# Forming strategic alliances business essay

During the globalization, managers are confronted with a rapid changing competitive landscape. In order to overcome this difficulty, firms try to make alliances. Making strategic alliances is the relevant choice for managers to search for ways for how to compete effectively and create the successful future.

Recently, collaboration between companies became fashionable . Strategic alliances is a cooperative agreements between companies. It involves all kinds of companies such as large, medium and small. In strategic alliances, partner companies join forces for common goals without losing their strategic autonomy.

## Representation of an alliance:

Goals and interests

Goals and interests

specific to A

specific to B

Source: Dussauge and Bern (1999), Cooperative Strategy, ch. 1, p. 3

## The Advantages of Strategic Alliances

There are several advantages of forming alliances:

## It may facilitate entry into a foreign market

Many firms who want to enter foreign market, they need local partner who will understand business conditions and who has good relations with local government and organizations. For example, in 2004 Warner Brothers entered into a joint venture with two Chinese partners to produce and distribute films in China. Through the partnership with local firms, Warner Brothers succeeded to distribute any films it produces

## It allows firms to share cost and risks for developing new products or process

For example, an alliance between Boeing and Mitsubishi share 8billion U. S Dollar among the partners for building a new aircraft such as “ 7E7”.

## It stimulates to develop skills and assets which are difficult to do alone

For example, in 2003 Microsoft and Toshiba established an alliance for developing a new microprocessor for entertainment for automobiles. Microsoft brought its software engineering skills and Toshiba its hardware engineering skills.

## It helps companies to establish technological standards

For example, in 1999 Palm Computer formed an alliance with Sony under which Sony agreed to license and use Palm’s operating system in Sony PDAs. The motivation was to establish Palm’s operating system as the industry standard for PDAs against Windows-based operating system from Microsoft.

## The Disadvantages of Strategic Alliances

Establishing alliances can be risky. Unless a firm is careful, it can give away more than it receives. It means that, if the partner reckless of managing its know-how, it can be leaked to other partner.

## Main drivers of formation of alliances:

The recent and rapid growth in the number of strategic alliances can be explained by various changes in the international business environment. Globalization of trade and acceleration of technological progress seem to be major driving forces that have led firms to enter into significant numbers of cooperative agreements.

## Strategic Alliance drivers:

Globalization

Technical changeDisenchantment with M & A

Source: Tayeb, M. H. (2001), International Business Partnership, ch. 2, p. 35.

## Globalization

The Globalization is the process which includes the objectives relating to the need to establish a large global presence, to gain knowledge and size, ensure competitive defence and deal with regulatory and political barriers to new market entry.

One of the main drivers of globalization is the fact that customer needs and preferences throughout the world are rapidly converging. This makes firms to produce so-called “ global” products suited to all consumers, irrespective of their nationality.

International alliances can offer an effective way to globalize more rapidly and therefore enhance a company’s competitiveness. While making international acquisitions is both costly and risky; setting up a network of wholly foreign subsidiaries is long, expensive and hazardous; licensing gives little control. Global alliances can allow the partner companies to pool resources produce global product and distribute it worldwide: British Telecom, MCI and AT&T for World Partners; Alliance of Sambuca and Nemiroff; Alliance of Philips and Whirlpool.

## Technical Change:

The cost and complexity of new technology are increasing extremely rapidly. Between 1970 and 1990, R&D expenditures rose three times as fast as spending on fixed assets (Collins and Doorley, 1991).

With the increase in the diversity and complexity of technology know-how, the range of possible innovations based on this expertise is growing wider. While the range of possibilities offered by new research has been increasing tremendously, individual R&D programs are growing ever more expensive and the chance of achieving technically successful and commercially profitable results have become more and more uncertain. This is why cooperation is viewed as unavoidable in many high-tech industries: by dividing up the R&D work between the partner firms, it enables them to share costs, pool their expertise, and explore a greater number of avenues (Dussauge, Hart and Ramanantsoa, 1992). For example:

The Peugeot/Renault JV, Alliance of PRV V6 Engine

## Disenchantment with M&A

The disenchantment that has followed many mergers and acquisitions seems to be one of the reasons behind the recent development of strategic alliances. Alliances make it possible to avoid the culture and organizational shock coming in the wake of a merger by proceeding step by step, and by gradually adapting the content and structure of the agreement.

## Formation of Strategic Alliances

## Formation process:

Source: Schaan, J (2007), Cases in Alliance Management, ch. 1, p. 7

## Strategy development

The rationale for a strategic alliance needs to be firmly in a clear strategic understanding of a company's current capabilities and those it will need to be successful in the future. First of all, managers need to establish the strategic goals of their company's and then evaluate their resources and capabilities to see if they are capable of executing on their own.

The process starts by developing a realistic appraisal of what resources are required to meet a company's long-term strategic objectives. The objectives are for increasing competitive advantage. The manager must state that what capabilities the firm has and searching for. With this undertaking, managers begin to establish their criteria for rating partnership opportunities if this is an option they choose.

Before making the mind to go for the alliance, the potential costs involved need to be considered such as technology transfer, coordination and management costs, which is high indeed. (Tayeb, H. M 2001).

Managers need to take into account of, if the firm has an experience on building alliance. If this is first alliance, a company should look carefully at its internal policies and practices and evaluate to what degree they will help or hinder an alliance. For example, if a company has difficulties on managing its internal communication, then there will be strain on the alliance relationship. It is best to modify internal practices as necessary before introducing a third party.

The process of strategy development is as following:

## Strategy Development:

Source: Schaan, J (2007), Cases in Alliance Management, ch. 1, p. 7

## Selecting the right partner

It should come as no surprise that choosing the right partner is a major determinant of how successful an alliance will ultimately be. Inexperienced companies should not hurry up to " do a deal"-choosing partner.

Poor partner selection ranks high among the reasons for alliance failure. It invariably takes longer than anticipated to find the right partner. Managers should spend time and resources to thoroughly analyze the potential opportunity. Depending on the scope and complexity of the alliance, it takes from several months to a couple of years to find the right partner.

Small companies looking for alliance partners are often tempted to look for shortcuts as they find themselves facing time and financial pressures. They may succumb to the temptation to partner with any company, whether or not it meets their strategic needs. This is the mistake that companies make, because a partner must fit a company's strategic needs.

Small companies mostly keen on forming partnership with large companies. The reputation and image of the large company can often cause the small firm to ignore its own strategic objectives.

After the strategic objectives were defined, managers should decide how many partners to approach. The search process starts by formalizing partner profile screening criteria, developing a list of prospects, ranking the list against the criteria and then focusing on a manageable number of the best prospects.

Complementary assets and capabilities is the core characteristic of partners for evaluation the strategic fit. Having identical strategic assets is not a good basis for a partnership because the possibility of competitive conflict can be high over the long term.

It is necessary to evaluate partners according to their strategic, cultural and operational fit.

Concerning to strategic fit, managers should take into the balance of need between the partners. If the needs of other partner are to get more profit, then this will not be long-term alliances.

The nature and durability of the strategic fit is also a critical consideration. It is important that the long-term objectives of the partner are not in conflict and that the intended benefits can be sustained.

During analyzing strategic fit, firms need to choose a partner who has a potential strategic network. In high-tech industries, most of the firms have cooperative network with each other.

As it said above, building an alliance with large firms is risky. Companies should choose a partner who is almost the same size. Research indicates that choosing substantial size of partner can decrease successful collaborative activity. It can lead Merger and Acquisition.

Cultural fit is core of choosing partner. It can affect business logic, competitive behaviour, time orientation, and decision making. It directly impacts the ability of partners to work together to meet their common objectives. Research of KPMG shows that, the reason of 70 % of strategic alliances failure is cultural contradiction among the partners.

Culture of companies has profound effect on organization's operational practices such as management and organizational structure, decision-making practices and employment policies.

## Negotiation

The major part of long-term collaboration is established at the negotiation stage. Negotiation should be as first and foremost as a means of building the linkages that will support effective collaboration between the partner companies.

The negotiation process is perfect way for developing some unique insights into how the other party does business.

In negotiation process, several areas require particular attention such as: collecting negotiation team, negotiation preparations, the process of negotiation itself and forming a negotiation agreement.

Negotiation can be stressful and managers need to be sure that his team members can have contribution. Besides, legal and tax professionals have a very important role to play in putting a partnership together, but during the negotiation it is best to avoid them to attend the process.

Well preparation can make the negotiation process easy and smooth. Advanced preparation should also help assess bargaining power, understand the concessions to be made and forecast issues that might arise.

Good negotiations are characterized by honesty and an open flow of information between the partners.

The agreement should be well written and set out the purpose, term, duration, warranties, obligations.

# Implementation

Making the right decision about strategy, partner and structure is only the beginning. The real work starts when companies implement their alliance. While the chosen structure and scope of an alliance will significantly influence the kind of implementation required, the material covered in this section presents principles for creating winning conditions that are applicable to all.

The main problems of forming strategic alliances

There are different problems of forming strategic alliances.

As it is obvious that strategic alliances in most cases are managed by two or more parents makes them inherently risky. The problems in forming alliances stem from one cause: there is more than one parent. The owners of parent firms are powerful. They can and will disagree on just about nothing (Killing, 1982). Such as Queensland Minerals alliance, owners of both parts parent companies were disagree. Amcon Corporation wanted to expand to Queensland, but the CEO of Victoria Heavy Industries did not want to. As a result Amcon renegotiated the alliance agreement.

Organizational culture, a company’s ways of doing things, refers to basic assumptions and beliefs that are share by members of an organization. These operate unconsciously and define an organization’s view and its environment.

Organizational culture can cause problems where companies with distinctive cultures merge or form a strategic alliance. Employees from the parent firms tend to use their home-company culture. In this connection, Datta and Rasheed (1993) mentioned that, a lack of cultural sensitivity can easily lead to misunderstandings in strategic alliances.

## Main Problems of Forming Strategic Alliances

Unsuccessful rate of alliances are high. The success of an alliance seems to be a function of three main factors:

Partner selection

Alliance structure

Managing alliances