

STRATEGIC ALLIANCES: THE PROSPECT FOR BUSINESS GROWTH

E. B. OBO

ABSTRACT

Businesses firms are established to provide goods and services for the well-being of the society at a profit. But today these firms lack the ability to compete favourably in the market place. This however, exerts great impact on the economic activities of the society. To this end, the business firms are classified as runners up firm and weak business firm. An alternative concept, the strategic alliances, is hereby proposed as the only way forward to help resolve these differences and to provide a better framework for managing business firms that would enhance growth and profitability.

INTRODUCTION

Strategic alliances are forms of voluntary grouping between firms such as runners up firms, weak firms and firms facing crisis, who come together for a specified period of time in order to achieve some common objective agreed between them. Morden (1999) added that they represent a type of strategic choice based on co-operation and partnership. On the other hand strategic alliances are used for the purposes of business development, market development, and technology development. They are also used to enhance the capability of the partners to the alliance, and to add value to their activities. It is for these reasons that today the strategies of co-operation, partnership and alliance are widespread, both at national and international levels.

Definition of Concept:

Conceptually, strategic alliance has been defined as two or more companies or partners voluntarily combining value chain activities, architecture, and value chain linkages for the purpose of increasing individual and collective value addition, increasing competitive advantage, and achieving agreed or common objectives (Morden, 1999). While Yoshino et al (1995) remark that a strategic alliance links specific facets of the businesses of two or more firms. They further explained that this link is a trading partnership that enhances the effectiveness of the competitive strategies of the participating firms by providing for the mutually beneficial trade of technologies, skills, or products based upon them.

An alliance takes various forms ranging from an arm's length contract to a joint venture; Given varied interpretations of the term exist, strategic alliance is viewed to have three necessary and sufficient characteristics as identified by Yoshino and Rangan, 1995).

These include:

1. That two or more firms that unite to pursue a set of agreed goals remain independent subsequent to the formation of the alliance.
2. The partner firms share the benefits of the alliance and control over the performance of assigned tasks.
3. The partner firms contribute on a continuing basis in one or more key strategic areas, such as technology, products and service.

Types of strategic Alliances:

Basically there are four types of strategic alliance.

These include:-

1. Pro-competitive

2. Non-competitive
3. Pre-competitive.
4. Competitive.

Pro-Competitive Alliances:

These are inter-industry, vertical value chain relationships as between manufacturers and their suppliers or distributors. The alliance partners are not rivals in direct competition with each other. Rather they may work together to develop or improve products or processes, or to manage costs.

The attainment of added value or synergy, and the achievement of generic variety and diversity are key objectives of this kind of alliance. Partners may be able to re-conceptualize or re-define each other's problems in a non-threatening manner to achieve mutually advantageous or win-win solutions.

Non-Competitive Alliances:

These are intra-industry links among, non-competing firms in the same sector. In other words, as both partners operate in the same sector, they neither regards each other as a major rival. Thus partnership is seen as a source of synergy and competitive advantage in terms of mutuality and win-win idea. This is why Yoshino and Rangan (1995) suggest that partners would tend to be different in character. They added that they neither would want to become a major player in the particular market segments in which the other specializes.

Pre-Competitive Alliances:

This involves bringing different firms together, usually unrelated industries to work on well-defined activities such as development of new technology. Yoshino and Rangan (1995) asserts that "working together, the two firms, neither of which possesses the technological or market know-how to succeed alone may expect to develop a product that the firms manufacture and market independently of their partner if the alliance subsequently terminated. However, this type of alliance may have unpredictable consequences. Given the fact that when success come conflict may tend to generate, because one partner may be more successful than the other, the unsuccessful partner may begin to compete, hence, each trying to cast itself in the role of standard setter. Eventually one may gain and the other loss. Certainly, at this level the companies may be careful not to expose too much of their core knowledge, capability, competence and experience to their alliance partners. The transfer of expertise and capability of an immense financial and competitive worth from western to Nigerian companies in pre-competitive alliances for instance in the petroleum

industries, telecommunication, agricultural sectors etc are clear examples.

Competitive Alliances:

In this type of alliance, partners are likely to be direct competitors in the same sector. In other words, partners are also likely to be aware that each will in their own interest, use the experience of the alliance to learn as much as possible about the others involved in it. Morden (1999) comment that in consequence, the participants will be concerned to protect their knowledge base, experience, capability and competence from unnecessary 'leakage' to their partners, given the inevitably close relationship between them that is called for by such an alliance.

The usefulness of a competitive alliance can therefore be measured in terms of relative advantage to the individual participants. Whereas the disadvantages and risks of establishing a partnership with a direct competitor must be seen to be more than offset by the relative advantages. The example of competitive alliance are firms who have jointly developed a product, and have a number of competing manufacturers share, joint assembly facilities in different countries. Morden (1999) noted that this save investment cost, reduce risk and optimize manufacturing productively at the same time as gaining enhanced market access.

The Prospects of Strategic Alliances:

Strategic alliances serve several purposes, as identified by Morden (1999). These are:

1. Enhance Value Generations:

Strategic alliances may be used by their participants to enhance value generation by sharing and joint use of knowledge, experience, resources and competence. More so, wasteful duplication of operational resources can be avoided where such sharing takes place. Strategic alliances may also be used to achieve synergies that would otherwise be unavailable to individual partners, such synergies may be based upon the achievement of diversity and variety that can only result from the coming together of different organization with different capabilities.

2. To Enhance Capability and Competence:

Strategic alliances may be used to combine and enhance the knowledge, technology, experiences skill and competence of the partners. Morden (1999) explain that the blending of these resources may yield synergy and critical mass. He added that the alliance may be able to achieve a type of competence not available to individual partners, or to match the capability of larger competitors who have built up a critical mass of resources in-house.

These large-scale competitors, for instance, may be capable of achieving the consistent rate of innovation, which is the major source of competitive advantage that facilitates market dominance. However, to maintain continuous innovation, it requires possession of or ready access to competencies. Hence, the use of strategic alliances by competitors may help the partners to put in place a building, which contains the skills to match the market leader and also to achieve the operational scale. These would make room for opportunities and positive steps to meet new market needs. Morden (1999) added by identifying the following objectives. These include:

- a. That the construction of alliances is based on knowledge, and these different categories of knowledge needed, may be blended to create a new technology.
- b. Transfer of skills and competencies between partners. He noted that the higher institutions, for instance, have developed marketing and consultancy skills from alliances with companies and consultants with whom they have worked to fulfil commercial contracts. The higher institutions partners, in turn have been able to develop more sophisticated

research skills and methodologies than they hitherto possessed.

- c. To implement alliances with the best available partners, so as to learn from such companies as well as to achieve the most desirable and marketable outcome to the relationship.
- d. To re-vitalize, or gain access to new or improved managerial competencies, practices and systems. This is common objective of alliances between organizations in Nigeria, Africa and their western partners.
- e. To gain benefit from the blending of complementary technologies, for instance to produce new products or processes.
- f. To exploit market and technological opportunities that require combinations of systems and relationship architecture to be integrated across a number of constituent partners in order to be functional. He noted that operating on your own is not viable, since the mixing of technologies and competencies comprises the source of competitive advantage.

3. To Leverage Resources:

Hamel and Prahalad (1994) viewed resource leverage in terms of doing more or adding more value to what had been in existence. On the other hand, resource leverage implies creativity. Based on this they suggested that strategic alliances may be used to.

1. Concentrate resources
2. Accumulate resources
3. Complement resources
4. Conserve resources
5. Recover resources

Concentrating Resources

This occurs in three ways, such as convergence, focus and targeting.

- i. **Convergence:** Is when the pursuit of a clear and agreed strategic intent and objective over a long period of time require the effort and will power of the enterprise to converge consistently, collectively and synergistically on the same goal. Though it is not possible where there are multiple, inconsistent, and competing goals. But requires the enterprise to decide how best the resources can be combined and orchestrated to achieve a stretch objective.
- ii. **Focus:** Is the concentration of effort and resources on a very few objectives at any one time. Peters and Waterman (1982) call this 'Chunking'. While Morden (1999) noted that focus in this sense implies concentrating a critical mass of effort and work on the issue to hand until it is satisfactorily resolved, then move on to the next issue. Otherwise, effort will be diluted and dissipated.
- iii. **Targeting:** Is when the enterprise targets effort and will power on those activities which will yield the greatest benefit in terms of, improvement in customer perceptions of the firm product or services offer, competitive advantage and value addition. Hamel and Prahalad (1994) comment that resources are most effectively leveraged when they are targeted in the areas that make the most difference to customers and stakeholders.

Accumulating Resources:

Accumulating resources is of two ways, such as mining and borrowing.

Mining:

Hamel and Prahalad (1994) asserts that some organizations exploit their accumulated knowledge, experience and competence more effectively than others. Morden (1999) contend that each new experience, each success or failure must be seen as an opportunity to learn. He further explained that some organizations are more at learning, absorbing, and applying new ideas than others. They are more open to new perceptions and conceptualizations, and less reluctant to challenge received wisdom, orthodoxies, or installed bases of thinking.

Borrowing:

These are means by which the enterprise gains access to acquires, or internalizes competencies and resources from outside. This can be done through its network of relationship and external architecture such as:

- a. The use of subcontractors, so as to exploit their own sources of competitive advantage, creativity and innovation
- b. Inward licensing processes
- c. Sharing development activities with key customers or suppliers
- d. Participating in international research consortia
- e. Harvesting the technology seeds planted in another country and
- f. Making use of more attractive factor market.

Complementing Resources:

This involves blending and balancing resources.

Blending: Is the process by which resources are combined or integrated in a way that multiply the value of each resources. This may yield benefits by creating new functionalities and values. Kay (1993) observed that the effectiveness of competitive advantage is improved where they are represented in combination, such that the resources they present are blended together. He added that the more that enterprise supports and complements innovation, corporate reputation, brand management and the maintenance of strategic assets, the more value will these source of competitive advantage be capable of generating.

Balancing: Is a means by which a balanced array of resources are put in place that permit all necessary activities to be carried out with equal effectiveness. Hamel and Prahalad (1994) noted that this could be the combined capacity to invent, make and deliver, not just any one or two disproportionately. They further explained that the leverage impact comes when, by gaining control over complementary resources, that the firm will be able to multiply, the profits it can extract out of its own unique resources. Kay (1993) in his opinion comment on the need for mutually supporting sources of competitive advantage, and in particular the need for a firms activities to be supported by and balanced with this relationship architecture.

Hamel et al (1994) observed that a firm that had a strong product development capacity but is relatively weak in terms of brand or distribution or lacks the disciplines of cost and quality is unlikely to gain much of the profit stream that will accrue to its innovation. However, such firm can enter into partnership with firms that do possess critical complementary resources; the innovator is likely to find itself in a poor bargaining position with such firms when it comes to divvying up profits.

Conserving Resources:

Conserving resources covers three processes. These include: Recycle, Co-opting and protecting resources.

- (1) **Recycling:** Recycling shows that the more often a particular skill or competence is used, the greater the resource leverage and the more the competence is

developed. Hamel and Prahalad (1994) noted that Honda company for instance has recycle engine -- related innovations across motor-cycles, cars, outboard motors, generators, and garden tractors.

- (2) **Co-opting:** Is when the resources of other enterprises are co-opted into the relationship architecture of the enterprise, on a co-operative or partnership basis, in order to pursue a common objective. This type of co-option may lead to such benefits as greater market access and scope, the achievement of synergies, etc. co-option indeed has become a classic Japanese strategy in recent time.
- (3) **Protecting:** Is a means by which the risk of value loss or damage to resources is avoided by the selection of appropriate competition strategies. To achieve this the enterprise may choose.
 - To avoid head on confrontations with powerful opponents
 - To enter new markets via undefended or poorly served segment
 - To select strategic alliances and alliance partners with care, so that the relationship can be controlled and the transfer of competence between the partners equalized.

Recovering Resources:

This involves expediting returns

Expediting returns is the process that the time between the expenditure of resources and the recovery of those resources are minimized. Morden (1999) noted that a rapid recovery process acts as a resources multiplier. He maintained that an enterprise that can do anything twice as fast as its competitor, with a similar resources commitment, enjoys a two fold leverage advantage. Hence the widespread strategy of shortening product or process development time, compressing operational times scale and carrying our related activities in paralleled rather than in sequence.

- (4) To Enhance market position and achieve business development.

Morden (1999), asserts that strategic alliances may be used by their participants to gain access to a wider range of customers. They may also gain access to new market and a global brand. Similarly, the alliance partners of products across which customers in any one country can shop. Especially if the product possesses the prestige of international brand name. With strategic alliance, partners can achieve business expansion and growth, at the same time maintaining their individual existence and identify. Morden (1999) comment that strategic alliance is of particular value, which enable small and medium sized enterprises to widen their scope of activity. And it is of this reason, that in Nigeria today, various banks and other agencies have, for instance formed alliances in order to achieve international credibility in financial and other sectors.

(5) Risk Management:

Partnership arrangements can be used to manage and spread risk. For instance, the risk of investments is the strategies of expanded market access, technological development or business development may be spread across the participants to the alliance, thereby reducing the risk to any one of them.

More specifically, strategic alliances may also be used to maximize the inputs of competence and experience inputs to projects that are in any way uncertain or ambiguous. These projects may contain a maximum of risk, since their outcomes are

unpredictable. Thus, this risk can be shared amongst the partners, any one of which would be unlikely to be prepared to shoulder the entire burden on its own. Such projects include electricity generation, oil and gas exploration water supply, tele-communication, etc.

IMPLEMENTAION ISSUES

The usefulness of the alliance as a strategy for market, technology and business development will in part depend on whether the enterprise is able to identify and join forces with appropriate partners (Morden, 1999). On the other hand, they may have to make use of bodies and agencies that specialize in putting together partnership arrangements if it is unsure about who the best participants might be.

Once the alliance is established, it will be important that there is a least some degree of shared vision among the partners about what can be achieved. It will also be necessary that a consensus exists about the degree of commitment and persistence that the participants used to demonstrate. Partnerships may not work for long period where some members are enthusiastic, while others are not committed about the whole process and are not prepared to pull their weight. Hence, there is a need to be some degree of co-ordination of strategic direction and strategic management among the partners. Morden (1999) noted that otherwise the participants could go off at a variety tangents to each other, making it impossible to integrate their efforts. He maintained that achieving a consistency of strategic direction and strategic management among the partners will in turn depend on.

- a. The relative value sets of the partners, and the extend to which shared values and a shared purpose can be established and accepted.
- b. The establishment of an effective structure and relationship architecture within the alliance. In otherwords, the participants should create a sensible and effective organization by which to make viable the work of the alliance
- c. The establishment of common and consistent codes of practice among the partners. That is, they have to establish common language, common methodologies and common approaches as to how to go about running the business.

However, there are considerable evidence that strategic alliances are likely to be successful, especially, where the participants already know each other, are familiar with each other's culture and way of working or contain well-established business relationships or personal friendships among the decision makers of the companies involved. Based on this, success may be correlated with a strong perception of common ground and identity, and a clear acceptance of the mutuality and interdependence to everyone's interests. Therefore all those involved should be convinced that success must favour everyone equally and that failure will damage everyone equally (Morden 1999).

Problems Associated with Strategic Alliances:

The implementation of strategic alliances as partnership forms of business development may be associated with various problem areas. Some of these problem areas are as follows:-

There may be difficulty in achieving a reconciliation of the objectives of the partners. That is, the agendas of the independent companies making up the alliance may be different; some can be interested in what they can find out about their partners as they are in the stated purpose of the alliance.

There may be outright conflict between the partners, as when individual commercial interests or competitive mind-sets over-ride the perceived benefits of the alliance.

There may be differences in the degree to which the parties to the alliance are prepared to shoulder their agreed responsibilities. On the other hand, the unscrupulous participant may let the other members make most of the running but take all of the benefit of the work done. In this respect Morden (1999) noted that there is a familiar parallel with the collective problem of individual contribution and group dynamics.

However, at this point, there is the possibility that individual partners will inherit or have to accommodate to the work practices or cultures of other partners that may be unfamiliar, undesirable, and unacceptable.

Generally, the strategic alliance raises the issue of the prevailing level of trust that may characterizes the relationship between the partners. It also raise the related issue of the lack of control available to any partner, since there may be a high risk in an alliance of an unreal distribution of valuable information etc, especially when the work of the alliance nears the end of its life. Ultimately, there will be fear of loosing control of the flow, transfer, acquisition and application of knowledge and competence among partners. This is because the transfer of knowledge for instance is easy to be manipulated by those who possess this knowledge. Hence, the level of trust involved in the knowledge management process, and its degree to which is open within the alliance therefore becomes one of its most critical features.

Hamel and Prahalad (1994) comment at this point on the potential for the hollowing out by one partner of another is a strategic alliance. They maintained that the hollowing out process is one in which one partner exploits the alliance to absorb the key knowledge, competencies and sources of competitive advantage of another, and then uses them to its own commercial advantage. They further comment that the incidence of this hollowing out process is one of the key arguments against the use of strategic alliance as a competitive strategy on the part of organization who depend on knowledge and competence for their competitive advantage. Thus such organizations are potentially most at risk from unscrupulous partners and may have to select alternative development strategies in which they maintain independence and control.

Given this circumstance, the strategic alliance may contain the risk for participants that they may result in the creation of new competitors, which may be seen as unpredictable consequences of pre-competitive alliance. Moreover, the worst of all, a weaker participants may fall victim to eventual take over by a stronger one. Morden (1999) noted that the stronger partner will know the best way to go about making sure that the acquisition is successful. He further observed that as a potential predator, the acquirer will have made its business to find out what it needs to know in order to pre-empt any assistance on the part of its target, and to ensure that its eventual absorption is likely to be successful.

CONCLUSION

In view of incessant ill-performance of business organizations in recent times, organizations should be encourage to turn to co-operation and partnership (strategic alliance) as the way forward. This is because, these organizations are seen as a vital organ of the society, that produces goods and services for the economic well-being of the people. More importantly strategic alliance represents a form of strategy based on co-operation and partnership. As matter of fact, where strategic alliances are practice it lead to value generation and resources leverage, the enhancement of capability and competence, knowledge development, technology development, business development, market development and the spread of risk among partners. Therefore, business consultants, managers of business, owners of business and stockholders should see strategic alliance as a means of repositioning their business for viability.

Above all, the effectiveness of the alliance as a strategic choice is heavily dependent on the satisfactory resolution of variety of implementation issues.

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