International strategic alliances

ADDED VALUE AND SUCCESS FACTORS IN INTERNATIONAL STRATEGIC ALLIANCES IN THE FASHION BUSINESS

ABSTRACT

In the main, this study aims to determine whether there was value added in the merger between Samsung and Georgio Armani. It also intends to identify the key success factors of business partnerships and international strategic alliances of these companies in the fashion world. As such, the following research questions will be answered:

1. What are the key factors that are responsible for their success in the fashion industry?

2. What is the history of international strategic alliances in the fashion industry? and

3. What are the trends for international strategic alliances in the fashion industry?

The results of the interview and investigations on the historical data and secondary materials and literature would confirm the following conclusions that international strategic alliances such as Samsung-Armani have the following key factors that made them successful:

Mutual trust. Ensure that trust exists between the IJV and its parent organizations;

Common understanding. Attain a common understanding of each parent organization’s contribution to the IJV agreement;

Empowerment. Persuade workers that they are empowered.

Mutual long-term commitment. Ensure that both parent organizations are involved in the IJV for the long term. Having both parent organizations committed to the IJV for the long-term decreases the risk of shirking responsibility and increases the likelihood of mutual forbearance between the IJV and its parent firms.

It can be concluded that the international strategic alliance between Samsung-Armani has added value to their respective firms through the contributions and synergies of the marketing and distribution expertise of Armani in the fashion industry.

Chapter 1

INTRODUCTION

Context of the Problem

Firms and industries in the current global business scenario are constantly changing due to globalization. The development of strategic management can no longer be confined to local settings but it is imperative that it should be prevalent in the international business and markets.. Business partnerships among firms and companies were lately made through mergers, acquisitions and consolidations which have been generally utilized by organizations to remain competitive in the global economy. Thus, many companies have been going into joint ventures in order to have joint alliances with them so that operations and marketing will be synergized..

A joint venture would consists of two or more firms which agree to go into shared capital as well as sharing their technology, and human resources in order to develop into a new company. It is a strategy whereby both companies intend to expand its operations and markets and intending to minimize its risk as well maximize the strengths of both firms in approaching the market as well as operations (Hewitt Associates, 2008).

The joint venture between Samsung and Georgio Armani have been formed as the strengths and technology of the former merged with the excellence in fashion of the latter. This study seeks to evaluate whether partnerships have added value to both companies and also to analyze whether were successful in harnessing their strengths in approaching the market as well as operations in the global market. Thus this study will explore the case study of these companies going into joint venture and evaluate the success factors that were responsible for the success of the joint ventures in the fashion industry.

Statement of the Problem

In the main, this study aims to determine whether there was value added in the merger between Samsung and Georgio Armani. It also intends to identify the key success factors of business partnerships and international strategic alliances of these companies in the fashion world. As such, the following research questions will be answered:

4. What are the key factors that are responsible for their success in the fashion industry?

5. What is the history of international strategic alliances in the fashion industry? and

6. What are the trends for international strategic alliances in the fashion industry?

Aims and Objectives of the Study

The main objective of this study is to verify whether or not the alliances provide significant value to the companies involved as well as identify the key success factors that ensure the success of international joint ventures in the fashion industry.

In order to achieve this main objective, the study aims to examine the shared assets, risks, liabilities and management responsibilities among the firms involved the international joint ventures utilizing the case study of Samsung and Georgio Armani.

Significance of the Study

This study is significant in the sense that the success factors for partnerships and international joint ventures will be evaluated so as to identify these factors that are important for joint ventures in the fashion industry. As such, the rate of success in the industry will be much higher if these factors are identified and investments in joint venture will be encouraged because of the confirmation of these findings in this study.

Structure of the Study

This study is organized into five chapters. The first chapter discusses the introduction which comprises of the background of the study; statement of the problem; significance of the study; and the structure of the study. Chapter two presents the review of literature which takes into consideration the theoretical basis of the study.

Chapter three explains the methodology of the study and Chapter four presents the data and analysis of the study. Finally, Chapter five presents the conclusion and recommendations of the study.

Chapter 2

REVIEW OF LITERATURE

In this section, the literature pertaining to this study will be reviewed. The chapter will mainly discuss the key concepts and main authors of the study and the research gap in the review of literature.

Why Strategic Alliance?

Partnerships that are meaningful are important for success. Many companies go into partnerships in order to improve themselves in mutual undertakings. By sharing their resources, these companies can enjoy benefits and add value to their resources. As Vadim Kotelnikov (2010) writes:

“ In the new economy, strategic alliances enable business to gain competitive advantage through access to a partner’s resources, including markets, technologies, capital and people. Teaming up with other adds complementary resources and capabilities enabling participants to grow and expand more quickly and efficiently. Especially fast growing companies rely heavily on alliances to extend their technical and operational resources. In the process, they save time and boost productivity by not having to develop their own, from scratch. They are thus freed to concentrate on innovation and their core business.” (http://www. 1000ventures. com/business_guide/partnerships_main. html)

Thus, strategic alliances and partnerships among firms are important to create synergy and competence between the resources of the firms. This is really the case for fast growing companies which needs to rely on the technical expertise created from partnerships.

According to Brad Sugars (2008):

“ From powerhouse financiers like Kohlberg Kravis Roberts to retailers like Baskin-Robbins to IT pioneers like Hewlett-Packard, business partnerships have been an important part of entrepreneurship and startup success. The reasons are simple: complementary skill sets, shared equipment or expenses, and the idea that one person with “ hard” money capital can create synergy with the intellectual capital of another person so both can profit from their venture.” (http://www. entrepreneur. com/startingabusiness/startupbasics/startupbasicscolumnistbradsugars/ article196912. html)

As such, according to Sugars (2008), it is really important for firms to go into business partnerships as in the case of Kohlberg Kravis Roberts which is big financier and also in the case of Hewlett Packard which is an Information Technology pioneer.

As have been discussed earlier, strategic alliances through partnerships are important in the success of many business and many cases of alliances had resulted to more value and profits for their respective firms.

According to Baine and Company (2010):

“ Strategic Alliances are agreements among firms in which each commits resources to achieve a common set of objectives. Companies may form

Strategic Alliances with a wide variety of players: customers, suppliers, competitors, universities or divisions of government. Through Strategic Alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills and share the risk or cost of major development projects.” http://www. bain. com/management_tools/tools_alliances. asp? groupCode= 2

In a similar study, Vaidya (2006) also highlights the importance of IJVs in order to stay competitive in an increasingly globalized business environment. According to Vaidya (2006), “ organizations in developed countries have realized that they need to pursue opportunities aggressively in other countries in order to remain competitive in this fast-paced global market” (p. 188).

Vaidya (2006) cites strategic alliances as the most common forms of partnerships between companies. These alliances can range from licensing agreements to fully blown IJVs. An IJV can be defined as “ a separate legal organizational entity representing the partial holdings of two or more parent firms in which the headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to the joint control of its parent firms of each of which is economically and legally independent of the other” (Shenkar & Zeira, 1987, p. 9).

Kinds of Partnerships or Alliances

Joint Venture is the creation of an independent company by the two or more parent organizations who are the parties to the business agreement. These Joint Ventures (JVs) may be one of two types:

* Equity strategic alliances, This kind of alliance involves two or more partners who have various relative shares of ownership in the new alliance. For example, in a joint venture which is composed of three parent companies, one may have 50% equity, while the remaining two may have 25% equity each. These are also called equity joint ventures.

* Non-equity strategic alliances, This kind of alliance involves agreements which are carried out through contract rather than ownership sharing. These are also called contractual joint ventures.

Motives of Alliance Formation

According to Blanchard (2006) there are four major challenges in the implementation of strategic alliances. In the first place, while alliances present a speedy and less risky means to internationalization, it is also very complex and there are many global linkages and interconnections that must be considered and many alliances resulted to failure because on partner could swallow the other partner. Secondly, the kind of organization structure that the alliance would form is also crucial since this influences their success especially in technologically intensive fields such as in computers, pharmaceuticals, and semiconductors (Blanchard, 2006).

Thirdly, cross-border allies often encounter difficulty in collaborating effectively, especially in competitively sensitive areas. This breeds mistrust and secrecy, which undermines the very purpose of the alliance. The difficulty that these organizations deal with is the dual nature of strategic alliances – the benefits of cooperation versus the dangers of introducing new competition through sharing their knowledge and technological skills about their mutual product or manufacturing process (Blanchard, 2006).

According to Vaidya (2006), the motives behind alliance formation can be divided into three categories:

*** Internal benefits.**

International Strategic Alliances are usually formed in order to develop internal strengths. These benefits usually include cost and risk sharing and obtaining resources that are scarce. These also includes financing, information, managerial knowledge and expertise (Vaidya, 2006).

*** Competitive benefits.**

Strengths that are competitive can be made through vertical integration and these can include the bargaining power in the industry structure, preempting competitors, response to globalization, and creation of more effective competitors (Vaidya, 2006).

*** Strategic benefits.**

International Strategic Alliances can also be formed to assist firms in change implementation of their strategic positions which could include the creation and exploitation of synergies, technology transfer, and diversification (Vaidya, 2006).

Makino and Beamish (1999) also concluded similarly regarding the motives forming strategic alliances as discussed above and according to them. In their study, Ainuddin et al. (2007) identified four major resource characteristics that can affect the successful performance of 96 IJVs in Malaysia. The study determined the extent to which four resources – product reputation, technical expertise, local business network and marketing skills –

exhibited the following attributes: 1) value; 2) rarity; 3) imperfect imitability; and 4) non-sustainability. The results of their studies showed that value, rarity and non-sustainability were significant drivers of performance for IJV assets, while value, rarity and non-imitability were key attributes for organizational capabilities.

According to Beamish and Berdrow (2003), it is not generally true that strategic alliances can be just motivated for the sake of organizational learning but also to provide opportunity for both of the partners to gain and develop new knowledge. The findings of their study proved that international strategic alliances that are production-based were no usually motivated by learning outcomes, and there is no conclusive evidence of a direct relationship between learning performance. The authors assert that only a minority of the firms showed strong indirect learning outcomes, especially with regard to partnering and market knowledge (Beamish & Berdrow, 2003).

The organizations may be driven by any or all of the motives enumerated by Blanchard (2006), and Vaidya (2006) in their studies, as discussed in this chapter. It is important that a company conducts a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis before entering into an international strategic alliance. The results of the study of Beamish and Inkpen (1995) showed that although International Strategic Alliances are inherently unstable organizational forms, the successful ones survive because the foreign partner firm is prepared with thorough knowledge of the local economic, political, and cultural environments of the partner alliance and the partner organization (Beamish & Inkpen, 1995).

Economies of Scale

The dual nature of strategic alliances (see Table 1) are composed of the cooperative and competitive nature of these alliances. The economies of scale in tangible assets through sharing plants and equipments is a cooperative endeavor in these alliances as well as sharing the overhead cost, production expenses, etc. http://www. slideshare. net/Annie05/global-alliances-and-strategy-implementation-presentation-701036

Technology Exchange and Minimization of Risk

Another factor is technology exchange wherein (see Figure 1) the partners would have the opportunity to learn new tangible skills from the partners. Another factor is the partners could minimize risks by limiting investment risk when entering new markets or uncertain technological fields via shared resources. http://www. slideshare. net/Annie05/global-alliances-and-strategy-implementation-presentation-701036

Also, another motivation is the acceleration of diffusion of industry standards and new technologies in order increase barriers to entry. The creation of “ critical mass” to learn and develop new technologies to protect domestic, strategic industries is another objective of firms who strived to go into strategic alliances. http://www. slideshare. net/Annie05/global-alliances-and-strategy-implementation-presentation-701036

Convergences and Other Advantages

Other advantage in strategic alliances is in the up streaming or down streaming the division of labor among partners. Another is to deny the technological and learning initiative to partner via out-sourcing and long-term supply arrangements. Another advantage and converge is to fill out product line with components or end products provided by supplier.

Furthermore, the advantage of converging into strategic alliances is to encircle existing competitors and preempt the rise of new competitors with alliance partners in “ proxy wars” to control market access, distribution, and access to new technologies. The alliance also serve to assist short-term corporate restructuring by lowering exit barriers in mature or declining industries. According to Blanchard (2006) “ alliances serve as experimental platforms to “ demature” and transform existing mature industries via new components, technologies, or skills to enhance the value of future growth options. http://www. slideshare. net/Annie05/global-alliances-and-strategy-implementation-presentation-701036

Table 1. The Dual Nature of Global Strategic Alliances

Cooperative

Competitive

Economies of scale in tangible assets (ex. Plant and equipment).

Opportunity to learn new intangible skills from partner, often tacit or organization embedded.

Upstream-downstream division of labor among partners.

Accelerate diffusion of industry standards and new technologies to erect barriers to entry.

Fill out product line with components or end products provided by supplier.

Deny technological and learning initiative to partner via out-sourcing and long-term supply arrangements.

Limit investment risk when entering new markets or uncertain technological fields via shared resources.

Encircle existing competitors and preempt the rise of new competitors with alliance partners in “ proxy wars” to control market access, distribution, and access to new technologies.

Create a “ critical mass” to learn and develop new technologies to protect domestic, strategic industries.

Form clusters of learning among suppliers and related firms to avoid or reduce foreign dependence for critical inputs and skills.

Assist short-term corporate restructuring by lowering exit barriers in mature or declining industries.

Alliances serve as experimental platforms to “ demature” and transform existing mature industries via new components, technologies, or skills to enhance the value of future growth options.

(Source: Blanchard, 2006, p. 7-15). http://www. slideshare. net/Annie05/global-alliances-and-strategy-implementation-presentation-701036

Disadvantages and Pitfalls of Alliances

Blanchard (2006) in his research concluded benefits of international strategic alliances often have also many pitfalls. These advantages of alliances can be in terms of potential loss of technology and knowledge-skill base. Also, other areas of incompatibility can usually occur like conflicting strategic goals and objectives. Conflicts can also arise in terms of cultural differences and in relation to disputes over who will make the decisions in management as well as in control. Blanchard (2006) also provides for four guidelines for successful alliances in his presentation:

* Choose an alliance partner who has compatibility with the strategy as well as the objectives of the firm.

* Find alliances where their skills are complementary and that their products and markets also complements with the company.

* Seek partner alliances with partners and thresh out how you will each deal with proprietary technology or sensitive data and information.

* Recognize that many partnerships could last only a few years and could break up once an alliance partner had already absorbed the skills and information it needs to be independent by itself (p. 7-16).

Partner Selection

Blanchard (2006) recognized the significance of selecting a partner with compatible strategic goals and objectives before fully entering into an international strategic alliance. It is crucial that the alliance sought will be with an organization or organizations with skills, products, and markets with synergies with each other. According to Cullen et al. (1995), the choice of a partner alliance is the most crucial strategic decision that firms make before actually developing a joint venture. According to Vaidya (2006) the reasons why international strategic alliances failed were due the wrong selection of partners because of their incompatibility; partners which did not fulfill their promises; and the difficulty of managers working together for their partnership (Vaidya, 2006).

Before selecting a partner for an IJV, the organization must first identify its needs. In his research, Beamish (1994) provided for five different classifications of partners' needs and these are: 1) capitalized items that are capitalized such as capital, raw materials, or new technology or equipment; 2) human resource needs such as local labor including local managers; 3) market access needs for a local market for products that can be produced locally or to foreign markets for products produced in the local markets; 4) government needs such as present laws or regulations may require a foreign company to go into a joint venture with a local partner in order to penetrate the local market; 5) knowledge needs such as that the company may require local information and knowledge about the market, production and government regulations, marketing system, domestic culture and traditions, etc.

Partners may have different cultures and could have difficulty adjusting to each other's ways or customs (Arino et al., 1997). These differences in cultural orientation in the long term can cause conflicts and could affect the performance of the international strategic alliance (Barkema & Vermeulen, 1997). It is a really a problem for partners to trust each other if they are in conflict in the various areas of the business operations. Unfortunately, sometimes these differences are too deeply rooted, especially when they are based on each organization's cultural values.

The research by Fey and Beamish (2001) evaluated how organizational climate incompatibility between parent organizations and the partner alliance affects performance. Compatible organizational climates will provide more chances of success since inter-party conflicts can be minimized (Fey & Beamish, 2000).

Managing Strategic Alliances and Success Factors

It is important to note that in international joint ventures, trust and commitment is important among the partners and it is crucial in their success (Beamish, 1994; Cullen et al., 1995). It is also proposed by Fey (1996) that attaining a mutual understanding of each parent organization's contribution to their partnership agreement should be clear. Both companies doing the strategic alliance must also ensure that they have long-term commitment. Finally, it is also significant that employees and managers of the strategic alliances must be empowered (Fey, 1996).

In his research presentation, Blanchard (2006) outlines the following motivations for global strategic alliances, as executed through strategic alliances such as avoidance of import barriers, licensing requirements, and other legislation that protects local companies. Moreover, another motivation is in the sharing of the costs and risks of the research and development of new products as well as services. Also, another factor is to have access to particular markets as well as in reducing the political risk in penetrating the domestic market of the partner firm. Some firms also went into strategic alliances in order to take advantage of synergies and to earn fast entry into a new industry.

Examples of Successful Partnerships

The Finest Accessories (TFA)

Another example of a company in the fashion business is The Finest Accessories (TFA). This is a firm involved in offering luxury hair accessory products with big clients such as Nordstrom, Bloomingdales, and Macy's.

Value-basis at TFA

Laurie and other designers of the firm developed designs that are unique utilizing Italian, French and other fabric styles and integrated these into the hair accessory clip design. They set these fashion trends and customized their partners in manufacturing. The partnership strategy of the company and to its partners is that they would deliver the products ordered to their partners in manufacturing which are exclusive for them and they would have primary right to refuse potential clients which can become their competitors. They formed partnerships and alliances with eight France based manufacturers with the conditions discussed above. (http://www. evancarmichael. com/Marketing/552/Partnership-Success-Story-a-High-Fashion-Entrepreneur-Goes-Global. html)

Joint development and manufacturing with eight Oyannax, France based manufacturing companies. It is considered " joint development" in addition to manufacturing because TFA These value added effect of TFA to the eight manufacturing partners resulted to their success and both partners benefitted from the advantages of the arrangement. In terms of investment cost, TFA did not have to put up large amount of money for land, machineries and equipments since these are all being provided by the manufacturing partners while the manufacturing partners also enjoyed higher markets sales because of the big orders for the unique market developed by TFA. (http://www. evancarmichael. com/Marketing/552/Partnership-Success-Story-a-High-Fashion-Entrepreneur-Goes-Global. html)

Electro

The IJV Electro is composed of the following three parent organizations: a large international consumer electronics company based in North American, with 63 percent ownership, and two Russian factories, with 37 percent ownership combined. This is an example of a global strategic allegiance between a foreign organization and a local organization. The IJV is one of four facilities in the world which produces circuit boards for one of the North American parent organization’s major consumer electronics devices. One factor that contributes to the success of Electro is that it reports to a special venture-capital type division of its North American parent organization, which has profit and loss responsibility for the IJV. The IJV also hires managers originally from the US who either lived in Russia for a long period of time, or have Russian heritage, or both (Fey, 1996).

Electro has also been able to develop a trusting relationship with its parent organizations through mutual forbearance (Fey, 1996) which has contributed greatly to the success of the IJV. Electro and its parent organizations have maintained open communication channels to obtain agreement on the parent organizations’ roles in the IJV, and constantly spend a significant amount of time in discussing, clarifying, and reclarifying these roles (Fey, 1996).

Another key success factor (KSF) for Electro is that its parent organizations have pledged long-term commitment to the IJV. Electro's parent organizations have not limited their contributions to providing starting capital to their IJV, but continue to be actively involved. For instance, it's Russian parents continue to manufacture an input product specifically designed for the IJV, and devote a significant amount of its specialized resources to this production. Electro's dominant parent is also its American parent organization, and by delegating many of the operating decisions to the American parent for which the IJV needs approval gains efficiency since having both the Russian and American parent organizations make a joint decision takes up more time, is more difficult, and increases the risk of conflict. This creates long-term commitment to, and need for, the IJV which has been beneficial for both Electro and its parent organizations (Fey, 1996).

Research Gap

The success factors and valued added theory of forming strategic alliances were validated by various authors in this review. However, in terms of strategic alliances no formal study yet have been conducted so as to validate the success factors of international joint venture formation in the fashion business as well as its value added proposition. As such, this study is being conducted to fill the research gaps in the literature of strategic alliances.

Chapter 3

METHODOLOGY

Qualitative Research

This research study utilized the qualitative research method, which involves the analysis of data such as words, pictures or objects. This research method was selected because it makes use of the exploratory approach in describing complex phenomena, tracking unique or unexpected events, understanding the experience and interpretation of events by actors or players with different stakes and roles, and is useful for conducting initial explorations to develop theories (Yin, 1989).

The qualitative research methodology was particularly useful for purposes of this thesis because it was characterized by an emphasis on describing, understanding, and explaining complex phenomena. The phenomena this study seeks to understand were factors that led to the success of international joint ventures (IJVs) in the fashion business. The qualitative research methodology was also the appropriate research tool to use for studying the relationships, patterns, and configurations among factors, and the context in which activities occur (Creswell & Plano-Clark, 2006).

This methodology was selected over the quantitative research method, which seeks to draw conclusions by making use of random sampling techniques to draw inferences from sample populations. These samples populations were typically made up of a large number of respondents.

With this research methodology, surveys and questionnaires were the most common types of tools used for gathering data and information (Creswell & Plano-Clark, 2006).

The problem with using the quantitative research methodology was that it often involves controlling a variable to determine how other variables were influenced (Wolcott, 2001). Such an approach was not applicable to this thesis because there was no control variable to begin with, which renders it useless to determine how this control variable will influence other variables.

The purpose of this thesis was to identify the whether there was value added in the partnerships and identify the key success factors that lead to the success of international joint ventures in the fashion business. As such, an exploratory approach, through the qualitative research methodology was deemed more appropriate.

Case Study

The exploratory approach was a component of the case study methodology, which in turn is one of the most common research strategies under the qualitative research methodology. The case study research strategy was used to identify value added and success factors for international joint ventures in the fashion business. The case study approach was selected as the research strategy for this thesis