

IMPORTANCE OF STRATEGIC ALLIANCES IN COMPANY'S ACTIVITY

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Abstract

Strategic alliance is an agreement between two or more organizations to cooperate in a specific business activity, so that each benefits from the strengths of the other, and gains competitive advantage. The formation of strategic alliances has been seen as a response to globalization and increasing uncertainty and complexity in the business environment. Strategic alliances involve the sharing of knowledge and expertise between partners as well as the reduction of risk and costs in areas such as relationships with suppliers and the development of new products and technologies. A strategic alliance is sometimes equated with a joint venture, but an alliance may involve competitors, and generally has a shorter life span. Strategic partnership is a closely related concept. This article analyzes definition of strategic alliance, its benefits, types, process of formation, and provides a few cases studies of strategic alliances. This paper tries to synthesize the scope and role of marketing functions in the determination of effectiveness of strategic alliances. Several propositions from a marketing viewpoint concerning the analysis of alliance process are formulated. On the basis of the propositions, a framework is developed for future research.

Key words: *strategic alliance, strategic management, types of strategic alliance*

INTRODUCTION

Strategic alliances developed and propagated as formalized inter organizational relationships, particularly among companies in international business systems. These cooperative arrangements seek to achieve organizational objectives better through collaboration than through competition, but alliances also generate problems at several levels of analysis.

Strategic alliances are critical to organizations for a number of key reasons:

1. Organic growth alone is insufficient for meeting most organizations' required rate of growth.
2. Speed to market is essential, and partnerships greatly improve it.
3. Complexity is increasing, and no single organization has the required total expertise to best serve the customer.
4. Partnerships can defray rising research and development costs.
5. Alliances facilitate access to global markets.

The main purpose of the article is to analyze the importance of strategic alliances in a company's activity.

MATERIALS AND METHODS

Strategic alliances are becoming an important form of business activity in many industries, particularly in view of the realization that companies are competing on a global field. Strategic alliances are not a panacea for every company and every situation. However, through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects.

For the study of economic events, have been used such methods as an economic research: historical, graphic and economics and statistics.

RESULTS AND DISCUSSIONS

Strategic alliances are agreements between companies (partners) to reach objectives of common interest. Strategic alliances are

among the various options which companies can use to achieve their goals; they are based on cooperation between companies (Mockler, 1999). Strategic alliances are agreements between companies that remain independent and are often in competition. In practice, they would be all relationships between companies, with the exception of a) transactions (acquisitions, sales, loans) based on short-term contracts (while a transaction from a multi-year agreement between a supplier and a buyer could be an alliance); b) agreements related to activities that are not important, or not strategic for the partners, for example a multi-year agreement for a service provided (outsourcing) (Pellicelli, 2003). Strategic alliance can be described as a process wherein participants willingly modify their basic business practices with a purpose to reduce duplication and waste while

facilitating improved performance (Frankel, Whipple and Frayer, 1996). A strategic alliance has to contribute to the successful implementation of the strategic plan; therefore, the alliance must be strategic in nature. The relationship has to be supported by executive leadership and formed by lower management at the highest, macro level. While the following does not represent a comprehensive definition for a strategic alliance, at this stage, one might define a strategic alliance as a relationship between organizations for the purposes of achieving successful implementation of a strategic plan. In simple words, a strategic alliance is sometimes just referred to as “partnership” that offers businesses a chance to join forces for a mutually beneficial opportunity and sustained competitive advantage (Yi Wei, 2007). A literature review of the definitions of strategic alliances is given in Table 1.

Table 1. Definitions of strategic alliances*

Porter, 1990	Strategic alliances are long-term agreements between firms that go beyond normal market transactions but fall short of merger. Forms include joint ventures, licenses, long-term supply agreements, and other kinds of inter-firm relationships.
Dussauge & Garrette, 1995	An alliance is a cooperative agreement or association between two or more independent enterprises, which will manage one specific project, with a determined duration, for which they will be together in order to improve their competences. It is constituted to allow its partners to pool resources and coordinate efforts in order to achieve results that neither could obtain by acting alone. The key parameters surrounding alliances are opportunism, necessity and speed.
Faulkner, 1995	A strategic alliance is a particular mode of inter-organizational relationship in which the partners make substantial investments in developing a long-term collaborative effort, and common orientation.
Yoshino & Rangan, 1995	A strategic alliance is a partnership between two or more firms that unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance to contribute and to share benefits on a continuing basis in one or more key strategic areas, e.g. technology, products.
Douma, 1997	A strategic alliance is a contractual, temporary relationship between companies remaining independent, aimed at reducing the uncertainty around the realization of the partners' strategic objectives (for which the partners are mutually dependent) by means of coordinating or jointly executing one or several of the companies' activities. Each of the partners are able to exert considerable influence upon the management or policy of the alliance. The partners are financially involved, although by definition not through participation, and share the costs, profits and risks of the strategic alliance.
Gulati, 1998	Strategic alliances are voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services.
Phan, 2000	Alliances are long-term, trust-based relationships that entail highly relationship-specific investments in ventures that cannot be fully specified in advance of their execution.

*Source: adapted by Yi Wei, 2007

When a strategic alliance is proposed within an organization, the following questionnaire

should be used as an initial assessment of the opportunity:

– Does the proposed alliance contribute to the mission or vision of the organization?

– Does this proposed alliance allow the organization to achieve its objectives more effectively or more efficiently?

– Are there competitive advantages to forming this alliance? For example, will this allow the organization to mitigate risks, penetrate a new marketplace or take advantage of a new opportunity that otherwise would not likely come to fruition?

– Is this alliance important enough to be included in the strategic plan? Is this alliance important enough that it will continue to receive the support and attention of upper management, even after its formation?

– What were the key drivers in seeking a strategic alliance instead of doing it alone?

– What were the key objectives that the company sought to achieve through the alliance?

– What channels and mechanisms were used to identify a potential strategic partner?

– What are some of the key attributes that were looked for in a strategic partner?

– How important has the design focus of the company been in attracting alliance partners?

– What was the typical life cycle of a strategic alliance and how did it end?

– Which aspects of the strategic alliance(s) worked well?

– What were the barriers that had to be overcome in order to establish a strategic alliance?

– What aspects of the strategic alliance(s) were the hardest to work with?

Strategic alliances have some characteristics:

1. Two or more organizations (business units or companies) make an agreement to achieve objectives of a common interest considered important, while remaining independent with respect to the alliance.

2. The partners share both the advantages and control of the management of the alliance for its entire duration.

3. The partners contribute, using their own resources and capabilities, to the development of one or more areas of the alliance (important for them). This could be technology, marketing, production, R&D or other areas.

Strategic alliances yield better results under certain conditions (Pellicelli, 2003):

1) When each partner recognizes the need to have access to capabilities and competencies it cannot develop internally.

2) When a gradual approach is preferable in accessing resources, capabilities and competencies. Uncertainties about the future evolution of demand and technology often advise flexibility. The alliance can provide this.

3) When it is not possible to acquire another company in order to achieve particular development goals. It is a fairly common belief that the management of an alliance must have qualities different at least in part from those of the parent company (the partners). The reason is simple. The management of a strategic alliance is profoundly different from that of a company that acts independently.

Creating strategic alliances has evolved quickly over the last few decades:

- In the 70's, the main factor was the performance of the product. Alliances aimed to acquire the best raw materials, the lowest costs, the most recent technology and improved market penetration internationally, but the mainstay was the product.

- In the 80's, the main objective became consolidation of the company's position in the sector, using alliances to build economies of scale and scope. In this period there was a true explosion of alliances.

- In the 90's – according to Harbison and Pekar (1998) – collapsing barriers between many geographical markets and the blurring of borders between sectors brought the development of capabilities and competencies to the centre of attention. It was no longer enough to defend one's position in the market. It became necessary to anticipate one's rivals through a constant flow of innovations giving recurrent competitive advantage.

Regardless of the broad variety of definitions for strategic alliance, all have certain similarities (Spekman, 1998):

- each has goals that are both compatible and directly related to the partner's strategic intent;

– each has the commitment of, and access to, the resources of its partners and;

– each represents an opportunity for organizational learning.

Table 2. The factors leading to alliances*

1970's	1980's	1990's
Product performance	Position in the sector	Capabilities and competencies
Produce using the most recent technologies.	Construct position in the sector.	Access to new opportunities through a constant flow of innovation.
Marketing beyond national borders.	Consolidate position in the sector.	Anticipate rivals to maximize the creation of value.
Sales based on product performance.	Economies of scale and Scope.	Reduce total cost for the product or client segment.
		Acquire advantages in responding to changing conditions and emerging opportunities.

*Source: adapted from Harbison and Pekar, 1998

There are four potential benefits that international business may realize from strategic alliances (Bernadette Soares, 2007):

Ease of market entry: Advances in telecommunications, computer technology and transportation have made entry into foreign markets by international firms easier. Entering foreign markets further confers benefits such as economies of scale and scope in marketing and distribution. The cost of entering an international market may be beyond the capabilities of a single firm but, by entering into a strategic alliance with an international firm, it will achieve the benefit of rapid entry while keeping the cost down. Choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations.

Shared risks: Risk sharing is another common rationale for undertaking a cooperative arrangement - when a market has just opened up, or when there is much uncertainty and instability in a particular market, sharing risks becomes particularly important. The competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks.

Shared knowledge and expertise: Most firms are competent in some areas and lack expertise in other areas; as such, forming a strategic alliance can allow ready access to knowledge and expertise in an area that a

company lacks. The information, knowledge and expertise that a firm gains can be used, not just in the joint venture project, but for other projects and purposes. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization.

Synergy and competitive advantage: Achieving synergy and a competitive advantage may be another reason why firms enter into a strategic alliance. As compared to entering a market alone, forming a strategic alliance becomes a way to decrease the risk of market entry, international expansion, research and development etc. Competition becomes more effective when partners leverage off each other's strengths, bringing synergy into the process that would be hard to achieve if attempting to enter a new market or industry alone.

In retail, entering a new market is an expensive and time consuming process. Forming strategic alliances with an established company with a good reputation can help create favourable brand image and efficient distribution networks. Even established reputable companies need to introduce new brands to market. Most times smaller companies can achieve speed to market quicker than bigger, more established companies. Leveraging off the alliance will help to capture the shelf space which is vital for the success of any brand.

Biggs (2006) identifies the following as key factors that determine the success of a strategic alliance, which are presented in Figure 1.

It may well be that the advantages of alliance have been stressed, and sometimes over-emphasized, without a balanced presentation of costs and risk. In the situation of a small

innovative organization, in an alliance with a larger company whose core strength is in its physical asset base, competitive outcomes can quickly be determined by who has the easiest access to the complementary assets – be it specialized marketing, manufacturing or distribution.

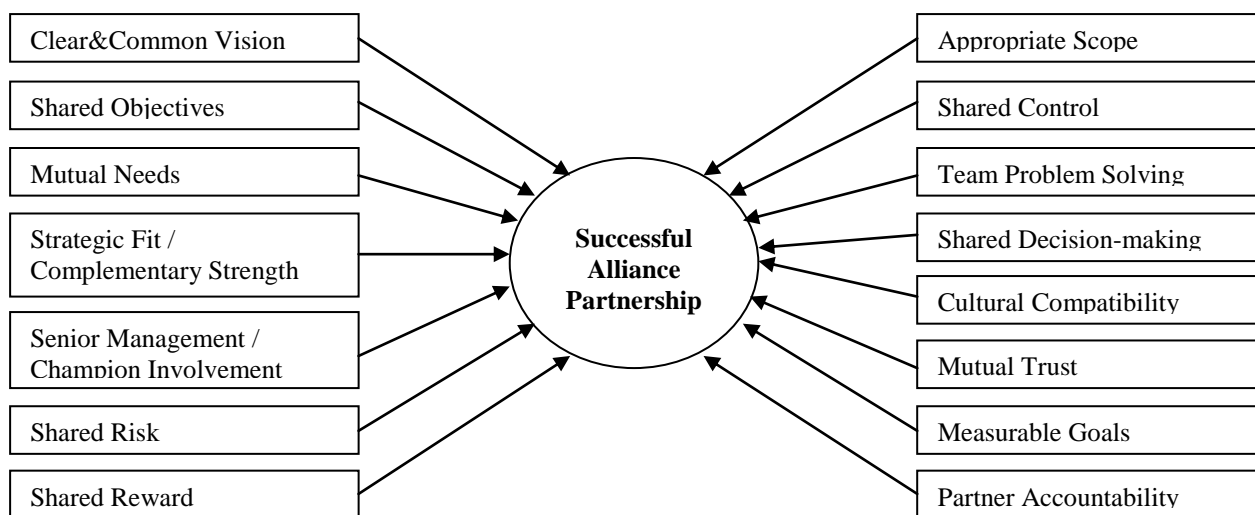


Figure 1. Critical Success Factors affecting Strategic Alliances (Biggs, 2006)

There are a lot of types of strategic alliances, which are listed below:

Joint Ventures. A joint venture is an agreement by two or more parties to form a single entity to undertake a certain project. Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits.

Outsourcing. The 1980s was the decade where outsourcing really rose to prominence, and this trend continued throughout the 1990s to today, although to a slightly lesser extent.

Affiliate Marketing. Affiliate Marketing has exploded over recent years, with the most successful online retailers using it to great effect. The nature of the internet means that referrals can be accurately tracked right through the order process.

Technology Licensing. This is a contractual arrangement whereby trade marks, intellectual property and trade secrets are licensed to an external firm. It is used mainly as a low cost way to enter foreign markets. The main downside of licensing is the loss of control over the technology – as soon as it enters

other hands the possibility of exploitation arises.

Product Licensing. This is similar to technology licensing except that the license provided is only to manufacture and sell a certain product. Usually each licensee will be given an exclusive geographic area to which they can sell to. It is a lower-risk way of expanding the reach of your product compared to building your manufacturing base and distribution reach.

Franchising. Franchising is an excellent way of quickly rolling out a successful concept nationwide. Franchisees pay a set-up fee and agree to ongoing payments so the process is financially risk-free for the company.

R&D. Strategic alliances based around R&D tend to fall into the joint venture category, where two or more businesses decide to embark on a research venture through forming a new entity.

Distributors. If you have a product one of the best ways to market it is to recruit distributors, where each one has its own geographical area or type of product. This ensures that each

distributor's success can be easily measured against other distributors.

Distribution Relationships. This is perhaps the most common form of alliance. Strategic alliances are usually formed because the businesses involved want more customers. The result is that cross-promotion agreements are established.

A typical strategic alliance formation process involves these steps:

- **Strategy Development:** involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people.
- **Partner Assessment:** involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.
- **Contract Negotiation:** involves determining whether all parties have realistic objectives, forming high caliber negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.
- **Alliance Operation:** involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.
- **Alliance Termination:** involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or reallocated resources elsewhere.

The advantages of strategic alliance includes: 1) allowing each partner to concentrate on activities that best match their capabilities, 2) learning from partners & developing competences that may be more widely exploited elsewhere, 3) adequacy and

suitability of the resources & competencies of an organization for it to survive.

CONCLUSIONS

1. Strategic alliances are no longer a strategic option but a necessity in many markets and industries. Dynamic markets for products and technologies, coupled with the increasing costs of doing business, have resulted in a significant increase in the use of alliances.

2. Strategic alliances are increasingly becoming an important part of overall corporate strategy, as a way to grow product and service offerings, develop new markets and leverage technology and R&D.

3. Strategic alliances are an indispensable tool in today's competitive business environment. No longer can companies afford *ad hoc* approaches to alliance formation and management, any more than they can rely on a small number of talented alliance managers.

4. Many global companies have multiple alliances, some global, requiring coordination with numerous partners. Companies are also finding benefits to partnership with competitors. How are these companies managing this competition? What are they doing to develop a working relationship yet still protect them? The must be created by creating customer value through partnerships, managing alliances with competitors, managing global alliances.

5. New insights on alliance management tools and strategies, focusing on: leveraging differences with partners to create value, dealing with the internal challenges of making your partnerships succeed, managing the day-to-day challenges of alliances with competitors.

6. Risk management is a company wide concern and strategic alliances have their share of risks. Insights on managing risks in alliances including: managing reputation and relationship risks; risk assessment and legal issues in alliances; intellectual property protection; dealing with breaches of alliance contracts; termination triggers; restructuring versus termination; when and how to exit an alliance with minimal risk.

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