Strategic Alliances; A Comparative Analysis of Successful Alliances in Large and Medium Scale Enterprises around the World

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ABSTRACT

In the fast growing competition of constantly developing markets and changing consumer preferences, some manufacturing companies are more successful than others to achieve its goals profitably. As competition is becoming more severe and alternatives are being introduced rapidly, firms struggle for the right of market share and to gain competitive advantage over their rivals to brighten their future and one way to do that is forming a strategic alliance by developing a relation between two or more independent firms that agree to share resources to achieve some common objectives.

Forming an alliance can save costs and give access to new markets, which otherwise is not possible for many firms. Therefore, several key factors for strategic alliance formation and its success are important to consider. If a company overlooks the critical process of intensive analysis, designing, managing and evaluation any strategic move while practicing alliance, it can bear unrecoverable loss. Along with the high rise in alliances there is also high failure rate in alliances.

This research paper attempts to review the implementation of strategic alliances in the large and medium firms of the world, its importance, the requirements needed to be fulfilled to make a successful strategic alliance and some examples of real world strategic alliances.

Keywords: Strategic Alliances, Inter-Organizational Relationships, Strategies, Successful Alliances, Unsuccessful Alliances

INTRODUCTION

Strategic Alliance is an agreement between two companies working on same horizontal level in the market, that share resources to carry out a desired project for which both parties have some common interest. Many inter-organizational formations come into view when organizations look for creating new efficiencies by making a reliable supply chain relationship. Organizational firms that let independent firms to share various resources are known as strategic alliances.

Strategic alliances are not easy and simple to make, develop and support. It takes time as many job descriptions of many positions are changed and revised. But a company can achieve high market share by the help of strategic alliances that would be difficult to achieve alone. Some time a strategic alliance can be a failure as well because of the errors made by management. Time, energy and expertise are required by each and every member involved in alliance to create a successful alliance. It is compulsory for the companies to enter into an

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alliance agreement after making a plan, mission, goals to achieve, and outcomes required from this alliance.

For example, a retailer in the clothing industry might create a strategic alliance with a sole clothing manufacturer to make sure that the supplier provides with constant and reliable quality of the raw material as well as the final product is of high quality. [1][2]

LITERATURE REVIEW

Strategic alliance literature has received much attention by scholars during the last couple of decades, and extensive theorizing has been conducted. Strategic alliance is viewed as the existence of premeditated association, aiming at specific and individually forecasted yields to increase and strengthen business and markets, between two or more parties. This mutual understanding of individual organizations is perceived to lead them to their anticipated growth and operational excellence through achievements of their respective goals. (Schermerhorn, 1975). Alliances are a form of cooperative partnerships and must not be misunderstood as mergers or acquisitions (Almuti and Kathawala, 2001).

A prosperous alliance can create enormous opportunities for success and growth as well as securing the business in market place at the same time, due to an additional competitive edge and capacity enhancement. Alliances also provide the advantage of decreased dependency on supplier and make companies potentially more self sufficient. Many horizons can be opened as a result of an excellent strategic alliance. Some of which are reduced cost of supplies, quick access to more and reliable information, exploring new markets through a confident entry, more resources and technology advancements (Bar Nir and Smith, 2002).

Alliance experience and exposure provide an opportunity for learning and new developments along with other tangible benefits (Hamel, 1991). Some studies have focused on the inclination of alliance configuration while focusing on organization characteristic. On the other hand, some other studies have considered a company's business position and its performance in the market (Stuart, 1998). There is hardly any evidence of agreement on the basis on which alliances are created. Nonetheless, a fast growing upward trend in alliance formation is consistently witnessed (Wiklund and Shepherd, 2009). Notwithstanding, the reality of intense failure trend is also continuing in strategic alliances. Often, strategic alliances are viewed in the context of acquisitions and are viewed as an auxiliary to gain control of resources, sooner or later (Larsson et al., 1998, Kale et al., 2002).

Types of Strategic Alliances

There are two types of strategic alliances. They are divided into two parts which are contractual forms and equity forms.

Contractual Forms

Contractual forms of strategic alliances are made when a formal structure of management is not needed. They are usually short term contracts.

Contractual forms include franchising, licensing, joint research and development, turnkey projects, outsourcing, contractual agreements and management contracts.

Equity Forms

Equity form of alliances deals with the involvement of shares which include spaying for of an equity share and an exchange of equity in existing entities. No new entity is made. [3]

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Motives for Forming Strategic Alliances between Organizations

The global competition is increasing day by day, so to improve productivity and market share strategic alliances are made which benefit firms. As a result of global competition and the constantly growing demand for new technologies, strategic alliances are becoming popular and important as its goal is to support the competitiveness of the activities concerned. This is achieved through the utilization of each other's core competence and specialization. The most common reasons why strategic alliances are formed are often market related or technology related, or a combination of the two.

Strategic alliances are created to gain many benefits for the corporation and for many different purposes. Some of them are listed below:

I. An alliance helps to enter new international markets by overcoming political, economic and social barriers. Due to government policies and rules, it is difficult to enter new international markets. Powerful motive to create alliances is to decrease entry barriers by joining forces with other organizations.

II. Home market competitive position is protected by alliances. Entering international markets may affect domestic market but in international market, organization force foreign competitors at home divert their resources away from expansion which protects the home market.

III. Alliances help in increasing distribution networks by acquiring new means of distribution.

IV. Alliances decrease the manufacturing costs, other costs and risks of the project, product or services by sharing between the alliance partners.

V. Alliances in business helps to gain access to intangible assets like brand name, expertise etc.

VI. Due to alliances potential rivals also cooperate which helps to decrease internal and external uncertainties in environment.

VII. Strategic alliances help to broaden product line, services processes and fill product line gaps in the current products. High cost and lack of technology may force a firm to seek a foreign partner to fill their product lines.

VIII. Strategic alliances allow companies to enter new markets and to attract many potential customers which expand their market share. Organizations working in stagnant industries enter alliances to grow its presence in emerging industries.

IX. Strategic alliances reduce the risk of future competition by entering into an alliance with another organization and it shows many future opportunities as well.

X. Alliances allow firms to gain efficiency by achieving economies of scales and vertical integration.

XI. Resources are increased in strategic alliances. As the all partners of alliance provide resources. So the firms that have less resources of any kind they create strategic alliances. Small firms often lack in research and development resources for which they create alliances.

XII. Strategic alliance is created to gain new skills and knowledge. Gaining knowledge is one of the most important factors in creating alliances. Partners in an alliance learn from each other's skills, expertise, technology and technical standards.

XIII. Alliances help to improve performance, productive capacity and existing market product and services by joint manufacturing and developing product jointly.

XIV. Alliances are also made by following industry trends to attain competitive advantages and increase profits.

The highest numbers of alliances formed are mainly for the joint sales and marketing activities. Research and development strategies are the main reasons for forming an alliance. [4] [5]

Strategic Alliances Vs Traditional Relationship

To understand the importance of an alliance, a comparison has been made to make it obvious that how useful and successful companies are after adopting strategic alliances rather than traditional way of doing business.

Cost

Alliances find the sources of cost and extra charges and then they eliminate and divide them, which decrease the cost and increase the profits. In traditional methods the costs are put on others.

Value

Alliances focus on the customer satisfaction and partners to give added value products and services to attract as many customers as possible. Whereas in traditional relationships costs are given more value by making use of low bids services which results in problems in products and process and leads towards failure.

Productivity

Alliances understand failures and have a scope of variability by partnering with permanent few suppliers. But in traditional relationships there is increased variability by contacting more suppliers to get cheap raw materials.

Information

In alliances open communications, sharing knowledge and transparency is encouraged throughout the supply chain. But traditional relationships see information as protected knowledge and use as a weapon in win-lose negotiations.

Resources

Alliance partners invest resources and appoint people, to make the process work and to improve it by jointly including people, time and money to ensure the alliance success. Whereas in traditional way of doing business they see people, money and time as resources to defend themselves.

Relations

Alliance partners make a trustworthy and effective relationship with sense of ownership on every level, which encourage employees to actively engage in the business. But in traditional relationships are dependent on a single personality who dominates.

Risks and Rewards

In an alliance, all partners divide risks and rewards. In traditional way usually risks are given away and rewards are kept. [6]

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STRATEGIC ALLIANCE STRUCTURING

Strategic alliances are the comparatively continuing provisions, separate from institutional arrangement, linking associations to consume resources and plan structures of independent organizations towards shared achievement objectives. For this the joint accomplishment of autonomous organization's objectives are allied to business goals of other supporting organizations.

Inter firm assistance, which is primarily targeted to align in strategically, also need to identify critical hurdles that are important to be removed before proceeding towards encouraging unwavering cooperation in alliance formation. Nonetheless, efforts in doing research are some time not up to mark to diagnose structural magnitude in specific terms in order to align them for better performance leading to successful strategic alliance. [7][8]

Strategic Alliances vs. Joint Venture

A strategic alliance is less involved and less permanent than a joint venture, in which two companies typically pool resources to create a separate business entity. Joint ventures are the undertakings which are jointly controlled by two or more firms. Joint control exists but mostly the parent company decides on major decisions concerning the joint venture's activities.

In a strategic alliance, each company maintains its autonomy while gaining a new opportunity. A strategic alliance could help a company develop a more effective process, expand into a new market or develop an advantage over a competitor, among other possibilities. The subsidiary relations are not alliances as they do not have separate organizations with different goals. The joint venture is for compromise rather than a goal.

Example: Japan's Fuji Xerox is a joint venture of two companies which are Fuji photo Film Company and Xerox. In this relationship Xerox set the policies and Fuji Xerox help in the research and development of Xerox but Xerox is the subsidiary of Xerox and this is a joint venture.

Strategic Alliance vs. Mergers

The two or more than two firms who become ally remain independent even after the formation of the alliance contract unlike the mergers, takeovers and acquisition where one firm or corporation acquire the other firm and gets its ownership.

The concept of mergers is narrow so there is less scope of negotiation and so its concentration becomes disadvantageous. Whereas in strategic alliances negotiation can take place between two companies as it is a broader concept, they can be formed quickly and can be dissolved when needed which also allows to penetrate hot new markets and to achieve the goals. Unlike mergers Strategic Alliances also helps to take a trial of some companies before making agreement with them. [9][10]

Levels of Integrating Organizations

Organizations participating in an alliance should know that integrating one or two levels will not bring success to their companies. To achieve success they must integrate their two organizations on all of these levels and there must be sense of ownership at all levels.

There are five levels of each organization which must be integrated to achieve success in strategic alliance. The five levels are as following:

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Strategic level

Strategic integration deals with goals, objectives, and vision of the organizations and deals with the highest executive levels of the organizations involved in the alliance.

Tactical level

Tactical integration connects the middle managers or professionals together to develop and maintain plans for specific projects assigned in the boundaries of the alliance of the organizations.

Operational level

Operational integration means combining of the day to day activities and work of the organization in a proper planned timely manner with having access to the information, tangible resources and intangible resources.

Interpersonal level

Interpersonal integration means that the people involved in the alliance must act knowledgeable and show ethics which would provide opportunity for relationships to develop across organizational boundaries.

Cultural level

The last level that must be integrated is cultural level which requires people involved in the strategic relation to have the communication skills and cultural awareness to minimize their cultural differences. [11]

Examples of Real World Successful Multiple Strategic Alliances

Table 1. Number of alliances made by some large and medium scale firms

Firm Name	*Number of Alliances*	*Firm Name*	*Number of Alliances*
Ford	60	Bayer	39
Hitachi	112	Toyota	45
International Business Machine (IBM)	254	Unilever	17
Dow International Medical College	64	Philips	207
General Electric Company (GE)	131	Mitsubishi	233
Daimler Company Ltd.	121	DuPont	90
Volkswagen	18	Rhone Poulenc	80
Nissan	53	Ciba Specialty Chemicals	68
ABB	79	Hoescht	94
Matsushita Electric Co. Ltd	71	SandozGeneric Pharmaceuticals	31
Sony	56	BASF Chemicals	46
Siemens	200	Volvo Group	39
Fiat	68	General Motors Company (GM)	138

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Strategic alliances can be formed as a single alliance between two companies and as a multi firm alliance involving more than two companies. A company can be engaged in more than one alliance as the same time to gain benefits in different dimensions of its respective business operations and to focus objectively on current and potential markets. Progressing in strategic alliance, a company can develop and maintain a portfolio of alliances to gain competitive edge, access potential skills and resources, share expensive facilities like research labs, start state of the art joint manufacturing and/or distributions and enter new markets, and even though to avert threats and weaknesses into opportunities. Nevertheless, going into a portfolio of alliances represents a sky of potential opportunities but with extensive experience, increased risk, specialized required skill set and organizational capability to engage and successfully manage going into more than one alliance. This is no less than a challenge and many firms which have successfully maintained a portfolio of alliances went through hard times struggle.

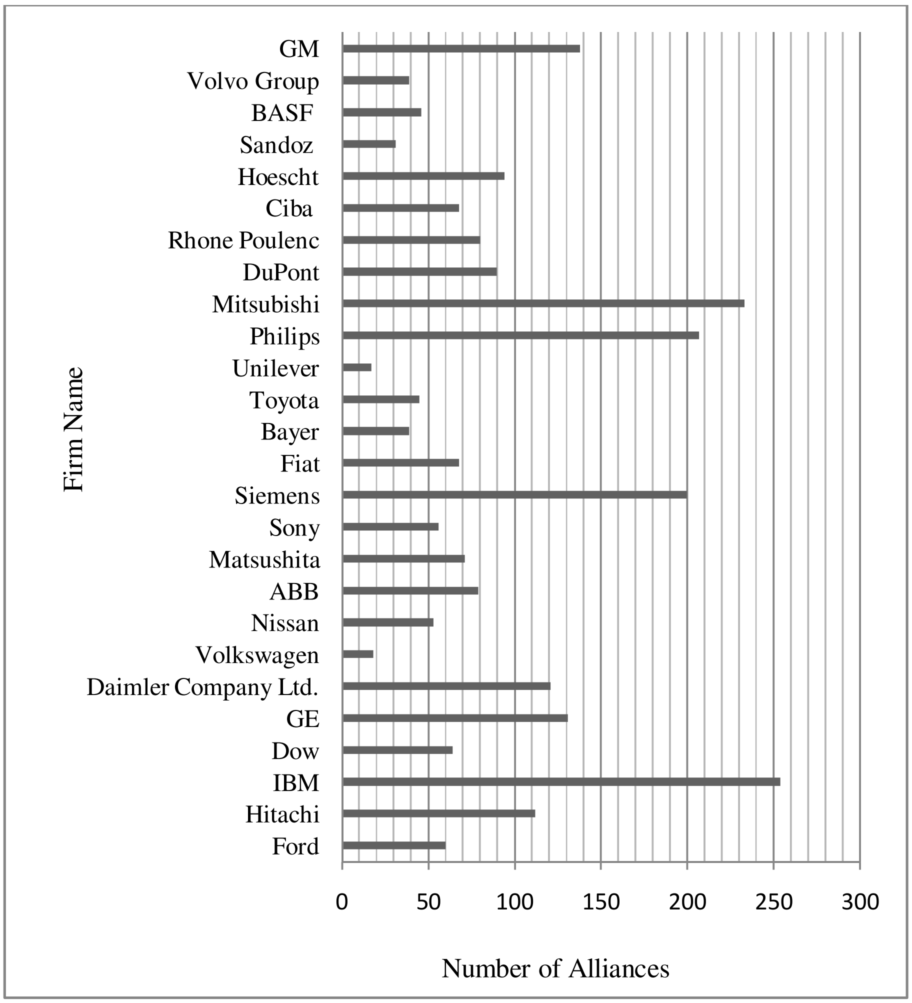

Figure 1. Number of alliances made by some large and medium scale firms [12] [13]

Many large and medium scale firms of different industries engage in strategic alliances. They make sole or multiple alliances with domestic and international firms. Numbers of alliances made by some firms are shown below which shows that IBM have the highest number of successful alliances through which IBM is generating large profits.

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ACHIEVING SUCCESS IN STRATEGIC ALLIANCE

Strategic alliance is a relationship formed by two or more independent firms to achieve mutually relevant objectives for beneficial progress by involving the trade, distribution, mutual expansion of resources and competencies. There are certain factors that are important at each stage of alliance progression for the success of any single alliance. These factors include scrutinizing and selecting an suitable strategic partner, designing and setting up appropriate authority and control to take care of the alliance, and the post formation evaluation stage, which includes supervising the alliance on standardized basis to realize the perceived worth. [14]

Determinants of Success in Alliances

There are certain factors that are important to achieve success at each stage of alliance.

In first stage of alliance, alliances are formed by scrutinizing and selecting a suitable and reliable strategic partner,

In the second stage the alliances are set, designed, job description and ownership at each level is made.

Third stage is the managing and post formation evaluation stage, which includes supervising the perceived worth of outcome. The stages are shown below:

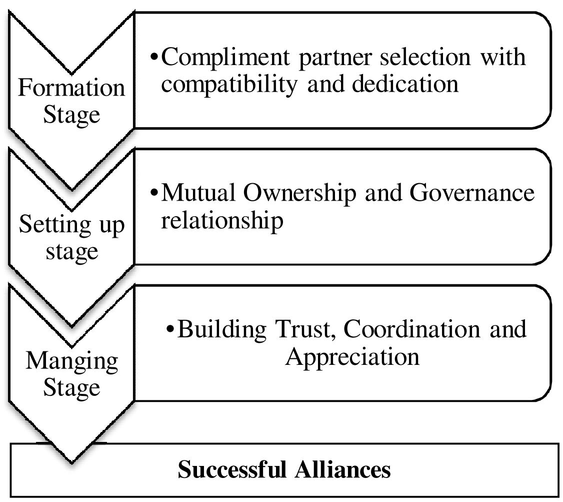

Figure 2. Stages performed in Successful Alliances [15] [16]

Behavioral and Organizational Characteristics of Success

The impact of organizational uniqueness and behavioral characteristics determine the influence on the degree of accomplishment regarding strategic alliance. Different association interests are aimed at testing the capacity of performance outcomes. The results point out two constructs that influence alliance performance, presence of opportunities and degree of interest, whereas these two elements are subjected to a negative relationship. If there is lack of opportunism then high degree of trust will augment performance and on the contrary, when there are significant opportunities then trust factor becomes less important. Characteristics of strategic partners, capacity and techniques to resolve conflicts and managing communication gaps determine the success of an alliance. Empirical studies concluded that trust level is supposedly higher in successful alliances in comparison to partnerships. [17]

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Example of Successful Alliances around the World According to Industries

Many large and medium scale firms are moving towards strategic alliances. Some of the succeeded alliances are shown below:

I. In mobile industry AT&T is estimating its costs to reduce by dollar I billion annually by using alliances

II. In automobile industry operational costs of Ford and Chrysler are reduced dramatically by using alliances and Mobil, Chevron and Amoco have decreased their operational cost by 10 to 20 percent with some of their suppliers

III. In airline industries airberlin, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian and S7 Airlines has made alliance with oneworld which is one of the world's leading airlines. Due to the alliance, all the members are successful to operate on thousand airports in 150 countries, with more than 14,000 daily departures with 480 million passengers a year on a combined fleet of almost 3,500 aircraft which helped them to generate dollar 140 billion annual revenues.

IV. In the health care industry it is estimated that dollar 200 million cost is reduced in Columbia/HCA by using alliances.

V. In retail industry, Wal-Mart has reduced its costs by working with suppliers, they have increased productivity and they have decreased their costs as well their prices

VI. In Utility Industry, Wisconsin electronics have used alliance to improve production, their position and their rates in the markets *[18] [19]*

Alliance Success Rates

Alliances are successful if managed properly. Some of the successful strategic alliances' rates of percentages of large and medium firms are shown in the table and figure below. It shows that 61 percent to 80 percent companies had 27 percent successful alliances.

Table 2. Alliance Success Rates

Percentage of companies	*Alliance success rates (%)*
0-20	16
21-40	20
41-60	22
61-80	27
81-100	15

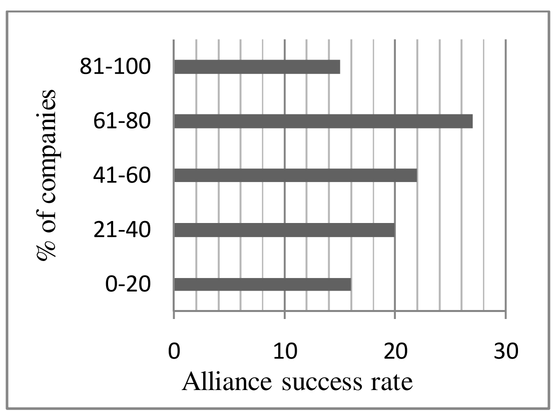

Figure 3. Alliance Success Rates [20]

UNSUCCESSFUL STRATEGIC ALLIANCES

Strategic alliances help the organizations in many ways if they are successful. If the strategies are not implemented correctly or a plan is not made according to the goals of the alliance and inter-organization relationship is not managed properly then the alliance might fail to achieve its goals and objectives.

Causes of Unsuccessful Strategic Alliances

Unsuccessful alliances cause many losses to the partners of alliance. Some of the causes are as following:

I. Problems relating control of strategy implementation is a factor in failure of the alliance. When strategy implementation goes out of control of any of the organization in the alliance then the alliance starts moving towards failure.

II. When one organization depends solely on the partners of other alliances for skills, it is a drawback for the organization that depends on others.

III. When the concept of unequal gains prevail in alliance, partner getting less out of the alliance than those partners who gain more can cause problems and disagreement which can lead to failure.

IV. When the partners in alliance not mange the project properly, it creates trouble when it is not planned that how, who, when and where the process should take place and how much time and resources must be committed to manage the alliance. The partners must plan and monitor the progress of each step regularly.

V. Conflicts between the partners to decide the objectives and plans can cause a change in the viability and relation of a particular alliance.

VI. When the strategic alliances lose control on basic strategy and they depend upon the alliance for growth of its overall business, and fail to concentrate on alliance goal and their organization goal separately then conflicts arise and partners may become competitors.

VII. Differences in cultural values may lead to failure as culture clashes and different thinking can create a situation where parties in organizations disagree to some aspects of agreement.

VIII. Different cultures, environment and rules prevailing in partner organizations within same nationality also cause failure of strategic alliances

IX. When strategic alliances are created, many job positions and their descriptions are changed to achieve the goal of alliance. There are role ambiguity and uncertainty about specific roles that may bind organizations from fulfilling their obligations created in the situation of alliance.

X. A partner may create multiple alliances with other competing organizations which may affect the alliance.

XI. Antitrust regulations can fail an alliance. It can limit the benefits of an alliance by inviting governmental intervention.

These disadvantages lead the strategic alliance towards failure. The disadvantages seem to outnumber the advantages. To achieve success, firms should be readily acceptable to change with commitment and support, which may allow handling the barriers to reduce failure of the alliance. [4] [21]

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STRATEGIES USED IN SUCCESSFUL STRATEGIC ALLIANCES

To make an alliance successful correct strategies must be made and developed according to achieve goals of alliances that will best fit with the goals and plans.

Innovation Strategy for Achieving Success in Strategic Alliance

Strategic alliances decide that according to the organization's objectives what type of innovation is required. Strategic alliances help to allocate the resources for creating value and competitive advantage based on innovation strategy. Innovation strategy is important in strategic alliances which guide the organization to do things correctly.

Innovation strategy shows the connection between strategic alliance and business environment in terms of innovation. Roots of business strategy lie in the innovation strategy. For strategic alliances to become a success, organizations need to integrate technological change within its organizational goals and processes.

Innovation strategy is important for those strategic alliances

a. That try hard for sustainable competitive advantage,

b. That aim at changing their strategic direction

c. At declining markets

d. That must respond to improved ways of delivering value to customers to oppose the competition pressure

Types of Innovation Strategies

There are many types of innovation strategy that can be aligned with the objectives of the alliance.

Co-Creation Strategy

This strategy creates value and increase customer satisfaction by connecting customers to new product. The needs and demands of customers are researched and summarized and goals and products are made according to it.

Example:

Procter & Gamble had a contract with International Olympic Comity and connected to six top Olympic athlete mothers worldwide. 50% of ideas were innovated to introduce new products to improve the life of athletes.

Modern Technology Strategy

This strategy involves the use of new modern technologies in order to achieve competition power. Technology is sometimes produced internally or acquired externally. Strategic alliances use technologies from more than one source and partners and maintain their market share and customer satisfaction.

Example:

Nokia had strategic alliance with Microsoft Company with the goal of replacing Android-based mobile phones and Apple's iPhone with their new invented technology. Nokia used Microsoft's Windows Phone 7 technology, and its competitors use platforms made by Google and Apple. The competition is not between Nokia, Google and Apple, but it is also a competition of technologies between Microsoft and Google.

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Future Research Strategy

Future research strategies involve recording trends of technology in the future and a competition against maturing of the technology. Strategic alliances must have more than one option as future is not easy to predict.

Example:

Canon researched that advance technology would replace LCD monitors. As they were not able to produce new technology they had strategic alliance with Toshiba and began to produce screens based on new technology.

Partnership Strategy

It is used to beat the competition by innovating, progress the innovation process, to use competencies of the partner and to share the risk and the resources.

Example:

Airbus exchanged knowledge with Deutsche Airbus in an alliance to make A-38 airplane and the biggest airline of the world.

Risky Strategy of Innovation

Risky strategy helps to develop high quality, superior, knowledge-based products, which carry out wide variety of different uses. It also allows replacing old products. This type of strategy used in strategic alliances creates high risk, but if the strategy is made by using correct information and knowledge and cooperation among customers and suppliers are made then it may be successful then it may dominate the market.

Knowledge-Based Strategy of Innovation

Knowledge based strategy are used in those strategic alliances who try to develop products with high level of high quality and different types of knowledge built into them. This strategy targets some specific segments so uncertainties and risk is high.

Example

Daimler AG and Renault-Nissan had a strategic alliance to create a new technology to make small electrical cars. They managed to produce volume batteries and components that are built into electric cars. In return, Daimler guided Nissan to develop hybrid technology. [9]

ALLIANCE BETWEEN BUSINESS AND NON-GOVERNMENTAL ORGANIZATION (NGO) TO ACHIEVE SUCCESS

Many companies have started to focus on formal alliances with NGOs to pursue strategic goals at the bottom of the pyramid in consumer markets. NGOs are making alliances at an unpredictable level by uniting values and brands. These firms attempt to maintain their positive image in markets with lack of awareness or in order to cope with potential risks like security. These new types of alliance also include developing official partnership with persons.

Collaboration with not for profit organizations serve in specific conditions. The public tend to expect a positive role from firms in the interest of all stakeholders within the society. Firms can be positioned in a better way in front of society and may get successful and attract customers by partnering NGOs which are closely related to the people in such community. These alliances portray a new direction for a company that is pretty unusual for the conventional approaches of making alliances. Nonetheless, this kind of collaboration is

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diverse in nature because there is no alignment between partner's objectives and their compatibilities and resources are quite dissimilar. Therefore, where such option may present a potential strategic move, the challenge to control and handle such association is also present. [22]

Example of Alliances between Firms and Non-Governmental Organizations (NGO)

British American Tobacco (BAT) which is a United Kingdom company had an alliance with a NGO named as Earthwatch Europe (EE). BAT funded EE with 1,000,000 pounds for its ongoing research, fellowship, and education programs. In return of financing, EE promoted the alliance and BAT to other NGOs and policymakers.

This alliance is an example that highlights that how businesses and NGOs' alliances benefits their brands and companies like tobacco industry. It also shows that how such alliances benefits tobacco companies, even when they are not publicly promoted and advertised on mass media. It is a way to attract customers, sell their products and gain profits and be successful. [23]

LIMITATIONS OF THE STUDY

The major limitations of this research study were time constraints, cost and research culture. The time to conduct this research was short and a thorough research could not be carried due to shortage of funds. The researcher has done analysis using existing previous knowledge and secondary data.

Business cases and examples are taken mostly from other country's cases which existing researches have highlighted before or they were highlighted in the news papers or the law agencies. Limited numbers of organizations were considered as all cannot be included in the research due to the time and budget constraints.

CONCLUSION

In the globalizing world, strategic alliances are helping organizations to fulfill customer demands, for growing and to become successful in the competitive corporate world. The competitive environment forces the companies to form strategic alliances to stay in competition and make their position.

Innovation is important and should be the key outcome of the alliances to be efficient, gain market share, to become market leader and to be successful. Innovation strategies should be made in alliances. They should be correctly implemented and aligned with the objectives of the organization. An innovation system should be developed within all partners of alliance.

Strategic alliances help to attain collective goals of all the alliance partners. Alliances provide opportunities for partners to gain the resources, knowledge, and skills of their partners in alliance.

To be successful and survive the competition in the market, most of the large and medium scale firms are adopting the concept on strategic alliances in the same industry in which they are working, some are making cross industry alliances and even some of the firms are creating alliances with NGOs to build their reputation and good name. So it is concluded that to survive in the competitive market the firms should create portfolio of alliances to get support and benefits from other firms and divide risk and costs.

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