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### **Rescuing The Critical Path Of Strategic Aliancess**

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## Abstract

Previous studies highlight the evidence of many alliances which is collapsed in the mid-life of their partnership. This article aims to enrich the knowledge in this area by exploring the essential factors in the mid-life of alliances and provide managerial suggestion for firms engage in this type of partnership. The alliance development itself could be divided in three stages: formation, operation and evaluation. The operational phase is the most critical phase of alliance when the tension of the conflict comes to the fore and the interaction between parties becomes more intense. During this phase, people experience working on a daily basis with its partner, which probably has a totally different culture, organization, behavior, etc. This mid-life phase of the alliance is considered critical to further alliance development which is so fragile and determines the continuity/discontinuity of the alliance. Four important variables in this stage: *partner contribution, control, conflict, and communication* will be further analyzed in this article.

**Keywords:** Strategic alliances, operational phase, partner contribution, control, conflict, communication

## Introduction

During the past decades, we witnessed the widespread phenomenon of strategic alliances across all types of firms competing in every imaginable industry. As costs and risks of new product and process development are skyrocketing, strategic alliances become even more commonplace in the economic landscape, especially those with cross-national borders and cultures. Alliances reportedly improve the competitiveness of firms by providing access to external resources, by providing synergies and by fostering rapid learning and change (Hoffmann & Schlosser 2001). Large and fast-growing enterprises, be they Microsoft, Philips, Unilever or KLM, rely heavily on alliances to support their growth strategy.

However, despite the increasing growth of strategic alliances over the last decades, the landscape is littered with failures. There are a number of studies available on this subject (see e.g. Harrigan 1988, Lorange & Roos 1992, Bleeke & Ernst 1993, Faulkner 1995). Reasons for the failure of ISAs are, quite often, unfamiliarity with the dynamism of their relationship. This means that co-operation/conflict can change over time and who controls the relationship can also change over the years. Moreover, the parties in these partnerships are still facing great problems in handling organizational interdependence. The specific resources brought in by partners, their organizations, their social and cultural backgrounds, and the environments in which alliances operate are more or less unknown to alliance partners. These factors may be a source of potential conflict since expectations about each party's behavior may differ and/or may be unknown to each other. The parties are thus having problems in their co-operation and may also have problems in solving inter-organizational conflicts.

Forming and managing such complex international relationships, knowledge-intensive alliances place a great burden on the managers involved. The specific characteristics of ISAs (multiple decision-making, constant bargaining, and clash of interests) inevitably make co-operation an unstable form of industrial organization (Arino & de la Torre, 1998). This statement has been supported by several empirical studies of strategic alliances. In a study that examined the fate of 880 alliances, Harrigan found that only 40% survived four years in existence and that fewer than 15% lasted longer than a decade (Harrigan 1988). Other studies highlight the fact that more than 50% of all joint ventures disappear or are completely reorganized within less than five years of their creation (Killing 1983). There are also a great number of alliances that terminate midway in their partnership. Bleeke and Ernst (1993)

study demonstrates that more than two-thirds of all alliances encounter serious problems during their first two years in existence. This is supported by a research of American-Dutch alliances (see Wahyuni 2003) which is sparked with a lot of difficulties in the mid-life of its cooperation. Apparently during this phase, people experience working on a daily basis with their partner, which probably has a totally different culture, organization, behaviour, etc. This mid-life phase of the alliance could be considered critical to further alliance development which is so fragile and determines the continuity/discontinuity of the alliance. If the involved managers successfully manage this phase, they can continue their partnership but if they cannot manage it properly then a divorce or an ending of co-operation might be the best option they might take.

In this respect, we have to be aware that alliances have a dynamic relationship which is naturally changing over time, with the partners typically having less or more direct managerial control over time. The current literature on ISA's has paid considerable attention to either the very beginning of an alliance and the ultimate end of an alliance, while the mid-life of ISAs has been left understudied at best (Doz 1996). The complexity and richness of alliances rests on its cross-cultural and cross-organizational interactions. While focusing on only the opening and the closing games, current research has missed the most exciting and arguably the most challenging part of the story. This article aims to fulfill this gap by exploring the important factors in the mid-life of alliance development and provide managerial suggestion for firms engage in alliances.

Based on the previous study conducted by Wahyuni (2003), it is acknowledged that alliance development consists of three stages: formation, operation and evaluation. Formation is the phase during which the future partners conceive an interest in the possibility of forming an alliance (important variables: *clarity of goals and reasons, form of co-operation, partner selection, and initial agreement of partner contribution*). In the operation phase, the alliance is established as a productive venture and people are appointed or seconded by the partners, systems installed, and operations commenced. Evaluation phase refers to the ways in which the alliance develops further following its establishment (important variables: *evaluation, further development of alliance, organizational learning*). The operational phase is what we call the critical path of alliances when the tension of the conflict comes to the fore and the interaction between parties becomes more intense. There are four important variables that need to be taken into consideration during this phase: *partner contribution, control, conflict, and communication*. Below, I will discuss these important variables in the operational phase which is followed by the managerial implications for managers.

### **Partner Contribution**

The value of an alliance ultimately hinges on the respective partner's willingness to make the requisite contributions in human, capital, and material resources in a timely manner. In essence, strategic alliances are about assessing resources that a particular firm does not possess, but are perceived to be critical for improving their competitive position. Why partners enter into an ISA, what benefit they derive from it and finally, what interest they attach to the ISA over time, are always important questions. An alliance relationship will be affected by the interest of the partners in contributing resources over time. A partner may be interested to increase its contribution in order to increase control or withdraw existing support due to a conflict with the other (Hyder 1988).

Managers should be aware of the fact that the specific resources brought in by their partners, their organizations, their social and cultural backgrounds, and the environments in which the alliance operates are more or less unknown. These factors can be a source of potential conflict since expectations about each party's behavior may differ and/or may not be

unknown to the other. It is important to remember that inter-company behavior is based on a continuous process of “give and take”, in which neither side wishes to bear more of the costs than the other and in which each side wishes to profit from the situation as much as possible. There are three important features that ought to be considered in this area: expectations, partner contribution and commitment. *First*, all actions within strategic alliances are shaped by expectations. Unfulfilled expectations and unequal contributions can provoke conflicts in alliance relationships. *Second*, there must be a sense of fairness and equality with regard to the contribution of the resources. *Third*, a company is likely to show commitment only where there is an expectation of a good economic return and continuity of mutual cooperation. Here, the contribution made by each partner is important because if a partner is perceived as “fair” or “equal”, then one’s own motivations to show commitment increases. Mutual commitment between alliance partners is reflected in actions which are aimed at prolonging the relationship or which express acceptance of common or agreed goals and readiness to commit resources into the alliance. Commitment is a subjectively experienced bond between partners (Buchell et al. 1998, p.175). Like trust, commitment should be nurtured during an alliance relationship. A lack of commitment in an alliance will endanger alliance continuity.

For the above reason, it is suggested that managers sincerely discuss their expectations with their respective partner about the alliance, evaluate the contribution of both partners regularly, and finally secure the commitment of both partners to the alliance. Managers should be aware that individuals, who negotiated or implemented the initial alliance agreement, may change positions due to promotions, transfer, retirement, or termination. Such changes can hamper the continuity and decrease the total commitment for the alliance. The following may help managers to evaluate the above three important features in partner contribution.

#### **Identify the expectations**

- Sincerely discuss the company’s and your partner’s expectations with respect to various issues in the alliance.
- Be aware of major differences in the expectations within the two companies.
- Recognize those major differences with your partner and find a solution for how you will bridge the gap.

#### **Synergy between the partner contributions**

- Refine the competitive advantages you can contribute to the alliance.
- Evaluate periodically whether your real contribution matched your partner’s expectation (and vice versa). Be honest about what you seek to gain, and what you can provide.
- Before blaming your partner, think of alternative causes of your troubles. Things are not black and white, and you may discover your partner is not totally responsible for the situation, if at all. Then, talk it over with your partner and look jointly for a solution.

#### **Mutual commitment**

- Recognize the level of commitment of the partner and their readiness to commit more resources into the ISA.
- Discuss comprehensively with your partner how the existing shortcomings in commitment can be tackled.
- Ensure that there is a continuity of total commitment from both partners in the alliance

## Control

Control is a critical issue for the successful management and performance of ISAs. It can also become an extremely sensitive matter. If partners compete for control and do not arrive at a mutually acceptable solution, this can jeopardize their relationship and inhibit its potential for realizing complementarities (Child & Faulkner 1998). A subtle balance must be struck between the need for control and the equal need in an alliance to maintain a harmonious and constructive relationship between the partners.

In the literature about control in alliances, three dimensions of control come to the fore: mechanism, extent and focus of control (see for example Geringer & Herbert 1989, Killing 1983, Kemp 1999). The mechanism of control is the means by which the control is exercised, like equity position, staffing of the strategic alliance management, voting control and control through critical resources. The extent of control is defined as the degree of control a partner seeks over the decision-making process. The last dimension, the focus of control refers to the situation where partners in an alliance may exercise relative control over those activities the company perceives to be important. In addition, in alliances forged between competitors one should also be aware of the management of spill-over of control. The risk of spill-over is a chance that directly or indirectly, through linkage in networks, parts of one's core competence leak to competitors.

The above dimensions of control are independent but often complementary. For control to be effective, each of these dimensions should be taken into account (Kemp & Ghauri 2002). In order to reduce the complexity, I leave the mechanism of control outside this study. The focus is on three areas of control: extent, focus and spill-over of control. *Firstly*, the study on the *extent of control* indicates that the role played by partners in alliances reflects the quantity and similarity of skills and resources that each partner brings to the alliance. It is understandable that a partner who contributes to particular areas in the alliance will also want to execute more control in that area. Instead of trusting partners to exercise autonomous control over their areas of expertise, alliance managers should be able to protect their company's position in the alliance by making a clear arrangement about the division of control.

*Secondly*, it is apparent that alliance partners do not focus their control on the entire alliance activities but only on particular areas that are strategically important for them. Unfortunately, this tendency sometimes cause alliance managers to pay less attention to other areas which they regard as not strategically important but in fact are still essential for the success of their alliance. Thus, it is important for managers to continuously evaluate their strategy and see whether the overall objective of the partnership has been fulfilled comprehensively.

*Thirdly*, the study on spill-over of control underlines three important features that need to be considered when a company establishes an alliance with a competitor: the linkage with a direct or indirect competitor, the type of knowledge, and the speed of technological change. When a partner is directly competing with the other alliance partner in the same market, managers should be aware of the possibility that the core competency could leak to the other competitor. The importance of spillover of control is determined by "how critical the capability is to the firm" and "the speed of changes of the related technology." If the technological make-up of products changes more rapidly than it would take for the relevant information to spill-over to competitors and be used for imitation, then the fear of spill-over disappears (Nooteboom 1999, p. 50). It is apparent that the more critical the capability to the firm and the slower the speed changes, the more important it is that the capability should be protected from the partner.

Below are proposals of how control should be managed:

### **Extent of Control**

- Settle a clear control arrangement over the ISA activities.
- If it is necessary to split up or give autonomous control to your partner, ensure that this policy will not undermine your position in the alliance. Trust your partner and always remind your partner to put the best interest of the alliance when taking every decision.

### **Focus of control**

- Ascertain control in all important activities in the alliance

### **Spill-over of control**

- Assess the position of your partner and the likely competition you may face from them. If your partner is a direct competitor, sincerely discuss with them what kind of strategy/action should be addressed to eliminate the degree of competition and increase the likelihood of a joint cooperation in the partnership.
- Evaluate how critical the capability is to your company and the speed of change that capability in the future. Consider the following action:
  - If the capability is a part of your firm's core competence and its speed of exchange is low, the capability should be protected.
  - If the capability is critical but the changes are rapid, it is better to share it with partners to maximize its value.
  - If the capability is not the core competency of the company but the speed of change is relatively low, perhaps it is better to share conditionally.
  - If the capability is not critical and changes take place rapidly, it can easily be shared.

## **Conflict**

Whether conflict is overt or not, most alliance practitioners concluded that managing some level of tension is part of the regular challenge of living with an alliance. Conflict may arise due to disagreement about major decisions, disappointment with the benefits, imbalance in commitment, misunderstanding, etc. The source of conflict itself might range from day-to-day activities to more strategic matters (Hyder 1988). Conflict may appear particularly when clear agreements are not made at the start of the strategic alliance. If a conflict escalates, it may ultimately lead to the failure or termination of the strategic alliance. Thus, it is important to understand the influence and effect of conflict on the strategic alliance relationship, as well as a way to avoid (or decrease) it.

Although most researchers assume that conflicts have negative effects, some researchers believe that some conflicts are not negative per se, but may also have positive effects. According to Hamel et al. (1989, p.134) an occasional conflict may be the best evidence of mutually beneficial collaboration. Managing a conflict correctly can generate better ideas and new approaches through the examination of alternative viewpoints. If kept functional, conflicts can serve as a problem-solving procedure and as a way to clear the air. On the other hand, if a conflict is not satisfactorily resolved, the latent circumstances relating to a conflict may be aggravated and may surface explosively at a later time. Partners who are

able to successfully resolve their problems have the best chance to produce a successful alliance. Rather than viewing differences and conflicts as a sign of incompatibility, alliance partners need to see them as opportunities for developing skills that they can best use to continue their partnership. Where conflict is concerned, there are four suggestions to managers:

### **Identify and manage conflicts in a constructive way**

- Identify the manifest conflicts in your alliance and formulate a mutual solution for their issues.
- Value diverse views. Alternative views are a source of rich ideas and creative possibilities.

### **Encourage their expression.**

- Communicate with respect and empathy. Listen to what is being said – and not being said (remember that human perception is influenced by subjective, objective, and social worlds).
- Strive for consensus to resolve conflicts in your alliance in order to gain mutual understanding on issues that are raised.

## **Communication**

It is important to take note that a partner's perception on contribution, control and conflict is highly dependent on how communication takes place in their partnership. Communication is a key issue for securing mutual advantages. The more open the communication, the higher the level of commitment will be. To guarantee commitment, communication must perform four functions: the guidance function (instruction and feedback), the information function (reduction of uncertainty), the socialization function (communicating a "we" feeling), and the coordination function (harmonization, clarification of dependencies). In order to avoid surprises, to understand the operating context of the alliance, to be able to ask the right questions and to interpret the answers, managers need to maintain and nurture the relationship with their partner. In an alliance, as in marriage, a relationship is something to be built over time, not something that is there forever.

Managers should always be aware of the fact that in human interaction three worlds play an essential role: subjective, objective and social (Habermas, 2001). In handling these three worlds, managers need to build and develop trust, gain awareness of the cross-cultural differences, and manage properly the process of negotiations with their partners. Trust between partners is a critical ingredient for a successful resolution of conflicts. This has been found to be particularly valid for strategic alliances where the quality of interpersonal relationships is a better predictor of successful conflict resolution than legal and contractual considerations. Alliance managers need to help their respective companies to build a relationship within which trust is an important component. It is evident that the better the relationship between the parties, the more they trust each other and prefer to do business with each other than with strangers. And the more the parties trust each other, the easier it is to persuade and be receptive to each other's messages and agreements.

The following suggestions concern communication:

**Establish an open communication**

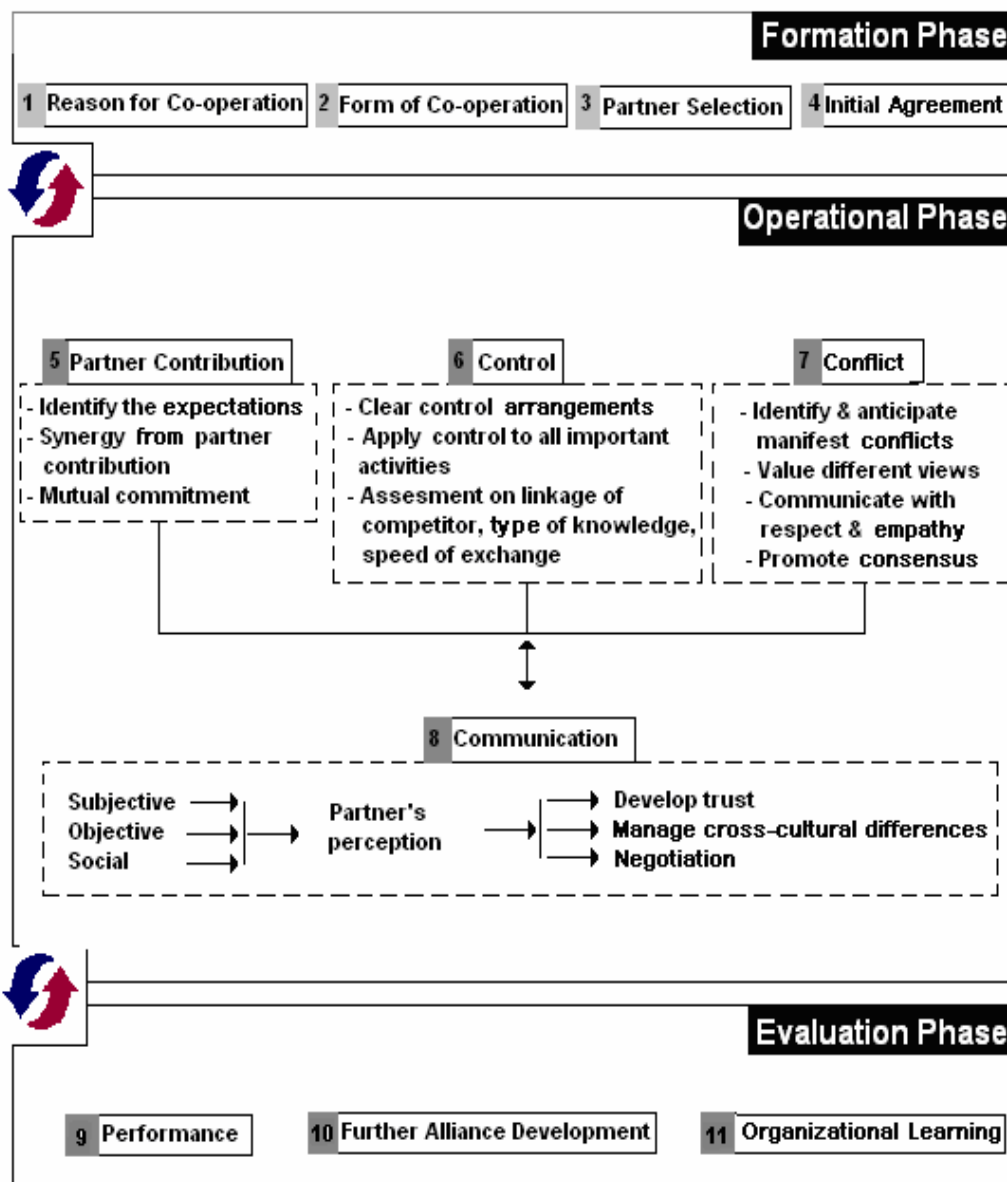
- Establish complete and open exchange of information. Keep interfaces between partners transparent.
- Be aware that human perception is influenced by the subjective, objective, social worlds.
- Build and develop trust continuously. Avoid situations that may jeopardize trust because, once lost, it is extremely hard to rebuild. Reinforce trust with such social activities as dinners, joint session, regular meetings, etc.
- Be aware of cross-cultural differences and strive to accommodate them.
- Manage the negotiation process in an amicable way. Always keep in mind that the continuation of an alliance depends on the ability of the parties to differences when they arise and whether partners can coexist peacefully.



## Conclusion

In this article, I divide alliance development in three stages: formation, operational and evaluation. The operational phase is recognized as a critical stage of alliances when the tension of the conflict comes to the fore and the interaction between parties becomes more intense. It is not surprising that many alliances fail in this phase. Like the marriage metaphor, everything is exciting and great in the beginning but after a few years of living together we have a better idea of our partner. All bad habits or characteristics that were not known or shown at the beginning of relationship start to appear. If we cannot accept and live with our newfound insight then the marriage bond is in danger. An excellent management of this phase leads to a good performance in the alliance evaluation. The practical recommendation for managers is summarized in Figure 1.

**Figure 1.** The practical framework of alliance development



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