STRATEGIC ALLIANCES

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This article will describe the role and characteristics of strategic alliances, outline a methodology for managing them, and then illustrate the dangers of an inappropriate alliance by discussing the failed alliance between Volvo and Renault. It will not cover the legal issues around alliances, although existing legislation and the new competition law in the UK may have implications for co-operative strategies. Finally it will pose some questions for debate.

Introduction

Strategic alliances are currently very much in fashion. Indeed, it is argued that for some global industries, such as airlines, independent firms may no longer exist in the future – there will only be alliances. Some managers, however, distrust alliances and see them as simply a merger waiting to happen. I argue here that strategic alliances can be a sensible strategy, provided that the decision is taken for sound reasons and provided that the relationship is properly managed.

What is a strategic alliance?

A strategic alliance is any form of co-operative linkage entered into for strategic reasons. The linkage may or may not result in the setting up of a separate legal entity, ie a joint venture. It therefore includes research and development partnerships, joint ventures, cross-manufacturing agreements, cross-distribution agreements and joint marketing. Strategic alliances can be long-term and open-ended or quite short-term. It is also possible – as was the case with the Honda-Rover strategic alliance, which began with a small scale R&D relationship in 1969 – for relationships to grow in scope. The key is that both parties gain a strategic benefit from the relationship.

Why do firms enter into strategic alliances?

Firms enter into strategic alliances to gain competitive advantage and they choose alliances – over the acquisition route – either because they are unable, through lack of finance or national barriers, to acquire or because they choose not to acquire.

There needs to be a strategic analysis of the rationale for a proposed alliance. What reason is there for a co-operative linkage? Is the firm expanding into new markets, seeking to maintain existing markets, or is it trying to expand a product range? If the firm is looking for a partner to provide a range of services they do not do themselves, the alliance is complementary. If the firm is seeking to increase what it currently provides, as is the case in the airline alliances, then the alliance is capacity-building. Complementary alliances are more likely to survive over time than additive alliances because the two firms are not directly competing.

The motives for alliances are multiple and include: risk sharing, learning about a new market or a new way of working, adding or increasing capacity, laying the foundation for future strategies, developing a new technology, or defensive. A final motive for firms to enter co-operative relationships is that they have to. This is the case in the construction industry at present in the UK, where Private Finance Initiative deals have to be managed in a partnering process. The motive for the alliance is the main determinant for the choice of alliance form.
How do firms choose which form of alliance to seek?

The form of the alliance is affected by the motive for setting it up, by the experience of the firms involved in managing co-operative relationships, and by cultural fit. If the relationship is limited in scope, involves a separate management of assets, and is taking place in a new market then a joint venture (JV) is the best option. JVs can be either equity or non-equity based. Operative strategy, and environmental factors must also be taken into account. If there is no easy boundary to the relationship, the outcomes are uncertain, and if the future is unclear then some form of informal collaboration, possibly with a Memorandum of Understanding, is chosen.

The form of the alliance will change depending on the success of the relationship, how the partners get on in practice and the reaction of others to the relationship. Sometimes firms choose a low-risk collaboration with a number of partners to test out who they want to work with in the future. For example, the Honda-Rover alliance started in 1968 with a technology exchange programme.

Research into successful alliances (Faulkner, 1995) shows that there needs to be a cultural and strategic fit between the partners. The more complex the relationship, the greater the effort needed to make it work. The research shows that simple two-partner JVs between partners of a similar size who are not a threat to each other – ie they don’t compete – are more likely to survive than a multiple-partner consortium between competing firms.

Other forms of co-operative relationships

There are many other forms of co-operative relationships, such as supply-chain, consortia, cross-licensing or joint distribution. Some of these are traditional, but a new trend is partnering. Here firms partner each other to carry out a specific project, such as the construction of a new rail line. In a partnering system the risks and the rewards are shared among the partners. For example, if the project is brought in ahead of time then the rewards are split. The experience of partnering in the UK construction industry has been largely positive. Firms may also choose to belong to industry networks where there is no common ownership but simply a history of working together. Such loose arrangements are historically common in France and Italy. An example would be Benetton’s manufacturing firms: Benetton retains control of key technologies such as dying the finished garments and managing the franchisees.

Managing a strategic alliance

What is the best way to manage a strategic alliance? There needs to be a fit between the culture of the two organisations and the business benefits. Both have to see a win in the arrangement. There also need to be close working arrangements at all levels, from top management down. What commonly goes wrong is that the alliance is announced in the press, there is visible top management support, but then the benefits expected from the relationship somehow do not surface. On further analysis there is either a lack of good quality relationships at working level, or the situation shifts dramatically. This might be a change in exchange rates, the development of a new technology or some corporate disaster unconnected to the alliance. Managing an alliance is likely to be easier if there is no competitive activity between the partners elsewhere and if there are experienced managers to run the relationship at operational level. The following case study demonstrates what can go wrong with alliances.

Case study: the Renault-Volvo alliance

In 1990 Volvo and Renault agreed to establish a strategic alliance. They knew each other well through 20 years of industrial co-operation. The motives for the alliance were to exploit sizable potential synergies in joint product development, purchasing and manufacturing and to create complementary firms to compete in the global marketplace. The two CEOs got on very well and
all the commentators thought that it would work. The alliance worked quite well initially but then the French began to push for a full merger. The Swedes resisted and broke off the arrangement. The subsequent problems almost bankrupted Volvo and most of the senior managers involved left. Research into the failed alliance concluded that the quality of relationships did not extend far enough down the organisation, while the aspirations of the state-owned French company were never fully discussed. Real cultural differences were not addressed, while the joint decision-making structure was very poor.

The outcome of the failed alliance is that Volvo has now merged with Ford. Renault therefore lost an opportunity to build capacity in the global automotive industry. Volvo’s experience with Renault has also made the French company an unattractive partner. This is in contrast to Ford, who have a reputation, from their track record at Jaguar and Aston Martin, of developing brands.

Summary

Alliances are another form of delivering corporate strategy. They must not be entered into because they are fashionable or to avoid industry consolidation. Overall they can be very successful, as examples like the 20-year Dow-Corning Alliance show, but they can go wrong. However for firms who want to expand markets or develop new technologies, a co-operative strategy can be the best solution. It is also now increasingly the case that being able to co-operate and partner is an essential corporate competence. This is demonstrated by Ford’s reputation in the automotive sector as a good partner.

Questions

Before considering an alliance or any other type of co-operative relationship the following questions must be addressed:

1. What co-operative relationships does the firm currently have? What are the purposes of these relationships? To what extent have they been successful?
2. Does the potential partner have a culture that we can work with?
3. Can the anticipated business benefits be achieved in any other way?
4. Is there top management support and stakeholder support for the relationship?
5. Has an exit strategy been agreed?

Further reading

- **Collaborating to Compete**
  *This is a selection of articles into global strategic alliances and acquisitions by McKinsey consultants and others. There is good research covering JVs in Japan.*

- **Alliance Advantage: the Art of Creating Value through Partnering**
  *The authors develop a sophisticated analysis of interorganisational relationships around the simple concept of value: the extent to which activities add or destroy value.*

- **International Strategic Alliances**
  *This book develops a theory of international alliances around the concept of cultural fit and business activity fit. The importance of the relationships between the gatekeepers in both organisations is emphasised.*

- **Good Practice Guideline 13  Valuing Partner Contributions in Strategic Alliances**