Strategic Alliances

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Strategic alliances (SA) are trading partnerships and new business forms that enable participating firms to achieve strategic objectives beyond their existing capabilities by providing for mutual resource exchanges (technologies, skills, or products). SA involves two or more partner firms that: (1) remain legally independent after the alliance is formed; (2) share benefits and managerial control over the performance of the partnership; and (3) make continuing contributions to the partnership (Yoshino and Rangan 1995:5). SA encompass both short-term project-based and long-term equity-based cooperation between firms with varying degrees of vertical integration and interdependence, and/or horizontal synergies. SA combine the assets and capabilities with the liabilities of all partners.

Conceptual Overview

SA have a long history although only recently have been recognized as an essential institutional form that supports collaborative activities. The main research on SA has emerged at the cross-road of multiple disciplines such as: strategic management, organization theory, political science, international business and economic theory of cooperation. Much of the theoretical foundations were established with the edited volume by Contractor and Lorange (1988) on co-operative strategies in international business, with contributions from Buckley and Casson on a 'theory of co-operation', Contractor and Lorange on 'the strategy and economic basis for cooperative ventures', Harrigan on 'partner asymmetries'. Other contributions include Cunningham & Calligan (1991) on 'competitiveness through networks of relationships', Hamel (1991) on 'inter-partner learning in strategic alliances', Auster (1994) on 'theoretical perspectives on inter-organizational linkages', Gulati (1995) on the relationship between repeated transactions and trust', Doz (1996) on the 'learning processes in strategic alliances', and on 'management of collaborations in technology based product markets'. Some of the leading research questions explored were: why alliances are set-up (Gugler, 1992); the international context of cross—border strategic alliances (Snodgrass, 1993), or how to achieve

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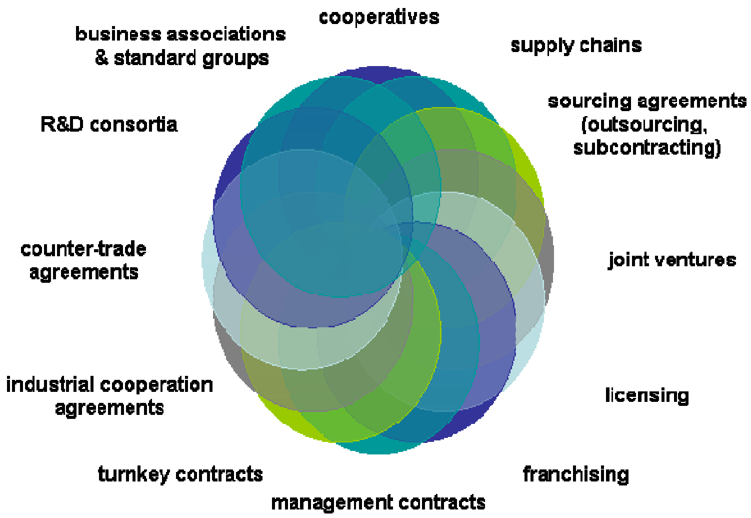
success in international strategic alliances (Bleeke and Ernst (eds.) 1993), Mohr and Spekman, 1994).

Different alliance forms represent different approaches that partners adopt to control their interdependence. Different types of SA are also associated with different legal forms, which enable firms to control the resources allocation and the distribution of benefits among the partners (Knoke 2001: 121-128; Todeva and Knoke, 2005).

Figure 1. Types of Strategic Alliances, Partnerships and Sharing Agreements



SA typically include diverse organizations, such as suppliers, buyers, competitors, regulatory authorities, financial and credit institutions, that together comprise the "economic organization of production" (Ghoshal and Bartlett 1990). The most established legal forms and types of SA are: *cooperatives* (a coalition of small enterprises that combine, coordinate, and manage their collective resources), *supply chains* (based on long-term procurement contracts between firms), *sourcing agreements* (including outsourcing and subcontracting various business functions and operations), *joint ventures* (equity and non-equity based agreements between two parent companies that establish a new legal entity), *licensing* (knowledge-based agreements that transfer patented information for the use, manufacture and distribution of products and services), *franchising* (contract-based organizational structure for entering new markets based on a transfer of a business concept with corresponding operational guidelines from a franchisor to a franchisee for a fee), *management contracts* (used by businesses to acquire management services such as:

facilities/ warehouse/ operations/ or fund management), *turnkey contracts* (large international consortiums formed for the construction of new production facilities that include investors, governments, engineering firms and multiple contractors, and include responsibilities for the provision of resources, technology, know-how and management during the development, installation and the subsequent exploitation phases), *strategic industrial cooperation agreements* (large contractual business networks based on joint multi-party strategic control and sharing responsibilities for performance outcomes; may include a multitude of specific alliance forms), *counter-trade agreements* (large multi-party agreements supported by governments, where payments are agreed in the form of barters, offsets, counter-purchase, and buy-back), *research and development (R&D) consortia* (inter-firm agreements for collaboration in research and development), or various *business associations and standard groups* that make strategic decisions implemented via membership and participation (Todeva and Knoke, 2005).

Bleeke and Ernst (1993) summarize four generic needs of firms seeking alliance: *cash*, *scale, skills, access*, or their combinations. Among the main motives investigated in the literature are the following four groups:

Organizational motives **-** learning and various kinds of acquisition and internalization of tacit, collective and embedded knowledge skills and capabilities; competence building; organizational restructuring; to enhance productive capacity; to acquire means of distribution; to recreate and extend supply chains; to achieve complementarity of goods and services to markets; legitimation;

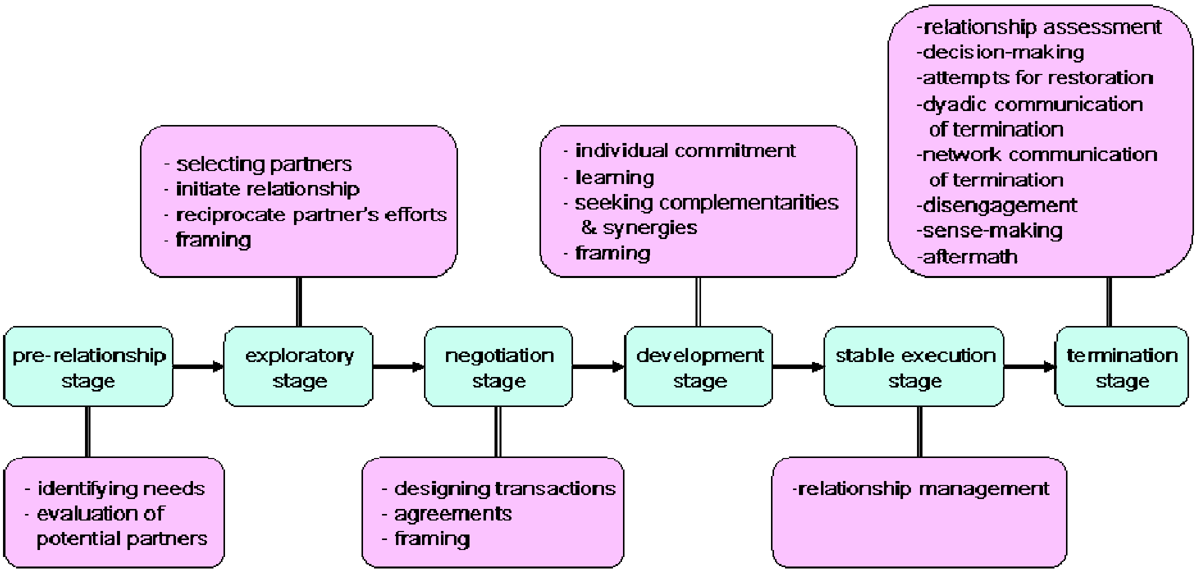
Economic motives – costs reduction / sharing; pooling of resources; risk reduction and risk diversification; improving performance; market seeking; obtaining economies of scale; co-specialization;

Strategic motives **-** competition sharing/ pre-emption by cooperating with potential rivals; to reduce uncertainty of the environment; to adjust to environmental changes; to achieve vertical integration; to achieve competitive advantage that enables firms to increase profits, or to gain future business opportunities; to develop new products and technologies; product differentiation; portfolio diversification; access to new technologies; converging technologies; joint R&D; following industry trends;

Political motives - market development and positioning; overcoming legal and regulatory barriers; developing technical standards; influence and position enhancement.

The evolution of business relationships between alliance partners passes multiple stages and it does not always follow a linear process as described in Fig. 2. At the **pre-relationship stage** each of the partners identifies a set of needs and motives that support a decision to enter a partnership, and all firms begin to evaluate potential partners.

Figure 2. The Process of Alliance Relationships



Note: Adopted from Todeva (2006)

Strategic decisions to enter an alliance are driven by evaluations of the: *global environment* (legal requirements, macro-economic policies, state regulatory activity, state supervision and subsidies, price controls, tax incentives, methods of contract enforcement, financial capital markets, and international trade regimes); *industrial context* (intensity of industry competition, social organization of specific product markets, industry supply chains and distribution channels, the knowledge / capital / resource / labor / technology intensity and supply**),** and *organizational factors* (firm sizes, visible and tacit assets, collaborative histories, ownership forms, corporate social capital, supply networks, product diversification, market share and position, human resources, managerial styles, or reputation).

At the **exploratory stage** partners select each other and initiate relationships based on multiple implicit processes and criteria. Partner selection is affected by: operational interdependence, co-location, previous ties and alliance practice; the prospect of equity agreements, the social network of indirect ties and referrals, brokerage processes involving thirdparty introductions, evaluation of synergies, complementarity of capabilities and cultural proximity.

During the **negotiation stage** partners frame the scope and the scale of cooperation with a focus on the shared activities, costs, commitments, legal liabilities and rights.

During the process of open solicitation and seeking consensus the relational partners elaborate on their mutual objectives, capabilities, resources, and tasks, and reach an agreement how to deal with the complexity and uncertainty of collaboration. Alliance agreements are know as relational contracting which embraces not only unspecifiable terms and conditions in complex and open-ended contracts, but also collective interorganisational strategies for eliminating rivalry through tacit coordination. Relational contracting rely on such diverse coordination mechanisms as reciprocity norms, interorganisational trust, and social capital embedded in multiplex exchanges and social interactions (Haugland, 1999, Todeva and Knoke, 2005).

During the **development stage** of SA partners implement organizational change in order to execute the undertaken commitments. This process coincides with intensifying interactions across the alliance, sharing knowledge, learning and exploring activities that generate synergies and complementarities. Organizational learning occurs when a firm acquires, assimilates, and applies new information, knowledge, and skills that enhance its long-run performance and depends on the absorptive capacity of each firm. SA can operate as institutionalized channels for transferring know-how and/or synergically creating new organizational capabilities.

The **execution or implementation phase** typically requires that partners pool together human resources and material assets; develop a practical governance structure with sufficient power and control; and learn how to cooperate for mutual benefit. Misunderstandings and conflicts arising in SA demand that partner firms master new management skills, especially coping with complex lateral relationships. Alliance implementation issues include: the choice of governance mechanisms, enhancing trust and reciprocity between partners, managing the integration of project staffs from different organizational cultures, and resolving conflicts that arise among partners with divergent expectations about the collaboration. Metaphorically the octopus form of alliance management is used to symbolize classical management control from the center, while the network metaphor implies decentralized organizational structures and management processes that facilitate shared control.

There is no common view on what qualifies a SA as successful, and what **termination** means. In general, success means that the partners have achieved their own strategic objectives and have recovered their financial costs and investments. A successful collaborative agreement may terminate through complete project dissolution, either before or after achieving its formal objectives. It may also terminate by an acquisition by one of its partners, or through an organizational merger where the partnership serves as a transitional phase exploring the feasibility of fusing partners' identities into a new enterprise. In cases of a failure of a SA relationship, the dissolution phase includes the attempts of partners to restore the relationship, or a subsequent dyadic and network communication of the termination, disengagement, sense-making and dealing with the negative consequences at the aftermath stage (Todeva, 2006).

Commentary and Future Directions

Among the main impacts of SA on partners are: positive effect on stock prices, profits, productivity gains, market shares; enhanced organizational credibility; superior production performance; access to diverse information and capabilities; positive impacts on corporate shareholder value; technological complementarities; leveraging its member firms' resource capabilities across the alliance network. Among the negative implications are: "locking" of partners into unproductive relations or blocking collaboration with other viable firms, and rigidity in changing order levels and trading partners (Gulati, Nohria & Zaheer 2000).

Among the societal consequences the literature suggests increased anticompetitive tendencies that can hinder efficient production, restrict market access, and reduce economic competition, or that can lead to a greater concentration within industries that may contribute to higher prices, or suppress innovation.

Some of the questions that remain under-researched are: What conditions lead to the abrupt breakdown of negotiations and discourage efforts to form new partnerships? What institutional, relational, and organizational features of a SA push projects along increasingly cooperative or hostile trajectories? What measures of absorptive capacity could enable researchers to test hypotheses about knowledge transfers between partners and learning? Which SA governance structures interact with what organizational components to boost learning and knowledge transfer?

See also: business networks, absorptive capacity, learning, coordination

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