Need and potential risks of strategic alliances for competing successfully

Necesitatea şi riscurile potenţiale ale alianţelor strategice în asigurarea competitivităţii

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Abstract

In today's global economy, many companies' managers consider strategic alliances as a key strategic alternative. Even if it is true that strategic alliances can be a really powerful competitive tool, managers should pay attention to all potential risks before involving in a partnership. This paper aims to address a series of issues that may arise when forming a strategic alliance.

Keywords: *strategic management, strategic alliances, cross culture*

Rezumat

În economia globală de astăzi, managerii multor companii consideră alianţele strategice o alternativă strategică de bază. Cu toate că este adevărat că alianţele strategice pot constitui un factor de competitivitate foarte important, managerii ar trebui să ţină seama de riscurile potenţiale înainte de a se implica într-un parteneriat. Această lucrare urmăreşte o serie de probleme care pot apărea prin crearea unei alianţe strategice.

Cuvinte-cheie: *management strategic, alianţe strategice, intersectare culturală*

JEL Classification: F21, F23, L14, L21, L24, L25, M16

Overview

Companies may try to gain a new market or to access a series of resources by creating new entities (mergers and acquisitions). However, this is not the only way. Strategic alliances may serve these objectives as well. Moreover, achieving these objectives through strategic alliances may have a series of advantages.

Strategic alliances are partnerships of two or more companies or business strategic units that work together in order to strategically attain mutually beneficial objectives.

The potential of strategic alliances is very high. If these are correctly implemented, organizations' operations and competitiveness may improve significantly.

According to some research conducted by Coopers & Lybrand, 54% of the companies that form alliances have involved in such partnerships for marketing and promotional goals (Coopers & Lybrand, 1997). There are also companies that form alliances in order to access new technologies, to gain access to new markets, to counterbalance political risks, to gain and sustain a competitive advantage (Wheelen and Hunger, 2000). However, even if many organizations want and even try to form strategic alliances, few of them really succeed. The failure rate in forming strategic alliances is about 70% and this failure rate has begun to represent a key topic about forming strategic alliances (Elmuti and Kathawaia, 2001).

Reasons for creating strategic alliances

There are many possible reasons for creating strategic alliances.

1. Strategies of growth and penetrating new markets

According to Coopers & Lybrand research, growth and penetrating new markets strategies are one of the main reasons for creating strategic alliances. In today's global economy, companies do not have enough time to establish new markets by themselves and need a partner for doing that. In other words, creating an alliance with a company already operating on the desired market is an appealing alternative. The partnership with an international company may turn the expansion to an unfamiliar territory into an easier and less stressful experience. Anhueser-Busch preferred to license their right to produce beer and sell Budweiser to other beer producers such as Labatt in Canada, Modelo in Mexic, Kirin in Japan, rather than buy a foreign company or build their own facilities to produce beer in other countries (Wheelen and Hunger, 2000). According to Coopers & Lybrand study (1997), 50% of the companies involved in strategic alliances sell their products on the international market, compared to only 30% of the companies that do not form strategic alliances.

2. Access to new technologies and/or the best quality or the lowest cost

There are many companies that do not possess the required technology for successfully competing on the market. Therefore they create alliances with other companies that have the needed resources or the desired technology. Both parts gain advantages form such a partnership. Quinn (1997), professor at Dartmouth University, talks about another reason for creating strategic alliances: outsourcing. He considers that whenever the management of a company realizes there are others who can replace the work of a department at a better quality or with a lower cost, these activities should be outsourced. Outsourcing the business functions may refer to marketing, operations, accounting, selling or any other process (Quinn, 1997). There are many companies that form strategic alliances in search of the best quality or technology, or the cheapest labor or the lowest production costs.

3. Reducing the financial risk and splitting R&D expenses

In some companies managers consider that financial risk that appears when developing a new product or when implementing a new operations method is just too high for a single company to take upon oneself. In such a case, two or more companies group together and agree to take that risk together. An example is the strategic alliance between Boeing, Aerospatiale from France, British Aerospace, Construcciones Aeronauticas from Spain and Deutsche Aerospace from Germany. These airplanes producers form an alliance in order to reduce the very high costs needed for developing a new airplane (Wheelen and Hunger, 2000). There are also many non-profit organizations with limited resources and capabilities. Therefore, they consider that strategic alliances represent an excellent way for better serving their customers. They may form partnerships with others that also need help and can give some help in exchange. For instance, four universities in Ohio have created a strategic alliance in order to develop an international business school from which all their student might benefit (Wheelen and Hunger, 2000).

4. Gaining and sustaining a competitive advantage

Strategic alliances are very tempting for small businesses, for which sometimes the only alternative to stay competitive and survive in today's technological evolution, in such a changing world, is to form strategic alliances with other companies. Small companies understand the advantages of strategic alliances in marketing, distribution, operations, research & development, outsourcing in general (Page, 1998). By creating strategic alliances with other companies, small firms are able to involve themselves in biggest projects faster and more profitable than they could do only by themselves. Through alliances companies can obtain the required resources and capabilities to successfully compete on the global market and presently very few companies base only on their own forces.

Why so many strategic alliances lead to a failure?

In many cases the results of strategic alliances were not the ones expected by participants. Most of researches focus on finding the factors that lead to success rather that the ones that lead to a failure. However, it is very important to analyze the potential risks and problems facing strategic alliances, in order to understand the reasons for which more than 60% of strategic alliances fail (Kalmbach and Roussel, 1999).

1. Cross-cultural issues and incompatibility

Cross culture is one of the main problems facing corporations involved in strategic alliances. The first element that can lead to problems is the linguistic barrier. Of course, communication and mutual understanding are very important for companies that work together. Then, there can be some problems in approaching operations. Different cultures tend to differently approach business. For instance, American companies tend to assess performance in terms of profit, market share and specific financial benefits, while Japanese companies tend to firstly assess the degree in which operations lead to a stronger strategic position, by developing new capabilities (Daniels and Radebaugh, 2001).

2. Lack of trust

Risk sharing is the main linking tool in a partnership. There are some chances that a company attains their goal, while the other fails. It must be generated for the whole partnership a feeling of commitment. Building trust is the most important and also the most difficult target for a successful alliance. Only people can trust each other, companies cannot. Therefore, companies have to be formed based on individuals' trust. Companies have to develop the three forms of trust – responsibility, equality and security. Many strategic alliances have failed because of the lack of trust that led to problems impossible to be solved, lack of understanding and cooling relationships (Lewis, 1992).

3. No clear or good objectives

Many alliances start from wrong reasons. This is for instance the case of companies that enter alliances in order to overcome competitors (company's management considers such an action will stop competitors from concentrating on their own companies). On the contrary, this action will emphasize the existent problems between the companies that have joined together. An alliance can better clarify partners' positions, and if their interests are not mutual, competition will not decrease, it will increase. Other alliances are created in order to solve a series of internal problems of a company, case in which management believes a scale advantage means also a rapid advantage. On the contrary, new issues will arise, and the old ones will intensify.

There are also many strategic alliances that were created for good reasons and they still do not function. The different objectives, the incapability of risk sharing and lack of trust lead to a premature destruction of the alliance. Cooperation in every important aspect is the key to a successful strategic alliance. Unfortunately, many managers enter an alliance without taking the necessary steps in order to ensure the basic cooperation principles.

4. Lack of coordination between management teams

Measures taken by one part that do not correspond to requirements of both management teams may lead to problems, especially if, for example, companies are still competitors despite their alliance. If a company takes a series of strategic measures only by themselves and enters a market only by themselves when it has a strategic alliance with another company, it is very possible for that alliance to break up and for the two companies to get to court for a fight that might take years to be ended. Such an example could be the trial of Volvo to merge with Renault in 1993 (Bruner, 1999).

5. Differences in operational procedures and partners' attitudes

Other problems that may arise between the companies that form an alliance come from the different attitudes of companies – for instance a company can deliver products at a wrong time or at lower qualitative parameters, which will deteriorate the partnership.

6. The relationships risk

This potential risk refers to the probability that partner companies do not have a real commitment to the strategic alliance, and their opportunistic behavior to undermine the partnership's perspectives. Of course, companies are more interested in following their own interest rather than the common one of the alliance. Opportunistic behaviors include slipping away, assimilating partner's resources, information distortion, developing hidden plans, unsatisfactory delivering of products (Das and Teng, 1999). As these activities jeopardize the alliance's viability, the relationships risk is an important component of the total risk assumed by strategic alliances.

7. The results risk

This risk refers to the possibility for an alliance to fail even when partner companies have a total commitment to the alliance. There are also a series of risks related to environmental factors, such as changes in government policies, wars, economic recession; market factors, such as high competition and demand fluctuations; and internal factors, such as lack of competition in key domains. Of course, even pure bad luck is sometimes a cause of failure.

8. Strategic alliances can lead to a future local or even global competitor

There are some cases when a partner will use the alliance in order to test a market and on this base to prepare the launch of their own subsidiary. This problem can be avoided by refusing to cooperate with others in their distinctive competence field. This way companies will reduce the risk of creating a competitor that can be a real threat in their main business strategic operations. It is also possible for a company to insist on contractual clauses that constraint partners not to compete in specific areas or for specific products (this barrier may be created, but only for a limited period of time). Creating a strategic alliance for research & development and production may lead to a series of difficulties in protecting intellectual property.

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