Management Dynamics in Strategic Alliances

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ABSTRACT

A strategic alliance is an agreement between two or more businesses who work as a team towards a common goal. A strategic alliance is important to any company that may see outsourcing as a future or potential problem. Forming an alliance with companies outside the market is important because of the different resources the other has to offer. Besides resources, alliances will help combat things like risks, costs, and research and development that comes with extending the scope of operations. Finding the right alliance partner or partners is beneficial when it comes to licensing, working with new distributors, new markets. Other important factors include exploitation of economies of scale, faster payback on investment, gain an advantage over on the competition, and maintain or grow in the current market. Strategic partnerships are a useful way for businesses to gain knowledge of skills they may be lacking or exposure to larger markets. There are of course risks that each company must be aware of and evaluate thoroughly before entering a partnership, such as the other firms motives for wanting to join the partnership and if they are just looking to steal competitive advantages to grow their customer share and decrease yours. Therefore, finding a strategic partner in a different industry who is not looking to enter the same market is the preferred method of partnerships. This type of partnership can lead itself to many shared benefits for each company involved, such as gaining knowledge of operating and management practices that have given the partner a competitive advantage in their respective industry.

INTRODUCTION

With the continued globalization of worlds markets, it has never been more important for businesses to look beyond what their competitors are doing, but also those in other industries. For companies to survive in business they must not solely rely on the things that have made them who they are, but continually look for new innovations and processes that can help push their business to the next level. Companies can achieve this through many different avenues, such as research and development, acquisitions, and employee empowerment, but there is also another place they can find it that might be the less obvious choice; from a business in a completely different industry than its own. Just because a company may not sell the same product or service, doesn’t diminish the fact that a company can learn something from them, especially if they are successful in their respected industry.

OPPORTUNITIES

How do companies go about capturing other’s competitive advantages? They can acquire them, but they can also create a strategic alliance with them, where both parties benefit from the deal, but remain their own. This would be especially true for a company not looking to enter a new industry, but to gain competitive advantages that a business may have in another industry, that could apply to their own. A strategic alliance is “a formal agreement between two or more separate companies in which they agree to
work collaboratively toward some strategically relevant objective” (Thompson, 2016). Most companies use a strategic alliance to manage the impending issues that will or may occur due to outsourcing. Others need alliances to reach new markets and having a partner in that specific market will help to have leverage over any others who may want to enter. Sharing ones operating procedures or logistics partners are a few examples of how two companies can come together to mutually benefit one another. However, finding the right strategic alliance, is of utmost importance as it can do just as much harm to a company as it can benefit. Entering into a strategic partnership with a company not fully prepared, can lead to the partner finding out that their newfound partner was only looking to gain knowledge of their company and had no intention of returning the same. No matter the risk, the importance and benefits of a great strategic alliance with a company in a different industry cannot be understated.

A demotic/global market entry plan involves making strategies that will help distribute one's goods and services to other broader markets. According to Man (2013), there is enough proof to show that organizations that fully embark on strategies aimed at international markets become competitive and reap huge monetary benefits from it. The reason behind allying when venturing into the markets is to be able to share existing assets, fill the resource gaps available and share aides when making decisions on the same. When looking to form a strategic alliance with a company within another industry it is important that you evaluate the industry, the companies, and their customer base to select a company that will bring true value to a strategic partnership. “The combination of these shared resources increases the value of each partner in a way that is not possible when each business acts alone” (Martyak, 2014). Wherever a company looks for a partnership, they must always make sure the partnership is mutually beneficial and can excel both companies in their industry, otherwise it will be a waste of everyone’s time and resources.

Having a strategic alliance is important with technology updating at a fast pace and not all companies can afford to keep up with in a timely manner. It is also important by opening new learning opportunities to will help partners gain better leverage over competition. To be successful in reaching the objective or goal, one must pick a good partner, accept cultural difference, be beneficial for all involved, be committed to each other, and teamwork. This leads to the why strategic alliances are important with different industry.

Strategic alliances are critical to companies who are wanting or needing to grow. The growth of strategic alliances, mergers and acquisitions (M&A) during period of growth has been monumental but, given the period of economic downturn that started in 2007 and continue throughout 2010, it is likely to grow even faster, as more companies will need to develop strategic alliances, acquire or merge to survive (Ulijin, 2010). With the newest technology and the faced paced world, we live in, no one company is smart enough to have it all. Forming a partnership or alliance will give the company the ability to share the resources and other information or insight they have with each other to work toward the common goal they are trying to reach.

From idea to market the speed in which this happens can be greatly improved. Most products or services are not without competition. The key here is to pull all resources together whether it be the entrant into the new market or just the resources to make it more appealing to current or potential customers and the ability to gain more advertising in the market due to the partner already having its foot in the door.

There is no more simply one size fits all theory. Things are a lot more complex than they were thirty years ago. We have come a long way in the way we buy and sell. Thirty years ago, people found out about products and services through door to door salesman, catalogs, billboards, or word of mouth amongst other ways of advertising that was available in your area. Now we have the internet that reaches not only the country you live in but the entire world. Whereas you would have no choice but to buy
brand a or b for a set amount, now you can surf the web and find almost anything your heart desires for different costs. It would be pertinent for a company trying to reach more than just their customers to form an alliance with other companies that deal in different markets. Companies are now looking at ways to gain more income or profit than they are now with nowhere to go. The first thing they look for is a new market but sometimes that is not as easy as it sounds. The cost of entering a new market can be costly. Collaborating with a company in the new market you have chosen can ease some of the financial burden not to mention some of the inside tips or know how that otherwise you would not know.

Sharing of knowledge is important because otherwise a company trying to introduce a product or service in a new market without knowledge or expertise advice would surely hit a brick wall. No one company knows everything, you are either an expert on one thing about not the other. An alliance with a company that knows the other half of what you don’t can help you to ease the burden of whatever you are lacking. This could include government regulations, product knowledge, or ways to find the right resources to help.

Another important benefit from forming alliances with different industries is the result of synergy and the competitive advantage. Synergy is the effect an alliance achieves that could not be achieved if tried alone. With the help of an alliance the leverage of the competition can be lowered. The alliances feed off each other’s strengths, skills, knowledge, and resources to outsmart the competition. Having the upper hand in any competition is always one step further to achieving the objective or goal desired.

Gaining a new client base is always a great idea but how do you do that in an industry of competitors trying to pass you in sales and service to ensure their customers stay loyal and keep coming back? The answer lies within the confines of their trusted alliances. What better way to reach new or potential customers than through other companies? It benefits both or all companies involved. Your brand name or label is associated with the other firms involved so not only are your customers seeing their products or services their customers are seeing yours. Even though it is certainly not free you could view this as free publicity or advertisement. Each firm is also saving money on what it would cost if they tried to reach out on their own. Offering services to clients that are not available anywhere else is another important reason to be part of an alliance in different industries. One thing for sure is if you bundle a product or service with something your customers can not get access to ensure that the client stays loyal and will tell everyone what they were able to purchase which in turn brings in new clientele.

Reducing the risks associated at with venturing out to unknown business territories is another important reason to form alliances. Risks of failure is one that the more organizations involved the least likely to fail. Due to the resources such as skill, capital, expertise, etc. the risk of failure is small because if you fail then they fail also. The goal is to increase awareness and profit in the end.

Economies of scale can be achieved by the organizations pooling all their resources together which improves the quality of the end project. This refers to the cost advantages that your company gains from expanding and ordering in greater volume from vendors and suppliers. When your orders increase in volume, vendors and suppliers tend to give you significant discounts, which save you money. In business alliances, this might also include access to wider marketing channels, which your company might not otherwise be able to afford outside the partnership. Cost reductions might also result from joint investments such as research and development or access a partner’s operational facilities (Quain, 2019). An example of this would be firms that have separate strengths and weaknesses coming together and sharing the information and technology to reach the same result. A small company and a larger company that have products and services that would complement each other and putting them together again reaches the goal or objective.
Gaining new resources and improving the resources you already have is an important part of your business growing. With new resources the sky is the limit for most companies. Just when they think there is nothing more to learn, along comes a partner who has more information that you ever thought. This is a must when you are trying to grow your organization to new heights. Knowledge is power, and one must have the knowledge to stay one step ahead of all competition.

Increased brand awareness can be achieved by forming an alliance with other businesses. If you are not reaching new or potential customers at a constant rate, then you are not achieving increased brand awareness. By joining forces with other organizations, you are reaching a steady flow of new viewers without having to pay for the time or fund a new source of outreach. Alliances can also make you stand out from the crowd. Take for instance a small firm that is well known in their territory but nowhere else joins forces with a big-time firm that is known all over the country. The small firm’s competitors are also small and only known in their territory. Which one do you think is going to get the most attention? Of course, the small firm with the help of a bigger firm. Thanks to the partnering and sharing of resources, the small firm has now increased its client base and their revenue.

**MANAGEMENT**

What is it that makes an alliance truly strategic to a company? Wakeam (2003) in his research study “five factors of a strategic alliance” identified five criteria. “Many alliances default to some form of revenue generation—which is certainly important— but revenue alone may not be truly strategic to the objectives of the business. There are five general criteria that differentiate strategic alliances from conventional alliances. An alliance meeting any one of these criteria is strategic and should be managed accordingly.

1. Critical to the success of a core business goal or objective.
2. Critical to the development or maintenance of a core competency or other source of competitive advantage.
3. Blocks a competitive threat.
4. Creates or maintains strategic choices for the firm.
5. Mitigates a significant risk to the business.

The essential issue when developing a strategic alliance is to understand which of these criteria the other party views as strategic. If either partner misunderstands the other’s expectation of the alliance, it is likely to fall apart. For example, if one partner believes the other is looking for revenue generation to achieve a core business goal, when the objective is to keep a strategic option open, the alliance is not likely to survive”.

Managing strategic partnerships well are key to the success of a partnership and can help prevent a lot of the pitfalls in partnerships. Just like managing the operations of a business where the management team must be fully engaged in all aspects of strategic plans; management must be fully committed to the process and needs of a strategic partnership. Most partnerships fail because they are poorly managed, whether it be through differing objectives or breakdowns in relationships. Knowing who is going to lead important initiatives within the partnership is a critical point when agreeing to undertake such a risky endeavor. Managers who are unwilling to change and are not open to other ideas are not the best fit for these types of alliances, as they will fight every change and make the process more difficult than it needs to be. Management must know their teams well and whom to put in charge of bringing these two companies together to achieve greater success. With over 60% of partnerships failing it cannot be stated enough the importance of a well-formed team and partnership.
Knowing this information, what can companies do to make sure they are not a statistic among others, but truly create a partnership that flourishes? It may take having the perspective of treating your partner like your customer. Businesses know the importance of their customer; they wouldn’t be in business without them and go to great lengths to satisfy their customers. Taking this approach to a partnership, on both sides, can lead to great results. How do you know if you are satisfying your partner, well “most firms measure customer satisfaction, it would be worthwhile to measure partner satisfaction” (Whitler, 2014). Knowing where your partnership stands and how satisfied each party is with the efforts and information, they are receiving can help management redirect if they don’t believe they are achieving the goals of the partnership. If each partner is willing to treat each other like a customer and meet the needs of one another they will take the extra step to make sure they are putting in the necessary resources to achieve the purpose of the partnership. This leads back to making sure a company selects the right partner.

Most companies know the need for strategic partnerships, especially in cross industries because of the many benefits. Knowing who and what to look for is the challenging part. Assessing the needs of your company is the first step in finding a partner. What is it that a company thinks they need to reach their next growth milestone and how can a partnership meet that need? Are there other avenues besides a partnership that can meet this need? These are questions that must be answered before moving to the next step of finding who that partner should be.

**PARTNERSHIP**

Companies can form any types of partnership as they may be interested in being able to meet up with the recent requirements of the global markets (Austin, 2016). The shared governance in the alliances is a major requirement to ensure equality in sharing of costs, benefits, and risks that might occur. Also, companies are taking the partnerships as an excellent cooperation strategy to use instead of competition (Gulati, 2013).

Once a company knows exactly what they need and that a partnership is the best strategic plan for the company it is time to evaluate the potential partnerships. While an easy partnership would be with someone in the same industry and is a few steps ahead, this may not be the best decision. Partnerships in similar industries can lead to information stealing and the bigger company can put the smaller partner out of business now that they have another competitive advantage that they gained from this partnership. Therefore, finding a partnership with a company in another industry can be far more beneficial for both parties. When looking for a partnership with a company in another industry it is important to know that the company you are potentially partnering with is not looking to enter the industry your company is in, otherwise they may just be looking to gain information that can help them and not help you. Once this is established there are a few areas that a company must cover before entering this arrangement.

A company should never take a partner out of scarcity of choices and entering into a partnership with a company in a different industry will give a greater pool of potential partners. Being patient and not rushing the decision is very important when looking for the right partner. If a company is trying to rush into a partnership one must question the motives behind it. Both companies should know why they are wanting this partnership and be clear about it. The worst thing a company can do is undervalue themselves when they come to a partnership, “be clear on the value you bring to the table. Be honest about why you’re interested in creating a partnership and what you bring to the table” (McKay, 2014). Being honest about what both partners want will let both organizations know they have the same vision for the partnership and having a shared vision will guide managements actions in what and how they achieve the goals of the partnership.
CULTURE

Finding a partner with shared values is also a key component to leading a successful partnership. Ethics vary among every country in the world, what some see as wrong may not be wrong to another culture. In some countries a gift is required in order to bid on projects, where in other countries this would be considered a bribe. Finding a partner who will be consistent with their ethical decisions and how they lead their company and what they expect of the decisions of their employees will have a major impact on a partnership. Knowing what your values are as a company will help guide in the decision-making process of finding a partner because if you announce a partnership with a firm and that firm is found to be conducting themselves unethically your firm will suffer the public relations that come along with it as other will assume your company supports this behavior otherwise you would not have entered a partnership with them. Asking the tough questions up front about their business transactions will help any potential concerns for this later. These are areas that management should consider when looking for a partner, but there are many more that must be considered as well, and it is the executive teams responsibility to ensure that any company they are entering a partnership with meets the needs, values, and objectives of their company before entering such agreement.

RISKS/TRUST

The formation of alliances is important in sharing of risks. When making a new product or trying out a new idea, there are many market uncertainties and instabilities that occur. With the competitive nature of the business, it is hard for a company to venture into new markets while alone. The reason for this is because there are different types of organizations that are advanced in different areas of the production. A single firm cannot manage to attain all these technologies single-handed. Therefore, the company chooses partners who have the respective technologies, assets, and resources that might be required to make advancements (Lorange et al. 2012).

Therefor a multitude of risks involved when entering a partnership as a company is introducing another organizations way of doing business into their own, and the success of another company is now linked with its own success. The largest risk is the organizational support behind the alliance. If the organization, mainly its employees and managers do not support the alliance than they will be less reluctant to work with the incoming team to achieve the desired goals of the executive leadership. “Relational risk refers to uncertainty of the level of cooperation between the partners, the probability of an outcome that does not have a sat is factory cooperation, the unique risk of Alliance, including inter organizational relations issues those will prevent the alliance goals realize” (Zhang, 2013). Employees and management that do not agree with this decision and are put on the team to gather information and learn from the new organization may find ways to delay delivering information or be reluctant to give any information at all to the other party, which will effectively make the alliance inefficient.

In a strategic alliance both parties must be engaged in achieving the goals of the partnership and equity is a major factor in how involved management is in that alliance, because they have a monetary investment, which keeps them focused on that alliance performing or it hurts the company itself. According to Wakeam (2003) “Regular meetings of executives from the partner companies continue the relationship building that begins while formulating and negotiating the terms of the strategic alliance. Trust is perhaps the foundation of a strategic alliance and these relationships are the building blocks for establishing trust amongst the individuals who represent the two parties in the strategic alliance.
ENGAGEMENT

The merger and acquisition mania are taking off again, and here lies one of the greatest challenges for all those involved in thinking through the delivery of all those shareholder commitments. As organizations plan their delivery strategies, they need to understand that they need to build engagement to ensure goal delivery at a time when uncertainty and insecurity are at their highest. This uncertainty militates against the achievement of an engaged workforce. Engagement cannot happen without securing the emotional commitment of people to the organization. The problem with a merger or an acquisition is that, for all or some employees, commitment has gone. Very few of them will form an immediate bond with an organization they didn’t volunteer to join. In my experience with global mergers, creating stable working environments and certainty about the immediate future is critical to re-establishing commitment. If you can get this, then line managers can begin to develop the effective relationships that drive engagement (Bones, 2007).

Managers must be engaged in the alliance and actively managing all risks and performance benchmarks, because if the alliance is left to its own it will not succeed just like any part of an organization. Managers are constantly involved in the daily workings of their companies’ operations and they must be just as involved in the operations of the partnership.

There are several tactics managers can use to manage an alliance and depending on the size of the company will determine the available resources to commit to the alliance. Large organizations can set up teams to manage alliances, where small companies may just have a handful of people and the owner must be the person involved in the alliance. Whichever the scenario “in order to identify and overcome problems early on, it is important to deploy alliance managers, create shared tools, and conduct regular assessments of alliance health (Rothaermel, 2016). Taking a hands-off approach will not work and management must be committed to giving the resources necessary to achieving the goals of the alliance.

DISCUSSION AND CONCLUSION

The purpose of a strategic alliance is to use the resources including technology, financial, research and development, and experience from each other to gain new client base, enter new markets, and add additional income. Securing alliances outside of the current market is an excellent way to build, strengthen, or sustain core competence or competitive advantage. They also can build the resources to help with any deficiencies or weaknesses. Other important aspects of strategic alliances are learning new skills and resources, access to technology, new client bases, and synergy just to name few. By picking the right partner or partners and mutually benefiting from the partnership so many things can come from it. Strategic alliances may not be the answer for everyone but by all that is gained is a good reason to consider it.

There are certainly many areas a business must cover before deciding if a partnership is the right choice for them. Once they are certain that a strategic partner can further their business goals and they have something to offer a partner, they must take every precaution to ensure they select the right partner. After reviewing the potential issues and the many benefits of finding a strategic partner, it is apparent that finding a partner with a company that is in a different industry brings a better value than a company in the same industry. A business can gain knowledge of operations that function differently due to the industry they are in, which may help further operational or management abilities of the partner company. Most companies operating in the same industry are competing for the same customers, finding a partner that is
in a different industry and not interested in operating in your industry takes away a lot of the major risks associated with local partnerships and even global partnerships, because each company is looking for a value that they can find to better them in their respective industry. The data shows a strategic partnership can be a very successful endeavor for a business and is an avenue every business should consider helping them with their future growth.

REFERENCES


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