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Judith M.  
Whipple  
*Michigan State  
University*

Robert Frankel  
*East Carolina  
University*

# The Alliance Formation Process

**ABSTRACT:** While interest in developing strategic alliances within the food system continues to increase, there remains considerable risk when firms adopt such a cooperative strategy. The risk is due in part to the lack of concrete guidelines that illustrate the steps or stages of alliance development and the important strategic and operational decisions required at each stage. The existence of such guidelines would facilitate alliance formation and enable managers and researchers to better understand alliance practice. This paper provides an alliance formation model that incorporates the process of alliance formation with the strategic and operational considerations required for long term success. The model can be used by managers and academicians to develop and understand alliances.

## INTRODUCTION

Strategic alliances are increasingly becoming an important topic of academic and practitioner attention. Such attention is evident given the recent proliferation in the business, marketing and management areas of articles and special journal issues dedicated to alliance research. Interest in alliances is currently expanding to agribusiness and food industry channels as well (Sporleder, 1994; Peterson and Wysocki, 1998; Goldsmith and Sporleder, forthcoming). Day (1995) provided insight into alliance activity, noting that alliances are growing at a rate of twenty-five percent annually and that as many as 20,000 alliances were formed in the U.S. between 1988 and 1992. IBM alone is reported to have formed over 400 domestic and international alliances (Sherman, 1992; Day, 1995).

While contemporary interest in alliances is certainly significant, there is considerable risk involved when firms adopt such a cooperative strategy. While such interest and subsequent experimentation in alliances continues to develop, the "reported success rates for interfirm ventures are low" (Harrigan, 1988). Day (1995) acknowledged that seventy percent of joint ventures have failed to meet partner expectations or have been terminated.

The risk of alliance failure is complicated by the fact that these arrangements are often necessary in today's global environment because firms lack the internal resources (e.g., skills, technology, market access, capital) required to achieve a sustainable competitive advantage on their own (Brouthers, Brouthers, and Wilkinson, 1995). Further, alliances offer a means for obtaining the benefits of vertical integration without the subsequent investment in physical and human resources associated with actual ownership (Schmitz, Frankel, and Frayer, 1995b).

Why is the success rate so low for alliances when the potential benefits are so high? Why do so many alliances seem to fail? Brouthers, Brouthers, and Wilkinson (1995) attribute this failure to the fact that "most companies adopt a 'seat of the pants' style in their approach to joint management, and learn lessons the hard way." Recent research has provided evidence of this haphazard approach, showing that in the U.S. only one in five companies has guidelines for creating and maintaining alliances (Schmitz, Frankel, and Frayer, 1994).

Few question that successful alliances are beneficial, yet little research exists that provides an understanding of how to develop a successful alliance. In other words, practical guidelines that facilitate alliance formation and maintenance are lacking. The current knowledge base on strategic alliances is often anecdotal, offering managers "tips" for success such as "develop win-win solutions." However, these limited insights fail to show managers how to create, administer, and maintain a successful alliance that meets both partners' expectations, and balances physical and human resource investment. It is clear that a significant gap exists between the necessity of alliances and the understanding of how to successfully operationalize the development process.

Wilson (1995) acknowledges the lack of understanding the "process of relationship development," and suggests that researchers combine the anecdotal evidence with a process or stage model in order for alliance knowledge to progress. Several stage models have appeared in the alliance literature (Dwyer, Schurr, and Oh, 1987; Ellram, 1991; Larson, 1992; Spekman, Isabella, MacAvoy, and Forbes, 1996). However, one historic problem with using stage models is the inability to determine where one stage ends and another begins. Further, stage models have the "tendency to ignore at an individual level the strategies, mechanisms, and behaviors employed in actually bringing about movement from one stage to the next" (Weitz and Jap, 1995). Weitz and Jap, (1995) suggest that future alliance research should go beyond sequential stage models to include the motivations for forming

bilateral channel relationships, the key partner selection decisions, and the process for developing and maintaining relationships.

Given these suggestions for the direction of alliance research, this article focuses on **how** alliances develop by examining an alliance formation model that enables academicians to study and understand alliance practice as well as provides practitioners with guidelines for forming and maintaining successful alliances. While the foundation for the model uses a sequential stage approach, it enhances existing stage model applications by providing *strategic* and *operational* considerations that correspond to each process stage. Further, the stages show clear starting and ending points to determine which stage of development the alliance is in at any given point in time. Thus, this alliance formation model limits several problems inherent in traditional stage models as discussed by Weitz and Jap (1995).

The article will be organized as follows. The first section presents the alliance formation model detailing the development and implementation of a strategic alliance. The next section suggests additional considerations when using the alliance formation model to develop and understand alliance practice.

## HOW ALLIANCES DEVELOP

The alliance formation model presented in this section is intended to provide both a theoretical foundation for academic research as well as a “blueprint” for managers to strengthen alliance practice. An alliance is defined as a “process wherein participants willingly modify their basic business practices to reduce duplication and waste while facilitating improved performance”(Schmitz, Frankel, and Frayer, 1995a). This definition requires alliance partners acknowledge that significant changes in strategic and operational business perspectives and practices are necessary. Similar to a planned change in the interorganizational behavior literature, alliances form as a “deliberate effort to improve the system” (Lippitt, Watson, and Westley, 1958). Thus, it is critical to understand not only the process of alliance formation, but also the strategic and operational considerations associated with each stage. The alliance formation model, presented in Figure 1, is organized by three columns that are defined as follows:

1. The Process Component - the *process* of alliance development that identifies the stages or steps required for alliance formation, implementation, and long term maintenance;
2. The Strategic Component - the *strategic* considerations that correspond to each stage to provide an understanding of how alliance success is evaluated; and

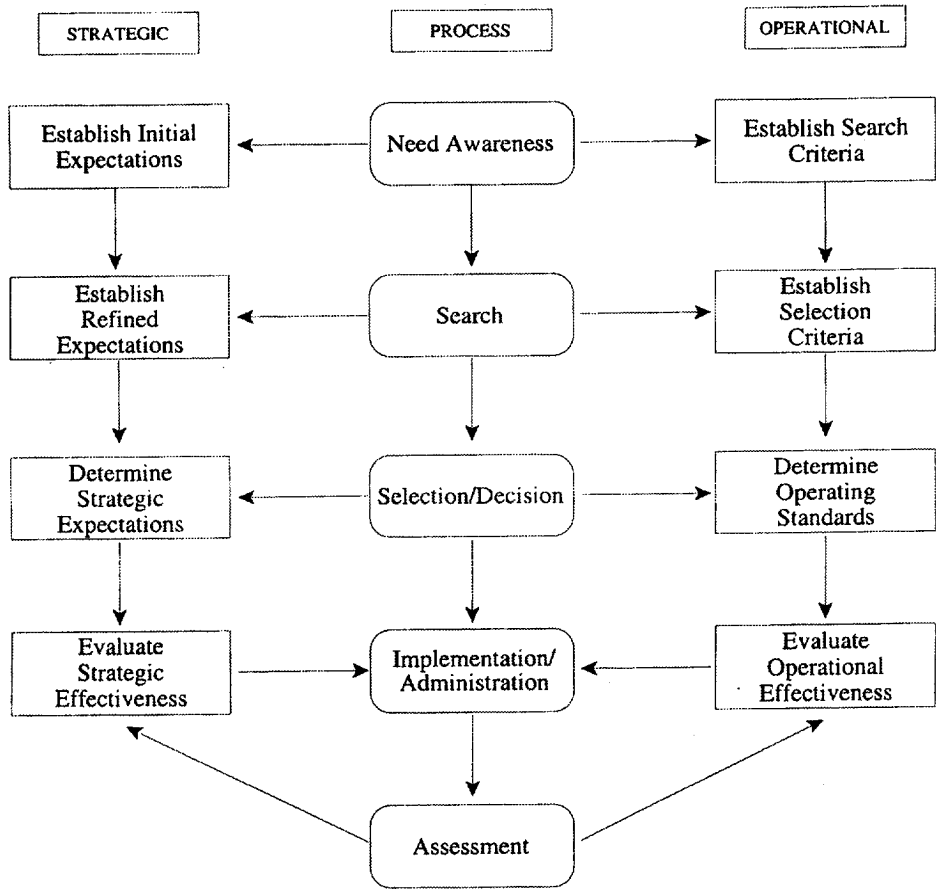
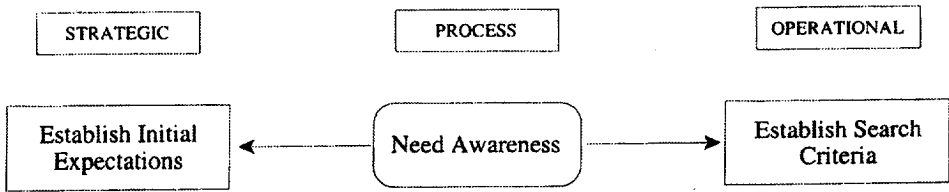


Figure 1. Alliance Formation Model

- 3. The Operational Component - the *operational* considerations that correspond to each stage to provide an understanding of how alliance success is achieved on a daily basis.

To integrate the three columns, each stage of the process component must include the necessary strategic and operational considerations. To accomplish this, the alliance formation model will be examined as four horizontal development levels. Each of the four development levels are described below and illustrated in accompanying figures:

- 1. *Level One—Alliance Conceptualization*—begins when a firm determines an alliance has appeal and provides an alternative to traditional relationships;



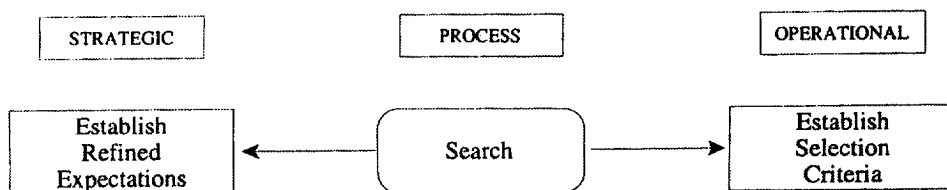
**Figure 2.** Alliance Conceptualization

2. *Level Two—Alliance Pursuance*—finalizes the decision to form an alliance and establishes the strategic and operational considerations that will be used to select the alliance partner;
3. *Level Three—Alliance Confirmation*—focuses on partner selection and confirmation. Strategic and operational expectations for the arrangement are jointly determined, and the relationship is solidified; and
4. *Level Four—Alliance Implementation/Continuity*—occurs over time during which the alliance is continually administered and assessed through a feedback mechanism to determine whether the alliance is sustained, modified or terminated.

### LEVEL ONE—ALLIANCE CONCEPTUALIZATION

Any change initiative begins with awareness of a problem or need (Bennis, 1987). Alliance Conceptualization, illustrated in Figure 2, begins when a firm determines a change in business strategy and practice is justified (*Need Awareness*). This realization is triggered by competitive forces such as globalization, industry consolidation or declining profit/sales volume. In the food industry, interest in strategic alliances has specifically increased with the development of the Efficient Consumer Response (ECR) initiative that began in the early 1990s. This initiative called for increased supply chain integration in order to improve the efficiency and effectiveness of the food system while enhancing value to end consumers. In order to accomplish food system integration, firms need to consider strategic alliances as a method for improving vertical coordination among input and output supply members. However, as Lippitt, Watson, and Westley (1958) stated, problem awareness is not enough to induce change. The organization must be convinced the possibility for an improved system exists.

Tri-Valley Growers (TVG) is a cooperative that processes fruits, vegetables and tomatoes. TVG used to operate a private trucking fleet. Due to high peak season volume, TVG had problems maintaining a productive and efficient driver pool over non-seasonal slowdowns. Further, in restructuring its corporate goals, TVG decided to focus its core competencies on growing, canning, and marketing, not on transportation. This new strategic direction provided TVG with a need to look for an improved transportation system that could provide local, national, and interna-



**Figure 3.** Alliance Pursuance

tional delivery. TVG formed an alliance with three logistics companies (RISS Logistics, Ryder Integrated Logistics, and Wilson UTC, Inc.) in order to gain each partner's unique competitive advantage while increasing efficiency and reducing costs (Lishinsky, Eyring, Perry, and Kinn, 1998).

Given the belief that improvement is possible, a firm must then establish goals as the basis for its revised strategy. In other words, a firm must identify what goals constitute an improved system. Based on these goals, the firm develops *Initial Expectations* regarding the benefits of the new strategy. Examples of initial expectations include reducing inventory, improving product quality or taste, gaining competitive advantage, and/or matching a competitor's alliance program.

Once a firm determines an alliance will offer an improved system, it also establishes *Search Criteria* to determine how to achieve its expectations as well as identify the necessary characteristics of an alliance partner. As an example, search criteria for a food processor may be farm commodities that have been grown organically or with limited chemical applications. Moreover, the criteria should generate a formal set of policies and procedures to establish why the search is being conducted (e.g., to provide a solution to a business problem such as entering a new market), what the parameters of the search should be, in what geographic markets the search should take place, how the search should be conducted, and which members of the organization should be involved in the search.

## LEVEL TWO—ALLIANCE PURSUANCE

Alliance Pursuance, illustrated in Figure 3, begins when a firm clarifies and defines its new strategies, and finalizes the decision to pursue an alliance. In the *Search* stage, the organization is motivated to seek more detailed information regarding the change process (Rogers, 1962). The problem is clarified and the potential for an alliance is evaluated.

A firm reviews and re-examines the initial goals established during Alliance Conceptualization. *Refined Expectations* are created to elaborate the initial expectations and identify the degree of potential achievement. For example, if an initial expectation was inventory reduction, the refined expectation might include an

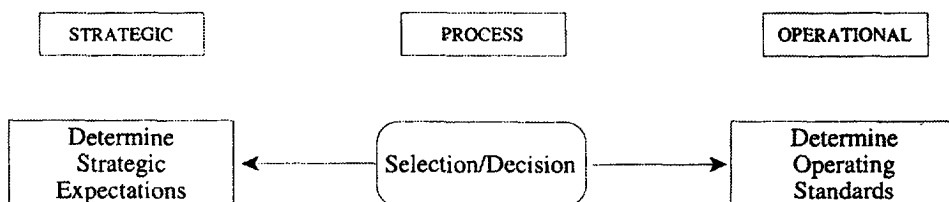


Figure 4. Alliance Confirmation

order of potential magnitude, such as a twenty percent inventory reduction. At this point, actual costs for asset specific investments and operating structure changes are often estimated along with potential savings.

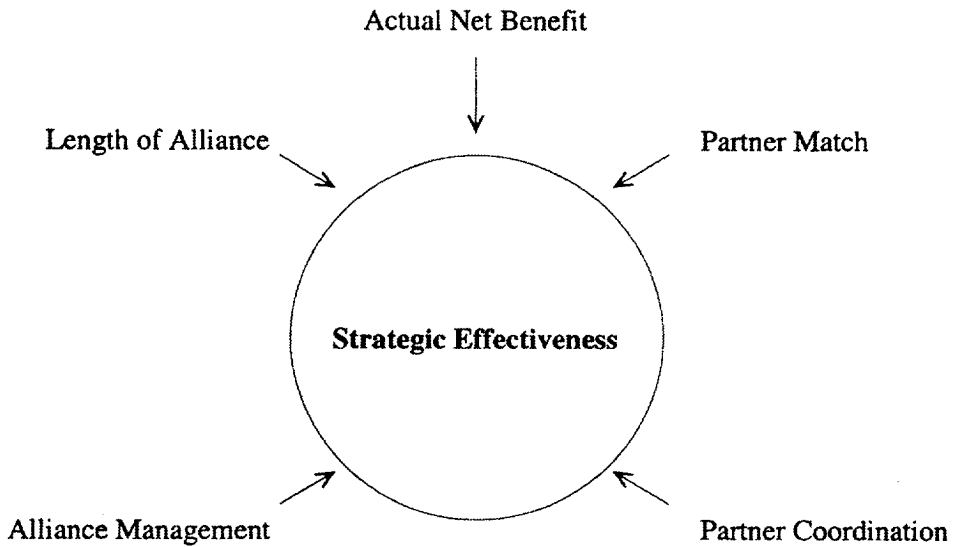
The selection of an alliance partner is hypothesized by Spekman (1988) to be a two-step approach. The first step involves creating evaluative criteria to develop a “threshold” level. These criteria represent the characteristics a firm must possess in order to be considered as an alliance partner. This threshold level is essentially the first cut that provides a smaller “pool of potential strategic partners” (Spekman, 1988). When this step is complete, the alliance moves to the third stage of the alliance formation model where the final selection (the second step in Spekman’s (1988) approach) is completed.

The development of refined expectations helps a firm to identify strategic and operational characteristics that another firm should possess to qualify as a potential alliance partner. *Selection Criteria* outline the partner’s characteristics. For example, to achieve inventory reductions, partner selection criteria may focus on manufacturing/information technology capabilities. Selection criteria may also focus on issues of quality and consistency of products or commodities as well as demonstrated commitment to safe handling procedures. For example, a poultry processor that can verify a perfect inspection record with no fines or infractions would demonstrate proof of high quality and safety. In addition, a manufacturer, such as Gerber, may have a zero tolerance for metal or other foreign materials in its goods. As such a farmer/processor that operates with metal detectors in its inspection line would qualify as a potential alliance partner. The selection criteria reduce the range of potential partners from a large group to a small pool of finalists, decreasing the time and expense of detailed evaluation by quickly eliminating mediocre “partners.”

### LEVEL THREE—ALLIANCE CONFIRMATION

Alliance Confirmation is illustrated in Figure 4. A firm evaluates the small pool of candidates identified in Alliance Pursuance, selects a final partner, and both firms agree to form an alliance (*Selection/Decision*). Greiner (1967) notes that there is a





**Figure 5.** Strategic Effectiveness

need for full commitment to the change process at this stage. Any necessary contractual arrangements are made and plans for required investments in the alliance operating structure are discussed. Investments might include information technology to facilitate communication, systems design and development, farming or processing equipment to increase supply capacity, and human assets to support the alliance.

At this point, partners develop *Strategic Expectations* for the alliance by agreeing upon a common set of goals and objectives. *Operating Standards* are also mutually determined. From these expectations, the partners will measure the strategic and operational effectiveness of the alliance once it is implemented. It is important to note that at the Selection/Decision Stage, the alliance is only being planned, not implemented, and as such, strategic and operational effectiveness are expectations, not perceptions, of performance. Perceptions of actual performance, measured in terms of effectiveness, occur in the final process stage (*Implementation/Administration*). Strategic and operational effectiveness are described below.

#### **Strategic Effectiveness Measure**

Bucklin and Sengupta (1992 and 1993) developed and used a measure ("perceived effectiveness") of alliance success based on mutual benefit where "perceived effectiveness" was defined as "the extent to which firms are committed to the alliance and find it to be productive and worthwhile." The authors postulated that perceived effectiveness was affected by five factors: (1) age; (2) project man-

agement; (3) project payoff; (4) partner match; and (5) rate of technological change. In the Bucklin and Sengupta (1992 and 1993) study, rate of technological change was viewed as a key motivation for inter-channel alliances that focused on joint technology development. While this factor is specific to the research-oriented, inter-channel alliances used in their study, it is not necessarily a focal point in every alliance. As such, rate of technological change is not included in this alliance formation model. The remaining four factors are included. It is important to note that three of the four factors were renamed in order to more accurately reflect terminology commonly used in supply chain relationships. The new factors used in the measure of strategic effectiveness are: (1) length of alliance relationship (age); (2) alliance management (project management); and (3) actual net benefit (project payoff). In addition, a fifth factor (Partner Coordination) was added (Schmitz 1994; Frankel 1995). The proposed model of strategic effectiveness is illustrated in Figure 5. Each factor is defined and evaluated below.

#### ***Strategic Effectiveness Factor #1—Length of Alliance Relationship***

The length of an alliance relationship refers to the length of time an alliance has been operational. Heide and John (1988 and 1990) found age or length of relations to be an important factor that significantly increased expected future exchange. Bucklin and Sengupta (1992 and 1993) hypothesized and found that alliances, having survived “some test of time,” would be more likely to be successful the longer they were in existence.

#### ***Strategic Effectiveness Factor #2—Alliance Management***

Alliance management is composed of three elements that, if present, negatively impact strategic effectiveness: power imbalance; managerial imbalance; and conflict. Power imbalance occurs when partners are unable to mitigate their power differences, resulting in an alliance that operates without mutual benefit. The weaker party feels that the alliance favors the more powerful partner. In a cooperative, for example, if any member becomes significantly larger than other members, there is a potential threat to the harmony of the relationship. Particularly if the larger member begins to request changes in the business process that favor high volume producers. Spekman and Sawhney (1990) explained that a symmetrical exchange provides the necessary motivation for both parties to achieve mutual benefit. As such, an asymmetrical exchange motivates only one partner. The inability to manage an imbalance of power leads to mistrust and conflict, and reduces strategic effectiveness (Bucklin and Sengupta, 1992; 1993).

Managerial imbalance occurs when alliance partners fail to provide equivalent managerial support in terms of the number of key participants assigned to the alliance and/or their organizational level (Bucklin and Sengupta, 1992; 1993). This imbalance creates the perception that one firm is less committed to the alliance than the other, causing the partners to question their continued effort. Sonnenberg

(1992) cited the lack of equal commitment as a key reason for alliance failure. Devlin and Bleackley (1988) stated that one factor of a successful alliance is the assurance that partners "contribute equally" to the alliance. When this does not occur, and a managerial imbalance is created, strategic effectiveness is negatively affected.

Conflict occurs when one channel member is "engaged in behavior designed to injure, thwart, or gain scarce resources at the expense of (the other)," (Goldman, 1966; (the other) is inserted for clarity). If alliance partners cannot limit conflict, the partners will have negative perceptions of alliance performance. Bucklin and Sengupta (1992 and 1993) found conflict to have a strong negative impact on strategic effectiveness.

#### ***Strategic Effectiveness Factor #3—Actual Net Benefit***

Actual Net Benefit was defined by Bucklin and Sengupta (1992 and 1993) as "the strategic value of the alliance net development cost," indicating that alliances formed on the basis of well-defined costs and benefits were more likely to exhibit high performance. Often companies enter into an alliance only thinking of the benefits and fail to consider the costs required to reach those benefits. Costs may be incurred in physical assets to increase supply or in human assets to increase joint communication. Often, it is the human assets that are overlooked. Rice producers, for example, have a dedicated person stationed at major customers' (such as Kellogg's) plants so they are "on-site" should any problems develop. The ability to respond to problems quickly increases actual net benefit which has a significantly positive impact on strategic effectiveness.

#### ***Strategic Effectiveness Factor #4—Partner Match***

Partner match indicates the ability of alliance partners to develop a cohesive arrangement based on management styles and corporate culture (Bucklin and Sengupta, 1992; 1993). Similar concepts are found in the literature such as domain consensus, goal compatibility, and organization compatibility (Van de Ven and Ferry, 1980; Ruekert and Walker, 1987; Achrol, Scheer, and Stern, 1990).

Partner match is composed of two elements: organizational compatibility; and the length of previous business relations (termed "prior history" in the Bucklin and Sengupta studies). Organizational compatibility reflects the ability of both partners to operate as one (Achrol, Scheer, and Stern, 1990), and is a function of mutual goals, similar culture, and a match in strategic orientations (Achrol, Scheer, and Stern, 1990; Bucklin and Sengupta, 1992; 1993). Another important aspect of organizational compatibility is the ability to share information between alliance partners. For example, a beef processor who can share information with cattle farmers on quality, grade, and yield can assist in source verification and performance-data tracking (Buchanan, 1998). The cattlemen can use the information to test various feeding strategies as well as better manage breeding stock.

The length of previous business relations focuses on the necessity for alliance partners to have sufficient knowledge about each other (gained over time) such that they are able to “judge their compatibilities” and determine if a potential match exists (Bucklin and Sengupta, 1992; 1993). Essentially, this element is based on the belief that organizations do not form alliances with “perfect strangers.” Rather, alliances develop between organizations that have some historic relationship that is now evolving to a higher level of cooperation. Over time, firms develop a routine understanding of the supply partner’s business. As an example, Hershey understands when sugar beets are harvested and how weather impacts supply levels. As such, potential problems are easier to address and explain, while conflicts are easier to resolve before they become serious barriers. This prior history and knowledge enables both partners to jointly plan future goals and objectives.

#### ***Strategic Effectiveness Factor #5—Partner Coordination***

The literature suggests that many important factors were either treated indirectly or omitted in Bucklin and Sengupta’s (1992 and 1993) original framework. Two of these elements are trust and cooperation. Both are related to a higher level abstraction referred to as partner coordination (Schmitz, 1994; Frankel, 1995). Partner coordination examines how alliance partners “personalize” their working relationship by evaluating each firm’s strategic level of commitment.

The first element of partner coordination is cooperation. Cooperation at the strategic level implies joint planning such that both parties share, or support, each other’s long term business goals (e.g., business growth, new product development). Mallen (1967) stated “for maximization of channel profits and consumer satisfaction, the channel must act as a unit,” implying the need for cooperation. Frazier, Spekman, and O’Neal (1988) discussed how cooperation enables value added services to develop to advance alliance benefits. Hendrick and Ellram (1993) noted that successful alliance partners see their co-destiny such that if either party fails to remain competitive, both parties will lose. Thus, the perception of co-dependence creates a commitment that both parties will cooperate and help each other “maintain their respective competitiveness” in the long run (Hendrick and Ellram, 1993).

Given that time lags due to seasonal production are common in the food system (e.g., fruit trees take several years to mature and provide full utilization), co-dependence is critical. This means that alliance partners along the food supply chain need to keep each other informed of strategic changes that have an impact on future decisions. As an example, the most popular ethnic food today is Mexican. A manufacturer may respond to this by creating a new product that includes black beans. In order to ensure supply, the manufacturer must share its future new product development plans with farmers or cooperatives in order to convince them to plant black beans as opposed to navy beans.

While trust is indirectly considered in Bucklin and Sengupta's definition of organizational compatibility, it is a critical factor in alliances and should be given a more direct, substantial link to strategic effectiveness. In the Achrol, Scheer, and Stern (1990) study, organizational compatibility and trust were treated as separate dimensions of alliance success. Anderson and Narus (1990) found trust positively impacted channel performance satisfaction and Doney and Cannon (1998) found trust was an important prerequisite for building long-term relationships. It would seem that trust must exist in an alliance since each party depends on the other to satisfy mutual, rather than self-serving, goals. Moreover, trust is essential in order for alliance partners to be willing to share key information on a strategic and operational level. Finally, a lack of trust is viewed as a reason for alliance failure and, as such, is important to alliance performance (Frazier, Spekman, and O'Neal, 1988; Young and Wilkinson, 1989; Bowersox, Daugherty, Dröge, Germain, and Rogers, 1992; Larson, 1992; Sonnenberg, 1992).

The operationalization of trust is drawn from the organizational behavior literature. Gabarro (1987) identified two aspects of trust: character-based trust; and competence-based trust. While Gabarro's research focused on the development of trust in two-person working relationships between superiors and their subordinates, his delineation of trust can be applied to other working relationships as well (e.g., an alliance).

Character and competence-based trust are easily differentiated. Character-based trust examines the qualities or characteristics inherent in partners' philosophies and cultures, while competence-based trust is concerned with specific operating behaviors. In other words, trust can be evaluated in terms of a qualitative assessment of a partner's characteristics and culture as well as a quantitative assessment of a partner's actual behavior and operational performance.

Recent research supports the multi-dimensional perspective of trust. Ganesan (1994) similarly used a multidimensional construct of trust to examine determinants of buyer-seller relationship continuity. In Ganesan's (1994) study, benevolence and credibility were used to delineate the trust construct. Benevolence was defined as a perception of an exchange partner's qualities, intentions, and motives rather than its specific behaviors (Rempel, Holmes, and Zanna, 1985). Credibility was defined as the perception of an exchange partner's expertise and ability to effectively and reliably perform operational tasks (Lindsfold, 1978). This delineation of trust is both similar and complementary to Gabarro's (1987) perspective. Benevolence is concerned with the qualitative aspects of the partners' interaction, and is equivalent to character-based trust. Credibility is concerned with specific operating behaviors, and is equivalent to competence-based trust.

An expanded delineation of the multi-dimensional construct of trust is provided in the alliance formation model. First, character-based trust is examined on a strategic level such that an evaluation of qualities and characteristics is made in terms of organizational philosophies, cultures, strategic intentions, and goals. Charac-

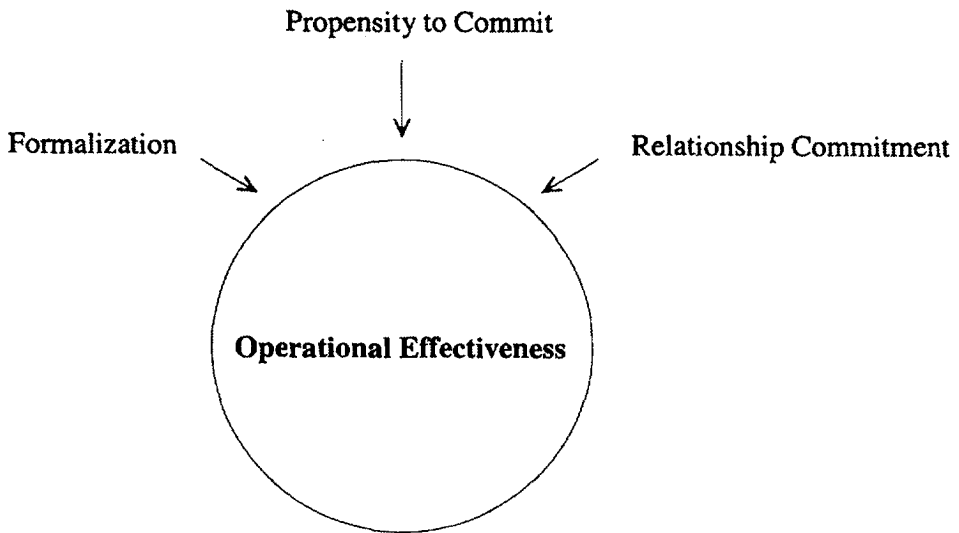


Figure 6. Operational Effectiveness

ter-based trust is an element of partner coordination. Second, competence-based trust is examined on an operational level to evaluate performance competency, and is used as an element of information access (further discussed in the Operational Effectiveness section).

Gabarro (1978; 1987) identified five sources of character-based trust: (1) *integrity* as a perception of the partner's level of honesty; (2) *identification of motives* as a perception of the partner's true strategic intentions; (3) *consistency of behavior* as a perception of the reliability and predictability of the partner's actions under different situations; (4) *openness* as a perception of how honest the partner is about problems; and (5) *discreetness* as a perception that the partner will maintain confidentiality regarding strategic plans and key information. These five sources of character-based trust are essential to achieving integration between two firms' corporate philosophies and cultures.

### Operational Effectiveness Measure

Operational effectiveness is an assessment of the extent to which each partner is adhering to the agreed-upon operating practices and procedures of the alliance. This assessment process examines whether each partner performs as promised while also considering the resources invested and the benefits achieved. Successful alliances share three characteristics that determine an alliance's operational effectiveness: (1) formalization of defined procedures and performance measures; (2) propensity to commit; and (3) actual relationship

commitment. The proposed model of operational effectiveness is illustrated in Figure 6. Each factor is defined and discussed below.

### ***Operational Effectiveness Factor #1—Formalization***

In organization theory, the system-structural framework (Zey-Ferrell, 1981) suggests that an organization's structure determines the performance of the system. Centralization, formalization, and specialization are generally considered the primary components of a system (Hage, 1965; Pugh, Hickson, Hinings, and Turner, 1968; Van de Ven, 1976; Dalton, Todor, Spendolini, Fielding, and Porter, 1980). In Ruekert, Walker, and Roering's (1985) discussion of the system-structural framework, they posit that formalization "represents the degree to which activities and relationships are governed by rules, procedures, and contracts." Formalization leads to greater efficiency because rules serve to routinize repetitive activities and transactions (Hage, 1965; Pugh et al., 1968; Reve and Stern, 1983). Formalization could be used in an alliance to ensure food safety measures are in place and are practiced at all levels of the food system. This may be particularly important in international alliances where U.S. food safety guidelines may surpass the safety requirements in the suppliers/processors' country of origin. A recent contamination of strawberries entering the U.S. market through Mexico serves as an incident that could have been prevented with an alliance based on formalized handling rules, procedures, and responsibilities.

Beyond economic efficiency arguments, routinization offers the ability to coordinate performance within as well as across organizations. Bowersox et al. (1992) suggests that formalization is particularly applicable to alliances, since they require the development of operating plans, rules, and procedures to guide and measure day-to-day performance.

Formalization is composed of two elements: defined procedures; and continuous performance measurement. Defined procedures enable alliance partners to know precisely what their roles and responsibilities are. In other words, accountability is established. Defined procedures thereby enhance the benefits of specialization (Hage, 1965; Pugh et al., 1968). The development and enforcement of defined procedures allows operational activities to be more standardized, more clearly understood, and less costly in terms of duplication of time and effort. Clarity of role performance also reduces potential conflict in regard to questions surrounding operating domain (Lucas and Gresham, 1985). In summary, well-defined and agreed to procedures reduce many questions or misunderstandings regarding each partner's role, responsibilities, and operating domain in an alliance.

The second element of formalization is continuous performance measurement. Continuous measurement is necessary to monitor the desired level of operational performance that partners wish to achieve. Dwyer, Schurr, and Oh (1987) identified "measuring, specifying and quantifying" operational performance aspects as a key to successful relational exchange. This implies the need to develop operating

performance measurements, and then to continually re-examine and improve those operational activities. Devlin and Bleackley (1988) suggest that continual monitoring and reporting of performance progress is an essential step toward achieving competitive advantage. Frazier, Spekman, and O'Neal (1988) argued that not only is a specified performance measurement system critical, but that the system must also include frequent, joint appraisal. In other words, each party must provide frequent feedback on the other party's performance in an effort to continuously improve the relationship and to jointly solve operational problems. Hendrick and Ellram (1993) found formal, detailed performance measurement procedures were in place and "taken seriously" by alliance partners, and that these procedures continuously identified "potential areas for improvement in quality, service, and cost."

### ***Operating Standards Factor #2—Propensity to Commit***

The notion of commitment was recognized as an increasingly interesting topic of sociological discussion as long as thirty-five years ago (Thibaut and Kelley, 1959; Becker, 1960; Blau, 1964). Commitment is used to analyze both individual and organizational behaviors. Relative to the topic of alliances, commitment at the individual level is particularly relevant to the marriage literature (Thompson and Spanier, 1983; McDonald, 1981). In the organizational literature, commitment is believed to provide a variety of outcomes (e.g., decreased employee turnover, higher motivation) and has consequences for the organization (e.g., recruiting and training practices, job equity). It is also used to describe the process of becoming attached and the state of attachment itself (O'Reilly and Chatman, 1986). Given the wide scope of the term's application, it is not surprising to find that a considerable lack of consensus exists as to how commitment is defined and measured. O'Reilly and Chatman (1986) suggest that the lack of consensus in commitment research can be partially attributed to the failure to distinguish between the antecedents and consequences of commitment, and the basis for the process of attachment.

The basis of commitment within an alliance is formed when one partner perceives the other partner is willing and able to perform as promised. While conventional wisdom often implies that successful alliances require a "leap of faith" on each participants' behalf, firms typically assess a partner based upon more concrete performance assessments related to problem solving capabilities, openness to create new opportunities, reputation, specific competencies, and past performance.

Propensity to commit is thus composed of two elements: solution orientation; and competence-based trust. While partner coordination (discussed in the previous section on Strategic Effectiveness) focused on how alliance partners evaluate each other's strategic level of dedication, the propensity to commit focuses on an alliance partner's day-to-day operational performance.

The first element of propensity to commit is solution orientation. Alliances are based upon a variety of specific motives (e.g., to reduce inventory), but generally



speaking firms enter into an alliance to solve internal weaknesses and to enhance market opportunities that a firm cannot achieve alone. As such, a successful alliance encourages cooperation and cohesiveness, and it also implies the ability to diminish potential conflict (Spekman and Sawhney, 1990). Although alliances are, by their very nature, a cooperative effort, it is realistic to expect that disagreements will occur between partners and, thus, the ability to sufficiently address problems is critical. Solution orientation is thereby concerned with how partners manage day-to-day problems, such as late delivery, poor quality, and even recalls due to food borne illnesses caused by improper handling. Open and honest communication of relevant information leads to the prevention (and when necessary, the constructive resolution) of such disagreements (Deutsch, 1973). Pearson and Monoky (1976) tested and found that high performing channels exhibited more cooperation than channels with lower performance levels.

The second element of propensity to commit is competence-based trust. As discussed in the prior section, competence-based trust is associated with the specific operating behaviors and day-to-day performance inherent in an alliance. This aspect of trust is composed of four sources: (1) *specific competence* in terms of specialized operational knowledge and skills; (2) *interpersonal competence* in terms of individuals' ability to effectively perform their responsibilities; (3) *competence in business sense* in terms of specializing in a specific area of business expertise; and (4) *judgment* in terms of decision making ability (Gabarro, 1978).

### ***Operating Standards Factor #3—Relationship Commitment***

Relationship commitment occurs when firms fully engage in an alliance. The process of actual commitment begins when two beliefs are shared. First, the relationship in question must be viewed as "so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely" (Morgan and Hunt, 1994). Similarly, actual "commitment to the relationship is defined as an enduring desire to maintain a valued relationship" (Moorman, Zaltman, and Deshpande, 1992). Second, the perception that the alliance will provide valuable outcomes/benefits to each party must be evident. Relationship commitment is then composed of two elements: information exchange and responsiveness.

The first element, information exchange, is specifically concerned with the mutual exchange of pertinent information in an alliance. While such exchange may occur in a formal and/or informal manner, it is the *content* of the information and its potential to achieve competitive advantage that is critical, not just its quantity and frequency. Information exchange is similar to the notion of "communication openness" (Andersen and Narus, 1984; Smith and Barclay,

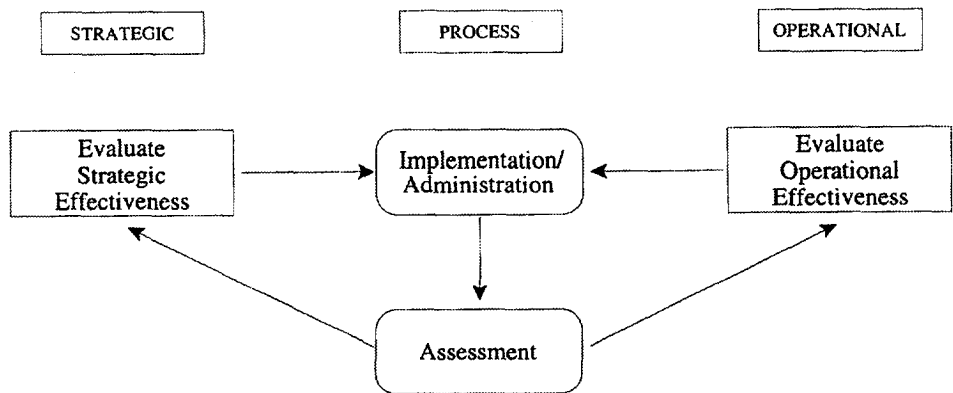


Figure 7. Alliance Implementation/Continuity

1995), which focuses on the formal and informal sharing of timely information between partners and is specifically concerned with mutual disclosure.

The role of information is to facilitate the exchange process; hence, its value lies in how efficiently and effectively the partners structure and utilize its content. A key point regarding information exchange is that sharing critical information is not restricted to a select few individuals. Rather, pertinent operational information is available to all individuals who request and require the information to execute their daily activities.

The second element, responsiveness, entails the capability and willingness of organizations and individuals to adapt to expected and unexpected operating conditions. Responsiveness is similar to Smith and Barclay's (1995) notion of influence acceptance that is drawn from exchange theory (Blau, 1964). Influence acceptance is defined as "the degree to which exchange partners voluntarily change their strategies or behaviors to accommodate the desires of the other." The system-structural framework discussed previously suggests that another important dimension of system performance is the notion of "adaptiveness." The ability to be responsive implies significant adaptiveness. In an alliance, responsiveness examines both speed of interaction and precision such that problems or requests are handled quickly as well as accurately (Bowersox et al., 1992). In other words, responsiveness to a problem implies that corrective action is implemented immediately to ensure the problem is solved and the potential for reoccurrence is minimized. Responsiveness also indicates a willingness to fulfill a partner's special requests. Morgan and Hunt (1994) used the term acquiescence to describe "the degree to which a partner accepts or adheres" to such requests. The authors posited that acquiescence is an important contributor to "overall network performance."

## LEVEL FOUR—ALLIANCE IMPLEMENTATION/CONTINUITY

Figure 7 illustrates Alliance Implementation/Continuity. This level combines the *Implementation/Administration* and *Assessment* stages to create a feedback mechanism that continuously monitors the alliance. Operational, technical, social, and strategic information are exchanged. Procedural changes that can improve efficiency and/or effectiveness are completed as well.

Implementation often begins with a small experiment to test the alliance and achieve small, incremental improvements or “easy wins” that build confidence and trust in the partner’s capability. This is referred to by Greiner (1967) as “reality testing.” If the partners establish full commitment, and determine performance expectations and operating standards, the alliance is implemented. As firms become more comfortable with each other and success is achieved, larger-scale plans and commitments may be identified and developed.

Once an alliance is stabilized, the partners formally assess the relationship. Rogers (1962) termed this stage “adoption” to indicate continued, full use of the change initiative and philosophy. Alliance partners review the original goals as well as evaluate their expectations for *Strategic and Operational Effectiveness* in order to determine if the relationship is successful. Greiner (1967) termed this assessment as a “search for signs of payoff.” If the evaluation is positive, the alliance is either (1) sustained as a permanent system; or (2) modified and extended beyond the original goals. If the evaluation is negative, the alliance may be terminated.

If the alliance is sustained, partners perform on-going assessments to evaluate strategic and operational effectiveness. At this point, the alliance is seen as a permanent system that continually moves between assessment (to evaluate strategic and operational effectiveness) and administration. Continued investments in facilities, systems, and human resources, and contractual refinements may be necessary over the lifetime of the alliance to facilitate improved performance. The alliance is expected to be sustained until participants perceive it (1) needs to be modified; or (2) has outlived its expectations, and agree to terminate the relationship.

## ADDITIONAL MODEL APPLICATIONS

The alliance formation model was designed for two purposes. First, the model can be used to guide a manager through the alliance development process beginning with alliance conceptualization and continuing through long term maintenance and administration. Second, the model serves as a foundation for researchers to measure an alliance’s development and long term success. Inherent within this foundation is the necessity to understand the entire alliance formation model.

The model integrates process, strategic, and operational considerations in order to provide an all-encompassing perspective of alliance development. Failure to

consider all three components in an alliance may result in a relationship that is less effective and successful than expected. For example, suppose a firm develops an alliance concentrating solely on strategic expectations, but fails to build the operational foundation required to execute these expectations. It is highly unlikely that the alliance will achieve the initiating firm's strategic expectations, and, as such, strategic effectiveness will be minimal.

It is critical that all four development levels be explicitly considered. Failure to sufficiently address each level may result in a less successful alliance. For example, some firms may consider level one (Alliance Conceptualization) and level two (Alliance Pursuance) as less important to the development process and, thus, may not spend concentrated time in these stages. It is important to recognize that these levels form the basis for strategic expectations and operational standards. By skipping the first two levels, a firm may fail to develop reasonable expectations and standards for the alliance. This can cause severe problems and misunderstandings once the alliance is implemented.

Similarly, a firm may fail to build internal consensus for the alliance by moving too quickly through the partner selection decision. It is important that the firm's strategic goals be carefully examined and matched to potential partners during the search and selection stages. Finding partners with core competencies that enhance the initiating firm's competencies and complement its long term strategic goals is a challenge that needs to be completed in the initial stages of the alliance.

The alliance formation model also provides a number of issues for explicit consideration in level three (Alliance Confirmation) and level four (Alliance Implementation/Continuity). In particular, one contribution of the model is the comprehensive treatment and analysis of trust. The assessment of trust has historically been hypothesized to play a vital role in alliance success, but considerable difficulty exists in defining trust. This model provides a comprehensive discussion of character and competence-based trust and their long-term impact on an alliance.

## CONCLUSIONS

This paper provides an alliance formation model to illustrate the process and the necessary strategic and operational considerations at each development stage. Discussion of the elements measuring the strategic and operational effectiveness of an alliance were also detailed.

The main strength of the alliance formation model is its dynamic focus. Many models used to evaluate alliance effectiveness are static and only applicable to a specific point in time. The alliance formation model provides a framework for alliance implementation, maintenance, and evaluation *over the life of the alliance*. The evaluation serves as a decision point to routinely determine whether the alliance will be sustained, modified or terminated.

The model is also versatile and can be applied to various settings. This versatility is especially critical if the model is to serve as an effective and useful managerial framework. This model can benefit firms at three levels of alliance sophistication:

- A firm initially considering an alliance can benefit from the model because it provides a “blueprint” to guide alliance formation, as well as identifies strategic and operational considerations that promote long term alliance success.
- A firm involved in implementing an alliance can benefit because the model guides managers in evaluating critical activities that should be included in current relationship. This evaluation may identify strengths and weaknesses as well as areas for improvement.
- A firm that has already implemented an alliance can benefit from the model by using it as a benchmarking tool to build best-in-practice alliances.

The alliance formation model can serve as a foundation for multiple research efforts. The model can be tested at the component level, at each of the four horizontal levels, or in its entirety. A research agenda can be developed to further understand and test the measures of strategic and operational effectiveness.

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