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THE ROLE OF STRATEGIC ALLIANCES IN INTERNATIONAL BUSINESSES

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Abstract

Market globalization and impressive market growth force a lot of companies to declare themselves in the position of not having the critical strategic dimension, necessary for a successful competition gigantic markets. As a consequence, companies may be forced to resort more and more, to newer cooperation types, which were inconceivable in traditional economic development and when national markets prevailed. Signing alliances among companies may change the force field on national and international markets and may profoundly reconfigure the respective markets.

1. The architecture of cooperation: managing coordination costs and appropriation concerns in strategic alliances

One of the fastest growing trends for business today is the increasing number of strategic alliances. According to Booz-Allen & Hamilton, strategic alliances are sweeping through nearly every industry and are becoming an essential driver of superior growth. Alliances range in scope from an informal business relationship based on a simple contract to a joint venture agreement in which for legal and tax purposes either a corporation or partnership is set up to manage the alliance

Corporations have increasingly seen alliances as attractive vehicles through which they can grow and expand their scope, and the rate at which interfirm alliances have been formed in the last two decades has been unprecedented. A notable characteristic of this growth has been the increasing diversity of interfirm alliances. The nationalities of partners, their motives and goals in entering alliances, and the formal structures used to organize the partnerships have all become increasingly varied. The variety of organizing structures implies that firms face numerous choices in structuring their alliances. This study examines why firms choose the specific governance structure they do

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in alliances. It explores some of the conditions at the inception of an alliance that influence the formal structure used to govern it.

Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk

The governance structure of the alliance is the formal contractual structure participants used to formalize it. Prior research has distinguished among such formal structures in terms of the degree of hierarchical elements they embody and the extent to which they replicate the control and coordination features associated with organizations, which are considered to be at the hierarchical end of the spectrum. At one end are joint ventures, which involve partners creating a new entity in which they share equity and that most closely replicate the hierarchical control features of organizations. At the other end are alliances with no sharing of equity that have few hierarchical controls built into them. Organizational scholars have long studied the basis for hierarchical controls within organizations and viewed them as a mechanism to manage uncertainty. Prior research on contract choices in alliances and the extent of hierarchical controls they embody has been influenced primarily by transaction cost economists, who have focused on the appropriation concerns in alliances, which originate from pervasive behavioral uncertainty and contracting problems. Following this perspective, scholars have suggested that hierarchical controls are an effective response to such concerns at the time the alliance is formed. Thus, the greater the appropriation concerns, the more hierarchical the likely governance structures for organizing the alliance. The logic for hierarchical controls as a response to appropriation concerns is based on their ability to assert control by fiat, provide monitoring, and align incentives. The operation of such a logic was originally examined in make-or-buy decisions. The same logic by which firms choose between the extremes of making or buying is also expected to operate, once firms have decided to form an alliance, in their choice of governance structure: when firms anticipate appropriation concerns, they are likely to organize alliances with more hierarchical contracts. While researchers have made significant advances in classifying alliance governance structures and in identifying their determinants, our understanding of alliances is limited by two factors inherent in much of that research. First, the research on alliances focuses on the anticipated appropriation concerns as the primary basis of the choice of governance structure. Building on the idea that an important feature of hierarchical controls is their ability to manage potential moral hazards, transaction cost economists suggest that hierarchical controls arise in alliances when participants anticipate such concerns. Even resource dependence theorists, who have looked primarily at the origin of ties rather than their structure, have suggested similar moral hazard concerns as a reason why firms may transform pure exchange relations into power relations.

While appropriation concerns originating from contracting obstacles, combined with pervasive behavioral uncertainty, can clearly be an important concern, once firms decide to enter an alliance, there is another set of concerns that arises from anticipated coordination costs. By coordination costs we mean the anticipated organizational complexity of decomposing tasks among partners along with ongoing coordination of activities to be completed jointly or individually across organizational boundaries and the related extent of communication and decisions that would be necessary. Coordination considerations are extensive in alliances. Litwak and Hylton noted that the specialized coordination in interorganizational relations is a challenge, "since there is both conflict and cooperation and formal authority structure is lacking." As a result, the anticipated interdependence resulting from the logistics of coordinating tasks can create considerable uncertainty at the outset of an alliance that is different from appropriation concerns. The uncertainty for participants concerns the way activities will be decomposed and integrated and the extent to which there is likely to be an ongoing need for mutual adaptation and adjustment.

The distinction between coordination costs and appropriation concerns can be understood with a hypothetical example. Imagine that an alliance is formed between two firms that have complete confidence in each other and face no appropriation concerns whatsoever. Despite this frictionless situation, they must still coordinate the division of labor and the interface of activities and products between them. This creates considerable uncertainty that alliance partners consider at the time they form an alliance and attempt to answer in structuring the relationship.

Hierarchical controls can be an effective solution in situations of high anticipated coordination costs. As noted by Barnard (1938), Chandler (1977), Thompson (1967), and others, an important basis for hierarchical controls is' their ability to provide superior task coordination, especially in situations involving high interdependence and coordination. For small businesses, strategic alliances are a way to work together with others towards a common goal while not losing their individuality.

Alliances are a way of reaping the rewards of team effort - and the gains from forming strategic alliances appear to be substantial. Companies participating in alliances report that at much as 18 percent of their revenues comes from their alliances. But it isn't just profit that is motivating this increase in alliances. Other factors include an increasing intensity of competition, a growing need to operate on a global scale, a fast changing marketplace, and industry convergence in many markets (for example, in the financial services industry, banks, investment firms, and insurance companies are overlapping more and more in the products they supply). Especially in a time when growing international marketing is becoming the norm, these partnerships can leverage your growth through alliances with international partners. Rather than take on the risk and expense that international expansion can demand, one can enter international markets by finding an appropriate alliance with a business operating in the marketplace you desire to enter.

Businesses use strategic alliances to:

- achieve advantages of scale, scope and speed
- increase market penetration
- enhance competitiveness in domestic and/or global markets
- enhance product development
- develop new business opportunities through new products and services
- expand market development
- increase exports
- diversify
- create new businesses
- reduce costs.

Strategic alliances are becoming a more and more common tool for expanding the reach of your company without committing yourself to expensive internal expansions beyond your core business

2. Stages of Alliance Formation

A typical strategic alliance formation process involves these steps:

- Strategy Development: 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. It requires aligning alliance objectives with the overall corporate strategy.
- Partner Assessment: 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: Contract negotiations involves determining whether all parties have realistic objectives, forming high calibre 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: Alliance operations 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: 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 re-allocated 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 a suitability of the resources & competencies of an organization for it to survive.

3. Risks of Strategic Alliances

Strategic alliances can lead to competition rather than cooperation, to loss of competitive knowledge, to conflicts resulting from incompatible cultures and objectives, and to reduced management control. A study of almost 900 joint ventures found that less than half were mutually agreed to have been successful by all parties.

An alliance can fail for many reasons:

- failure to understand and adapt to a new style of management
- failure to learn and understand cultural differences between the organizations
- lack of commitment to succeed
- strategic goal divergence
- insufficient trust
- operational and geographical overlap
- unrealistic expectations

4. More and Bigger Alliances

The IT deals, in turn, are only part of the unstoppable trend in world business towards more and bigger alliances of all kinds. On the day that IBM and Toshiba unveiled their latest partnership, Wendy's, the fast food chain, announced a 400 million$ merger with a Canadian coffee and doughnuts chain, Hortons. The two have been allies for four years, coming together to build 'combo' units selling both hamburgers and doughnuts.

The reasons for the alliance are strikingly clear from the numbers.

The combos save about a quarter of the costs, and sell a fifth more than either a Wendy's or Hortons on its own. That's often the basis of an alliance: to reap the synergies of sharing capital and operating costs while tapping a bigger market than either partner could achieve independently. The word synergy (meaning that two plus two supposedly makes more than four) was once fulsomely used to justify takeovers and fell into disrepute when their promised payoffs didn't arrive. But in their quieter way, alliances seem to be delivering the goods.

That's after a discouraging start, when alliance results appeared to be no better than those of allegedly synergistic acquisitions. It isn't just that managements have become more adept at handling strategic alliances (though they plainly have). The improvement results, first, from necessity: and second, from intrinsic aspects of the alliance relationship. Necessity is the mother of more than invention. If a project is absolutely vital to your future, the incentive to make it work is absolutely compelling.

Even three-way partnerships can pay off where necessity rules. The PowerPC chip mentioned above has been widely hailed technically. Nobody noted the managerial achievement involved in bringing so complex a device into production and to market. But Motorola, Apple and IBM all had very powerful motives in their respective confrontations with Intel. Without an advanced microprocessor, Motorola would have been forced out of the market: Apple could never have competed with its MS/DOS rivals: and IBM would have been wholly at Intel's mercy.

As it happens, Apple has probably gained most of the trio and IBM least, because the latter found prohibitive the inherent disadvantages in offering two directly competing PC lines. That happens with alliances - they evolve over time as circumstances change, and may even develop (as with Hortons and Wendy's) into full-scale merger. So the partners have to be flexible for the alliance to work. That flexibility is one of the key, intrinsic characteristics that explain how so many alliances have resisted the inflexible forces that commonly mar straight amalgamations.

5. Focus and direction

Another powerful factor is that, for an alliance to be effective, each side must have a clear benefit in view and in realization. This clarity of purpose is linked with two other essentials of good management and winning strategy: focus and direction. The alliance is focused on a specific, uncluttered shared objective, and execution is placed firmly in the hands of an operating management whose task is equally clear. A clear line, moreover, is drawn between the operators and their overlords. There's no confusion between the two roles, as there is inside nearly all companies.

The good alliance in fact closely resembles a first-class piece of project management - the mode which is taking over much work inside large organizations. With external alliances also growing fast, the whole pattern of strategic formation and execution is plainly changing towards genuine partnership. That changes the nature of the corporation - every corporation. Consider the examples of the four major companies in quite different businesses mentioned above. Their alliances are so important that none of the four could now realize their ambitions without their many partners.

Smith Kline Beecham's necessities included tapping into drug-related research fields, like biotechnology, where it had no position itself. At Allied Domecq, plans for developing as a global force in spirits depended on continued success with partners in markets like Japan. For Pilkington, alliance with a Japanese competitor was the key to expanding in automotive glass in the US and other markets. At GKN, alliances were the foundation for its attack on global markets for automotive drive-trains.

In all these relationships, the most striking element is their durability and relative smoothness. They became taken for granted, but only because the respective partners had worked hard, and were still working, to ensure that the benefits were mutual and the management effective. Whether the lessons of allied success are being transferred into the internal management of the allies themselves is another matter. But that's the next logical step - and the next necessity.

Too many companies joke about the 'tubular bells' or 'silos' that characterize their organizations: separate compartments which never unite in the common cause of corporate success. Sheer difficulties in communication used to explain (though not justify) these harmful internal divisions. But Intranets and e-mail sweep away the difficulties. Departments, divisions and separate businesses can keep each other fully informed at all times and in real time. Nothing less makes any sense.

If companies genuinely want to grow, especially globally, the alliance route is sure to be required, both inside and outside. Externally, the approach is identical whether the partnership dynamic is all or any of these: scale, pooling expertise, cracking new markets, cost reduction, minimizing and optimizing investment, competitive advantage, or sharing technology, high or low.

In high-tech, especially in information and communications, alliances are indispensable, not least in developing and marketing the technology that binds customers with their allies and enables them to achieve genuine synergies. The old adage, 'if you can't beat 'em, join 'em', has a new and universal twist: 'join 'em, and you can beat anybody.'

I would say that this new concept will change the way that we do business.

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