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An overview of strategic alliances

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Abstract
Strategic alliances can be effective ways to diffuse new technologies rapidly, to enter a new market, to bypass governmental restrictions expeditiously, and to learn quickly from the leading firms in a given field. However, strategic alliances are not simple or easy to create, develop, and support. Strategic alliances projects often fail because of tactical errors made by management. By using a well managed strategic alliances agreement, companies can gain in markets that would otherwise be uneconomical. Considerable time and energy must be put forth by all involved in order to create a successful alliance. It is essential that corporations enter into strategic alliances arrangements with a comprehensive plan outlining detailed expectations, requirements, and expected benefits.

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Introduction

> Nike, the largest producer of athletic footwear in the world, does not manufacture a single shoe. Gallo, the largest wine company on earth, does not grow a single grape. Boeing, the pre-eminent aircraft manufacturer, makes little more than cockpits and wing bits (Quinn, 1995, p. 1).

"How can this be?" you ask. These companies, like many other companies these days, have entered into strategic alliances with their suppliers to do much of their actual production and manufacturing for them.

A strategic alliance is "an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership" (Wheelen and Hungar, 2000, p. 125). These alliances range from informal "handshake" agreements to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture corporation.

Much of the discussion regarding strategic alliances has typically focused on alliances between two companies; however, there is an increasing trend towards multi-company alliances. As an example, a six-company strategic alliance was formed between Apple, Sony, Motorola, Philips, AT&T and Matsushita to form General Magic Corporation to develop Telescript communications software (Jacobini and McCreary, 1994).

Strategic alliance trends

Strategic alliances are becoming more and more prominent in the global economy. Peter Drucker, who has been called the father of management theory, states: "The greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnership" (Drucker, 1996). Indeed, searches on the Internet for strategic alliances produce numerous press releases about companies forming alliances, and also produce several addresses for strategic alliance consulting companies. The number of strategic alliances has almost doubled in the past ten years and is expected to increase even more in the future (Booz, Allen and Hamilton, 1997). "More than 20,000 corporate alliances have been formed worldwide over the past two years, and ... the number of alliances in the USA has grown by 25 percent each year since 1987" (Farris, 1999). A survey published in *Electronic Business* showed that 80 percent of electronics companies have strategic alliances and most are planning or negotiating additional agreements (Vyas *et al.*, 1995). According to a recently released study conducted by Anderson Consulting, "82 percent of executives believe that alliances will be a prime vehicle for future growth" (Kalmbach and Roussel, 1999). The study also predicts that within five years, strategic alliances will account for 16-25 percent of medium company value and 40 percent of the market value for about a quarter of the companies. This means that in five years, alliances will represent $25-$40 trillion in value (Kalmbach and Roussel, 1999).

Strategic alliances are partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial. The potential of strategic alliances strategy is enormous. If implemented correctly, some authors claim

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Management Decision
39/3 [2001] 205–217

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it can dramatically improve an organization's operations and competitiveness (Brucellaria, 1997, p. 1998). According to a survey conducted by Coopers & Lybrand, 54 percent of firms that formed alliances did so for joint marketing and promotional purposes (Coopers and Lybrand, 1997). Companies are forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to reduce political risk, to achieve or ensure competitive advantage (Wheelen and Hungar, 2000). However, while many organizations often rush to jump on the bandwagon of strategic alliances, few succeed (Soursac, 1996; Malott, 1992; Michelet and Remacle, 1992). The failure rate of strategic alliances strategy is projected to be as high as 70 percent (Kalmbach and Roussel, 1999), and this failure rate is beginning to be discussed in leading business periodicals.

This study explores why and how companies are forming strategic alliances, examines risks and problems associated with entering and maintaining successful strategic alliance and identifies factors that may impact the success of strategic alliances in an increasingly competitive marketplace. Important implications for the successful introduction and implementation of strategic alliances are also discussed.

Reasons for creating strategic alliances

Growth strategies and entering new markets

The Coopers & Lybrand study rates growth strategies and entering new markets among the top reasons for forming strategic alliances (Coopers and Lybrand, 1997). As Ohmae (1992) points out: "(companies) simply do not have the time to establish new markets one-by one". In today's fast-paced world economy, this is increasingly true. Therefore, forming an alliance with an existing company already in that marketplace is a very appealing alternative. Partnering with an international company can make the expansion into unfamiliar territory a lot easier and less stressful for a company. Anhueser-Busch licensed its right to brew and market Budweiser to other brewers such as Labatt in Canada, Modelo in Mexico, and Kirin in Japan, rather than buy a foreign company or build breweries of its own in other countries (Wheelen and Hungar, 2000). "According to the Coopers & Lybrand (1997) study, 50 percent of firms involved in alliances market their goods and services internationally versus 30 percent of nonallied participants."

Obtain new technology and/or best quality or cheapest cost

Not all companies can provide the technology that they need to effectively compete in their markets on their own. Therefore, they are teaming up with other companies who do have the resources to provide the technology or who can pool their resources so that together they can provide the needed technology. Both sides receive benefit from the partnership. Technology transfer is not only viewed as being significant to the success of a strategic alliance, according to Hsieh (1997): "host countries now demand more in the way of technology transfer". As evidence of this growing trend, Hsieh cites China as a prime example:

> China ... increasingly requires access to proprietary technology in return for business, leaving companies such as GM and McDonnell Douglas wondering whether the technology transfers they made to clinch deals will come back to haunt them. Some day, they know, the Chinese will have technology and skills to compete with them not only in China but in other markets too (Hsieh, 1997).

Quinn (1995), Professor Emeritus at Dartmouth University offers another reason for forming alliances. He asks companies to ask themselves: "Do you really think that your accounting (or other) department is the best in the world?" If the companies answer "no" then he asks, "Why is it still in-house then?" Thus, another reason for forming strategic alliances is to outsource business functions, which can include, marketing, production, accounting, sales, or virtually any other process, to a company which can do it better and cheaper. Indeed, many companies are forming alliances looking for the best quality or technology, or the cheapest labor or production costs (Quinn, 1995). For example, BP Amoco PLC has recently decided to outsource its accounting function to PricewaterhouseCoopers LLP (PWC). In this situation, Amoco will gain more efficient accounting work while PWC will gain some 1,200 employees (Liesman, 1999).

Reduce financial risk and share costs of research and development

Some companies may find that the financial risk that is involved in pursuing a new product or production method is too great

Management Decision
39/3 [2001] 205–217

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for a single company to undertake. In such cases, two or more companies come together and agree to spread the risk among all of them. One example of this is found in strategic alliance between Boeing, Aerospatiale of France, British Aerospace, Construcciones Aeronauticas of Spain, and Deutsche Aerospace of Germany. These airplane manufacturers created an alliance to spread out the extremely high costs of developing a new large jet airplane (Wheelen and Hungar, 2000; Das and Teng, 1999).

Many not-for-profit organizations are limited in resources and skills. Therefore, they find that strategic alliances are an excellent way to better serve their clients. They can form partnerships with others who also need help and provide what is needed for all. For example, four universities in Ohio created a strategic alliance to develop a school of international business that would benefit all of their students (Wheelen and Hungar, 2000, p. 314).

Achieve or ensure competitive advantage

"Alliances are particularly alluring to small businesses because they provide the tools businesses need to be competitive" (Page, 1998). For many small companies the only way they can stay competitive and even survive in today's technologically advanced, ever-changing business world is to form an alliance with another company or companies.

Small companies "realize the mutual benefits they can derive from strategic alliances in areas such as marketing, distribution, production, research and development, and outsourcing" (Page, 1998). LI/Saltzman Architects PC is a small company specializing in historic restoration, out of New York, composed of just six full-time architects. The firm manages to compete against firms much larger than them by creating teams with other companies, both large and small, on a project-by-project basis (Bernstein, 1999). A more recent and well-known company that may no longer be able to stay independent and have to form a global alliance in order to compete in the big league of global aviation is Swissair. By forming alliances with other companies, small businesses are able to accomplish bigger projects more quickly and profitably, than if they tried to do it on their own. "We believe that the world has entered a new age – an age of collaboration – and that only through allying can companies obtain the capabilities and resources necessary to win in the changing global marketplace. Self-reliance is an option few companies will be able to afford" (Booz, Allena nd Hamilton, 1997).

Types or forms of strategic alliances

In a study by Coopers and Lybrand (1997), they identified the following types of alliances, and found their clients were engaged in them as follows:

- joint marketing/promotion, 54 percent;
- joint selling or distribution, 42 percent;
- production, 26 percent;
- design collaboration, 23 percent;
- technology licensing, 22 percent;
- research and development contracts, 19 percent;
- other outsourcing purposes, 19 percent.

Technology Associates and Alliances (1999), a strategic alliance consulting company, lists the following types of alliances:

1. Marketing and sales alliances:
   - joint marketing agreements;
   - value added resellers.
2. Product and manufacturing alliances;
   - procurement-supplier alliances;
   - joint manufacturing.
3. Technology and know-how alliances:
   - technology development;
   - university/industry joint research.

Technology Associates and Alliances (1999), suggests that alliances can be hybrids between these different types. For example, an R&D alliance may be a cross between a product and manufacturing alliance and a technology and know-how alliance, and a collaborative marketing agreement is a cross between a marketing and sales alliance and a product and manufacturing alliance. The important thing to remember is that there are various types of alliances, and they may range from simple licensing arrangement, *ad hoc* alliance, joint operations, joint venture, consortia, distribution, and value-chain partnership alliances to more complex hybrid alliances.

The risks and problems facing strategic alliances

The trend toward strategic alliances in business has not brought about the results envisioned by the participants in many cases. Most studies tend to focus more on the determinants of their success rather than for the reasons they fail. It is the risks and problems that need to be analyzed more fully to determine the true reasons why over

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60 percent of strategic alliances fail (Kalmbach and Roussel, 1999).

Clash of cultures and "incompatible personal chemistry"

Cultural clash is probably one of the biggest problems that corporations in alliances face today. "These cultural problems consist of language, egos, chauvinism, and different attitudes to business can all make the going rough. Problems can be particularly acute between a publicly quoted Western holding company, keenly focused on share holders value, and Japanese partners who have different priorities" (Kilburn, 1999, p. 22). The first thing that can cause problems is the language barrier that they might face. It is important for the companies that are working together to be able to communicate and understand each other well or they are doomed before they even start. After the communication is worked out the firms now face the problems they have with operations. Different cultures operate in different ways "for example, US companies tend to evaluate performance on the basis of profit, market share, and specific financial benefits. Japanese companies tend to evaluate primarily on how an operation helps build its strategic position, particularly by improving its skills" (Daniels and Radebaugh, 2001). From a different perspective, Steensma *et al.* (2000) indicated that national cultural traits directly influence strategic alliance formation and moderate the relationship between perceived technological uncertainty and alliance formation.

Lack of trust

Risk sharing is the primary bonding tool in a partnership. What will happen if one company is successful and the other experiences a failure? A sense of commitment must be generated throughout the partnership. In many alliance cases one company will point the failure finger at the partnering company. Shifting the blame does not solve the problem, but increases the tension between the partnering companies and often leads to alliance ruin (Lewis, 1992).

Building trust is the most important and yet most difficult aspect of a successful alliance. Only people can trust each other, not the company. Therefore, alliances need to be formed to enhance trust between individuals. The companies must form the three forms of trust, which include responsibility, equality, and reliability. Many alliances have failed due to the lack of trust causing unsolved problems, lack of understanding, and despondent relationships (Lewis, 1992, p 46).

Lack of clear goals and objectives

In today's business world, many strategic alliances are formed for the wrong reasons. This will surely lead to disaster in the future. Many companies enter into alliances to combat industry competitors. Corporate management feels this type of action will deter competitors from focusing on their company. On the contrary, this action will raise flags that problems exist within the joining companies. The alliance may put the companies in the spotlight causing more competition. Alliances are also formed to correct internal company problems. Once again, management feels that an increase in numbers signifies a quick fix. In this case, the company is probably already doomed and is just taking another along for the ride (Kilburn, 1999).

Many strategic alliances, although entered into for all the right reasons, do not work. Dissimilar objectives, inability to share risks, and lack of trust lead to an early alliance demise. Why do the alliances fail? Cooperation on all issues is the key to a successful alliance. Many managers enter into an alliance without properly researching the steps necessary to ensure the basic principles of cooperation (Lewis, 1992).

Lack of coordination between management teams

Action taken by subordinates that are not congruent with top-level management can prove particularly disruptive, especially in instances where companies remain competitors in spite of their strategic alliance. If it were to happen that one company would go off on its own and do its own marketing and sell its own product while in alliance with another company it would for sure be grounds for the two to break up, and they would most likely end up in a legal battle which could take years to solve if it were settled at all. An example of this would be "Volvo's attempt to merge with Renault in 1993 temporarily destroying shareholders wealth in Volvo" (Bruner, 1999).

Differences in operating procedures and attitudes among partners

Other problems that can occur between companies in trade alliances are different attitudes among the companies, one company may deliver its good or service behind schedule, or do a bad job producing their goods or service which may lead to distrust among the two companies. When problems

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like this occur it usually makes the other company angry, and this could lead to a takeover. An example of this is described below:

> The deal between Publicis Communication and Foote, Cone and Belding (FCB) was designed to fill strategic needs of each: An alliance in Europe would finally give FCB the international reach it needed, while Publicis could use FCB's experience in North and South America to serve its multinational clients. The venture officially ended earlier, after bitter and expensive divorce proceedings. True North Communications Inc., the holding company for Foote Cone, and the world's No. 8 agency group, is fighting off a $28-a-share hostile takeover attempt by its ex-partner Publicis, which still owns 18.5 percent (Melcher and Edmundson, 1997).

Relational risk

Relational risk is concerned with the probability that partner firms lack commitment to the alliance and that their possible opportunistic behavior could undermine the prospects of an alliance. Consider the example of the joint venture formed by Liz Claiborne and Avon (Segil, 1997). After Avon acquired Parfums Stern, a high-end cosmetics firm, Liz Claiborne regarded Avon as a direct competitor, and their relationship began to deteriorate. The joint venture was eventually acquired by Liz Claiborne. As this case shows, partner firms – not surprisingly – tend to be interested more in pursuing their self-interest than the common interest of the alliance. Such opportunistic behaviors include shirking, appropriating the partner's resources, distorting information, harboring hidden agendas, and delivering unsatisfactory products and services (Das and Teng, 1999). Because these activities seriously jeopardize the viability of an alliance, relational risk is an important component of the overall risk in strategic alliances.

Performance risk

Performance risk is the probability that an alliance may fail even when partner firms commit themselves fully to the alliance. The sources of performance risk according to a recent study by Das and Teng (1999) include environmental factors, such as government policy changes, war, and economic recession; market factors, such as fierce competition and demand fluctuations; and internal factors, such as a lack of competence in critical areas, or sheer bad luck.

Strategic alliances might create a future local or even global competitor

One partner, for example, might be using the alliance to test a market and prepare the launch of a wholly owned subsidiary. By declining to cooperate with others in the area of its core competency, a company can reduce the likelihood of creating a competitor that would threaten its main area of business; likewise, a company can insist on contractual clauses that constrain partners from competing against it in certain products or geographic regions (Wild *et al.*, 2000).

The following case shows the problems and risks associated with global alliances:

> The dangers of global alliances are evident in the case study of Anamartic, a UK semiconductor firm with a novel technology. Anamartic undertook a strategy of global alliance with a major foreign customer and supplier-manufacturer in order to access resources and achieve flexibility. Instead, the new venture found itself locked into a trajectory shaped by the needs of powerful corporate partners. The Japanese partner acquired technological competence and effective control over the intellectual property of the venture. The coupling from research and development and from production can create serious difficulties for the protection of intellectual property and the realization of its potential value (Garnsey and Wilkinson, 1994, p. 138).

Other problems in strategic alliances

Several reasons are also given for the under performance and failure of strategic alliances. The reasons include a breakdown in trust, a change in strategy, the champions moved on, the value did not materialize, the cultures did not mesh, and the systems were not integrated (Kalmbach and Roussel, 1999). According to a study conducted by the *Financial Times* (1999), the main reason strategic alliances fail to meet expectations is "the failure to grasp and articulate their strategic intent". This includes the failure to investigate alternatives to an alliance. The second reason the *Financial Times* found for strategic alliance failure is the "lack of recognition of the close interplay between the overall strategy of the company and the role of an alliance in that strategy".

Success factors for strategic alliances

The scholars who study strategic alliances and the consultants who help form them have both addressed the question "What does it take for strategic alliances to succeed?" Perhaps the best answers to this question are provided by

Management Decision
39/3 [2001] 205–217

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those who engage in alliances. A Technology Associates and Alliances (1999), survey asked 455 CEO's to rank the importance of certain success factors for strategic alliances, and the results of that study are presented in Figure 1. In addition to these factors, several factors were identified as critical success factors for strategic alliances.

Senior management commitment

The commitment of the senior management of all companies involved in a strategic alliance is a key factor in the alliance's ultimate success. Indeed, for alliances to be truly "strategic" they must have a significant impact on the companies' overall strategic plans; and must therefore be formulated, implemented, managed, and monitored with the full commitment of senior management. Without senior management's commitment, alliances will not receive the resources they need. As Peter Lorange of the University of Pennsylvania points out: "very often firms view strategic alliances as a second-best option that they would prefer to do without. Strategic alliances receive attention only after one's wholly owned business has been dealt with, often through the assignment of one's less-than-strongest executives" (Lorange and Roos, 1991). Thus, if senior management is not committed to alliances, adequate managerial resources, in addition to capital, production, marketing and labor resources, may not be assigned in order for alliances to accomplish their objectives.

Senior management's commitment to alliances is important not only to ensure the alliances receive the necessary resources, but also to convince others throughout the organization of the importance of the alliance. As Lorange further points out: "everyone must be 'sold' on the concept early on" (Lorange *et al.*, 1992). In many companies, alliances are viewed as outside the organizational mainstream; and therefore, employees at all levels may tend to view them as not as important or as worthwhile as the organization's core business. By demonstrating a commitment to alliance and a strong leadership role, management can minimize this viewpoint.

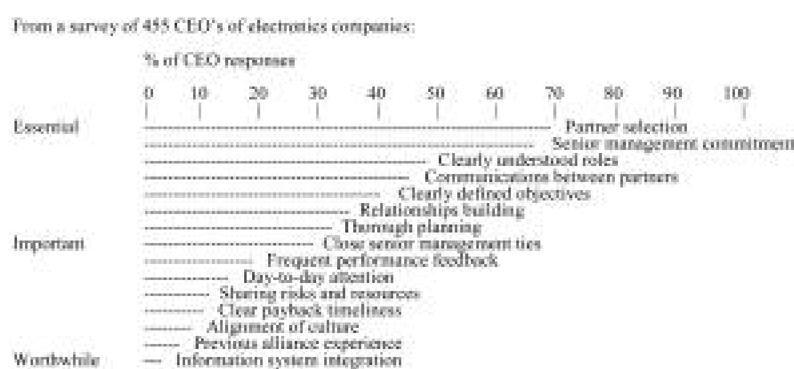
Perhaps the biggest hurdle senior management has to overcome in committing itself to strategic alliances is management's own fear of a loss of control. In his article "The global logic of strategic alliances", Ohmae (1992) states that "when Americans and Europeans come to Japan, they all want 51 percent. That's the magic number because it ensures majority position and control over personnel, brand decisions, and investment choices. But good partnerships, like good marriages, don't work on the basis of ownership or control. It takes effort and commitment and enthusiasm from both sides if either is to realize the hoped-for benefits" (Ohmae, 1992). He argues that by requiring such a stake in an alliance, the Americans and Europeans are demonstrating a lack of commitment to devoting the time and energy to establish the business relationship and partnership, and perhaps more importantly are demonstrating a lack of trust. He states that such managers often think "that alliances represent, at best, a convenience, a quick-and-dirty means of entry into foreign markets" (Ohmae, 1992).

Xerox is an example of a company which has demonstrated a high level of senior management commitment to strategic alliances. Xerox even has executives with titles such as senior vice president, corporate strategic alliances and vice president, worldwide alliances (Ernst and Stern, 1996). In addition, Great Central Company CEO, Beasley, also demonstrates the right attitude for senior management to have regarding alliances when he states: "There is active co-operation between parties, where two plus two equals four and a quarter. Everybody gains" (Coopers and Lybrand, 1997).

Similarity of management philosophies

Corning, Inc. is a leader in forming successful strategic alliances with a simple approach to evaluating potential partners: "[We] go and sniff their hindquarters and see if they smell like us" (Booth, 1995). While this quote may seem somewhat vulgar or disgusting, it really is a very simple way of stating that they prefer to form partnerships with those companies whose management philosophies, strategies and ideas are most similar to their own. Indeed, differences in corporate partners' personalities, like differences in spousal personalities, can often lead to tragic results.

Figure 1



Management Decision
39/3 [2001] 205–217

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Perhaps this is best illustrated by reviewing the turbulent (pun intended) strategic alliance of KLM and Northwest Airlines. The relationship between these two companies has been described by KLM President Pieter Bouw as "a classic clash in cultures, a collision of two diametrically opposed philosophies of doing business. It's the European way versus the American way" (Tully, 1996). The European way of KLM is based on the belief that investments should be prudent and long-term, and the risks of high leverage should be avoided. In contrast, the US way of Northwest is based on the belief that sharp deal-making, including leveraged buy-outs, spin-offs, or debt-financing can dramatically boost stock prices and work well with a sound operating strategy. The differences were so strong in the case of KLM and Northwest that the senior management of the two organizations fought constantly, eventually ceased virtually all communications, and began a costly battle for control of the alliance. The philosophical differences of KLM and Northwest were, in part due to cultural differences, so there is significant potential for other cross-border alliances to include such widespread differences in managerial philosophies as well. Therefore, in order to ensure the best chance of success, companies should either seek partners who do have similar management philosophies, or draft an alliance agreement that adequately addresses the differences, and provides for their resolution (Ernst and Stern, 1996).

Effective and strong management team

A McKinsey study found that 50 percent of alliance failures are due to poor management. Chuck Knight, the CEO of Emerson Electric agreed that poor management is often the downfall of alliances, stating: "I do not believe that (alliances) fail in the planning stage. They fail in implementation – that is the graveyard of corporate America" (Ernst and Stern, 1996). In their article, "Managing alliances – skills for the modern era," Ernst and Stern (1996) suggest "as alliance complexity rises and experienced human resources and pulled ever-thinner, the challenges ... become more acute." Therefore, the best strategy to grow via alliances may be to move slowly, and start with simple alliances and the move towards more complex ones as alliance experience and talent is acquired.

In his article, "Strategic alliances: when you don't want to go it alone," Gimba (1996) states managers of strategic alliances "must create and maintain an environment of trust." This is perhaps easier said than done. It requires the surrender of at least some managerial control, and it also takes time to build a high degree of trust in a business partnership.

Hewlett-Packard and Lotus are corporations which have been cited as having strong alliance management. Hewlett-Packard's approach to alliances is very formal, well-organized and structured. Hewlett-Packard has developed a 400-page alliance binder with case histories, tool kits, checklists, policies, and procedures to help not only its alliance managers, but its middle managers as well, to more appropriately manage alliances and alliance relationships. Hewlett-Packard also has developed its own two-day strategic alliance training class, which over 700 of its managers have attended to date. Lotus likewise has a strong management team for its alliances.

A 40-person alliance group manages the company's alliances, and they have developed three dozen alliance rules of thumb to guide their strategic alliance formation, implementation, and management (Ernst and Stern, 1996).

Frequent performance feedback

In order for strategic alliances to succeed, their performance must be continually assessed and evaluated against the short and long-term goals and objectives for the alliance. Hewlett-Packard business development manager, Bryon Look states that: "after each alliance is formed, we hold a postmortem with all the involved (HP) parties. We look at the original objectives, the implementation, what went right and what went wrong" (Ernst and Stern, 1996). The results of these reviews are summarized in briefing reports which are distributed to management and also keyed into a strategic alliance tracking data base. In addition, Hewlett-Packard's business development group continues to review existing alliances and evaluate their progress.

Alliance Management International, Ltd (1999), is a consulting firm which specializes in advising its clients on the formation and management of strategic alliances. One of the services AMI also provides its clients is an evaluation of their existing alliances. To do this, AMI uses a survey which asks their clients to answer the following questions on a scale from strongly agree to strongly disagree:

- Our gains from the alliance are mutual.
- The value of the alliance is apparent to our customers.

- This alliance offers a competitive advantage (best in class).
- The driving forces of the companies are complementary.
- The operations, risks, and rewards are balanced.
- As alliance partners we always explore new opportunities together.
- The objectives are clearly defined.
- There is an excellent clarity of purpose.
- The roles of each partner are clearly understood.
- The alliance has a shared vision.
- We develop shared goals that are measurable.
- Both companies have the same mind share.
- Top executives from both companies have met and support the goals of the alliance.
- We have excellent channels of communication at all levels.
- Key issues are raised early and acted on promptly.
- We have a high degree of trust.
- There is continuity in the players.
- There is commitment and support at all levels.

In order for the feedback monitoring system to be successful, it is important that the goals of the alliance be well-defined and measurable. In addition, benchmarks for alliance performance should be set to assist management in evaluating alliance results. In general, an alliance is successful if both partners achieve their objectives (Michelet and Remacle, 1992), or by its long-term strategic value (Lynch, 1990). However, according to a recent study by Andersen Consulting, strategic alliances can be more specifically measured by "developing a balanced scorecard, building a dollar defense, and accounting for surplus value" (Kalmbach and Roussel, 1999). A few financial measures are also evaluated which may include "sales market share, return on investment, new product creation, name recognition, and shelf space" (Michelet and Remacle, 1992). Rewarding individuals based on the performance measures of the alliance will motivate them to "strive for excellence" according to a recent study by Kalmbach and Roussel (1999).

Another measurement technique for strategic alliances is looking at the market share. Synergistic contribution towards parent companies competitiveness. Strategic alliances are very tough to measure and evaluate, but can be done with the help of understanding the form used and understanding the goals of the companies involved. "It is hypothesized that more successful strategic alliances will be characterized by high levels of commitment, interdependence and trust, communication quality, and information sharing than less successful ones, not just between strategic alliances partners but also between strategic alliances and client" (O'Farrell and Wood, 1999).

Clearly defined, shared goals and objectives

In forming a strategic alliance the question must be asked: "How integrated will the alliance be with the parent organizations?" Some alliances are highly integrated with one or more of the parent organizations and share such resources as manufacturing facilities, management staff, and support functions like payroll, purchasing, and research and development. Conversely, others may be autonomous and independent from their parent organizations. Whatever the relationship between the two partners, the merging of separate corporate cultures in which the parent firms may have different, even ultimately conflicting, strategic intents can be difficult and anything but smooth. It is extremely important that alliances are aligned with the company strategy. Top management must articulate a clear link between where it expects the industry's future profit pools will be, how to capture a larger share of those, and where, if at all, alliances fit in that plan (Ernst and Stern, 1996).

One example of an industry, which in recent years has seen many obstacles and bitter confrontation, is the airline industry. At a travel convention Simon Heale, deputy managing director, commercial, Cathay Pacific Airways, said that alliances will not be advantageous if the partners do not have a clear focus on the goals. He also mentioned that an airline may not be able to keep standards consistent when it has a franchise alliance. Consumers will associate the small franchisee with the international airline and expect the same standards (Chen, 1999). When these standards are not delivered this leads to negative repercussions for the brand. It has been increasingly difficult to form a successful alliance in the airline industry. Some of the reasons for failure often emphasize matters such as "lack of trust" and "incompatible personal chemistry" (Chen, 1999).

A McKinsey study found that 50 percent of alliance failures are due to poor strategy while 50 percent are the result of poor management (Alliance Management, 1999). Such sentiments were echoed in a conference

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Management Decision
39/3 [2001] 205–217

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board speech by Chuck Knight, the chief executive of Emerson Electric:

> I do not believe that [alliances] fail in the planning stage, they fail in implementation—that is the graveyard of corporate America (Chen, 1999).

As complexity of strategic alliances rises and human resources are pulled ever-thinner, the challenges of follow-through will become more acute.

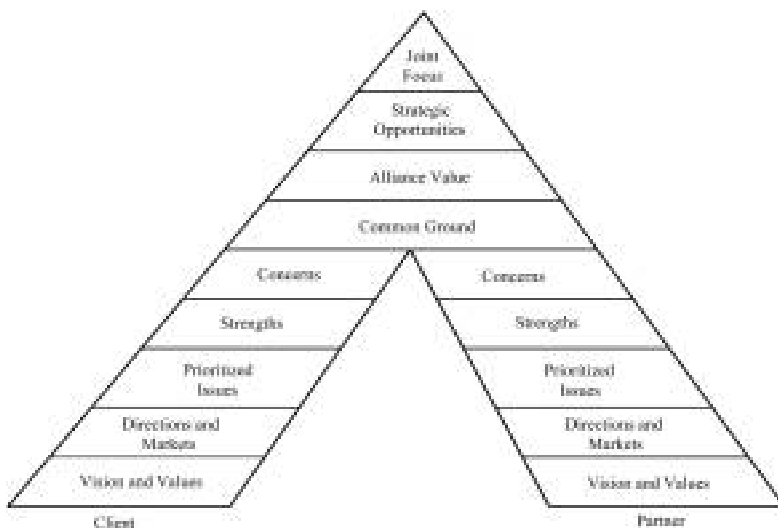
Thorough planning

Planning, commitment, and agreement are essential to the success of any relationship. The overall strategy for the alliance must be mutually developed. Key managing individuals and areas of focus for the alliance must be identified. The steps to successful joint planning are summarized in Figure 2, which reads from the bottom-up.

The first step is to gain a clear understanding of the vision and values of each company. The next step is to gain agreement on the market conditions in the region of the world that the joint venture will be operating in. The next step is to clearly state the issues, strengths, and concerns of each organization. These initial steps allows the participants to bridge preliminary gaps of understanding at the onset of the process. During these initial fact finding meetings the partners can learn a great deal about their potential partner(s).

The next step is to identify areas of common ground. Here is where commonality in the strategic direction among the partners can be identified. Next the partners need to define the internal and external value of the alliance. They will also need to agree on the strategic opportunities to mutually pursue. The final step in this planning process is to create a tactical plan to address the strategic targets (Alliance Management, 1999). Thorough planning is one of the key ingredients to the successful formation of strategic alliances.

Figure 2



Source: Adopted from Alliance and Management International, http://www.amiltd.com (1999)

Clearly understood roles

In forming strategic alliances the partners must have clearly understood roles. Questions which must be answered concerning the role of each partner would include the following:

> Do you share equally in the marketing and operations management of the alliance with your partner, or will he run the show? On what basis is control of the alliance determined: commitment of manpower? Cash? (Stewart and Allyson, 1996).

It is crucial that this question of control is resolved before the alliance is formed. Many US companies have encountered problems because the role of management im marketing and operations was unclear from the beginning. The amount of control in these two areas oftentimes depends on manpower at the foreign location, or cash investment. A strategic alliance by definition falls short of a merger or a full partnership. For this reason, control is not dependent on majority ownership. The degree to which each partner is in control of operations and can offer influential input for decision making must be determined before the alliance is formed (Haines, 1997).

Some firms view strategic alliances as a second-best option that they would prefer to do without. This attitude towards an alliance is problematic at best. Because of uncertainty and discomfort, the feeling is that these alliances must be closely managed and controlled so as not to "get out of hand." This is a counterproductive attitude that often leads to an unsatisfactory outcome for at least one partner (Lorange and Roos, 1991).

If the partners in an alliance decide up front exactly what each partner's role is in the newly-formed business, then there is no misunderstanding or uncertainty as to how decisions will be made. In this way the relationship between the partners will be a much more amicable one.

International vision

In order to succeed in an international strategic alliance, managers of firms must incorporate a global strategic vision into their enterprise. This point is reiterated in

Management Decision
39/3 [2001] 205–217

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an article by Ferenc Vissi (1997), who indicates that:

> Global competition has reached the point where the competition policy in the most advanced countries and regions ... is assuming an increasingly international, cooperative character. The harmonization came about precisely because national competition policy was unable to keep up with globalization (Vissi, 1997).

Hsieh commented that the "most effective alliances are not forged simply as a means to complete one deal. Smart companies spin a web of relationships that open a series of potential projects, add value to them, and improve risk management" (Hsieh, 1997). In order to compete in the growing international market, it will be increasingly necessary for firms to cooperate on a global level and continually build international relationships which will facilitate the process of global competition.

One success story cited by Hsieh was that of Corning, a US firm which entered into a strategic alliance, known as Sacer, with Siemens. This alliance enabled a "small company like Corning to operate on a scale similar to that of a large industry contender such as AT&T. And, contrary to evidence suggesting that most joint ventures do not last more than 10 years, this one has been going on for almost 25" (Hsieh, 1997).

Partner selection

Partnership selection is perhaps the most important step in creating a successful alliance. A successful alliance requires the joining of two competent firms, seeking a similar goal and both intent on its success. The term "competent firm" is relative to the involved parties' strategies, objectives and goal.

"A strategic alliance must be structured so that it is the intent of both parties that it will actually succeed – through the need for speed, adaptation, and facilitated evolution. The foundation of a successful strategic alliance is laid during the internal formation process" (Lorange *et al.*, 1992). This internal formation process includes partner selection and the initial agreement between parties. The process for partner selection is:

1. state the firm's strategy;
2. develop a partnership benchmark;
3. eliminate undesirable business sectors;
4. select promising business sectors; and
5. select from potential candidates (Lorange *et al.*, 1991).

Selecting an appropriate partner and itemizing the "rules" of the alliance are the most intensive process in the formation of an alliance. Yet done correctly, they help ensure a higher quality, longer lasting relationship. No business relationship is guaranteed, but when given enough information, it has a more solid foundation upon which to build (see Figure 3).

Having selected a partner, the alliance should be structured so that the firm's risks of giving too much away to the partner are reduced to an acceptable level. Figure 3 depicts the four safeguards against opportunism by alliance partners that we discuss here. Opportunism, includes the "theft" of technology and/or markets that Hill (1999) describes. The safeguards are walling off critical technology, establishing contractual safeguards, agreeing to swap valuable skills and technologies, and seeking credible commitments.

Boeing was strongly criticized for its alliance with Japan. Many feared that Boeing was creating a competitor in the aerospace industry, an industry dominated by the USA and essential to its economy. To allay these concerns, Boeing kept its most valuable techniques concealed. This was accomplished by preventing Japanese engineers from observing production techniques first hand, disallowing them access to "Boeing's state of the art wing design" or to the computer rooms housing, "technology that took Boeing over 20 years to develop. "Some technology transference is inevitable, but Boeing has kept it to a minimum." Boeing appears to be the "winner" in this alliance because not only does it have a "reliable supplier and co-designer and a large and faithful customer," it has avoided creating a competitor (Turnipseed *et al.*, 1999).

US firms profit greatly improved through strategic alliances with Japanese and European companies. They experience reduced product development cost, access to Japanese and European markets, domestic competitive advantage, and increased manufacturing skills. Other benefits include reduced "sales, marketing and support costs, faster progress up the learning curve, improved relationships with customers and distributors, and an enhanced local reputation" (Michelet and Remacle, 1992; Burton, 1995).

Communication between partners: maintaining relationships

As with any relationship, communication is an essential attribute for the alliance to be successful. Without effective communication between partners, the

Management Decision
39/3 [2001] 205–217

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alliance will inevitably dissolve as a result of doubt and mistrust which accompany any relationship which does not manifest good communication practices. As previously referenced in this paper, the strategic alliance between Northwest and KLM radiated bad blood and mistrust. One executive summed it up best concerning the relationship between KLM and Northwest when he indicated: "There is definitely a culture clash. It hurts in my heart to hear Northwest say the trust is gone" (Tully, 1996). On the other hand, Corning has a top-notch reputation for using effective communication to build long-lasting and profitable relationships. According to Hsieh (1997), Corning is: "one of the most successful companies in the world at building and maintaining relationships."

The necessity for good communications in building and maintaining a strong strategic alliance relationship is best summed up by Ohmae:

> An alliance is a lot like a marriage. There may be no formal contract. There is no buying and selling of equity. There are few, if any, rigidly binding provisions. It is a loose evolving kind of relationship. Sure, there are guidelines and expectations, but no one expects a precise, measured return on the initial commitment. Both partners bring to an alliance a faith that they will be stronger together than they would be separately. Both believe that each has unique skills and functional abilities the other likes. And both have to work diligently over time to make the union successful (Ohmae, 1992).

Conclusions and implications

In a rapidly evolving world of uncertainties facing the new millennium, and of all the trends sweeping across the business landscape, few will have more of an impact on companies into the next decade than strategic alliances or partnerships.

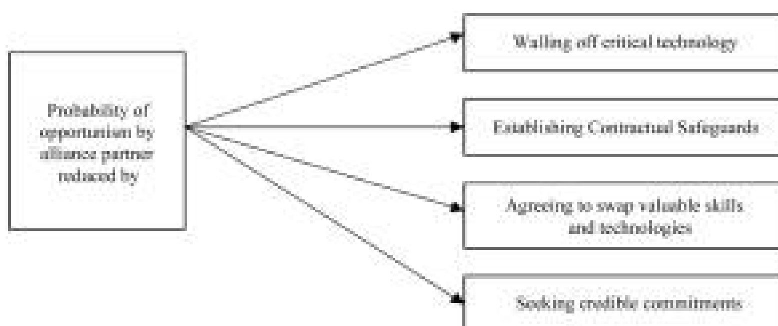
Strategic alliances strategy has been prescribed as an important tool for attaining and maintaining a competitive advantage. In addition, strategic alliances concept is growing in appeal to organizations because of the cost savings achieved in executing operations. Indeed, many companies are forming alliances looking for the best quality or technology or the cheapest labor or production costs. While such relationships can pay off, no business should form partnerships just because they are trendy. Companies sometimes enter into alliances without thoroughly analyzing their options, only to realize a merger or acquisition, or even selling the business, would have been best. This is a primary reason that many alliances fail, so it is imperative that companies make sure that an alliance is the best option for their needs. Therefore, companies should be clear about why they are entering the alliance and what they expect to gain from it. They also need to understand how it fits into their business plan.

It is essential that businesses enter into strategy alliances arrangements with a comprehensive plan outlining detailed expectations, requirements, and expected benefits. Strategic alliances partners should be selected based on their expertise in the operation and their cultural fit with the firm. Management of the strategic alliances project should be constant to ensure that requirements are being met and potential problems are identified early enough to be resolved. The firm must create a management structure that will work with the new organizational arrangement.

As was reiterated in the context of the paper, the success factor importance depends a great deal on the complexity of the alliance. The success factors presented in this paper can provide a template for success in entering and maintaining a successful international strategic alliance, especially since firms will need to expand into the expanding global markets in order to economically survive. This point is well reiterated by Ohmae:

> ... the relentless challenges of globalization will not go away. And properly managed alliances are among the best mechanism that companies have found to bring strategy to bear on these challenges. In today's uncertain world, it is best not to go alone (Ohmae, 1992).

Figure 3



Source: Adapted from Hill (1999, p. 415)

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Application questions

1 What are the risks and problems associated with entering and maintaining a successful strategic alliance?
2 What factors are associated with the success or failure of strategic alliances projects?
3 What are the implications for the successful introduction and implementation of strategic alliances?

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