become important to know why some countries have done so well while others fallen behind. This study sees the collaborations as a clear step to reduce the risk of investment by foreign firms and to gradually get accepted by the local governments and the people in the transitional economies. There has been a basic difference in the management style between the Western and Central and Eastern Europe and therefore issues such as how these dissimilar companies make things go, what result they achieve, and what they really contribute to the development and transformation process are stressed in this book.

Many research works have concentrated on different characteristics of alliances, but surprisingly, no fruitful attempt has yet been made to focus on the dynamic aspect of this form of collaboration. In the case of European emerging markets, this absence is crucial as partners have a totally different background

and consequently have different ways of doing business. In fact, the ECE region is not only different from the Western countries but also from the other developing countries. Development and conducting relevant research to study alliances in these emerging markets has been set as one of the main objectives of this book. To fulfill this goal, a conceptual framework from a process perspective has been designed to describe and analyze the formation, development, and functional mechanism of strategic alliances in the transition region. This conceptual framework has been used in this work to go into depth for capturing fundamental issues, functional patterns, and changes of the alliance activities.

One of the main reasons for alliance formation is exchange of complementary resources among the partners. We argue that no alliance study can be complete and justified unless this vital issue is duly considered. Moreover, commitments of the partners in regards to formation and operation of alliances are vital to the fulfillment of the partners' motives. Exchange of resources has to be defined and understood as a part of a dynamic and ongoing process, which means that things can change from time to time depending on the partners' understanding and the environment in which alliances operate. Partners' learning is essential and important for the alliance operations and performance. Changes in the partners' behavior can be a consequence of learning that takes place in the alliance.

In contrast to Hyder and Abraha (2003), which contains 20 cases, the current book consists of 10 cases. Out of the 10 cases, eight are discussed in three phases and two in two phases. The current empirical study analyzes and presents 28 mini-cases. Compared to the previous book, the current work deals with two categories of countries, namely "fast complete adapting countries," i.e., Poland and Hungary, and "medium complete adapting countries," i.e. Estonia and Lithuania.

The foreign partners faced many challenges. The first challenge was the scanty knowledge of the markets and the local partners. The second challenge was the process of transformation from central planning to market economy. The third challenge was the law and regulations to accommodate and support the new kind of business not practiced earlier in the region. The last challenge related to the local culture and the challenge of changing people's attitudes. However, the challenge for the local partners was to adjust to the changes and to quickly get back on track. The first opportunity the foreign firms took advantage of was the early entrance in the market. Their other opportunity concerned access to capable partners with wide distribution networks in the region. The local partners, on the other hand, could learn modern marketing and dealing with better technology to increase their competitiveness.

Environmental and institutional factors have been found to play a substantial role in the formation, organization, operation, and finally dissolution of the alliances in the European emerging markets. The speed of change has been rapid in the fast complete adapting countries compared to medium complete adapting countries, which is noticed in the change of ownership structure and increased level of competition. The fast complete adapters have quickly accepted the Western standard and opened their markets for free investment. Many of the foreign firms have expressed their satisfaction over the changes and see virtually



no difference in these countries compared to many countries in the West in doing business.

Vital changes came in relation to regulations and business law to ease the business process. The financial institutions became more professional and the foreign firms gradually experienced less difficulty to borrow locally. Things also improved in the Baltic states (medium complete adapters) as more Scandinavian banks operated in this region. This book offers an in-depth knowledge and understanding of the dynamic challenges and opportunities in emerging markets for the academics and the global business actors.