ABOUT ORGANIZATIONS PROPENSITY TO ENTER STRATEGIC ALLIENCES

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Briefing

Strategic alliances become in the international context an important tool for strategic decision –makers. This paper is concerned on some approaches regarding strategic alliances; the factors influencing them, partnership elements and some advantages and disadvantages alliances are bringing to organizations are subject of discussion, as well.

1. Introduction

The increased competition within global markets that organizations have to face is influencing the decision-makers to act in the way of building flexible safe boundaries. Organizations have to solve the trade-off between cost, control, flexibility and competitive advantage within international environment. They can adapt to this context by retaining their control on core activities that is related to the fields where the competitive advantage has been built and to make up the skills and competences that are lacking or under risk of not creating competitive advantage by partnerships and alliances.

Strategic alliances are strategic partnership based on collaboration between organizations or consortia – alliances between more then two partners. This kind of relationship is set up between independent organizations in order to make up the lack of strategic competences by bringing together distinctive competences, to share compatible goals and to achieve mutual benefit. Alliances are not equity-based relationships. They can be performed between tow partners or among more partners. They also can be set among corporate partners, between small companies and corporate and between non-for-profit organizations and corporate. Corporate partners more and more support charity organizations.

2. Strategic alliances types

Strategic alliances may include long - term purchasing agreements, joint-marketing programs, shared research and development programs and equity-based programs or short- term agreements to deal with temporary situations such as resource deficiencies or lack of market knowledge in a country. The arrangements could be 'horizontal' between suppliers or 'vertical 'between suppliers and buyers [5]. Most of alliances are set up for distribution, production and research & development activities.

Alliances for distribution are when a partner is acting on a market and accepts to share it with another partner its distribution network. In this way, the fist gains volume of sales and the other is selling its products or services without supplementary costs. This type of alliance has limits because of the risk that the first partner could not sale his products or services at one moment or can not launch his products or services that are similar with those of the partner.

Alliances for production are supposed for a partner to manufacture the other partner's products. For example: Mazda in Japan and Ford USA alliance since 1990. Ford supplies to Mazda cars assembled at some of its facilities for marketing under Mazda label and network and vice versa [4].

An alliance for research & development implies the partner's obligations to keep pace with new technologies, to use the same standards and to implement the new technologies. For example, as e-Week magazine cited in March 2005 that Siemens Business Services signed a contract of 700 million Euro with British BBC for 10 years to ensure IT for BBC that is placing SBS on the second place in Europe after IBM and is bringing to BBC savings of 45 million Euro.

3. Partnership elements

Paun [3] has been extended the 4 P's of the marketing traditional model (product, price, positioning into distribution network and promotion). He added other three characteristics called "partnership elements": marketing planning, performance reviews and communication.

Marketing planning implies shared planning and strategies that facilitate mutual co-operation through alliances and partnership. The long-term alliances need to work on constant new things to do together and to perform mutual learning between organizations. Mutual agenda in improving together production methods, design, training and marketing issues help for consensus and for developing goals and strategic objectives.

Performance review is concerned on evaluation of an alliance partner's contribution to the relationship and on monitoring the performance. Alliances management is the core of success in this kind of relationship. Most of the alliances failed because of management lack of skills and wrong behavior and a negative attitude for strong commitment and trust.

Communication is linked to the mutual understanding of partners and implies bi-directional flows of communication at multiple levels and multiple forms (electronic data exchange, visits, meetings, etc.). In early-formed alliances the partners adopt a 'gateway' system in which all communications pass through one office and each partner has appointed a 'gatekeeper' to avoid the risk of misunderstanding of contract stipulations.

4. Causes of strategic alliances

The causes an organization is entering into strategic alliances are grouped, according to Varadarajan and Cunningham into three categories of characteristics [4]: environment characteristics, industry characteristics and firm characteristics.

Strategic alliances is the best strategic decision-making for the managers when an organization:

- is lacking some set of strategic resources and competences because of legal and political environment factors, the increase of market uncertainty or changes in buying behaviour (environment characteristics);
- is searching to become cost-competitive because the threats of new entrants into the industry, the threats of competition from substitutes or increasing of minimum efficient scale of the industry (industry characteristics);
- is seeking for strategic resources to avoid constraints and restrictions because of the organization's size and resource position, organizational culture, management abilities or market diversity (firm characteristics).

The following aspects characterize most of the organizations that have to pass through a dilemma: to enter or not into alliances.

- The 'environmental characteristics':
- the degree of market uncertainty is high because the market certainty depends on external factors, on the activity of advertising agencies, on the quality of services or international, regional or local policies.
- the rate of technological change is high and the lack of funds, the high interest rate, the high inflation rates are several causes to make barriers against technological changes in emerging markets.
- political, legal and regulatory environment require governmental norms, procedures and laws to protect the environment and make pressures to organizations to respect them.

The 'industry characteristics':

- the activity is considered to be at a minimum efficient scale. The volume of activity covers the costs, but the profit is not really high. The need for scale economy to cover opportunity costs is increasing because of competition threats;
- convergence of industries and associated costs of product development are rising;

- the speed of entry into market is forcing organizations to capture customers and this is a matter of marketing relationship strategy.
- Cost structure is more important and advertising and promotional activities need to gain room.

The 'firm characteristics':

- product -market diversity is not of a largest range and the market is really on constrains.
- the organization has not the ability to mobilize resources independently. It is really dependent on electricity, on services for transportation, on cyclic and customization.
- prior involvement in strategic alliances has not signed any prior alliances. The relationship is managed through empirical techniques, based on friendship.
- top management's attitude towards strategic alliances is not really open for strategic alliances and they really need knowledge in doing it.
- corporate culture is strong and is difficult to be interrelated with a partner different one, such as Western and Far East cultures. Generally speaking the western organizations are more open and enthusiastic than Far East organizations that share information with their employees rather than with other organizations.

5. Advantages and disadvantages

Alliances have huge advantages when organizations are acting into international environment. Rapid changes and volatility of international environment lead organizations and especially the corporations to enter into strategic alliances to avoid risks, to make up some of their strategic resources and capabilities for specific markets or customers, to enlarge their activities or business, to avoid redundant costs and to gain more performances.

It is no draught that strategic alliances help organizations to face competitive pressures, to gain time in building new strategic capabilities, to improve competitive position on the market, to enter new markets by using the competences of one or several partners.

Although alliances bring advantages organizations are facing risks that are coming out from the independence of partnership to create competitive advantage. Many alliances failed, as for example the alliance between Pirelli and Dunlop in 1980. Whether in time the organization is lacking an advantage competence and use the partner's competence, but in time is creating it this partner will give up the alliance. Some other disadvantages are related to the costs of alliances and the costs of terminating the alliances as Day [1] argues. The main costs of alliances and terminating the alliances could be: the time spent in negotiating, implementing and integrating the alliance, loss of flexibility and freedom of actions, the eroding of partners capabilities in the joint field of action, opportunity costs, loss of opportunities to start earlier an independent activity, loyalty violation risk. Probably lose of control in the common activities and in decision-making is the most important impediment.

6. Conclusions and recommendations

- Alliances are good and useful for risk spreading, for strategic competences substitute and for costs cut by economies of scope and scale, but alliances are not the single way to obtain these advantages and they have important disadvantages.

In order to build successful alliances managers need to tack into account the followings:

- to write contracts with clear organizational arrangements including clear dispute resolution system, an appropriate legal form and a clear process of information dissemination;
- to put in charge skilled and experienced people to manage the relationships;
- to act in a positive attitude and to interrelate the partners cultures as much as possible.

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