Working Papers Series

Working Paper WP94/06

June 1994

IS THERE A ROLE FOR STRATEGIC ALLIANCES
IN ONTARIO'S CHICKEN INDUSTRY?

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* Working Papers are published without formal review within the Department of Agricultural Economics and Business

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Helpful comments were received from Mike Terpstra, Policy Analyst, Ontario Chicken Producers' Marketing Board. However, all opinions are solely those of the authors.

This research was funded by the Ontario Ministry of Agriculture and Food.

Is There a Role for Strategic Alliances in Ontario's Chicken Industry?

1. Introduction

Canada's chicken industry has evolved very differently from its counterpart in the United States (U.S.) over the last thirty years. As a response to the technical and structural change that was occurring during the 1950s and 1960s, Canada's chicken producers first organized provincial supply management systems and were finally able to obtain national supply management powers in the late 1970s (Forbes et. al). Three decades of supply management in some form in Canada have created an industry that is quite different from its counterpart in the U.S., in structure as well as in the business processes and strategies pursued at various levels of the industry (Martin et al, Miramon). However, changes in the global business environment are beginning to exert substantial competitive pressure on firms in Canada's chicken industry. This pressure is felt sharply in Ontario, which is Canada's largest producer, processor and consumer of chicken in Canada although annual provincial output is only about equal to U.S. production for one week.

The Canada-U.S. Free Trade Agreement (FTA) improved U.S. access to the Canadian market by phasing out tariffs on processed products and relaxing import quotas. More importantly, the recently concluded General Agreement on Tariffs and Trade (GATT) negotiations are altering the legal framework for conducting supply management. Thus, as the necessity of having to compete outside the Canadian market gains acceptance among organizations in Canada's chicken industry, firms and governments are increasingly recognizing that the supply management system will have to adapt. The National Poultry Taskforce examined several private and public options for changing the poultry industries' supply management systems so that they could realize their full potential in the changing business environment.[1] In addition, to recommending several changes to the "nuts and bolts" of the supply management system, the Poultry Taskforce stressed that the industry should pursue "new partnerships" (Growing Together, 1992). The latter recommendation was strongly echoed by a parallel Taskforce on

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[1] Canada has four national supply management agencies in its poultry industry: the Canadian Chicken Marketing Agency, the Canadian Turkey Marketing Agency, the Canadian Egg Marketing Agency and the Canadian Broiler Hatching Egg Marketing Agency (van Duren).

the Competitiveness of the Agrifood Industry which recommended that all agrifood sector participants forge stronger vertical linkages (Growing Together, 1991). Unfortunately, few of the Poultry Taskforce's recommendations were acted on, and during 1993, the Ontario industry initiated action to withdraw from the national supply management plan. This action led to an ongoing national attempt to reform the system.

Given that change is inevitable in the Canadian chicken industry, many of its participants are committed to pursuing new partnerships within the legal framework of supply management. Achieving these new business linkages could be facilitated with answers to the following. First, would pursuing strategic alliances be beneficial for the Ontario chicken industry? Second, what types of strategic alliances should be pursued. Third, how should these alliances be pursued? Throughout this paper we define a strategic alliance as *any business relationship that is entered into voluntarily by two or more independent organizations for the objective of pursuing a mutually shared goal.* Vertical strategic alliances occur between organizations at different levels of an industry (i.e. farmers and processors), while horizontal alliances occur between organizations at the same level (i.e. processors with processors).

Three research techniques were used to answer the above three questions, as follows. Section two is a literature review which provides a brief description of supply management. Section three examines if and how strategic alliances could benefit the Ontario chicken industry using an economic model, a review of the economics and strategic management literature and case studies. Section four examines what types of strategic alliances could benefit the Ontario chicken industry using the same set of techniques, while section five examines the question of how strategic alliances should be pursued through a review of the strategic management literature and case studies. Section 6 contains the conclusions.

2. Supply Management

Under Canada's Farm Product Agencies Act (CFPAA 1972, 1993) any group of producers that holds a national vote may establish a national agency with powers to control marketing levels, interprovincial trade and export trade etc. provided the majority of producers are in favour. Canada's chicken producers voted to establish the Canadian Chicken Marketing Agency (CCMA) in 1978, and as part of its national plan several marketing powers were allocated to the corresponding provincial marketing boards under a federal-provincial agreement.[2]

The national supply management system for chicken allows the CCMA to determine a national production level (national quota) and manage imports through import quotas to ensure a price is maintained. Two types of import quota are used: a global import quota which is set at a percentage of national production and is available to firms on the basis of historical import levels, and a supplementary import quota which is available to buyers who can prove that the appropriate product is not available domestically. Although both types of quota were consistent with GATT before December 1993, the recent GATT agreement's requirement that import quotas be tariffied will require changes to this approach to limiting imports. Ongoing discussions are addressing how these tariff rate quotas are to be distributed.

The quantity of chicken marketed in each province is decided by its share of national production at the time the national system was introduced. Thus, Ontario's share of the national quota is at its 1978 level with some changes that resulted from changes in population, changes in patterns of regional consumption, prior use of quota and comparative advantage. Ontario's Chicken Producers' Marketing Board (OCPMB), like its other provincial counterparts, has the authority to allocate the quota available at the provincial level to individual farmers and oversee transfers among farmers. The OCPMB can also choose how the raw product is sold to processors and how the price is determined. In Ontario, an occasional cost-of-production survey for chickens, which is indexed annually, has played an important role in pricing. Market conditions are the other major factor considered by the OPCMB when setting prices with an aim to ensure "reasonable returns" to farmers. Beginning in the spring of 1992 this information has been used in negotiations between the OPCMB and chicken processors to determine

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[2] A federal-provincial agreement is required in areas of legislation in which the national and provincial governments share jurisdiction.

price, while previously the OPCMB set the price unilaterally, subject to appeal.

Ontario is the fastest growing provincial market for chicken in Canada. Processors, retailers and firms in the hotel, restaurant and institutional trade in Ontario have become increasingly dissatisfied with the inflexibility of the supply management system. Restaurant managers and retailers are striving to keep up with the demand for white meat, but with increasingly popular products and a constrained supply their task is not an easy one (Food Service and Hospitality, 1992). Fast food outlets have occasionally run out of product due to supply restrictions and are demanding that they be allowed to import from the U.S. (Financial Post, 1992). In 1992, McDonalds wanted to introduce "chicken fajitas" and to minimize transaction costs and maintain quality standards it wanted to sole source the chicken from Cuddy Food Products. However, because of frictions among the CCMA, the OCPMB and its provincial counterparts McDonald's was forced to introduce "beef fajitas" to its Canadian menu instead (Farm and Country, 1992).

Problems also exist at the processor and producer level, as well as at the interface between the two. Fifty farmers and three processors were accused of organized cheating by the OCPMB in October of 1992 (Ontario Farmer, 1992). The specific offenses included growing birds to heavier weights than reported to the OCPMB and not paying license fees. The litany of problems continues to grow, and illustrates why change is being pursued in the Ontario chicken industry.

3. Would Strategic Alliances Benefit the Ontario Chicken Industry?

This section presents our analysis of if and how strategic alliances could benefit the Ontario chicken industry.

3.1 Insights from Literature Review

To begin our analysis we summarize the advantages and disadvantages associated with strategic alliances with respect to efficiency, cost and management as reported in the economics and strategic management literature. Table 1 indicates that the advantages of strategic alliances are

Table 1: **Should Strategic Alliances be Pursued: An Assessment of their Advantages and Disadvantages**

CRITERION and Specific Factors	ADVANTAGES	DISADVANTAGES
EFFICIENCY		
•Productivity	• improved quality control • improved allocation of resources • reliable supply levels and timing • shared and improved innovation (product and process development) • improved control and coordination, including balance among various stages of throughput • direct access to technology • direct access to research and development process and expertise	• loss of window on technological change that can be accessed through use of many suppliers • joint research and development may lead to reduced retention of benefits • conflict among partners in resource allocation decisions
• Flexibility	• appropriate supply and throughput levels • reduced lead times • accelerated product development	• potential reduction in ability to change internal process, since change could affect partners • potential increase in specialization
MANAGEMENT		

• Effectiveness	• increased predictability/knowledge of aspects of business environment; better focus
	• improved ability to control flow of proprietary information to unwanted parties
	• enhanced ability to see beyond the organizational boundary; through another's perspective (aids product development etc.)
	• reduced internal bureaucracy
	• do not need all management expertise in-house; dependability of partner(s)
		• need different management skills; may take time to develop
		  • flatter organizations
		  • better communication skills
		  • habits for learning from partner(s)
		  • cultural re-alignment
		  • V.P of External Relations (possibly)
		• vulnerability to leaving part of one's business in partner's hands
		• may be difficult to develop commitment to joint strategic direction

• Strategic Flexibility	• better ability to re-align effort and resources to respond to changes in the business environment • can assist in managing complexity because partner may have expertise or organization slack to absorb management load (requires joint strategy development) • potential impact on industry evolution; increased market power (bargaining; relative to competitors)	• with inappropriate partner may become more difficult to respond to changes in the business environment, since mutual commitment required • reduced ability to change business relationships • increased exit barriers due to relationship specific investments in people, processes, capital etc.
COSTS		

• External	• reduced transaction costs
	  • information gathering and interpretation
	  • contract negotiating and monitoring
	  • invoicing (EDI)
	• reduced input costs over the long-run
	  • more appropriate quality
	  • improved reliability
		• initial external costs likely to be greater; warranted by potential payoff from search for best partner
		• input costs may be higher at times since chosen supplier will likely not be required to respond to price cycles etc.

• Internal	• reduced costs
	  • inventory
	  • internal paperwork (eg. accounts receivable)
	  • research and development
	  • physical handling costs; inspection, distribution etc.
	• economies of coordinated operations (scale, scope)
	• may be able to avoid certain capital costs
		• may need to incur additional capital costs to serve partner's needs; may incur higher fixed costs
		• coordinating activities across firms can increase internal costs until partners work together effective; "as one"

SUSTAINABILITY		
•	• reduced risk of total business failure for only one partner	• may not be feasible to continue if partners' objectives begin to diverge too significantly

considerable, ranging from reductions in various types of costs to improved management effectiveness and increased strategic flexibility. Many of the disadvantages can be minimized if the potential for their existence is recognized and managed properly.

Developing Table 1 led us to conclude that the earliest, and still among the most useful, contribution from economic theory, to research on strategic alliances is transaction cost economics, which is concerned with the relative costs of various exchange mechanisms (Coase, Williamson, Tirole). Transaction costs economics suggest that strategic alliance can reduce search, contracting and monitoring costs. First, search costs are eventually reduced by dealing with only one or a few business partners whose attributes are better known. Second, occurrences that are not foreseeable at the contracting date can be accommodated in a strategic alliance because parties can be flexible. Third, the many contingencies that cannot be written into a contract can be handled in an alliance because it can evolve as more information becomes available. Fourth, since mutual interdependence, and thus trust, is required for a strategic alliance, the constant costly monitoring of contracts negotiated within the open market can be reduced. Fifth, enforcement costs can also be reduced for the same reason.

Costs associated with incomplete contracts underscore the advantages of strategic alliances. The theory of incomplete contracts asserts that people are self-interested and opportunistic and that it is therefore impossible to write complete contracts which take into account all possible events and eliminate all forms of opportunism or cheating. This literature suggests that long-term contracts, which can evolve as conditions arise and allow parties to the contract to develop a relationship through trust and a reputation, are a useful way of reducing transaction costs (Casson, Gravelle and Rees, Tirole). Such contracts are essentially the same as strategic alliances in which trust, a relationship specific form of human capital, assists in reducing transaction costs (Zussman).

3.2 Theoretical Analysis

Since vertical strategic alliances are voluntary relationships between organizations at different market levels, a theoretical model must reflect the perspectives of buyers and sellers. A bilateral monopoly model (Henderson and Quandt, Koutsiayannis) offers such a vehicle. In a bilateral monopoly, such as depicted in Figure 1, there is one buyer (monopsonist), one seller (monopolist), and neither the buyer can act as the seller nor can the seller act as the buyer. The bilateral monopoly model allows us to systematically examine the impacts on prices, market share, quantity and economic welfare variables of various types of business relationships between a buyer and a seller, as well as assessing the impact of influences on those relationships of factors such as learning (knowledge) and trust (reductions of risk).

The following equations comprise the bilateral monopoly model:

1) Qd = D(a,b,Pd) — the buyer's demand function
where
Qd = quantity demanded
a,b = parameters
Pd = purchase price

2) Qs = S(c,d, Ps) — the seller's supply function
where
Qs = quantity supplied
c,d = parameters
Ps = selling price

By determining total revenue and differentiating with respect to quantity, it is possible to derive,

3) MR = R(a,b,d,Qd) — the buyer's marginal revenue function.
where
MR = marginal revenue

By multiplying the quantity supplied by the selling price and differentiating with respect to quantity, it is possible to derive,

4) ME = E(c,d,Qs) — the seller's marginal expenditure function.
where
ME = marginal expenditure

Equations (1) to (3) can be interpreted as usual, but (4) can be interpreted several ways as our review of the literature revealed (Henderson and Quandt, Koutsiyannis, Gravelle and Rees, Just et. al). In this paper, we interpret the marginal expenditure curve as the marginal change in spending on inputs that the seller must incur in order to meet the marginal revenue from selling an additional unit of output.

We use the bilateral monopoly model to determine the following. First, what is the impact on prices, quantities, economic welfare due to varying assumptions about the nature of the relationship

Figure 1: Bilateral Monoply Model

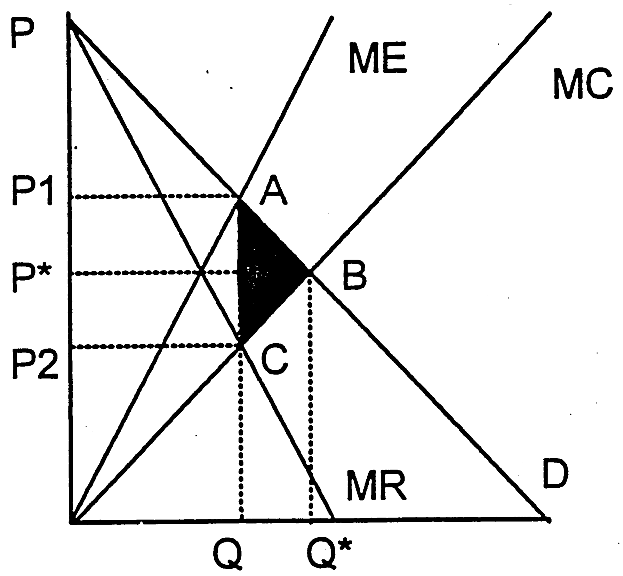

Table 2: Bilateral Monopoly Model Analysis

	Value of Variable by Type of Relationship				Impact of Improved Knowledge or Trust
Variables	Perfect Competition	Monopoly	Monopsony	Bilateral Monopoly	
PRICE	P*	P1	P2	P1 to P2	decreases
MARGINAL REVENUE	P*	P2	P2	P2	decreases
MARGINAL EXPENDITURE	P*	P1	P1	P1	decreases
MARGIN	0	0	P2-P1	P2-P1 TO 0	empirical
QUANTITY	Q*	Q	Q	Q	increases
ECONOMIC SURPLUS - seller	OBP*	OCAP1	OCP2	OCP2 + part of (P1P2AC)	empirical
- buyer	PBP*	PAP1	PACP2	OCP2 + part of (P1P2AC)	empirical
- total	PB*O	PACO	PACO	PACO	increases
- buyer's share	PBP*/PB*O	PAP1/PACO	PACP2/PACO	[OCP2 + part of (P1P2AC)]/PACO	empirical

between the buyer and seller? Second, what happens to these variables under these various types of relationships when mutual interdependence or trust is increased and learning or the knowledge embedded in the relationship improves? For the sake of brevity, the analysis of these two questions is summarized in Table 2. The results presented are for a simple linear version of the model with the following restrictions: (a) the intercept of the demand function is greater than that of the supply function, and (b) the product of the intercept of the demand function and the price coefficient on the supply function exceeds the product of the intercept of the supply function and the price coefficient in the demand function and (c) that the absolute values of the slope coefficient on the supply and demand function are equal ($b=d$). Restriction (c) simplifies comparative analysis with the model since it ensures that the quantity exchanged in the bilateral monopoly, monopoly and monopsony situation stays constant.

The perfectly competitive market in which buyers and sellers meet is a theoretical extreme that assumes profit maximising behaviour, perfect information et cetera. During the 1950s and 1960s, the perfectly competitive market began to breakdown in the North American chicken industry, as processors became increasingly larger and further vertically integrated. In Canada's chicken industry, supply management was a response to the increasing monopsony power being exerted by chicken processors (Forbes et. al). The creation of a national agency, with its parallel provincial boards, created an entity at the farm level with countervailing power to the ever decreasing number and larger sized processors, and in effect created a situation closer to the bilateral monopoly.

In a bilateral monopoly situation, if the buyer has greater bargaining power or prowess, the result approaches that of a monopoly, and price increases, quantity decreases, total surplus decreases, seller's surplus decreases and the buyer's surplus increases relative to the perfectly competitive market.. The converse results occur if the seller has the greater bargaining power. However, with either a bilateral monopoly, monopsony or monopoly, price increases, quantity decreases and the total surplus available to be shared by buyers and sellers decreases. Therefore, by improving the amount of information in the relationship between the buyer and seller, it is possible to move towards the perfectly competitive solution, and for a pareto improvement to occur - one or both parties can gain without a resultant loss to the other.

The strategic management literature suggests that there are two types of information that are essential in a strategic alliance: knowledge of the other firm's assets, skills, processes and structures (capabilities) as well as trust in the other firm's character. The increased presence of both of these types of information is easily analyzed in the bilateral monopoly model. For each of the monopoly, monopsony and bilateral monopoly cases the results move in the direction of those of the perfectly competitive market solution (Table 2). Thus, our theoretical analysis suggests that strategic alliances should be pursued by the Ontario chicken industry.

3.3 Case Studies

We conducted case studies with eight organizations in the Ontario chicken industry to ascertain whether their perceptions on the advantages and disadvantages of strategic alliances were consistent with the results of our theoretical analysis and previous research. Brief descriptions of the organizations and the types of relationships they have with other industry participants are provided in Table 3, along with their perceptions of the advantages and disadvantages of strategic alliances. The results are consistent with previous research and our theoretical model. The case studies suggest that the advantages of vertical strategic alliances outweigh their disadvantages and that the advantages are also more diverse, and range from reducing the risk involved in creating the product, reductions in various types of transactions costs, reduction in research and development costs and greater quality and consistency in the product which leads to a better reputation or more trust by the buyer. The main disadvantages are a reduction in information on new technology and market opportunities from sellers/buyers, the risk that a partner could become a competitor and the risk that a partner would become too complacent and that benefits such as reduced costs would disappear over time. This last disadvantage is also commonly cited as one that occurs with vertical integration (Harrigan, Hill and Jones).

Table 3: Summary of Case Study Analysis

(VSA = vertical strategic alliances, HSA = horizontal strategic alliance, VL = legally imposed vertical relationship, AL = arms-length relationship)

Case Study (Brief Description; Perspective)	Types of Relationships in the Chicken Industry	Advantages	Disadvantages	How to Develop
Roth Family Farms - organic chicken producer who is attempting to develop long run contracts with buyers in Canada and the U.S. - markets product every week	VSA - with feed suppliers	assured organic treatment and quality at every vertical stage - save time and money by not having to search and monitor buyers and suppliers (feed etc.) who will follow organic product treatment	- can be difficult to find suitable partner - first time search costs are high	- does not matter whether the supplier or buyer initiated actions towards developing an alliance - try to use trade associations to find potential partners - governments should allow
Ontario Chicken Producers' Marketing Board - mandatory producer marketing organization with marketing quota and import control powers - three categories of birds allowed (based on weight); however, if processors want a specific size of bird they can arrange with growers	- HSA - mandatory, among farmers VL - legally structured relations with processors - most processors deal with the same growers over time	- information would be easier to obtain and share	- would reduce their flexibility	- business alliances can exist without trust because they can be motivated by bargaining power - federal supply management system may impede formation of alliances
Port Colbourne Poultry - small, domestic, family owned primary processors which sells to further processors, quick-service restaurants, grocery retailers, jobbers and brokers	AL - with processors, including Elmira Poultry VL - legally structured relations with OCPMB	- allows sharing of risk - creates more flexibility		- have to be able to put past negative experiences with suppliers and/or buyers behind; this can be very difficult for managers - trade associations and marketing boards have no role in alliances - government has no role
Maple Leaf Foods (Prime Meats) - primary processing component of Hillsdown Holdings; has several processing plants in addition to other enterprises in the poultry industry (slaughter, further manufacturing, feed)	VSA- with Cara Operations, several other buyers and suppliers AL - with several other suppliers and buyers VL - legally structured relations with OCPMB	- reduced prices over time - ability to deal with a reduced number of firms at all levels of the industry reduces transactions costs through electronic billing, warehousing, transporting	- may lead to missed opportunities with other potential buyers and sellers; these opportunities could be other strategic alliances, arm-length or other types of relations	- need to know what types of arrangements your suppliers and buyers have to avoid strategically allying with a firm that does business with key competitors - trade organization can assist in the process - government should be more flexible with respect to regulations

Case Study (Brief Description; Perspective)	Types of Relationships in the Chicken Industry	Advantages	Disadvantages	How to Develop
Maple Leaf Foods (Frozen Foods) - same as above	- same as above	- volume discounts - by understanding specifications more intimately, suppliers have been able to provide better service and anticipate demands - decreased transactions costs (inspection, negotiation) - shared research and development costs	- dealing with fewer suppliers could lead to a reduction in information on new developments, industry trends and strategic issues	- concentrate on determining which part of your value added a supplier can contribute to in negotiating an alliance - trade organizations can assist in the process - government should only regulate health, welfare and safety issues; no direct role
Elmira Poultry - small, domestic, rapidly growing further processor with niche markets in Canada and the U.S.	VSA - General Mills Restaurants, other buyers AL - Port Colbourne Poultry and other suppliers VL - no direct relation with OCPMB	- significant reduction in senior management time spent on sourcing raw materials and negotiation - have become a more dependable supplier and buyer - increased certainty has allowed it to invest in innovative, specialized, rare technology than they could afford otherwise - have window on the future through their buyer partners	- primary processing partners could learn the further processing business, forward integrate and offer very effective competition	- put the buyer first; learn everything possible about their needs, strive to provide quality and cut costs - trade organizations are not the places that firms should go for help in establishing alliances - government has no role
M&M Meat Shops - domestic, medium sized, specialized, boxed frozen food retailer	VSA - Elmira Poultry, J.M. Schneiders, other suppliers AL - other suppliers	- allows for improvement in research and development though joint efforts, as well as marketing activities such a product launches, point of sale materials - many of their business functions are now performed more cost effectively by suppliers - can spread risk to partners since they all focus on the same goal	- competitors could get access to critical marketing information through supplier	- focusing on the same goal helps to reduce the risk in a business relationship; know your buyer's needs - trade organizations have little ability to encourage alliances since they are not privy to the relevant information - government has no role
Cara Operations (Swiss Chalet) - large, domestic, food services firm with involvement in several restaurants, airlines etc	VSA - Maple Leaf Foods AL - other suppliers	- gain expertise from suppliers on choosing or developing new equipment, ingredients and product formulation; similarly, from buyers can gain knowledge about products and markets - reduced cycle times and generally lower transaction costs - improved product quality and consistency	- risk of being taken for granted - not being treated as well as potential buyers or suppliers - risk of missing out on information on new technology	- firms should determine their own strengths, weaknesses and opportunities and seek out a supplier with a similar perception and philosophy - trade organization can assist firms in identifying potential markets - government should focus on education and training; has no direct role in strategic alliances

4. What Types of Strategic Alliances Should the Ontario Chicken Industry Pursue?

Since a strategic alliance is as *any business relationship that is entered into voluntarily by two or more independent organizations for the objective of pursuing a mutually shared goal* many specific types of relationship could be developed by the Ontario chicken industry. However, which type would be most beneficial? Again, we used a literature review, our theoretical model and case studies to examine this question.

4.1 Insights from Literature Review

Strategic alliances can be classified into different "types" according to several criteria. For the purposes of this research we felt it was most appropriate to examine the market-industry dimension of the alliance (vertical, horizontal) and its motivation. With respect to the latter, a strategic alliance can be pursued to capture market power, to access a desired industry position or to create means for competing.

Ontario, and indeed Canada's chicken industry's major competitor is its U.S. counterpart. The U.S. chicken industry is highly vertically integrated with the processing level of the industry driving the degree and nature of integration due to significant economies of scale in processing and the large proportion of value added accounted for by transformation of the raw product into various consumer ready forms (George Morris Centre). The evolution of the U.S. chicken industry and declining trade barriers between Canada and the U.S., as well as worldwide through GATT, suggest that the types of alliances that the Ontario industry should pursue must enable it to compete in segments of the market that are not natural targets for the U.S. industry. This means that the Ontario chicken industry should pursue both horizontal and vertical strategic alliances aimed at creating the means for competing, as opposed to any type of alliance concerned with capturing market power - the model according to which the current marketing boards have evolved. Vertical or horizontal alliances motivated by accessing a position in the industry (e.g. marketing alliances between Canadian and U.S. firms) are also possibilities but are more vulnerable to competitive pressures from other U.S. firms. The strong likelihood of continued existence of supply management in some form in the Canadian chicken industry suggests that vertical alliances which offer these marketing boards a constructive role have a better chance of success. Several types of vertical alliances which are concerned with improving or creating the means for competing should be considered, including, but not limited to; those concerned with creating knowledge (Badaracco), preferential buyer-supplier relationships (Cusamano and Takeishi, Bertodo, Pressuti) and value adding partnerships (Johnston and Lawrence, Ward, Lindsey, Hanon, Lewis).

4.2 Theoretical Analysis

Analysis with the bilateral monopoly model (figure 1) suggests that improving the level of knowledge, information or trust in a relationship between buyers and sellers, increases economic welfare and thus creates the possibility for mutual gain by buyers and suppliers. The vertical alliances listed above are consistent with this theoretical result, as are many others in which the participants are sharing information or building knowledge or trust.

4.3 Case Studies

Our case studies also examined what types of strategic alliances were being and should be pursued in the Ontario chicken industry. The case study participants favoured the pursuit of vertical alliances geared to joint problem solving, obtaining information, product development over any type of horizontal alliance. The rigidity of Canada's supply management system was a contributing factor to the pervasiveness of the view according to the case study participants. Firms closer to the consumer were more willing to work together vertically than those closer to producers of the raw product and most of them already do through a select group of suppliers and/or customers. Case study participants attributed this greater willingness to at least three factors. First, vertical cooperation between primary and further processors is the best route for further processors who do not primary process themselves to obtain raw product since processors who do both primary and further processing have an obvious competitive interest in not selling to firms who are only further processing. Second, firms closer to the consumer have a better appreciation of consumer tastes and preferences, and in many cases have come to understand the benefits of vertical cooperation in creating and delivering a product that the consumer is willing to pay for. Third, the marketing boards are already conduits for many of the activities that could occur through voluntary vertical transactions. Examples of these activities include price determination, information development and communication, and in the past in Ontario, locking chicken producers to certain processors.

5. How Should Strategic Alliances be Developed in the Ontario Chicken Industry

The vast majority of factors important to the development of a strategic alliance must be managed by people in the participating organizations although some factors controlled by governments and non-controllable factors can also enhance the chances of success. Consequently, our discussion of how strategic alliances can be developed in the Ontario chicken industry focuses on management factors - those controlled by people in the participating organizations.

5.1 Insights from Literature Review

Development of strategic alliances is a topic of growing interest to strategic management researchers. Our review of the existing research indicates that the closely interrelated issues of values, building interdependence and learning skills play a key role in developing an alliance.

Values are important because they encompass the attitudes that managers have towards business relationships. To build an alliance, managers have to be able to abandon a common attitude in North America that "something worth doing is worth doing yourself" and value and reward teamwork, both inside the organization and with other organizations (Hamel, Covey, Harrigan).

Developing a strategic alliance is essentially a process of building interdependence among organizations. Creating this interdependence requires commitment and an understanding of some key principles. Real interdependence requires trust, which in turn requires character and capability, by all partners (Covey). The character of an organization comprises what it is in terms of its people, their values and relationships among each other as well as with outsiders, while capabilities refer to the abilities of people within the organization, individually and collectively.

With respect to the role of character, people in the participating organizations need to know their goals and strategic direction in order to determine their joint expectations and goals for the alliance. They also have to have reached the point where they are willing to do business differently and consider how another organization may be helpful in this pursuit.

When developing a strategic alliance it is useful to employ the adage of "seek to understand first, and then to be understood". This approach encourages one to think about the interests and welfare of one's strategic alliance partners and account for them when making business decisions. This approach has a better chance of producing individual and joint success. In turn, individual and joint success would reinforce the notion that "there is plenty out there for everybody" (Covey's concept of the abundance mentality).

Creating an abundance mentality among participants in a strategic alliance is integral to its success. Everyone in the alliance has to stop thinking that they can only gain at the expense of others (coworkers, competitors, suppliers, buyers etc). Unfortunately, this "win-lose" value is common with many managers and continues to be a popular strategic management approach, especially as applied through Porter's five industry forces model. Fortunately, through a careful assessment of the changes in the business environment (especially reductions in trade and information barriers), it is possible to see that these changes facilitate forging "win-win" relationships.

Overcoming "win-lose" thinking is the key to creating a strategic alliance. A critical step in this process is to develop a clear understanding of what partners expect from the alliance and meeting them, so that benefits of various types are deposited into the relationship. These benefits can be in the form of financial results, assets, skills and other means for competing, business opportunities among others. A negotiation method that focuses on interests, and not positions, such as that developed by the Harvard Negotiation Project could facilitate this move from the "win-lose" to "win-win" thinking.

Briefly, the approach of the Harvard Negotiation Project is as follows. First, separate the people from the problem. This helps one to see the other's point of view or to empathize. Second, focus on interests, not positions. Identifying key issues and concerns and understanding differences aids in resolving conflict and is the first step in creating "win-win" outcomes. Third, invent options for mutual gain, or at a minimum determine what results would constitute a jointly acceptable agreement or relationship. Fourth, develop and agree on objective criteria for settling future differences and challenges (Fischer, Ury and Patton).

Capabilities: Organizations can bring many types of assets, skills, processes and structures to a strategic alliance. The objective of the strategic alliance determines which mix of these is relevant to a given relationship. The capabilities that partners bring to an alliance should be capable of generating sufficient incremental value when used in an alliance so that partners can see the payoff relative to that which would be achieved through the use of other organizational forms. This assists in creating "win-win" thinking through positive reinforcement. The strategic management literature suggests that for this to occur, organizations must bring complementary competences to the relationship (Badaracco, Bleeke and Ernst, Johnston and Lawrence etc.). The importance of effective learning habits is also being recognized by more strategic management researchers and practioners as integral to the effective use and development of complementary capabilities (Hamel).

Learning Habits: An early part of this paper indicated that a strategic alliance motivated by creating the means for competing was the most likely to lead to a sustainable competitive advantage, or competitiveness. For partners in a strategic alliance to be able to use their complementary competences most effectively and/or create new means for competing, they have to be able to learn from each other. This requires developing effective learning habits. Again, a multidisciplinary approach is required to develop a framework for understanding what learning habits are required to create a successful strategic alliance. Development of this approach is in its infancy. However, existing research indicates that the partners must have the desire to learn, know what to learn and why to learn it as well as the skills to learn (Hamel).

The intent or desire to learn is critical to the development of effective learning habits. People at all levels of the organization have to want to learn and understand why it is important to do so. This suggests they need to understand if learning from alliance partners is an objective of the strategic alliance or if the alliance has other objectives. If they do not understand this, they may be motivated by a substitution attitude, which may lead to using the partners' capabilities, not acquiring them, and not building new capabilities. Reliance on a partner's capabilities fosters dependence, not the interdependence required for a strategic alliance.

Knowing what to learn and how to do it are also critical to effective learning habits. The potential for learning is influenced by the openness and accessibility of the partners. It may be difficult to recognize knowledge as important if it is embedded in an unfamiliar culture. As well, if people involved in the alliance keep to the processes and structures of their own organizations (or are "clannish") it may be difficult to learn from them. Also, if one partner is learning faster or perceived to be benefitting more from the alliance, it may undermine the ability of the lagging partner to learn, because it reinforces "win-lose" thinking. Paradoxically, the partner that is benefitting is able to take more advantage because its relative success reinforces its abundance mentality.

5.2 Theoretical Analysis

The bilateral monopoly model suggests that business relationships that generate a Pareto efficient gain have a better chance of success. Any relationship that improves the knowledge, technology or capabilities of the alliance partners in a way that can generate a Pareto efficient gain allows for redistribution of benefits so that both parties gain, an important incentive for organizations to develop an alliance, and equivalent to a "win-win" situation.

5.3 Case Studies

Not surprisingly, the case study participants confirmed the importance of several factors determined to be important to developing strategic alliances from the literature review. Their perceptions on how an organization should proceed when developing an alliance are summarized in the last column of Table 3. Knowing a partner's needs, sharing a business philosophy, focussing on the same goals and management's ability to be able to put past negative experience behind were factors mentioned by nearly all case study participants who favoured pursuing alliances. The other factors listed in Table 3 were specific to the participants indicated.

6. Conclusions

Our research indicates that there is a role for strategic alliances in the Ontario chicken industry, and that several organizations are beginning to pursue such relationships. Many of the case study participants had initiated vertical alliances in the form of select supplier programs and had experiences that suggested they would increase the number and depth of these types of business relationships. Generally, the advantages of strategic alliances outweigh the disadvantages.

Vertical strategic alliances that are concerned with creating or improving the means for competing through knowledge creation, sharing information and focussing on satisfying customer needs are the type of alliance favoured by the case study participants, if they are in favour of alliances. This progressive view is promising since it may be just what is needed to enable the Ontario chicken industry to compete effectively in the emerging business environment. Increasingly demanding consumers, globalization and dismantling of trade barriers are already producing a more challenging environment in which Ontario poultry firms must compete.

Developing strategic alliances in the Ontario chicken industry will require overcoming the win-lose attitude that many participants in the industry have acquired over the last twenty to thirty years. The marketing board system has created conflicts which are difficult to put in the past, and inhibit the creation of trust required to develop a strategic alliance. Fortunately, there are already several organizations that have begun to pursue alliances in this relatively unconducive atmosphere. Therefore several lessons on the importance of knowing a partner's needs, sharing a business philosophy, focussing on the same goals and management's ability to be able to put past negative experience behind have already been learned by some participants in the industry.

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