strategic alliances[1]

Duncan Angwin and Tanya Sammut-Bonnici

The poor performance record of mergers and acquisitions has led to corporate and shareholder disenchantment with this method of expansion. Corporate indigestion meant that acquirers found the immediate advantages of acquisition to be frequently undermined by the trauma of integration. Acquirers often had difficulty in assimilating the expertise of the target company and, where the target company had considerable flexibility and innovative capacity, these characteristics were often lost in the subsequent bureaucracy. Added to this disenchantment there has also been a shortage of appropriate targets to purchase. These twin constraints led companies to search for alternative means of rapid, safer expansion, so as to improve their control over the competitive environment.

Strategic alliances appeared to overcome many of the limitations of mergers and acquisitions. They seemed to avoid culture and organizational shock, and yet achieve rapid presence in specific areas for the companies concerned. However, there does appear to be a growing backlash with companies recognizing problems of sustainability with strategic alliances and some feeling strongly that acquisitions would have been preferable.

The term *strategic alliance* itself covers a multitude of different arrangements and there is no agreed typology in the literature. However, it is critical to understand the different forms in existence, as they have profound implications for the way in which the alliance is to be managed. In particular, there is an important distinction on the grounds of whether or not the partner is a competitor – note, that even if the partner is a competitor, this may not mean collusion.

Strategic Alliances between Noncompetitors

The following provides a useful way of linking alliance types amongst competitors to options for strategic expansion. These growth options may be grouped into three categories:

- *International expansion*: where a company extends its activities into a new geographic market, often after having established a dominant position in their domestic market.
- *Vertical integration*: where a company extends its activities upstream or downstream to become its own supplier or customer.
- *Diversification*: where a company expands outside its industry of origin.

In Figure 1, the implications for these expansion options for types of strategic alliance amongst noncompeting firms are shown. There are three main types of strategic alliance amongst noncompeting firms.

- *International expansion joint ventures*: These are formed by companies that originate in different countries. One company often has a product that it seeks to market in another country in which the other firm has privileged access. The mutual benefits are that the local firm gains a product to distribute, while the manufacturer gains a foothold in a new country. Often, these alliances are between partners with unequal skills and resources, one coming from the developed world with technical skills and considerable resources, and the other from the developing world without the ability to develop such a product on its own but having a profound understanding of the local market.
- *Vertical partnerships*: These bring together two companies that operate at two successive stages in the same production process. For instance, fast food chains are critical customers of soft drinks suppliers, so Coca-Cola has set up an alliance with McDonalds and Domino's Pizza.
- *Cross-industry agreements*: These are cooperations formed by companies from totally different industries to leverage their complementary capabilities. For instance, BMW forged an alliance with Rolls-Royce in aircraft engines in order to enter that market. Althoough, for Rolls-Royce this meant the emergence of a new competitor, it also provided the opportunity to control their long-term development. This raises the issue of competing agendas, with the

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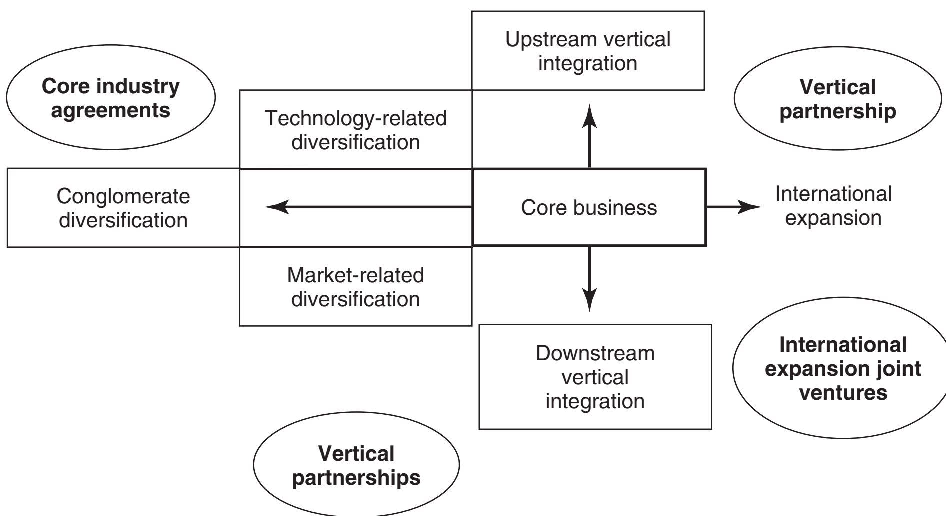

Figure 1 Expansion options and types of partnership between noncompeting firms. *Source*: Dussauge and Garrette (1999, p. 51); *Co-operative Strategy*.

newcomer trying to close the expertise gap as rapidly as possible, while the established company attempts the reverse. Such alliances may also occur where there is technical convergence between two industries. For instance, Philips has teamed up with Du Pont de Nemours for the production of surface coatings for data storage applications.

Strategic Alliances Amongst Competitors

While it is tempting to think of these alliances as collusive, it is a question of degree, with some being more collusive than others. Through the use of cluster analysis techniques on 200 alliances, Dussauge and Garrette (1999) have identified three main alliance types between competitors (Figure 2) in terms of balance of power between the partners (degree of symmetry) and impact upon competition.

The three types of alliance identified may be characterized in the following way:

- *Precompetitive or shared-supply alliance*: This may only cover one stage in the production process, so that while the final product contains inputs from both companies, these

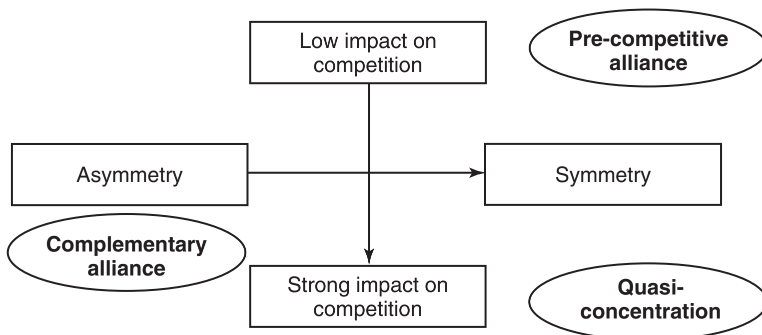

Figure 2 Mapping strategic alliances between competitors. *Source*: Dussauge and Garrette (1999, p. 61); *Co-operative Strategy*.

are specific to the parent companies and the alliance is not apparent to the market. These alliances occur when the minimum efficient size at a particular stage in the production process is much greater than for the entire product and when neither firm produces enough volume to achieve this critical size. These sorts of alliances are mainly between firms of similar size, often intra-zonal, and in areas of R&D and manufacturing. Industries with such alliances are automotive, electronics, and data processing.

- *Quasi-concentration alliance*: This covers the entire production process and results in a common product marketed by all allies. The assets and skills brought by each partner are similar in nature and the goal is to benefit from economies of scale. Such an alliance is clearly visible to the customer, such as in the Airbus consortium or the production of the Tornado fighter aircraft. Clearly, such alliances eliminate competition between competitors, although there can be internal rivalry within the alliance. These sorts of alliances are found mostly in the aerospace and defense industries.
- *Complementary alliance*: When the assets contributed by the partner firms are different in nature. Most commonly, one may be a manufacturer and the other a distributor. For instance, Matra manufactures the Espace, a mini van, which is marketed in Europe by Renault. For such alliances to work, the product brought in by an ally must not compete directly with the products of the other firm. Complementary alliances are usually between two firms (unlike the other two styles) and the companies may be of very different sizes. These alliances are often found in the automotive and telecommunications industries.

Outcomes

Assessing the outcomes of alliances is no easy matter. As we have shown, there are many different types and the partners have very different reasons for pursuing them. For alliances between competitors, the most frequent outcomes overall are either an extension of the alliance or premature termination; it seems it is unusual to have a natural end or be acquired (Table 1). In most cases, alliances between competitors had significant strategic consequences for the partner firms, with one-way skills appropriation in particular, and such alliances tend to affect the levels of competition in the industry. However, there is considerable variation between the different types of alliance between competitors, as Table 2 shows.

Table 1 Outcomes of alliances between nonrival firms.

Alliance type	*Evolution of the alliance*	*Strategic consequences for each firm*	*Impact on competition*
International expansion joint ventures	High mortality rate in their first years in existence, followed by stability	Stability in the partners' relative positions	Globalization
Vertical partnerships	Long-term relationship between the partners	New division of the value added within the industry	Concentration of the upstream industry and changes in the relative bargaining power of suppliers and buyers
Cross-industry agreements	Results are frequently disappointing when compared to initial expectations	Joint venture becomes independent or intensification of competition between partners	Creation of new activities and arrival of new competitors

Source: Dussauge and Garrette (1999), p. 209.

Table 2 The evolutions and outcomes of strategic alliances between competitors[a].

Alliance type	*Evolution of the alliance*	*Strategic consequences for each firm*	*Impact on competition*
Shared-supply	Natural end or premature termination	No consequence	No impact on the intensity of competition
Quasi-concentration	Extension	Mutual specialization	Reduced intensity of competition
Complementary	Extension or continuation by one partner	One-way skill appropriation	Increased intensity of competition

[a]Dussauge and Garrette (1999), p. 220.

With an alliance strategy it has been possible for corporations to swiftly gain access to markets, exchange technologies, form defensive shareholding blocs, enter third markets in combination with other partners, and engage in otherwise prohibitively expensive technologies, production facilities, and the like. They have the advantage of being relatively easily formed and disbanded – more so than joint ventures – and by joining in multiple alliances firms may contain risk and hold down costs.

Despite these apparent advantages, however, their value has been seriously questioned by many corporations, and especially by those with proprietary technology, strategic cost advantage, and high market share. For such concerns it has been argued that the potential loss of technical skills, the provision of competitor access to markets, and organizational and cultural clashes may well outweigh any advantage. As a result, perhaps 50% of such alliances are therefore regarded as failures.

Endnotes

[1] Original article by Duncan Angwin. Updated by Tanya Sammut-Bonnici.

See also *cooperative strategies*; *coopetition*; *joint ventures*; *social capital*; *strategic networks*

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