# USING THE SYNERGY OF ALLIANCES AND PARTNERSHIP FOR SUSTAINABLE GROWTH

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***Abstract:*** *The purpose of this research is to demonstrate by searching the literature that the synergy of different types of alliances and partnership brings much more opportunities for the sustainable growth of the companies. After a briefing about definitions, types and purpose of alliances and partnership the paper reminds the process of alliances and partnership formation and emphasises the main advantages and limits of alliances and partnership. Finally, a new type of company is defined, i.e. 'the synergetic company' that is a framework for company's sustainable growth.*
***Keywords:*** environment complexity and volatility, alliances & partnership, synergetic company, sustainable growth.
***JEL Classification***: $M_{16}$, $G_{11}$, $Y_{10}$, $Q_{01}$.

## *1. Introduction*

The main characteristic of our day international environment is complexity. Complexity is associated to volatility and risk International environment complexity leads the organizations' management to make rapid decisions to face the volatility of changes (Stampleton, T. et al, 2004). Among the factors that influence the environment volatility could be the technology diffusion, the competition of imports, the challenges of exports and the international trade liberalization (Buckley, P. J., Casson, M. C., 1998).

The international environment is under a continuous pressure of transformation, that are taken in the technological, informational, structural,

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relational, market competition, cultural and human values fields, amplifying the complexity and volatility.

In this context the risk of wrong decisions or having unfavourable consequences is really high. In order to avoid the risk Williamson (1999) suggests the construction of a portfolio of strategic options and propose four fazes of the process: discovering the hidden constraints, establishing the most fitted processes for change, the optimization of the portfolio of options and the combination of planning with opportunism.

Therefore, the organizations management have some strategic options at their disposal: alliances and partnership.

The hypothesis of this research is that the synergy of alliances and partnership, as the combination of two or more types, brings more performance and a value added energy to manage the risk of the complex and volatile international environment and to perform better as the effect of mutual agreed interactions among companies.

## *2. Definition, types and purpose of alliances and partnership*

Because of the environment complexity and volatility the companies are forming cooperative strategies in order to use together their strategic resources and capabilities for mutual interests. The term alliance includes “international coalitions” (Porter, M. E., Fuller, M. B., 1986), “strategic networks” (Jarillo, J., 1988) and, most commonly, “strategic alliances”. Partnership implies a greater number of partners that acts at the international level and they are also strategic by their nature.

Several definitions have been given to alliances, such as:

- A strategic alliance is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations (Wikipedia);
- Strategic alliance is when two or more businesses join together for a set period of time. The businesses, usually, are not in direct competition, but have similar products or services that are directed toward the same target audience;
- The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts;

• An alliance may be seen as the "joining of forces and resources, for a specified or indefinite period, to achieve a common objective".

Depending on their purpose the alliances could be structured into different types.

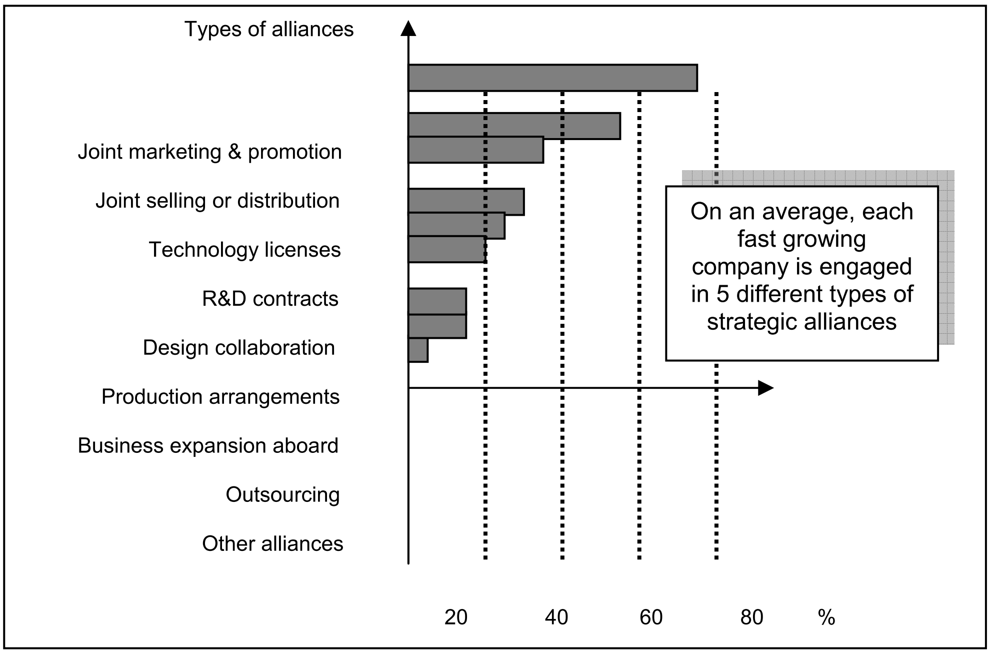
One structure takes the value chain as the characteristic. In this respect alliances are grouped into: alliances for research and development, alliances for production and alliances for distribution (Johansson, J. K., 2000).

• *Alliances for production*: means to manufacture the partner products.

• *Alliances for research and development*: implies the partner obligation to keep pace with the new technologies, to use the same standards and to implement together the new technologies.

• *Alliances for distribution*: one partner that has a market share accepts to put at the other partner disposal its distribution channels. In this way the first partner gain volume of sales and the other is selling its products or services without supplementary expenses.

A most complete structure is shown in figure 1.




Source: Trendsetter Barometer, PWC, 1000ventures.com

*Fig. 1. Types of strategic alliances*

Partnership embraces four types, such as: partnership for technologies change, partnership for international competitiveness, partnership for industrial convergence and partnership for industrial standards creation (Quelch, J. A., Barlett, C. A., 1999):

- Partnership for technologies change: it has the scope to transform an industry to obtain international scale efficiency;
- Partnership for international competitiveness: it is in general related to alliances between small organizations that have to face the competition from the giants on the international market. It also implies alliances between large and small organizations in order to ensure the latest international competitiveness;
- Partnership for industrial convergence: it refers to consortium between organizations specialized in certain domains that are acting on the international market without having the necessary expertise;
- Partnership for industrial standards creation: it is created to impose standards or standardized forms that assure the competitive advantage.

For example, in early 1990s Toshiba signed a coproduction agreement for light bulb filaments with General Electric. Since then, Toshiba formed various partnerships, technology licensing agreements and joint ventures. Toshiba's alliance partners include Apple Computers, Ericsson, GE, IBM, Microsoft, Motorola, National Semi Conductor, Samsung, Siemens, Sun Microsystems and Thomson (http://www.1000ventu-res.com/business_ guide/strategic_alliances_main.html). Therefore,

- Toshiba formed an alliance with Apple Computer to develop multimedia computer products;
- Apple's strength lay in software technology, while Toshiba contributed its manufacturing expertise;
- Toshiba created a similar tie-up with Microsoft for hand held computer systems;
- In semiconductors, Toshiba, IBM and Siemens came together to pool different types of skills;
- Toshiba was strong in etching, IBM in lithography and Siemens in engineering. The understanding among the partners was limited to research. For commercial production and marketing the partners decided to be on their own;

• In flash memory, Toshiba formed alliances with IBM and National Semi Conductor;

• Toshiba's alliance with Motorola has helped it become a world leader in the production of memory chips;

• The tie-up with IBM has enabled Toshiba to become a world's largest supplier of colour flat panel displays for notebooks.

The literature shows that there are four types of strategic alliances: joint venture, equity strategic alliance, non-equity strategic alliance, and global strategic alliances.

• *Joint venture* is a strategic alliance in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage. A Joint venture is defined by Kumar and Subramanian as being a partnership in which assets and knowledge are put together and the control and results are shared between partners.

• *Equity strategic alliance* is an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage.

• *Nonequity strategic alliance* is an alliance in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage.

• *Global Strategic Alliances* working partnerships between companies (often more than 2) across national boundaries and increasingly across industries. Sometimes formed between company and a foreign government, or among companies and governments

Most authors do not make difference between alliances and partnership. In fact, they means cooperation between two or more companies with the purpose of sustaining their competitive advantage and growth.

## *3. The process of alliances and partnership formation*

A typical strategic alliance formation process involves these five steps: strategy development, partner assessment, contract negotiation, alliance operation and alliance termination, as in figure 2**.**

• ***Strategy Development***: Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.

• ***Partner Assessment***: Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.

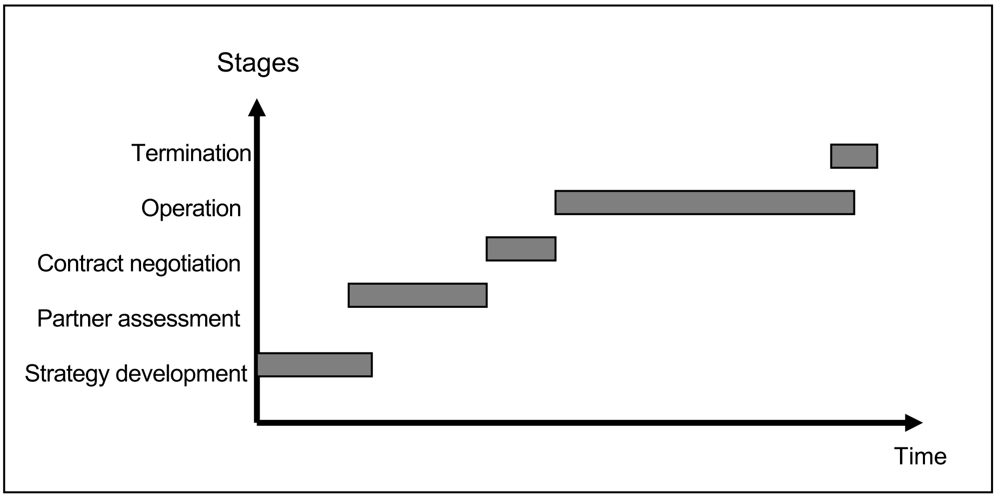



*Fig. 2. Process of alliances and partnership*

• ***Contract Negotiation***: Contract negotiations involves determining whether all parties have realistic objectives, forming high calibre negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.

• ***Alliance Operation***: Alliance operations involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.

• ***Alliance Termination***: Alliance termination involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or re-allocates resources elsewhere.

The alliances formation has been studied by Woolridge, J. and Snow, C. (1990), Koh, D. and Venkatraman, P. (1991), Das, S. and Sengupta, S. (1998), Anand, B. and Khanna, T. (2000), McGahan, A.M. and Villalonga, B. (2005). They emphasized the benefits of alliances in general and more positive results in joint ventures (around 0.8% added value). Usually the smaller partner obtained much ore revenue that the larger one.

### *4. Benefits and limitations of alliances and partnership*

The alliances have several benefits, but limitations, as well.

*The main benefits* are that the alliances enable partners to:

- gain competitive advantage through access to the other partner's resources, including markets, technologies, capital and people;
- expand quickly and efficiently their technical and operational resources, to concentrate on innovation and their core business;
- benefit from more-established channels of distribution, marketing, or brand reputation;
- allow each partner to concentrate on activities that best match their capabilities;
- learn from partners & developing competences that may be more widely exploited elsewhere;
- adequate suitability of the resources & competencies of an organization for it to survive;
- stock market positive response varying with the capabilities and experience of the partner;
- geographic expansion;
- cost reduction, manufacturing, and other supply-chain synergies.

The alliance often involves technology transfer (access to knowledge and expertise), economic specialization (David, C. et al., 1996) shared expenses and shared risk.

The benefits of alliances and partnership sustain the reasons for management decisions. Aarons suggested 10 reasons for this kind of decisions, as the followings:

1. You could offer your customers a larger variety of products or services. This will allow you to spend less time and money developing new products to sell.
2. Your number of sales people will increase because you're combining with other business. You won't have spend to time and money hiring new employees.
3. Your marketing and advertising budget will increase. When you form a strategic alliance with other businesses you both will share the advertising and marketing costs.
4. You can now offer your existing customers more back-end and upsell products. This will increase your sales and profits.
5. Your business will gain a larger number of skilled people working on the same project. You will gain the knowledge of the other businesses employees.
6. You will be able to beat your competition by selling to a larger target audience. You will also increase the total number of existing customers you can sell your products and services to.
7. You can exchange endorsements with your alliance partners. You'll add more credibility to your business and gain your potential customers trust to buy.
8. You can expand your business more rapidly. You can develop new products and services faster with a larger work force.
9. You'll be able to solve your customer's problems faster with a larger base of customer service people. You'll also learn new ways to improve your customer service from your alliance partners.
10. You'll have a larger number of "strategic thinking" people. This will allow both businesses to come up with profitable business ideas quicker than before.

The alliances and partnership are accepted in different ways by the companies' employees and these facts are important for managers and their decisions. The benefits of alliances have been measured by questioning employees of three companies (Hamel, G., Doz, Y.L., 1998). The questions addressed are:

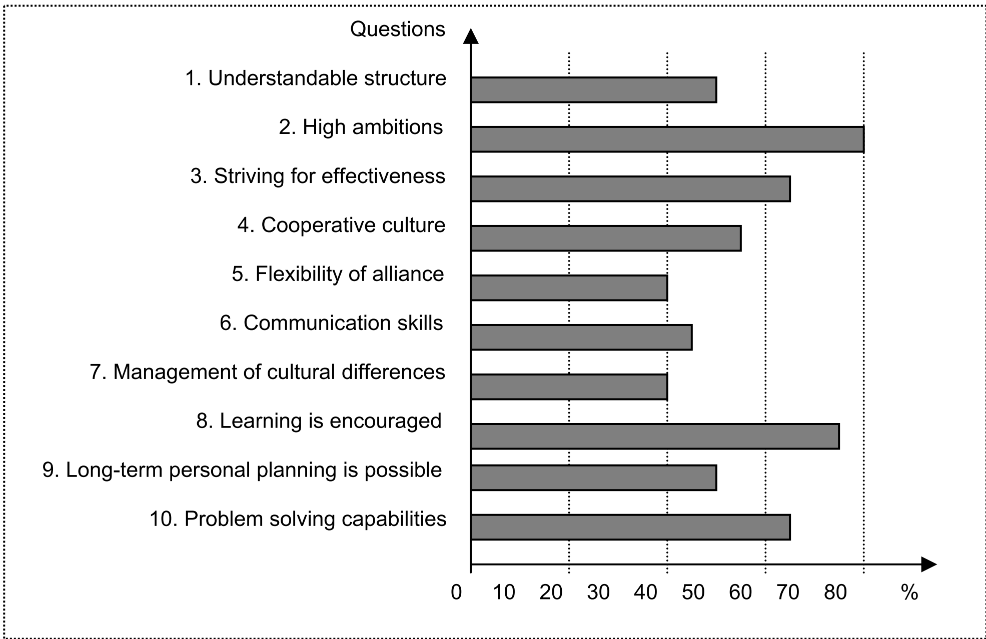
- Do you have a strategic architecture which employees understand?
- Are you constrained by resources but not lacking in ambitions?
- Are your managers determined to make the best use of the limited resources?
- Do you have a collaborative culture?
- Do you have the flexibility to respond to the changes in the environment?
- How good are your communication skills?
- How good are you in managing cultural differences?
- Do you encourage continuous learning and group learning?
- Do you allow managers to put in long stints in the alliance?
- Are you prepared to respond quickly to potential problems

The answers are briefly presented as in figure 3.

Generally speaking the alliances are welcome with a percentage of over 50% because of the opportunities offered for high ambitions, long term personal planning, communication skills, learning, cooperative culture, problem solving capabilities and effectiveness.

The alliances and partnership have also *limitations*, such as:

- it is possible that one partner has not the possibility to sell its own products or services;
- one partner has not the possibility to launch similar products or services with the other partner on the market;
- the midsize companies need to be increasingly creative about how and with whom they align themselves to go to the market;
- every detail can not be defined so that no contract can anticipate what two groups must do to be creative together;
- the mutual success depends on creatively joining the ideas and energies of two firms, sometimes more;
- some misunderstanding might hurt the partner interest;
- It has no sense without trust in relationship.




Adapted from: Hamel & Doz (1998)

*Fig. 3. Benefits of the strategic alliances*

Although the alliances and partnership bring advantages, the organizations are confronting risks that come from the interdependency in competitive advantage creation. If a partner that first lacks certain expertise creates it in time it will give up the partnership.

## *5. The synergetic company*

Alliances and partnership allow companies to recreate their configuration. The strategic resources and capabilities are multiplied giving the companies a higher chance to survive in a hostile international environment and to expand their competitive advantage in a period of friendly environment.

The synergy gives the companies the competitive advantages and assures the context for innovation and new strategic resources and capabilities creation. On other hand the synergy allow the companies to face the challenges of the new technologies in production, distribution, communication and relations due to the Internet and other information and communication technology (ICT) facilities. Therefore, a new company is born, a synergetic company, as briefly pictured in figure 4.

In the same time of concentrating the energy on the core competences development other new resources and capabilities are gained from the interaction of partners or from the partners' expertise. By means of ICT and using the partners expertise, the organizations swift the vertical integration into virtual integration, leading to supplementary cost avoidance, efficiency and much more performance, and sustainable growth.

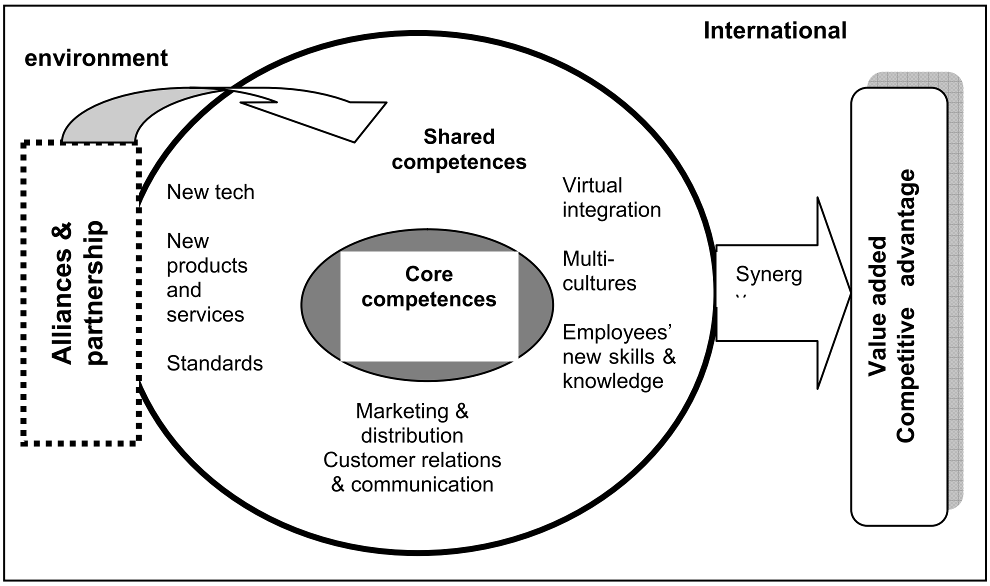



*Fig. 4. The synergetic company*

The sustainable growth is not only a strategy to adapt to the complex and volatile environment, but to allow companies to focus on new technologies and products that imply the employees' knowledge and skills for virtual integration and environment protection for the next generations.

### *6. Conclusions*

Most prior studies suggest that the alliances and partnership bring positive response to any company, large or small. The literature searched strengthens the statement that the alliances and partnership in any point of the value chain add more competences and reinforce the strategic resources and capabilities to the partners. The benefits are coming from synergy of partners' resources and expertise and transform the organization into a synergetic one. As consequences the new type of the organization is prepared to reduce additional costs and to focus on the core activities for sustainable development.

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