Hierarchy vs. Market Orientation in Capital Alliances

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Abstract

The paper deals with strategic orientation and organizational complexity of international companies which desire to position themselves to exploit the core proprietary assets and competences through capital alliances. Their protection is becoming an important strategic objective in the processes of forging capital alliances which are based on ownership and legal relationships. Ownership means more control over own core proprietary assets and competences which mean competitive advantage over competitors, through hierarchical organizational structure on one hand but less flexibility as otherwise benefited in market organizational structure on the other hand.

Keywords: Capital alliances; Core proprietary assets; Market; Hierarchy; Degree of control.

1. Introduction

Companies are complex social, economic and technical systems which cooperate and compete ("coopetition") at the same time in order to achieve strategic objectives. Due to ever-increasing competition, companies are forced to form alliances in their quest for sustainable growth and development. In fact, many companies see capital alliances, e.g. mergers and acquisitions, as an important avenue for their sustainable growth.

The global mergers and acquisitions market reached four trillion dollars in 2006 and is growing in the number and size of individual deals. Intensified global competition, continual technological innovation and disruptive changes mean that companies are having to re-examine their traditional conduct (i.e., strategies, tactics and behaviour) and their traditional structure (i.e., resources, positions and constraints) in order to gain a favourable outcome for their businesses (Bruner, 2004). Companies are seeking to combine their strengths in capital alliances for a variety of reasons: to gain competitive advantage in the marketplace, to access proprietary assets and know-how beyond their boundaries, to exploit economies of scale and scope, or to share risk or uncertainty with partners (Schweiger & Very, 2001; Bertoncelj and Kovac, 2007).

Capital alliances are customarily built on a base of strong and efficient operations expansion as a response to a changing business environment, which is characterized by increasing complexity, uncertainty and discontinuity (Marks 1997; Gould 1998; Chung et al. 2006; Patel 2007). Through capital alliances companies can obtain a new set of valuable capabilities possessed by the acquired companies and do not need to develop them internally (Ahuja and Katila 2001; Ranft & Lord 2002; Casal & Fontela 2007; Firstbook 2007; Jackson 2007).

The make–buy decision is an economic one focusing on minimization of costs related to assets (products) of a company. This approach is grounded in the transaction cost economics (Williamson, 1985) and is known for its two alternatives, markets or hierarchies. Whether the assets are proprietary to the capabilities of a company is what drives the make–buy decision from a more strategic perspective (Prahalad & Hamel, 1990). Companies can more effectively allocate scarce resources by focusing their operations on core competencies: skills, knowledge and proprietary technologies that a company has to own in order to differentiate itself from competition (Nellore & Soderquist, 2000; Kale et al., 2000; Hennart, 2006). This is a strategic management decision relating to protection of core proprietary assets and competences.

The paper is organized as follows. The next section summarizes the findings of research on two alternative organizational forms, hierarchy and market, of companies forming alliances. The third section addresses forms of alliances based on motives and degree of control, ranging from ad hoc, cooperation to ownership relationship. The final sections discuss the findings and conclusions.

2. Organizational forms of companies forming alliances

Human civilization is one which revolves around companies. Conceptually, the meanings of companies are spread from a technocratic, mechanistic (company as an instrument to reach goals) – to a humanistic, political (company as a community of interests). Increasing numbers and size, as well as complexity of companies go in parallel with the development of human civilization.

The complexity of companies is on the increase for different reasons. The first, historically, is physical work – from rural economies through craft and trades to manufacturing; the second, capital, is the driving force of trading and manufacturing companies; all growth, last not least, is based upon knowledge – which is increasingly needed for research and development of increasingly complex products, for realization of product platforms, for the attainment of scale economies, as well as the more and more complex forms of exchange and trading relationships.

Successful companies are not coincidental crowds of people. Management should, mostly through people, control the company that it will attain its goals efficiently and effectively. Goals shall correspond to the interests of influential stakeholders, i.e. individuals, groups, organizations and publics, affected by actions of the organization and their willingness to influence them. To control the company is to control it's members (in a narrower) and it's stakeholders (in a broader sense), a much more demanding task than to control an economic and technical instrument.

Control of the company may be executed deterministically, by induction – or creatively, by deduction. The first is rational and safe, but requires complete information upon all factors; the second is creative and rich, based on ideas, emerging spontaneously from tacit memory (Polany, 1967; Nonaka, 1989). Deductive control is limited due to bonded capacity for cognitive processing – and is unsecure; in general, managers tend, at a given level of deductive control, to increase the safe and clear inductive one, as far as only possible. To control, to manage people – co-workers, stakeholders of the company – is several orders of magnitude more complex, than to manage the company as a technological and economic instrument for operations and goal attainment. Managing people is based on knowledge of quantitative and qualitative cognitive abilities of managers.

Coase (1937) argues that there are two alternative means of organizing similar kinds of transactions, firms and markets. Williamson (1975; 1985) advocates transaction costs theory and importance of organizational form and argues that the transaction specific investments are more likely to take place within the hierarchical forms. On the other hand, transaction non-specific investments are more likely to take place within the market forms. Hence, they contrast the two main forms of companies with a differencing degree of control, hierarchy and market.

Williamson's (1985) transaction cost theory combines business economics and organization theory. The basic notion of transaction costs theory is that properties of the transaction determine what constitute the efficient governance structure. The implication is that institutional form and internal organization matter when it comes to strategy.

The primary factors producing transactional difficulties include:

- Bounded rationality (cognitive and perceptual limitations on the part of the parties).
- Opportunism (self-interest).
- Small numbers bargaining (oligopoly conditions).
- Information (asymmetrical distribution of information among the exchanging parties).

Transactional difficulties and transaction costs increase when transactions are characterized by:

- Asset specificity (that is, transactions require investments which are specific to the requirements of a particular exchange relationship)
- Uncertainty (that is, ambiguity as to transaction definition and performance)
- Infrequency (that is, transactions which are seldom undertaken).

Under competitive conditions, companies will seek governance structures that economize on transaction costs. The major governance mechanisms are the market or hierarchy, with a range of intermediary forms of bilateral relations. The major premise of transaction costs theory is that the properties of the transaction determine the governance structure (Williamson, 1985). When asset specificity and uncertainty is low, and transactions are relatively frequent, transactions will be governed by markets.

High asset specificity and uncertainty will produce transactional difficulties which lead transactions to be internalised within the company. Medium levels of asset specificity suggest bilateral relations, for example through various types of co-operative agreements between the transacting parties, are used to attain a more efficient governance structure.

The transaction cost theory, amongst other things, attempts to determine the most appropriate buyer-supplier relationships that a company can establish in the value chain.

2.1. High degree of control - hierarchy form

The foundation of hierarchy is normative control. Hierarchy represents the control with the power of ownership or any other form of normative power, e.g. with the power of legislation in public administration, market with the power of interests. Higher degree of uncertainty impacts the outcome of transactions and requires substantial transaction specific investments (Williamson, 1985) which call for more control. In order to control the complexity, a higher degree of hierarchical control is required.

A hierarchical environment is usually more durable and can be more efficiently controlled by the management than the changing environment of the market, where the emphasis lies on permanent coordination of interests among the participants.

Hierarchy facilitates accumulation of resources (labour, capital, knowledge), but it is rigid and uncreative. Its effectiveness is derived from monopolistic rents, based on size and power; both the effectiveness and efficiency of hierarchies are limited by strategic rigidity. Organizations are based on obligatory collective endeavours to attain organizational objectives.

The complexity of organizations is on the increase for various reasons:

- Firstly, historically, is that of physical work – from rural economy through craft and trades to manufacture.
- Secondly, capital, is the driving force of trading and manufacturing companies; all growth is based upon knowledge, which is increasingly needed to conceive new product platforms and develop increasingly complex products, to attain scale economies, and, above all, to create and enhance complex exchange and trading relationships.

Key advantages of hierarchy form are:

- a single individual can through the leverage of delegation efficiently control several other individuals,
- leverage across levels of hierarchy demonstrates multiplying effects,
- hierarchy is based on obedience to obligatory instructions,

- instructions encompass strategies and objectives which may exceed the knowledge of subordinates and thus create the knowledge leverage,
- stable relationships increase trust among members,
- priority is given to interests of an organization over interests of its members,
- an organization can concentrate its power on elected strategic areas and activities,
- an organization integrates members' knowledge and takes advantage of it,
- an organization is able to use tacit knowledge,
- manager's ideas become obligatory instructions to many subordinates,
- implementation of changes is obligatory under employment contracts.

Key disadvantages of hierarchy form are:

- its foundations are the normative system of delegation and responsibility leading to organizational rigidity and tendencies to political usurpation of power as well as to avoidance of responsibility; all that undermines trust among organizational levels, functions, units and members,
- delegation of authority to subordinate levels creates autonomy and facilitates political behaviour,
- the concept of objective responsibility may result in distorted communication among levels, both bottom-up (reports) as well as top-down (instructions),
- ascendancy of partial over common interests may spur strong resistance to change and progress.

The hierarchical form makes it feasible to diminish the complexity of direct control by introducing leverage, i.e. through indirect control of smaller units as well as in an integral organization or in a corporation with several affiliated companies.

The starting point in the span of possible structures to diminish the complexity of control is the centralized, integral company, which can be decentralized by increasingly autonomous units – budget units, cost units, income units, profit units and return-on-capital units.

2.2. Low degree of control - market form

The market form is based on the premise of dealing with goals and interests of stakeholders to achieve the company's goals. According to this concept power is diffused and the community of stakeholders is flexible and creative, the performance of a company depends on linking individual interests; efficiency and effectiveness are limited by transaction costs and conditioned by mutual trust. There has been an increasing emphasis over the last decades on the buyer-supplier relationship.

Kubr (2002) claims that contemporary knowledge-based organizations build competitive advantages on unique networks with suppliers, distribution channels, customers and consumers. Instability of the environment means that organizations have to address differences between business operations. Furthermore, organizations are no longer limited by their own resources. They can also use external resources, which are accessible via business networks, e.g. for learning (Ursic et al. 2006).

Contemporary forms of organizational structures range from horizontal, process, team to virtual networks. New organizational models are proposed, such as technical knowledge-related, post-bureaucratical, virtual, network and learning organization.

Some advantages of the "market" control concept are:

- performance of each participant depends on attainment of his/her interests along with interests of competitors; it has to be flexible, adaptable and proactive;
- there are no costs of hierarchical rigidity; reluctance to change leads participants to decline in performance;
- short-term efficiency and effectiveness of a company is often followed by lower performance in the long run.

Some potential disadvantages of the "market" control concept are:

- it is based on recurrent negotiation between participants, concerning goals, but rarely strategies to attain them;
- agreement may be impossible due to differences in interests and mindsets;
- recurrent negotiation and reconciliation of viewpoints is the cause of rising transaction costs;
- opportunistic, calculating considerations may overcome long-term rational ones;
- participants are not able to fulfil promised changes due to different levels of knowledge;
- exchange and equalization of knowledge among participants is difficult and cost-intensive; the "market" concept is limited to the use of visible, provable knowledge;
- at each change, the interests of independent participants have to be reconciliated again.

In the "market" model, it is feasible to diminish the complexity of direct control through outsourcing, i.e. autonomous control of insourcers, led by their own interests and by aligning interests of the outsourcing and insourcing companies.

The starting point in the span of possible structures to diminish the complexity of control is the centralized, integral company, followed by the partnering company, then by outsourcing non-core and then core activities and in the extreme, the hollow or virtual company. Some selected characteristics of both concepts, market and hierarchy, are shown in Table 1.

Table 1
Advantages and disadvantages of alternative organizational forms

High-value Factors	**Market**	**Hierarchy**
Normative Basis	Ad-hoc	Ownership
Degree of Control	Low	High
Degree of Reliability	Low	High
Degree of Flexibility	High	Low
Protection of Proprietary Processes	Low	High
Degree of Commitment among Parties	Low	High
Conflict Resolution	Negotiation	Administrative
Relationship among Parties	Non-regulated	Regulated
Degree of Choice	Independent	Dependent
Learning Capacity / Transfer of Knowledge	Low	High

The purpose and reason of positioning between market and hierarchy is in the long-term a reduction of transactional costs, i.e., cost of obtaining information, cost of coordination, cost of negotiation, cost of contracting, which according to the contemporary understanding of the concept represents the use of core capabilities in order to manage the relationships among companies. Therefore, transactional costs are of great importance when deciding on the form of alliances, either strategic or capital ones.

Table 2

Advantages and disadvantages of different levels of control and integration

Concept	Form	Dimension	Advantages	Disadvantages
Market	**Ad hoc relationship**	*Unequal partners*	Stronger partner has control over the weak partner	Mistrust, carrying out actions for the benefit of one side, searching for a better alliance
		Equal partners	Equal commitment to reach objectives, creative competition	Extensive use of capabilities for constant coordination
	Contract	*Short-term contract*	Freedom to act for both partners, few problems when terminating the relationship	Short-term control, uncertainty, not suitable for long-term projects
		Long-term contract	Long-term stability and safety of the relationship, investment of capabilities	Contractual safety, little attention is paid to the interests of the other party
Cooperation	**Cooperation**	*Marketing*	Constant mutual interests to succeed – larger than in ordinary marketing	Sudden exits of the relationship possible because of short-term advantages, leakage of knowledge
		Production	Long-term interest, investment in development and technology	Poor control of long-term risks, shrinking strategic capabilities
	Outsourcing	*Tactical*	Short-term benefits, few or no obligations at the time of termination of outsourcing relationship	Opportunism of outsourcer may harm external provider, short-term, risks
		Strategic	Long-term benefits, utilisation of strategic capabilities of both partners	Imbalance of power can lead to exploitation, poorly managed strategic risks possible

<table>
<tr><th>Concept</th><th>Form</th><th>Dimension</th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td rowspan="6">Ownership</td><td rowspan="2">Ownership share</td><td>Minority</td><td>Small investments but some control (for the minority stakeholder), less risky</td><td>Legislative protection can lead to advantages for the minority partner</td></tr>
<tr><td>Majority</td><td>Direct control, long-term, can bring benefits to the whole, but harmful for individual parts</td><td>Harmful activities of minority stakeholders and interest groups possible</td></tr>
<tr><td rowspan="2">Corporation</td><td>Financial control</td><td>Poor utilisation of capabilities for control, may bring high returns</td><td>Few possibilities for ongoing control, dependency on commitment, management commitment</td></tr>
<tr><td>Strategic control</td><td>Long-term overall control, safe investment possibilities</td><td>Legal restriction of "harmful directives", extensive use of capabilities for the control through legislative means</td></tr>
<tr><td rowspan="2">Integral company</td><td>Decentralised company</td><td>Fewer resources spent for control, incentives, flexibility</td><td>Promotion of partial interests, use of capacities for control</td></tr>
<tr><td>Independent company</td><td>Possibility to take directive measures quickly, focused investment in strategic projects</td><td>Rigid and slow, cost of hierarchy, non-innovativeness</td></tr>
</table>

3. Forms of alliances based on degree of control

There are many reasons for forming alliances; from product focus in the 1970s (Ohmae, 1989), through to market focus in the 1980s (Lorange & Roos, 1992), to a focus on core competences in the 1990s (Harbison & Pekar, 1998).

An alliance is defined as possessing the following features (Yoshino & Rangan, 1995):

- two or more companies unite to pursue a set of agreed goals,
- the companies share the benefits of the alliance and control over the assigned tasks,
- the companies contribute on an ongoing basis to one or more strategic areas, e.g. technology, product development or marketing.

Gallant and Graham (2000) proposed a model to classify alliances based on the complexity of the alliance agreement, ranging from low-level tactical alliances to full-scale autonomous alliances where companies engage in all aspects of business.

The formation of alliances should take into account the following dimensions:

- between market and hierarchy,
- between short-term and long-term view,

- between instrumental and interest part.

This is a demanding process, which results from a systematic analysis of relevant internal and external company environment factors.

When deciding on the form of alliance companies should evaluate the following aspects:

- analyse strengths and weaknesses, for each level of control and alliance,
- benchmarking should be implemented for each transition between different levels of integration (up and down),
- in addition to the control and alliance dimension other long-term and short-term aspects of collaboration should be taken into account, e.g., cultural match between companies.

The implementation of different forms, levels of control and alliances is related to the company as an instrument for reaching objectives and to the common interests of participants aimed at ensuring efficiency and a long-term success of the collaboration.

A traditional route for strategic expansion is through the exploitation of scale economies. A quicker route is through horizontal integration by mergers and acquisitions. Scale economies can also be obtained through joint ventures rather than through mergers and acquisitions. Many managers avoid joint ventures because of the management problems involved when crossing organizational boundaries. Others see joint ventures as a means of horizontal expansion when capital resources are limited or the company is facing other constraints on expansion.

A company that uses contractual alliances to gain a competitive advantage in the marketplace also risks losing its own core proprietary capabilities to its partners, especially when these partners behave opportunistically (Ahuja, 2000; Kale et al., 2000). Transaction costs literature has emphasized the relevance of partner opportunism in interorganizational relationships.

There are often problems involved in sharing strategic resources in contractual alliances. Companies are normally not willing to share their core assets and competences but strive to protect them, preferably through capital ownership rather than strategic alliances. In ownership relationships, between 51 and 100 per cent, are protected from a possible future exchange of strategic cores. Otherwise there is a risk, as in contractual relationships, that one party absorbs the core skills of the other party, and eventually abandons the partnership. Hence, ownership (higher degree of control) is the best protection of own core proprietary capabilities from being unilaterally appropriated by the partner.

Reve (1990) states that Porter's positioning model has much to say about how companies adapt to competitive forces, but it has little to say about the company and management of the company. Strategy is the match between companies unique resources and its relationships to an ever-changing environment to attain maximum efficiency .

Reve's (1990) motivation for discussing the strategic core is the search for the efficient boundary of the company. In concurrence with Williamson, Reve posits that core skills of high asset specificity should be governed internally. The strategic core consisting of assets of high specificity should always be governed within the boundaries of the company in order to protect the crown jewels.

Most companies have traditionally performed their high value functions within their premises. It is widely believed that the competitive advantage of a company resides in its "core" activities, and that these should be kept in-house in order to foster future capabilities and to protect key knowledge from being absorbed by competitors. We see core or high-value functions of a company to be proprietary processes in research and development (R&D), marketing and sales (M&S) and operations (IT and technology). We argue that a company should identify these high-value processes, strengthen them and then build on them. In other words, a company should know what it really does better than its competitors and competitive analysis can determine its strategic position relative to the market, industry and competitors.

Complementary skills of medium asset specificity can more efficiently be obtained through strategic alliances, and are governed bilaterally, while all low specificity assets are most efficiently contracted in the market, and no specialized governance structure needs to be set up. With no strategic core there is namely no economic rationale for the existence of the company. Having defined and delimited the strategic core, the next step in strategic analysis is to analyse which economies can be obtained from the strategic core basis. The strategic core is close to the company's business idea which sets it apart relative to other competing companies. It needs to be deliberately defined and redefined as market and competitive forces continuously change. To establish the efficient bundle of core and complementary skills to attain strategic goals, the company needs to engage co-operative agreements with firms controlling complementary assets.

According to Hamel (1991), alliances are about both collaboration and competition. Core competences can be both maintained and lost in alliances. Skills can be learned from the other party and absorbed into one's own company or vice versa.

Alliances among companies can be based on:

- ad hoc interests,
- contractual, non equity-based, arrangements,
- ownership, equity-based, relationships.

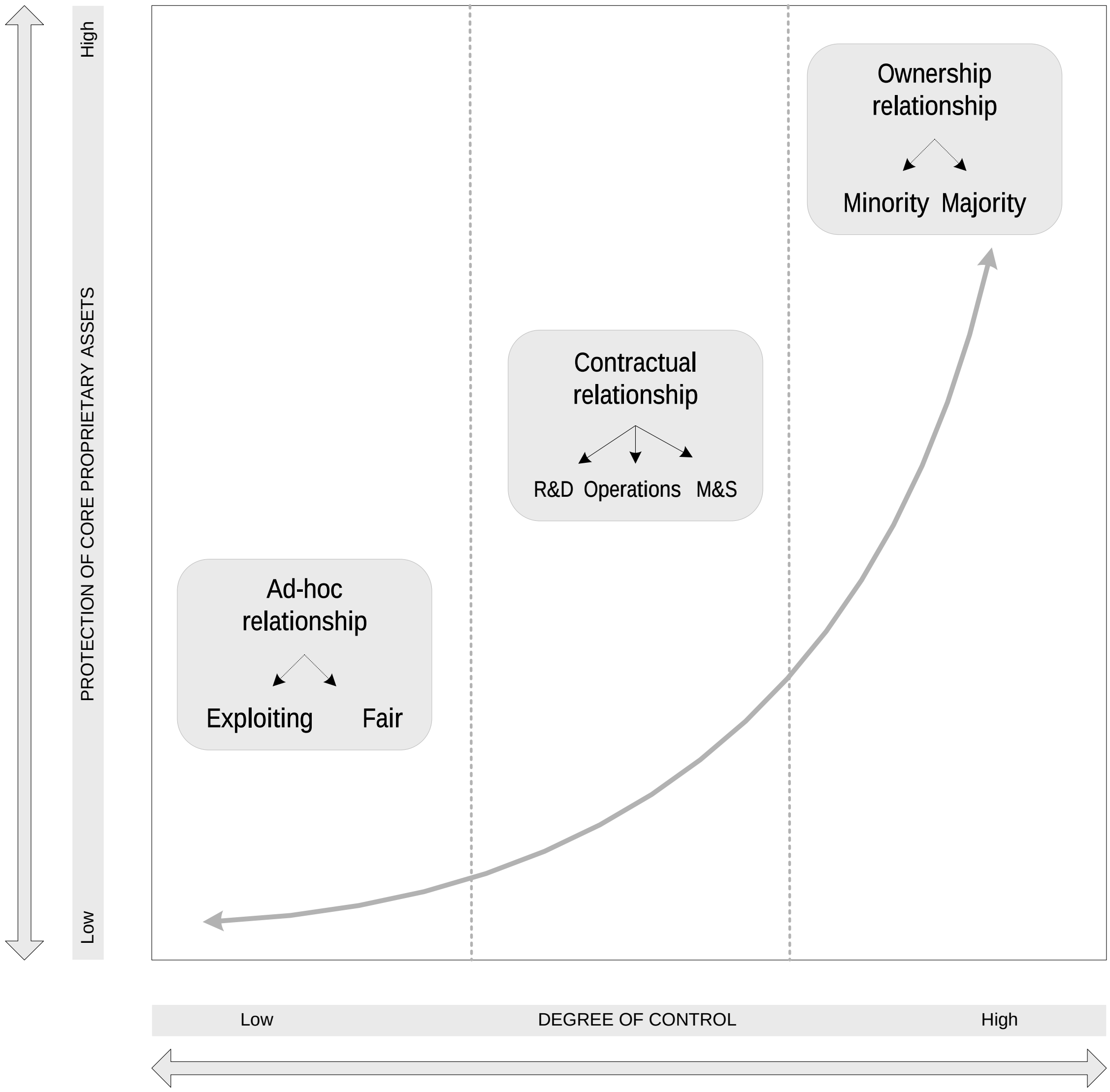

Fig. 1. Degree of protection of core proprietary assets

The implementation of different forms and degrees of control in alliances is related to the company as an instrument for reaching objectives and to the common interests of participants aimed at ensuring efficiency and long-term success of collaboration. Examples of core or “high value” functions include research and development (R&D), critical IT designs, and proprietary processes. Under conditions of high transaction costs, equity based structures, i.e. capital alliances, are more likely.

4. Assessment of strategic orientation in formation of capital alliances

To obtain the information needed to conduct a qualitative assessment of various organization (ownership relationship) forms based on the SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis were used, it was decided to interview executives in the post-transition economy of Slovenia.

We decided to use case studies to understand the important characteristics of strategic orientation and to retain the organizational complexity, organizational and managerial processes in capital alliances. Throughout our research, consideration was given to the problem of its external validity – not so much statistical generalization, but analytical generalization as defined by Yin (2003). We tried to generalize the acquired results within a wider theory of managerial models in order to increase the degree of generalization of our findings.

Altogether twenty executives from different industries were interviewed. A total of eight companies were in manufacturing (pharmaceuticals, cosmetic products, food and condiment products, textile products, glass and glass products, fabricated metal products, electric and IT components) and a total of four companies were in services (fast moving consumer goods, wholesale of pharmaceuticals and cosmetic products, transport, handling and storage, market research and business consultancy). Sampling was purposive; only executives who had previously been involved in the formation of capital alliances from the very beginning and were aware of the strategic factors that determined the transaction were interviewed. Personal interviews were carried out in order to gain a deeper understanding of the strategic orientation, strategies and concepts for controlling the organizations.

The interviews lasted approximately two hours and were recorded, transcribed and documented through written reports. These interviews improved the degree of understanding of the various questions posed in the study.

The meetings permitted a better appreciation of how acquiring companies manage the process of learning, and protection of their core proprietary assets and improve the degree of understanding of the various questions posed in the study. During the interviews the content of the research and the wording of the various items were discussed in order to ensure that they were understood and interpreted accurately.

The results of the interviews presented in Table 3 should be interpreted with caution due to the small size of the sample and reliance on key informants.

Further studies are required in order to corroborate the assessment of strategic orientation and to explore these relationships in more detail and over a longer period of time. The results obtained could be affected by the cultural context and not be extrapolated to other contexts. Because companies are different and carry out their business activities in different environments, it is not possible to make generalizations regarding the strategic orientation. A possible weakness of our approach was that executives could try to ex-post rationalize their actions. Despite these limitations, the authors believe that the study can help to better understand the strategic orientation of companies in the processes of forming the alliances.

The choice of control structures and transitions among them should be adapted to real contingencies in management of organizations. It is not clear if hierarchy and market really represent the extremes in terms of structure and if all other forms can be put in the context of this dimension.

In Table 3 we deal with possible transition forms of company management ranging from the hierarchy to marketplace in the ownership relationship. We outline the features of these transition forms of companies and outline possible strategic assessments on which management decisions for entering other forms of integration should be based.

Table 3

Assessment of strategic orientation in capital alliances

Transition forms of companies	**Strengths**	**Weaknesses**	**Opportunities**	**Threats**
From **Centralized Integral Company** to **Decentralized Integral Company**	Higher unit flexibility. Less unit resistance to innovation. Hardened strategic orientation. Limited liability for company mistakes. Capital leverage in owner control of company.	Decrease in individual company robustness. Dependence on corporate strategy, hiding behind it. Legislative limitations.	Higher degree of responsiveness, linked to predominately unified corporate strategy. Possible higher risk strategies. Introduction of change in the units with a more convenient corporate culture. Same level of competitiveness due to a unified corporate strategy.	Due to implemented strategies, the corporate risk can be greater. Units hide behind the unified strategy which increases the risk involved for the company. Limited autonomy of management causes great non-material damage to the corporation (reputation, trust, references etc.)
From **Decentralized Integral Company** to **Corporation with Strategic Control**	Higher degree of entrepreneurship and creativeness of management. Unit management inclination towards risk. Parallel encouragement of unit management towards long-term competitiveness and towards financial success. Unified concepts and methodology, autonomy with strategy contents.	Concepts and methodology can indirectly constrict unit ideas/motivation. Resolution of differences between the long-term and short-term orientation is left to the leadership of dependant companies. This encourages interest based behaviour. Models of strategic planning, which are determined by leadership can become increasingly bureaucratic.	Combines organic growth (portfolio) of programs through the buying of additional ones. Higher flexibility and therefore higher competitiveness of units. In frame based systems of control . Better possibilities for entrepreneurial connectedness on the market.	Smaller concentration of power in function on the market, possible inferior market position, next to whole companies-competition. Shorter durability.

From **Corporation with Strategic Control** to **Corporation with Financial**	Success factors definition is clear and concise. Reactions to deviations are quick. Stimulation of financial success. Identification of management with the success of »their« companies. Short-term orientation leads to smaller and more flexible units, removes rigidity and bureaucratism. Less focus on the past.	Short-term orientation of units, also due to personal interests, can abuse the autonomy. Neglect of long-term competitiveness for the short-term financial success. Limited organic growth. Due to possible punishment, managers in dependant companies avoid risk. Managers of dependant companies frequently manipulate information due to secret investments into programs that benefit them personally.	Financial way of doing business supported by a concept of financial control, can open up possibilities for a more elastic owner connectedness and access to financial markets. Possible higher interest from investors due to unit orientation towards constant profits and company profitability.	Short-term strategic orientation compared to competitors. Due to a short-term orientation and limited investment in innovation, a mid-term weakness can arise with long-term oriented competitors. Dangers due to a one-sided, mostly financially evaluated risks next to competitors with a more »whole« strategy.
From **Corporation with Financial Control** to **Hollow Company**	Consistence in the gradual implementation of economic measures. Program autonomy of inter-dependant units.	Short-term orientation due to interests of the holding. No strategic program orientation or unit connecting, which the holding treats as constituents of the financial portfolio.	Strategically oriented cooperation, which is often financially focused.	Predominantly owner oriented holding strategy, can endanger competitiveness and existence of individual units.

5. Discussion and conclusions

Opportunistic behaviour, as is often the case in strategic alliances over the course of cooperation, can be reduced in capital alliances through shared equity and ex ante commitment of owners. Owners are in a sort of "mutual hostages" situation (Pisano, 1989) and are forced to align their interests. Second, in capital alliances, a hierarchical supervision is created not only to oversee the day-to-day activities (Kogut, 1988), but also to protect core capabilities. In other words, partner opportunism in contractual agreements can be avoided through equity arrangements in order to protect core proprietary capabilities.

In our view, mutual trust creates a good basis for effective contractual relationship in the case where non-core capabilities or low-value functions of a company are at stake. In the case of high-value functions of a company, like proprietary processes in R&D and operations, trust-based relational capital is not a sufficient guarantee; hence, equity arrangements to govern core proprietary assets of a company need to be enforced.

Certain scholars (Kogut, 1988; Hennart, 1988; Mowery et al., 1996) have argued that capital arrangements promote greater intercompany knowledge transfers than contractual ones. In addition to alleviating the opportunistic behaviour in contractual alliances, capital alliances minimize the likelihood of losing core proprietary know-how. We argue that in an ever-competing environment capital alliances are the most efficient and durable way of protecting core proprietary assets of a company through a hierarchical organizational form.

In capital alliances, companies simultaneously acquire difficult-to codify competences, learn from acquired company and diminish the threat of partner opportunism. But as in contractual alliances, acquiring companies should establish an environment of mutual trust and respect by enforcing a new "combined" organizational culture in post-merger integration process. Capital alliance management after integration of both companies should include the following key objectives: simultaneous intercompany learning and protection of core proprietary information or know-how in the long run.

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