

Determination of factors contributing to success in strategic alliances



DETERMINATION OF FACTORS CONTRIBUTING TO SUCCESS IN STRATEGIC ALLIANCES By CLAIRE REVELL University of Groningen Faculty of Economics and Business Bsc International Business and Management June 2010 Version 3 Bachelor Thesis Supervisor: C. Quispel Group: 3 Sint Lucasstraat 8 9718 LR Groningen (06) 47820628 c. a. rug. nl student number:

1538276 DETERMINATION OF FACTORS CONTRIBUTING TO SUCCESS IN STRATEGIC ALLIANCES Author: Claire Revell (Rijksuniversiteit Groningen 2005 student) Abstract In this research study the emphasis is drawn toward determining the factors contributing to success of strategic alliances.

These factors will be uncovered by analyzing the internal and external factors influencing strategic alliances and the phases through which these alliances evolve. In order to provide this research study with a practical element two case studies within the airline industry have been incorporated, namely the Swissair Qualiflyer Alliance and Star Alliance. These case studies represent a successful and an unsuccessful alliance, which are analyzed on a basis of the provided literature study, in this case the phases through which these alliances evolved and the internal and external factors affecting the alliances.

After evaluation of the case studies numerous supportive results were identified, contributing toward establishing determinant factors, which emphasize the importance of a successful implementation of the different phases, however limitations affect the reliability of this study, due to the lack of evidence found in various different phases. Keywords: strategic alliances, internal and external factors, strategic alliance phases Introduction In past

years a visible increase in the amount of strategic alliances, concerning firms with varying economic objectives, was observed (Das, Teng 2000).

Strategic alliances are the “relatively enduring inter-firm cooperative arrangements, involving flows and linkages that utilize resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm” (Parkhe 1991, p. 2). The amount of strategic alliances has recently doubled, predicting additional raise in the future (Booz, Allen, Hamilton 1997).

Especially alliances in the form of non-equity based, which are defined as two or more firms developing a contractual-relationship in order to establish competitive advantage by combining resources and capabilities (Globerman 2007), have increased in importance which is visible in non equity alliances accounting for 80 per cent (Hagedoorn 1996). Strategic alliances provide firms with the opportunity to recognize synergies through combining operations, such as in research and development, manufacturing etc (Aaker 1995; Addler 1966).

The growth of strategic alliances is related to growing competition and globalization (Das, Teng 2000). This is in alignment with Doz and Hamels (1998) view which states that globalization as well as changes in economic activities is a consequence for the growth in strategic alliances, which is visible in various different industries (Hagedoorn 1993). The primary reasons for the growth of the number of alliances is 1) the ability of cost savings in executing operations 2) the ability to access particular markets 3) the

reducing of financial and political risk in addition to cheapest labor and production costs (Wheelen, Hungar 2000).

A strategic alliance by definition is a hybrid organizational form which Jensen and Meckling (1991) refer to as a network organization. Harbison and Pekar (1998) highlight numerous common characteristics visible within strategic alliances, namely a required commitment of at least ten years, the connection of the partners is based on equity or on shared capabilities, a complementary relationship based on a shared strategy, increasing companies' value in the market place, the pressuring of competitors and the willingness of sharing and leveraging core capabilities.

Nevertheless, strategic alliances have noticeable high instability rates (Das, Teng 2000); furthermore, according to Kalmbach and Roussel (1999) the failure rates are approximately as high as 70 per cent. Studies conducted by Das and Teng (2000) reportedly state that encountered problems are witnessed in the first two years of two thirds of all alliances. This study is going to provide a more in-depth analysis on the factors that are necessary for determining success in all strategic alliances. Starting with an analysis of strategic alliances based on the different phases in which the alliance evolves.

Thereafter a conclusion will be drawn as to which extent these factors play a crucial role in the determination of success rate of strategic alliances. In order to incorporate a practical view on the strategic alliances, this study will additionally implement two case studies to the analysis. Conceptual Model [pic] This conceptual model starts the literature study on strategic alliances

<https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

as a central concept. From this central concept, emphasis is drawn on internal and external factors influencing strategic alliances, as well as on the different phases through which alliance evolve.

Additionally, strategic alliances lead to either successful or unsuccessful alliances. Based on the research from Bronder and Pritzl (1992), Hoffmann and Schlosser (2001), Waddock (1989) and Wolhstetter, Smith and Malloy (2005), a framework of seven phases is established. Within these seven phases the most important activities and processes are analyzed, including reasoning behind strategic alliances, potential intensions for forming strategic alliances, partner selection, external factors influencing the design of the strategic alliance, negotiation methods, followed by the structuring of the alliance.

Furthermore, implementation and management of the strategic alliance is examined. Finally, the last two phases concerning the evaluation of the formation of strategic alliances and the termination of the partnership are discussed. Resulting from this literature study are two outcomes, namely a successful implementation of the phases and an unsuccessful implementation. In order to apply a practical element to this thesis, two case studies will be analyzed, those of Qualifyer, which turned out to be an unsuccessful alliance and Star Alliance, which was able to incorporate a success strategic alliance in the airline industry.

After analyzing the cases the findings compared to the literature analysis, will hopefully correlate to each other and the determinants that influence more success in alliances can be established. Problem Statement Based on

<https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

past literature research study's the outcomes of implementing strategic alliances as a change strategy in organizations is unfavorable, especially when looking at the failure rates. Nevertheless, the adoption of strategic alliances is a customary implemented firm strategy (Gulati 1998), as a means of securing their competitive position.

Much research is conducted in order to provide more guidance in determining factors that achieve sustainable strategic alliances, therefore in this thesis the main research question is; What factors determine the success of strategic alliances? This research question will be addressed by the help of analyzing and answering these various sub-questions; Why do firms choose strategic alliances as a change process? What are the potential intentions of a strategic alliance? What are the phases through which strategic alliances evolve?

What strategic alliance activities and processes occur in which phase?

Preview of the organization of the thesis This report begins by indicating the problem that strategic alliances are a favorable organizational change strategy in the business world today, however the failure rate is extremely high. Secondly, by applying literature analysis the main determinants influencing more success in strategic alliances will be uncovered, which will be coupled to the case study part of the thesis where the determinants will be compared to the specific cases.

Finally, the thesis will conclude on the part if the determinants uncovered in the literature study correlate to the findings in the case study. Methodology and Research Design In this thesis the methodology contained two specific

approaches, including a literature study as well as evaluating two case studies. Firstly, the literature analysis was conducted; with as primary focus an in-depth analysis of academic articles. The findings of the literature study are compared to two case studies, those of the Qualiflyer alliance and Star Alliance.

These two cases were chosen because they represent the different outcomes an alliance can hold, namely the successful implementation the alliance strategy at Star Alliance and the unsuccessful outcome of an alliance strategy of the Qualiflyer alliance. In addition, even though these two examples vary substantially in size, which provides difficulty when comparing the two alliances, they both started off at reasonably the same size; therefore this thesis incorporated these two examples anyway. This evaluation will be conducted by means of desk research, exploring the different implementations of this strategy.

The time frame of the case studies is from the first phase up until the last phase, through which they evolved, in order to identify dependent unsuccessful and successful aspects. The significance of implementing case studies in this thesis is relating the findings from the literature analysis to real life cases of both a successful alliances as well as a non-successful alliance. Furthermore, comparing if the determinants of success found in the literature analysis correlate with the factors observed in the cases.

Internal versus External factors Influencing Strategic Alliances Our internal tensions perspective framework (Figure 2, Appendices) of strategic alliances comprises three pairs of competing forces-namely, cooperation versus

competition, rigidity versus flexibility, and short-term versus long-term orientations (Das, Teng 2000). Competition is defined as pursuing one's own interest at the expense of others, while cooperation is the pursuit of mutual interests and common benefits in alliances.

This tension of cooperation versus competition is most salient in selecting alliance partners, the first of three major stages in the alliance making process, along with structuring and managing an alliance (Das, Teng 1997). In conclusion, the stability and success of strategic alliances will be inversely related to the difference between the cooperation level and the competition level. Rigidity refers to the characteristics of mutual dependence and connectedness, whereas flexibility enhances the ability of partners to adapt, unencumbered by rigid arrangements.

The dominance of either flexibility or rigidity may change the status quo and trigger the evolution of a new structure, which leads to unsuccessful alliances. Therefore, the stability of strategic alliances will be inversely related to the difference between the rigidity level and the flexibility level. Short-term orientation views strategic alliances as transitional in nature, with a demand for quick and tangible results, whereas long-term orientation regards alliances as at least semi permanent entities, so that more patience and commitment are exercised.

A strategy that reflects only one temporal orientation is not compatible with the foundation for a sustainable strategic alliance, in other words the stability of strategic alliances will be inversely related to the difference between the short-term orientation and the long-term orientation.

Furthermore, the three internal pairs of contradictory forces are interrelated within an evolving system, resulting in the following propositions, namely that the levels of rigidity and cooperation will be positively related when the partners have a short-term orientation in strategic alliances.

However, a negative relatedness at a high level of rigidity, cooperation and rigidity (Das, Teng 2000). will be negatively related when the partners have a long-term orientation in strategic alliances (Das, Teng 2000). According to Das and Teng (2000) the contradictions and tensions in these force-pairs may lead to an overthrow of the status quo namely, the strategic alliance. Strategic alliances can nevertheless be sustained and successful if a careful balance between these competing forces can be maintained.

According to Todeva and Knoke (2005) external factors influence alliance formation, due to differing economic condition and organizational frameworks in partnering countries; these can include legal requirements, price controls, distribution channels and contract enforcement. Furthermore, these regulative state activities comprehend the freedom when firms are forming alliances. Moreover, the formation of an alliance necessitates the authorization of national governments.

Additionally, of influence to the formation of alliances is the complicated collection of relations visible with firms, such as business associations, local governments and elite universities. On an industrial note alliances are influenced on an interfirm basis by direct impacts, where the decision on which activities to internalize is based on severity of competition within the industry and the organization of ad hoc product markets, in the challenge for

increased market share, the cooperation for specific advantages and the process of internationalization (Todeva, Knoke 2005) .

The partner under consideration for the formation of an alliance is in a certain sense an external factor. Firms are susceptible in the case of partnering with a dominant firm (Pennings 1994), due to technical and economic rationales. Thus, technology is a specific part of the process to establishing organizational boundaries as well as intrinsic structures. Of importance to alliances is obtaining research and development advantages, which to certain extent differs across industries on terms of expenses and the sources provided by the government (Todeva, Knoke 2005).

Every alliance design commences with negotiations, thereafter the phase of structuring the alliance in which various aspects are aligned, such as the objectives of both parties, organizational structures, functional operations and cultures (Ring, van de Ven 1994). Strategic Alliances Phases The distinguishing of phases through which strategic alliances evolve plays an essential role in the development toward successful alliances, which according to Bronder and Pritzl (1992) evolves through the three stages, which are categorized as strategic decision, configuration of strategic alliance and partner selection.

Where Bronder and Pritzl terminate their research on the establishment of phases other researchers continue in identifying essential phases, for the reason that partner selection as final phase represents an incomplete evolution of strategic alliances. With regard to the research conducted by Hoffmann and Schlosser (2001), the identification of strategic alliance

phases resulted in a five phase path through which strategic alliances evolve, namely strategic analysis and decision to cooperate, search for a partner, designing the partnership, implementation and management of the partnership and finally termination.

When comparing both Bronder and Pritzls (1992) and Hoffman and Schlossers (2001) phases, a comparison is visible in the primary phases of strategic alliances, namely the strategic analysis and decision to cooperate (Hoffmann, Schlosser 2001) which corresponds with the strategic decision phase from Bronder and Pritzl (1992). Furthermore, the partner selection phase is visible in both frameworks on strategic alliance phase.

The main difference between the two studies is the more detailed approach from Hoffmann and Schlosser (2001) also distinguishing phases after the partner selection process. Finally, a study building on Waddock's (1989) work, which suggests that strategic alliances progress through three phases, which are identified as initiation, establishment and maturity, Wohlstetter, Smith and Malloy (2005) consistently debated that the strategic alliances process is organized into three similar phases namely initiation, operations and evaluation.

When comparing these views with the earlier stated reasoning on strategic alliance phases merely a figuration is enabled as to which phases from Bronder and Pritzl (1992) and Hoffmann and Schlosser (2001) are in comparison with Wohlstetters et al (2005) view and could be placed within their views, for example the partner selection phase distinguished the above

stated views is probably placed within the initiation phase identified by Wohlstetter et al. (2005).

In order to provide this thesis with an in-depth view on the phases through which strategic alliances evolve a combination of the three above stated views is implemented. Phase 1: Strategic Decision According to Bronder and Pritzl (1992) a clarification of the firms' position is to be analyzed, refer ably because this is identified as the first direction toward alliance formation. Pumpin (1987), states that the evaluation of the actual situation of the firm is identified by exploring its mission, possible values and core competencies. Additionally, the firm identifies the reasoning behind incorporating an alliance strategy.

According to Eisenhardt and Schoonhoven (1996), Harrigan (1985), Link and Bauer (1989), Pisano (1991) and Teece (1992) technological change faced by firms is related to the favorability toward flexible organizational forms like alliances. Additionally, Ciborra (1991) and Oster (1992) state that high-tech industries, in which learning and flexibility are key characteristics, will preferably choose alliances, whereas in the low-tech industries, with visibly less emphasis on learning and flexibility, firms favorably adopt a merger and acquisition strategy.

The flexibility of strategic alliances is suitable as organizational structure due to the fast expiring of new knowledge and the lengthy learning time from partners (Eisenhardt, Schoonhoven, 1996; Hagedoorn 1993). Furthermore, these flexible organizational structures appear more effectively in uncertain environmental situations when adjusting to changes (Lawrence, Lorsch 1967;

Pfeffer, Salancik 1978). In continuation of Powells (1996) view, Hagedoorn and Duysters (2002) predict that strategic alliance experience positively contribute to choosing alliances as instrument for obtaining external innovative capabilities.

This view is aligned with that of Kogut et al. (1992) and Gulati (1993) who accentuate the relationship between actual alliance formation and past alliances, however emphasize on a more social basis. Therefore, the formation of strategic alliances is dependent on both strategic as well as social factors. According to Eisenhardt and Schoonhoven (1996), an extension of the resource-based view provides a basis for examining the relationship through which alliances form by means of strategic and social resources.

This research study contributed numerous outcomes on strategic alliances to existing literature, namely that increasingly challenging market conditions and jeopardous organizational strategies result into an increase of alliance formations as an organizational change process. Additionally, of importance to the rate of formation of alliances are managerial characteristics, visible when large, experienced teams were implemented through previous employers, the rates of alliances increased (Eisenhardt, Schoonhoven 1996).

In conclusion of their research Eisenhardt and Schoonhoven (1996) state that in cases of either a vulnerable strategic situations or a strong social situation the likelihood of the formation of strategic alliances increase. Phase 2:

Initiation Phase The initiation phase is characterized by informal structures and communication channels as the critical issue is the development and

understanding of the purpose for strategic alliances (Waddock 1989).

According to Hitt et al. 1997), the potential intentions to be realized behind entering into strategic alliances are categorized into three market types 1) namely markets characterized by slow cycle, which adopt strategic alliances for original intentions such as the gaining of access to restricted markets, establishing franchises in a new market and maintaining market stability 2) in markets characterized by a standard cycle amongst the intentions able to be achieved are the gaining of market power and access to complementary resources, overcoming trade barriers, gaining knowledge and learning about new business techniques 3) in the final market, the fast cycle, the achievable goals are the speeding up of the entry of new products and services in addition to new markets, maintaining the market leadership position, sharing the risky Research and Development expenses and overcoming uncertainty. Furthermore, several internal conditions drive the initiation phase including, a champion taking responsibility, complementary needs and assets, compatible goals and trust. According to Waddock (1989), the main responsibility of the champion is the guidance of the organization through the initiation phase, especially visible in the process of partner selection.

Stated in the research by Wohlstetter, Smith and Malloy (2005) the existence of a champion in the initiation phase is essential for identifying needs in addition to the process of partner selection. Complementary needs and assets appear in various different forms, however is one of the main reasons for partnering (Oliver 1990; Robertson 1998). Additionally, the main goal of partnering is achieving compatible goals among the partners, which might not have been achieved otherwise (Austin 2000; Das, Teng 1998; Kanter

1994; Oliver 1990; Robertson 1998; Spillett 1999). Finally, the initiation phase stands no chance without trust, which is mainly established through existing networks (Austin, 2000; Waddock 1989; Waide 1999), within these networks similar interests are the main characteristic. Phase 3: Partner Selection

The purpose behind strategic alliance partnering is to initiate and prolong a long-term partnership, which enables more effective competition with others firms which are positioned outside the partnership (Jarillo 1988; Walker, Poppo 1991). The crucial decision toward the correct partner selection is the primary focus after pursuing this alliance strategy (Hitt, Tyler, Hardee, Park 1995). According to Koot (1988) the selecting of a partner is a complex process however crucial to the success of an alliance. In the partner selection process perspectives of both resource-based and organizational learning provide an explanation as to why certain partners are selected (Barkema, Bell, Pennings 1996).

In explanation, firms own certain resource endowments (Barney 1991) however, in order to obtain a competitive position in a specific market supplementary resources are necessary (Hitt, Nixon, Clifford, Coyne 1999), which is the main objective for engaging in strategic alliances. Hitt et al. (2000) argues that of importance to the partner selection process is the firms' embeddedness in both emerging markets and developed markets. Furthermore, the access to necessary resources for leveraging as well as the obtaining of capabilities for learning are primary reasons for the selection of partners. Table 1 in the Appendices, state the concluding outcomes on the

selection of partners by Hitt et al. (2000), which explains the fundamental elements of the process toward partner selection.

Eisenhardt and Schoonhoven (1996) and Dacin and Olivers' (1997) view state that legitimacy enhancements are an additional intention for establishing alliances, therefore the partner selection process is focused on those providing strong intangible assets, for example strong reputations. According to Bronder and Pritzl (1992) critical to the partner selection process is the establishment of fundamental, strategic and cultural fit. This fundamental fit is achieved if a win-win situation for both parties is established and potential value is increased. The strategic fit is realized when the alliance involves partners with harmony of the business plans.

Finally, the cultural fit is an essential success factor for partner selection, which is accomplished after acceptance of cultural differences among the partners. Phase 4: Designing the Partnership Niederkofler (1991) argues that the negotiation process must essentially interpret clearly understandable resources and interests of the partners involved, in order for the creation of strategic and organizational fit to be achieved, which will direct the partnership toward a concrete foundation. The achievement of this foundation is accomplished through open and detailed communication, circumventing hidden agendas of any sort. The consequence of this open communication translates into a coherent attitude of sincerity toward the different partners, which demands trust.

In addition to strategic fit, the negotiation process also initiates a solid basis for the enforcement of an operational fit within the partnership, which can be

viewed in Figure 1 of the Appendices. An important aspect of the negotiation process is the creation of flexibility, which is increased through contract provisions in addition to developing and prolonging of trust. The process of conquering complexity in operations embarks with the communication of the discovered complexity, followed by a tracking and solving of this difficulty, which results in the avoidance of any operational unalignments. The flexibility within the partnering arrangement, in addition to trust, permits renegotiation processes within the partnership; however a coherent basis must be accomplished (Niederkofler 1991).

The success of alliances is highly dependent on a competent and effective alignment, therefore of importance is the designing of the partnership, thus the structure implemented. This structure is in need of a fine constructed collection of strategy, procedures and management views, which can be viewed as the internal alignment (Miles, Snow 1994). In the process of obtaining internal alignment interests as well as environmental aspects must be balanced between the partners, enabling a profitable situation (Douma, Bilderbeek, Idenburg, Looise 2000). Additionally, their framework, Figure 3, Appendices, stress the fact that the five features must sufficiently be aligned to prevent failure.

One of the features, namely strategic fit, is established when expected advantages and possible risks are weighed against that of the individual interests in the alliance. Various driver of strategic fit can be identified, starting with a shared vision. Further conditions necessary for strategic fit are compatibility of strategies (Brouthers, Brouthers, Wilkinson 1993),

strategic importance (Doz 1988), acceptance into the market and mutual
<https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

dependency. In addition to strategic fit, organizational fit is a necessity, however due to the differences in many aspects, such as market position, organizational structure and views, management style, this is a complex task.

By clarifying these differences an understanding between partners is achieved. Numerous drivers toward organizational fit are identified, namely as stated above the addressing of organizational differences (Doz 1988) furthermore, essential drivers are facilitating strategic and organizational flexibility, minimal complexity to enhance manageability (Killing 1988), efficient management control, enhancing long-term stability by investigating possible strategic conflicts and finally, the achievement of the strategic objective. Of influence, however to lesser extent are the three remaining features in the framework, which are human, operational and cultural fit.

Human fit is particularly of importance in alliances processes (Boersma 1999) and according to Lewis (1990) the cultural fit is specifically an issue among employers and employees, which translates to their functioning in for example boardrooms. Finally, operational fit, also relates to the functioning of the alliance and is often susceptible to various contingencies, therefore must be aligned. Research and Development activities have gradually evolved since the 1980s (Peterson, 1991). Creamer (1976) and Pearce (1989) identified three primary types of Research and Development activities, namely basic research, applied research, and development activities.

For basic research the purpose is an understanding of the inherent and fundamental scientific development, however disregarding commercial applications. Furthermore, applied research employs knowledge conceived from the basic research to certain dimensions such as technical problems or related commercial technology aspects. In conclusion, basic research generates new facts and theories which are thereafter proven through applied research. These proven facts are generated into products and processes in the development stadium. The intention of development activities is the configuration of applied research contributions into commercially feasible products, processes and technologies (Jansen 1995; Jones, Davis 2000).

Phase 5: Implementation and Management of the Partnership The role of the management of strategic alliances is valuable for the progression of the alliance toward a successful outcome, however it is complex to manage (Koza, Lewin 2000). An important aspect in serving this complexity is the acquiring of knowledge from past engaging in alliances, which provides meaningful know-how to be leveraged (Kale, Dyer, Singh 2001). The framework of the four C's of learning and leveraging alliance know how provides a tool for obtaining valuable knowledge. The four components in the framework are, capture, codify, communicate and create, and coach (Kale, Dyer, Singh 2001), also visible in Figure 4, Appendices.

Capture refers to managements' role of accessing and obtaining of valuable alliance insights and past experiences. To codify past experiences and practices contributes to the accomplishing of alliance specific needs. In order to have a common thread through the organization on these past knowledge <https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

practices, communication is essential in sharing experiences. Additionally, the creation of networks within the alliance facilitates the distribution of these valuable experiences and knowledge. Intrinsically executed coaching and education programs increase the ability to obtain alliance skills. An additional benefit from coaching is the establishment of informal social networks, which provides assistance in key situations.

Furthermore, networks are critical to the development of opportunities, the assessing of concepts and obtaining resources in order to construct the new partnership (Aldrich, Zimmer 1986). The incorporation of social networks within a firm improves communication between partners, which in turn results in improved decision making processes (Gulati 1993). Various intentions for the implementation of networks can be identified, one specific is the preserving of advantages (Lorenzoni, Baden- Fuller 1995). According to Madhavan, Koka and Prescott (1998) the initiation of inter-organizational networks is created by exogenous factors, which could include competition background and specific industrial activities. Building on this theory, Gulati et al. (1997) argues that the initiation of these inter-organizational networks is dependent on two aspects, namely exogenous resource dependencies, which achieve motivation of the cooperation and an “ endogenous embeddedness” dynamic, which in turn familiarizes toward partner selection. According to Stinchcombe (1990), in flows of network information meaningful views are discovered, which in turn influences alliances. Of importance is the understanding of those valuable insights influencing new alliance formation because they have numerous valuable implications, namely providing in-

depth views on path dependent processes and enhancing informational capabilities (Gulati et al. 1997).

Although successful management of alliances depends on a great number of factors (Das, Teng 1999), we submit that the tension in short-term versus long-term orientation is a critical one. A long-term orientation provides needed commitment to a good working relationship, whereas a short-term orientation stresses prompt results that vitalize the alliance. . Phase 6: Evaluation Phase Finally, the evaluation phase, in which all the impacts of the alliance are evaluated, and the main activities are the evaluation of the goals against the outcomes of the alliance (Waddock 1989). The outcomes of the evaluation are either identifying areas of improvement (Smith, Wohlstetter 2001) or “ death” (Waddock 1989).

The areas of improvement are identified by feedback loop, which implies returning back to either the initiation phase or the operations phase (Smith, Wohlstetter 2001; Waddock 1989). Evaluating the performance of strategic alliances is rooted in the overall issue of organizational effectiveness (Olk 2002). With regard to the studies on effectiveness of the organization, Olk (2002) builds on two dimensions in order to create a framework which distinguishes numerous approaches to the evaluation of performance. Firstly, a dimension is implemented with a view on which perspective is taken when evaluating performance, which is of importance due to the presence of numerous shareholders, in this case a distinction is made between the alliance and the partners as perspective.

Secondly, a dimension on the purpose of the evaluation is implemented into the framework, which in Olks (2002) case are the following four approaches; optimization, strategic intent, multi-interest and sequential. These two dimensions, with their identification of numerous approaches to the evaluation of performance are displayed in Table 2, Appendices. Phase 7: Termination of Partnership Preparation for the termination of strategic alliances is significant, because all alliance terminate in the end (Hoffmann, Schlosser 2001). This process of termination is challenging and necessitates skills and subtleness. In order to avoid future disruptions, the relationship between the partners must be treated considerately and information distributed among all the parties.

There are different types of termination, these include the cooperation is dissolved, the parent firm regains its resources back, the cooperation unit is acquired by one of the parties, a new owner is appointed however continues with the cooperation. Whichever type of termination, of importance is the determination of conditions in the designing phase of the partnership, in order to avert any future disagreements (Hoffmann, Schlosser 2001).

Strategic Alliances within the Airline Industry in General According to Oum, Taylor and Zhang (1993), in order to survive in the airline industry it is necessary for airlines to participate in an alliance. Operationally, airlines cooperate across a wide range of activities, which can be generally categorized as: customer service, flights, and operations support (Oum et al. 2000). Studies engaged in by Park and Cho (1997) and Oum et al. (2000), project that alliances have the ability to improve a carrier's performance on a variety of economic measures, including productivity, pricing, profitability,

and share price. Common in the airline industry is the so called “ code sharing” alliances, in which agreements are made allowing both parties to use each other’s designator codes (Power 2003). This phenomenon reportedly accounted the 50 largest commuter carriers by 1985 to have joined these code-sharing alliances (Oster, Pickerell 1986). By 2002, the airline industry accounted four alliances, which are Star Alliance, One World Alliance, the Sky Team Alliance and the Qualiflyer Group (Morrish, Hamilton 2002).

As in every other industry, strategic alliances in the airline industry are complex and subjective to instability, unsatisfied performance and premature termination (Parkhe, 1993). One of the main alliance failures within the airline industry is the collapse of the Alcazar Alliance (Cameron 1994; Chambers 1994; Reed 1994). This was an alliance with partnering between Austrian, KLM, SAS and Swissair, which failed due to disagreement between the members of the alliance. Furthermore, the Qualiflyer Group will reportedly be disbanded, due to the collapse of main airline Swissair.

Analyzing the Swissair Qualiflyer Case Study In 1989, Swissair (SAirGroup) was the first European airline to form an alliance with an overseas commuter carrier, namely Delta.

From that moment many other alliances followed including, Singapore Airlines, SAS, who in return had alliances of their own, however all contributing to Swissair’s gain in access to the European Union market (Knorr, Arndt 2003). Continually, Finnair and Austrian Airlines joined to form the European Quality Alliance (EQA). The Alcazar Alliance, between Swissair, SAS, Austrian and KLM, was Swissair’s reaction to the veto against the <https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

European Economic Area (EEA) Treaty, however its existence was short lived due to negative media publicity, political pressures and unconquerable differences (Knorr, Arndt 2003). Nevertheless, Swissair continued the search for substitute partners, finding in Belgium's Sabena the best candidate and forming the Qualiflyer Alliance in 1998, which was an equity-based alliance (Knorr, Arndt 2003).

Evaluating the Qualiflyer alliance Suen (2002) argues that the Swissair Group's bankruptcy is a direct consequence of mistakes made in the initiation phase (Smith, Wohlstetter 2001; Waddock 1989), in its alliance strategy. However, Knorr and Arndt (2003) hold that the company's alliance strategy was more than just badly implemented, it was a fundamentally flawed approach to adapt the airline to the realities of the deregulated European airline market. In addition, they failed to integrate its regional subsidiary Crossair fully into its own Zurich-based operation. Suen (2002) argues with regard to Swissair and its early alliances that one significant recurring aspect is the defections visible in the alliance causing it to collapse.

While various causes were the consequence of exiting the alliances, in all the cases the interdependence within the alliance was clearly visible resulting in not being powerful enough to maintain their partnering within the alliance (Suen 2002). However, according to Knorr and Arndt (2003), the fundamental flaws with respect to the Qualiflyer alliance are divided into two respects, namely 1) the Swissair brand was weakened by the Qualiflyer Alliance, due to the selection of second and third ranked commuter carriers. Above all these carriers were often in a financially leak state, 2) as a result of

the above mentioned, Swissair was unable to acquire premium tariffs from passengers, which resulted in a decrease of financial results.

Additionally, Knorr and Arndt's (2003) view on the failure of Swissair's earlier alliances including Qualiflyer Alliance finds its explanation in the self-confidence of the management within Swissair, expressed by the ignoring of the home market and the exclusion from the European aviation market, therefore taking on the role of "respective alliances' undisputed leader" (2003, p. 17). Due to this behavior the alternative toward joining one of the existing major alliances was never opted (Suen 2002). Finally, causes for failure in the Swissair alliances can be found in the ignoring of a competitive relationship with regional carrier Crossair, which was chosen rather than adopting a cooperative and integrative relationship (Knorr, Arndt 2003).

Even though Swissair acquired a minority stake in Crossair, it allowed for Crossair to take on more routes, increasing its load factor which resulted in Crossairs' implementation of the Eurocross strategy, which enabled the regional carrier to build a large-scale operation (Knorr, Arndt 2003).

Analyzing the Star Alliance Case Study The formation of the Star Alliance was initiated in 1997, counting five members in the alliance, namely Air Canada, Thai, Lufthansa, United and SAS. The structure of the alliance united all airlines under one network, however individual identities of the airlines were preserved (Vinhais 2005). Even though the partnering airlines formed the alliance with a variation of intentions, the aspiration of an effective expansion of geographic networks is the combined intention visible in all the airlines (Vinhais 2005).

Due to the fact that the Star Alliance experiences intense competition from rival alliances, such as Sky Team, OneWorld and Northwest Alliance, their present challenge is that of preserving their leading position as well as the expansion necessary to obtain leadership within the airline industry, which is accomplished through the management of an integrated network (Bruch, Sattelberger 2001). Since 2000, Star Alliance dispenses priority to the coordination and incorporation of strategic activities, which include establishing joint global branding, the joint evolvement of a technology platform and finally combined training and Human Resource development. In order to efficiently manage the above stated activities management was obliged to integrate the structure of the Star Alliance as a whole, which was achieved by implementing a specific team for the daily management of the alliance (Bruch, Sattelberger 2001).

Within the Star Alliance, Lufthansa adopted the strategy of developing a federative network in addition to outsourcing on an internal basis, whereas different airlines opted for a strategy implementing to outsource externally. Lufthansa emphasized the importance of the examination of both internal defaults as well as the external environment for causes contributing to the crisis occurring in the airline industry. According to Bruch and Sattelberger (2001) in order to accomplish this objective an organizational restructuring was necessary 1) the adoption of an operational recovery process implementing both cost-cutting as well as downsizing 2) the key business activities were in need of reorganization, which was a complex structural process, emphasizing the necessity of broadening its scope and evolving toward an aviation group instead of simply an airline company.

This aviation group adopted a strategy with focus on various organizational areas 3) the realignment of a global network, in order to establish a higher quality network, which has proven sustainable when investigating the alliances' reaction to the financial crisis, the alliance facilitated the disregarding of low-density routes meanwhile protecting the global network, which remained unharmed (Bartlett, Ghoshal, Birkinshaw 2005) With regard to the management of " soft" aspects, for example communication, in which investments were constantly visible, Star Alliances' Lufthansa communicational process adopts five principles, namely 1) concentrating on multipliers, in order to reach employees 2) winning the crucial employees, seeing as they supply the customer with the product, workshops etc are organized in order to view progress among employee understanding 3) Developing a location where customers " meet, eat and greet", including incorporating time for formal meetings as well as establishing relationships and networks 4) the creation of ' by pass' solutions, incorporating and combining communication flows of hierarchy nature as well as non-hierarchical nature, providing faster transfer of knowledge 5) communication as main change driver, taking various aspects into account including informing, listening in addition to communicating cultural changes (Bruch, Sattelberger 2001). In favor of Star Alliance is its ability to combine competition with cooperation, regarding that the airlines within the alliance seem to recognize the gains toward more effectiveness to be achieved by depending on partners for support (Bartlett, Ghoshal, Birkinshaw 2005).

Conclusion According to Hoffmann and Schlosser (2001) factors of crucial importance to the success of strategic alliances were identified in the

primary phases of the alliance evolution, especially in the phases, strategic decision and analysis and the designing of the strategic alliance.

In explanation, the initiation of cooperation itself is determined in the strategic decision phase, implementing strategic alliances for inaccurate reasons, will probably result in unsuccessful alliances, thereafter a common thread between the partners is of importance in the partner selection phase in addition to the designing and structuring of the alliance. United with this view is that of Douma, Bilderbeek, Idenburg and Looise (2000), also emphasizing the importance of alignment between the partners, which enhances managements observation in distinguishing important drivers contributing to this alignment. In order to secure this alignment, continuous evaluation of the processes are indispensable (Douma, Bilderbeek, Idenburg, Looise 2000).

In conclusion, these stated outcomes highlight the necessity of systematic preparation and cautious development of the primary phases of the strategic alliance (Hoffmann, Schlosser 2001). Bronder and Pritzl (1992) state that emphasizing organized analysis is an essential factor toward success in strategic alliances within the development stages of such alliances. Various success factors are identified from Hoffmann and Schlossers' (2001) research, namely " precise definitions of rights and duties", " contributing specific strengths", " deriving alliance objectives from business strategy" and " speedy implementation and fast results" (Hoffmann, Schlosser 2001, p 275-376).

When analyzing the two cases provided in this study on a basis of the phases presented numerous conclusion can respectively be drawn. Commencing with the SwissAir Qualiflyer alliance, which turned out to be an unsuccessful alliance, due to deficiencies within various phases through which alliances evolve. Visible within the partner selection phase was the choice toward forming an alliance with second and third ranked commuter carriers, which above all were often in a financially leak state. This strategy resulted in a weak formation, with these second and third ranked airlines satisfied with not going bankrupt, however SwissAir weakening its brand image with this association with these vulnerable airlines.

Additionally, the implementation and management phase contributed to the failing of the alliance by noticing the interdependence within the alliance, which was clearly visible and resulted in not being powerful enough to maintain their partnering within the alliance (Suen 2002). Finally, within the Qualiflyer, SwissAir case external factors played a significant role, which in this situation was the national airline Crossair. By allowing Crossair to take on more routes, which in turn increased its load factor, resulting in Crossairs' implementation of the Eurocross strategy, which enabled the regional carrier to build a large-scale operation (Knorr, Arndt 2003), concluding in disadvantageous consequences for SwissAir and Qualiflyer. In contrast the Star Alliance was a successful implementation of a strategic alliance, which is visible in various phases of the alliance evolution.

In comparing the Qualiflyer and Star Alliance case the difference is found in the partner selection phase, Star Alliance valued a common view among its partner, which was the aspiration of an effective expansion of geographic

<https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

networks is the combined intention visible in all the airlines (Vinhais 2005). All airlines enjoying a common vision resulted in a sound and stable formation of the alliance. Furthermore, the designing phase of the Star Alliance realized advantageous outcomes by efficiently managing activities by integrating the structure of the alliance as a whole, which was achieved by implementing a specific team for the daily management of the alliance (Bruch, Sattelberger 2001).

Additionally, the management phase, even though management occurs in every phase of the strategic alliance contributed by providing the ability to combine competition with cooperation, regarding that the airlines within the alliance seem to recognize the gains toward more effectiveness to be achieved by depending on partners for support (Bartlett, Ghoshal, Birkinshaw 2005). Moreover, management emphasized on the importance of the “ soft” aspects, for example communication, which also contributed to a preserved common thread within the alliance. Finally, the realignment of a global network, in order to establish a higher quality network has proven sustainable (Bartlett, Ghoshal, Birkinshaw 2005), resulting in the achievement of their stated challenge, the preserving their leading position as well as the expansion necessary to obtain leadership within the airline industry (Bruch, Sattelberger 2001). Limitations

The main limitations within this study is based on the fact that numerous variables were chosen on which to base the research on strategic alliances, however even though careful evaluations as to which variables to include was exercised, the possibility of disregarding various variables is present.

Furthermore, the variables incorporated into the study essentially should be <https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

analyzed within the context of the case studies implemented, however due to lack of research material for example not all distinguished phases were able to be evaluated. More specifically, within both case studies the limit of evaluation of the phases was considerable and approximately three to four phases were identified and able to be analyzed. Recommendations and Reliability

In order for this study to gain more reliability, which is lacking due to the possible absent variables which are of additional importance to the success of strategic alliances and the absent analysis of the literature study within the case studies, extensive in-depth research is necessary within the strategic alliance spectrum in international business. Furthermore, the two examples, Qualiflyer and Star Alliance, of strategic alliances within the airline industry require additional evaluation in order to analyze the progress and outcomes of these alliances in the context of strategic alliance phases, which is key within this study. About the Author Claire Revell is an International Business and Management 2005 student at the Rijksuniversiteit Groningen.

Within my bachelor degree I studied one semester at the Corvinus University in Budapest, where I attended business related courses. My main interests in the field of Business Administration are International Marketing and Organizational Change, therefore I have applied for a Master of Science at the University of Amsterdam in Business Studies, which provides me with the opportunity to combine my main interests in the field of Business Administration. In my Master of Science the courses chosen have as main emphasis Marketing, Organizational Change and Human Resource

Management. REFERENCES Agarwal, R, The role of incentives and communication in strategic alliances: an experimental investigation.

Strategic Management Journal, Vol. 31, Issue 4 (2010), pp. 413-437 Bronder

C, Pritzl R, Developing strategic alliances: A conceptual framework for

successful co-operation, European Management Journal, Vol 10, Issue 4

(1992) pp. 412-421 Bruch H, Sattelberger T, The Turnaround at Lufthansa:

Learning from the change process, Journal of Change Management Vol 1,

Issue 4 (2000), pp. 344-363 Contractor F. J, Lorange P, Cooperative

Strategies and Alliances, Elsevier Science Ltd (2002), pp. 119 Das, T. ,

Determinants of Partner Opportunism in Strategic Alliances: A Conceptual

Framework, Journal of Business & Psychology, Vol. 25, Issue 1 (2010), pp. 55-

74 Das T. K, Teng B.

S, Instabilities of Strategic Alliances: An Internal Tensions Perspective,

Organization Science, Vol. 11, No. 1 (2000), pp. 77-101 Douma M. U,

Bilderbeek J, Idenburg P. J, Looise J. K, Strategic Alliances: Managing the

Dynamics of Fit, Long Range Planning Vol 33, Issue 4 (2000), pp 579-598 Doz

Y. L, The evolution of cooperation in strategic alliances: initial condition or

learning processes? , Strategic Management Journal, Vol 17, (1996) pp. 55-

83, Eisenhardt K. M. , Schoonhoven C. B, Resource-Based View of Strategic

Alliance Formation: Strategic and Social Effects in Entrepreneurial Firms,

Organization Science, Vol. 7, No. 2 (1996), pp. 136-150 Gulati R, Alliances

and Networks, Strategic Management Journal, Vol 19 (1998), pp. 293-317

Hagedoorn J, Duysters G, External sources of innovative capabilities: The

preference for strategic alliances or mergers and acquisitions, Journal of

<https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

Management Studies (2002) pp. 1-38 Hitt M. A, Dacin M, Levitas E, Arregle J. L, Borza A, Partner Selection in Emerging and Developed Market Contexts: Resource-Based and Organizational Learning Perspectives, The Academy of Management Journal, Vol. 43, No. 3 (2000), pp. 449-467 Hoffman W. H, Schlosser R, Success Factors of Strategic Alliances in Small and Medium-sized Enterprises – An Empirical Survey, Long Range Planning, Vol 34, Issue 3 (2001) pp. 357-381 Kale P, Dyer J, Singh H, Value Creation and Success in Strategic Alliances: Alliancing skills and the Role of Alliance Structure and Systems, European Management Journal, Vol 19, Issue 5 (2001) pp. 463-471

Lee C, Lee K, Pennings J. M. , Internal capabilities, External Networks and Performance: A Study on Technology-based Venture, Strategic Management Journal 22 (2001) pp. 615-640 Morrish S. C. , Hamilton R. T, Airline alliances – who benefits? , Journal of Air Transport Management 8 (2002) pp. 401-407 Mowery D. C. , Oxley J. E. , Silverman B. S. , Strategic Alliances and Interfirm Knowledge Transfer, Strategic Management Journal, Issue Special Issue: Knowledge and the Firm, Vol 17 (1996), pp. 77-91. Park JH, Zhang A,. An Empirical Analysis of Global Airline Alliances: Cases in North Atlantic Markets, Review of Industrial Organization 16 (2000) pp. 367-383

Parkhe A, Strategic Alliance Structuring: A Game Theoretic and Transaction Cost Examination of Interfirm Cooperation, The Academy of Management Journal, Vol. 36, No. 4 (1993), pp. 794-829 Schreiner, M, What really is alliance management capability and how does it impact alliance outcomes and success? , Strategic Management Journal, Vol. 30 Issue 13 (2009), pp. 1395-1419 Sullivan U. Y. , Coughlan A. T. , Alliance Structure and Success in the Global Airline Industry: An Empirical Investigation, University of Illinois at <https://assignbuster.com/determination-of-factors-contributing-to-success-in-strategic-alliances/>

Urbana (2004) pp. 4-50 Todeva E, Knoke D, Strategic Alliances and Models of Collaboration, Management Decision, Vol 43, Issue 1 (2005) pp. 123-148

Wohlstetter P, Smith J, Molloy C. L. , Strategic Alliances in Action: Toward a Theory of Evolution, The Policy Studies Journal, Vol 33 (2005) pp. 419-442

Word Count: 7041 APPENDICES Table 1 [pic] Source: Hitt M. A, Dacin M, Levitas E, Arregle J. L, Borza A, Partner Selection in Emerging and Developed Market Contexts: Resource-Based and Organizational Learning Perspectives, The Academy of Management Journal, Vol. 43, No. 3 (Jun. , 2000), pp. 449-

467 Figure 1 [pic] Source: Niederkofler M, The evolution of strategic alliances: Opportunities for managerial influence, Journal of Business

Venturing Volume 6, Issue 4, July 1991, Pages 237-257 Figure 2 [pic] Source:

Das T. K. Teng B-S, Instabilities of Strategic Alliances: An Internal Tensions Perspective, Organization Science, Vol 11 (2000), pp. 77-101 Figure 3 [pic]

Source: Douma M. U, Bilderbeek J, Idenburg P. J, Looise J. K, Strategic

Alliances: Managing the Dynamics of Fit, Long Range Planning Vol 33, Issue 4 (2000), pp 579-598 Figure 4 [pic] Source: Kale P, Dyer J, Singh H, Value

Creation and Success in Strategic Alliances: Alliancing skills and the Role of Alliance Structure and Systems, European Management Journal, Vol 19, Issue 5 (2001) pp. 463-471 Table 2 [pic] [pic] Source: Contractor F. J, Lorange P, Cooperative Strategies and Alliances, Elsevier Science Ltd (2002), pp. 119

Source