

STRATEGIC ALLIANCES: FROM SUCCES TO FAILURE

Bugnar Nicoleta

Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: nbugnar@uoradea.ro, tel:07224744922

Meșter Liana

Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: lmester@uoradea.ro, tel:0745419739

Petrica Dana Maria

Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: danamester@yahoo.com, tel:0726684622

Over the past few years, the strategic alliances had been increasingly common. The term “strategic alliance” can mean many different things, but the commonly used meaning entails a joint corporative effort by two or more companies working towards agreed upon goals. Despite their undisputed advantages, more than half of the alliances that are made during a year are a total failure. As any process, it has its advantages and its disadvantages, and it takes a lot of work, from each partner, in order to make the alliance complete its goals. There are some principles that must be observed and after all, making a strategic alliance is not as easy as it may seem before a complete analyze.

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The concept of strategic alliance

Strategic alliances are agreements between firms in which each commits resources to achieve a common set of objectives. Companies may form strategic alliances with a wide variety of players: customers, suppliers, competitors, universities or divisions of government. Through strategic alliances, companies can enhance your competitive positioning, are eligible for entry into new markets and share major risks or costs of development projects¹⁰⁵.

International strategic alliances materialize in cooperation agreements between companies, sometimes competing companies, for the exchange or sharing of activities or economic areas. These alliances, known as alliances or global strategic partnerships, means business arrangements whereby two or more partners cooperate in mutual benefit, which is designed specifically to support and strengthen the competitive advantages of partners.¹⁰⁶

The purpose of alliances is to minimize risk while maximizing profits. Alliances can be formed in the department of marketing, sales and distribution in common, joint production, design collaboration, technology licensing and research and development. Relationships can be vertical - between a seller and a customer, horizontal - between suppliers, local or global. For small businesses, strategic alliances are a way to work with others toward a common goal while not losing their individuality. Alliances are a way to collect rewards of team effort.

Alliances are often confused with mergers, acquisitions and outsourcing¹⁰⁷. Although there are similarities in the conditions under which a business may consider these solutions, they are far from being the same. Mergers and acquisitions determine permanent changes in the structural mode in which the company exists. Outsourcing is simply a way to acquire a functional

105 Steve Steinhilber – Strategic Alliances: Three Ways to Make Them Work, 2008, p. 58.

106 Danciu, Victor – International Marketing. From traditional to global, Economic Press, Bucharest, 2001, p. 244.

107 Stephen I. Glover, Craig M. Wasserman – Partnerships, Joint Ventures & Strategic Alliances, 2003, p. 1127.

company. An alliance is a business-to-business collaboration. Another term that is commonly used in conjunction with the alliance is establishing a business network.

Rosabeth Moss Kanter, a professor at Harvard University, having an experience of over 20 years in various companies participating in strategic alliances and partnerships, compares these alliances with different couples's marriages. Such alliances are seen as equivalent of corporate "friends with benefits"¹⁰⁸. The partners combine their forces to achieve their strategic objectives without a marriage or engagement. Commitment is a little over a chum to share the rent, but not much. For example, some alliances between airlines allow links - loyalty programs to customers - but also the continuation of competition; for example, American Airlines and British Airways compete across the Atlantic, while OneWorld Alliance partners globally. The smart ones can take advantage of the chance to peek inside the operations of a partner to learn new skills. This was a goal of NUMMI, the former alliance between General Motors and Toyota to make small cars, Toyota has received many skills learned through this alliance.

The methodology for establishing a strategic alliance

Strategic alliances are becoming increasingly more and are a common tool for expanding the company. Businesses use strategic alliances to:

- obtain advantages of scale;
- increasing competitiveness of domestic and global markets;
- products development;
- developing new business opportunities through new products and services;
- expansion and market development;
- increasing exports;
- diversification and creation of new business;
- reducing costs.

Literature presents mostly as motivations: entering new markets, develop business in a particular area, sharing risks, reducing costs of research – development, partners' experience, etc.

To fully understand how they operate and expand these strategic alliances, we should explain why they appeared on the market. Earnings that such alliances generate are determined, in most cases, by the access to a particular technology or a management system. Companies can reach a market without the need to form their own distribution channels or can run an efficient production without further investment in a factory, etc.

However, because of the risk of loss of control over the know-how, we can ask what alternative forms of organization - the license, its subsidiaries, mergers - have proved to be insufficient. Reasons given by companies were: the size of investments required, the time needed by the company to make its presence felt on the market and less exposure to risk.¹⁰⁹

There are two important *factors* in the expansion of these alliances, factors brought into question more often in recent years:

- *first factor* go to the grind control¹¹⁰: the technology and implicit know-how is spreading faster than ever and production processes involving a particular technology is copied through benchmarking; under these conditions the companies have access to existing technology on the market in question simply by their presence here;

108 *** - Harvard Business Review on Strategic Alliances by Harvard Business School Press - 2003 – p. 124.

109 Hamel, Gary; Yves, Doz; Prahalad, C. K. – Collaborate with Your Competitors and Win, Harvard Business Review, January – February 1989, p. 139.

110 Johansson, Johny – International Alliances: Why Now ?, Journal of the Academy of Marketing Science, Fall, 1985, p. 56.

- *the second factor* goes to the urgent need to compete in several markets simultaneously; this presence is necessary to analyze customers and competitors monitoring, in these circumstances strategic alliances allow firms to expand resources management.

Once taken the decision to form an alliance is needed to determine the factors that led to the decision, what do you look through this alliance? Typical business objectives can be either: the production capacity or the technological expertise. Some criteria to be considered are: corporate culture, hidden agendas, and internal commitment.

For businesses seeking ways more complex there are many companies specialized in arranging strategic alliances. Association of Strategic Alliances is a non-profit organization dedicated to managing resources, exchange of best practices, and supporting professional development of those involved in strategic alliances. They provide information on strategic alliances and links to members who are professionals in the organization of alliances.

In essence, to form a strategic alliance, the companies should:

- define their business vision and strategy to understand how an alliance fits their objectives;
- evaluate and select potential partners, process based on the level of synergy and capacity of businesses to work together;
- develop a working relationship and mutual recognition of potential opportunities to partner;
- negotiate and implement a formal agreement, which includes systems for monitoring performance.

Alliances must be part of any plan as the recession continues. For new companies and smaller organizations, alliances can reduce costs with dual activities, while enabling the parties to pursue their own paths. Smaller organizations can reach through a network, in places where they were never able to reach on their own. Non-profit organizations can form strategic alliances to share potential donors or the offices' costs.

It looks so tempting. But alliances are fragile and difficult to make to last.

Chrysler has received an ultimatum from the Obama's administration: to complete a strategic alliance with Fiat or otherwise is threatened to leave the business. Indeed, they lost an alliance with Nissan, which was part of the bail proposal presented by the Chrysler in November. So Chrysler could find a partnership with Fiat its last hope for sustainability. Expected benefits include scale economies by using common platforms for uncompetitive products, access to new global markets for Chrysler, and other brands for Chrysler dealers in the U.S. To achieve all this without selling Chrysler back from a foreign owner, it's recommended an alliance rather than a merger.

The "8 I's" concept, of professor Rosabeth Moss Kanter¹¹¹ identifies factors that make alliances and partnerships to succeed, bringing benefits to all parties:

1. *Individual excellence*. Both parties must be strong, because weak partners can't raise each other.
2. *Importance*. The relationship must have strategic importance. If it is occasionally it does not worth the trouble.
3. *Interdependence*. The most powerful and lasting alliances arise between the parties that are different in some respects and need each other to carry out an activity that would not carry otherwise.
4. *Investment*. A sign of commitment is the willingness to invest in the partner's success.
5. *Information*. Transparency helps to build a solid relationship. If you do not want your partner to know too much about you, why walk into an alliance?
6. *Integration*. There must be many points of contact between organizations that link them in common activities.

111 *** - Harvard Business Review on Strategic Alliances by Harvard Business School Press - 2002 – p. 86.

7. *Institutionalization*. A formal structure and the governing board shall ensure objectivity, and that there are considered also the alliance's interests, not only of each company separately.

8. *Integrity*. Trust is essential. Alliance tears through processes and conflict when partners do not act ethically towards one another or not endeavor to contribute to the success of others.

Therefore Chrysler has a long way to go to profit from a relationship with Fiat.

Alliances seem a way out for organizations that wish to remain independent but need to reduce costs, to enable larger scale or to obtain rapid a largest segment of the market. Seems easy, but still is difficult to do.

Benefits of strategic alliances vs. disadvantages their

Strategic alliances are tool for implementing corporate goals. Although no alliance can provide all the objectives of a company, when achieved, alliances may result in the following *benefits*¹¹²:

- *access to new distribution channels*: an alliance can be structured so as to give a company access to new channels of distribution, which otherwise would be difficult or costly for penetrated;

- *access to new technologies*: many alliances are being made to give it to companies to new technologies through licensing or other contractual types:

- *access to capital*: one of the main reasons why small businesses turn to alliances is just that, so they have access to new sources of funding for growth and development of new products or services;

- *access to international markets*: in a global economy, multinational alliances that allow the penetration of international markets present real benefits; alliance with a company that has assets already on the foreign market, who knows the culture and the competition on the market, offers much more security and opportunity for success than trying to penetrate that market individually;

- *reducing costs and uncertainty*: alliance with a partner can lead to sharing the costs and risks caused by a new product, entering a new market, etc.

- *increase competitive ability*;

- *increase the credibility*: for a newly established company can be beneficial the alliance with a partner already known, which enjoys market recognition;

- *access to new or existing products*.

All these indisputable advantages of strategic alliances have increased their number in a very dynamic rhythm. In order to create benefits for their members is necessary that the 8 written principles to be respected just by all members. Otherwise, we are dealing with "reverse of the medal", namely instead of the benefits members will feel the *disadvantages* of strategic alliances:

- *lack of total control*: by definition, alliances involve the sharing of control of common objectives and implementation strategy for achieving them; lack of control over the business can create significant problem if there are misunderstandings or differences between the alliance partners;

- *high rate of failure*: if it does not start with good intentions from both sides, there is a high rate of failure in these transactions; failure is often due to differences in organizational culture, non realistic expectations, inability to agree on the direction or decisions, or the inability of a party to bring the expected benefits (e.g. new technology, customers, distribution channels);

- *adverse impact on the flexibility of the participants*: alliances may limit the flexibility of participants, not letting them to take part in other alliance, acquisitions, mergers or other transactions; the absolute key in this is the commitments made by the parties of the alliance by signing the contract; the contract may be set to ban the competition to the partner or to ally;

112 *** - How to Form and Manage Successful Strategic Alliances de Canada Industry, Science and Technology Canada, Strategic Business Research Group – 1990, p. 42.

- *depending on partner*: alliances may cause dependence against the other partner; this affects performance and affects the dependent partner's performance, leading ultimately to the failure of the weak partner;

- *commitment of time and resources*: successful alliances require a strong commitment to staff and management and a significant amount of capital and other resources; sometimes it becomes difficult for partners to invest time in league resources, and also can distract managers from activities outside the alliance.

Given the many disadvantages of strategic alliances, and especially an increased risk of irreversibly damaging the company by any small distraction, a very detailed analysis of the partner and contract goals appears to be more than necessary.

Regardless of the view formulated should be noted that these strategic alliances with any company can achieve goals that before were not possible to achieve on an individual basis. In these circumstances we can say that the strategic alliance is an effective response to changing conditions on the world market.

Regardless of how to implement the market, an international strategic alliance is usually a collaboration between companies, even between potential competitors, cooperation which can include any part of the value chain, although the focus is limited to production, research - development and distribution.

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