Strategic alliances as means to increase competitiveness

Introduction
Since the mid-1980s we could observe an unprecedented growth of competitiveness in the capital economy [Kale, Singh, 2009, p. 45]. According to some experts, the rate of creation of new strategic alliances oscillated around 20% annually in 1990s [Brown, 1999]. However, other research indicates between 1994 and 1997 the number of alliances created between companies throughout the world could be equal to 32,000 [Harbison and Parkar 1998; Kelly, Schaan and Joncas, 2002, p.11] These vast alliances show that this is the most common trend around the world to search for new way to find competitive advantage over other competitors. In order to survive and maintain further growth companies are forced to find partners to increase possibilities of becoming the leader or have dominant position on the market [Kogut, 1991]. Firms’ motivation to augment income and expand their activities to other markets or sectors has caused increased necessity to create strategic alliances, especially when particular firm could not have enough resources or capital in-home. This article investigates whether the creation of new strategic alliances produces additional value and therefore increases competitiveness both of company and the market.

Published literature puts forward two approaches to investigate the concept of strategic alliances. First, is based on a collection of data from statistical resources, especially when firms spread its activities to other countries [Tidd, Bessant, 2010, p.486]. Second, when data is collected from the case studies, what may give essential insights according to problems experienced by companies during practical implementation of strategic alliance strategy [Tidd, Bessant, 2010, p.486]. In this article most of the data comes from investigation based on a statistical approach to the subject and information collected from secondary resources, however some examples of case studies appear, in order to show a deeper sense and the role of particular alliance and its influence on competition.

1. How do we define the concept of strategic alliance?
Acclaimed literature gives a number of definitions used by scholars in order to define and clarify the concept of strategic alliance. However, for the purpose of this article only a few will be presented. I incline to analyse strategic alliance in broader meaning but some characteristics included in definitions of other scholars are essential. Therefore, strategic alliance can be presented as cooperation between companies with separated form for governing business
activities, especially those involved with organization and management. It almost always includes making decisions and the transfer of information between entities involved in such form of cooperation [Dyer, Nobeoka, 2000; Reuer, Zollo and Singh, 2002; Silverman and Baum, 2002; Singh and Mitchell, 2005; Zaheer and Bell, 2005]. However, this definition should also include organizations or institutions which are not companies, but fulfill all criteria to be treated as a strategic partner. The second approach to defined this concept was determined by Gualati. He stated that strategic alliance is a deliberate activity more than one company, which coordination is based either on trade, sharing information, and distribution resources among partners or cooperation to achieve mutual aim or provision [Gualati, 1995 & Kale, Singh, 2009]. These two definitions give essential insight into what strategic alliance can be, however do not cover the whole substance of the concept. Other researchers argue that the biggest challenge and also a goal of alliances is transformation cooperative agreement into effective and productive collaboration in order to achieve before stated aim [Child and Faulkner, 1998; Parkhe, 1998; Yoshino and Rangan, 1995; Kelly, Schaan and Joncas, 2002, p.12]. In reality there is a whole net of different types of relations and cooperation between companies. Therefore, one firm may belong to more than one alliance and be only a link in a whole chain of collaboration. For example extracted joint venture company – Symbian, is a clear example of alliance set up by Psion, Nokia, Ericsson and Motorola according to development of operating system to cell phones and other electrical equipment [Tidd, Bessant, 2010, p. 493]. However, from the other side not all forms of collaboration can be treated as strategic alliance because it would be over-interpretation. Therefore, the definition of the concept is not easy to portray.

2. Do firms collaborate only with other firms?

So far strategic alliances have been discussed as a collaboration between companies from the private sector. However, some scholars present an alternative, which is based on the collaboration based on connection between companies and scientific institutions such as universities. There are a number of such partnerships between companies and universities; however few questions concerning this concept arise. For example, what are the benefits of such type of collaboration? Or how can both partners benefit?

According to available literature firms started to value knowledge accumulated during scientific trials at universities. In particular, engineering faculties were a subject of exploration by companies. Without doubt the meaning of competitiveness in the technology field is one of the most important factors which influence a firm’s decision regarding the risk to try and collaborate with external institutions or not. Strategy of new technology adaptation from any possible sources increased the number of collaboration with universities. Firms such as Kodak or AEA Technology spot the necessity to grow technologically and considered collaboration with universities or joint ventures as a more effec-
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A number of companies started to sponsor a large number of research conducted on prime universities throughout the world and even established joint ventures programs. For example, Guinness is in talks to collaborate with universities, especially in the field of genetic engineering. The outcome of such strategic alliances usually relies on a confidential agreement between the research institution (usually universities) and firms. The collaboration with universities, however, has few advantages over the in-house R&D. For example, the high-risk projects can be undertaken by universities and supported by companies, which shares the risk of failure. Also, the base of laboratories and other resources necessary to achieve advanced technology may not be sufficient at home but complemented by partner institutions. Therefore, firms have begun to analyse and try to understand how to use science to back their products or services.

3. Creation of alliances

Before investigating the role strategic alliance plays in relation to competitiveness, first it seems important to ask the question of what are the motivations forcing companies to collaborate with each other? Or even, why companies have started to cooperate with partners instead of going alone?

Since the end of the nineteenth century, the progress of technology and communication has exploded on an unprecedented scale. Every region of the world has begun to be interconnected economically with others, like never before. So-called concepts of globalization and international economy have started to sprout and be the subject of further investigation. But, how has it influenced the companies? Or what impact it had on decisions taken by firms, especially those related with cooperation and finding partners?

The ease of technology and information transfer affected the growth of cooperation, often between companies from different regions or sectors. It seems that the main aim of such alliance creation was improvement of one's ability to withstand growing competitiveness on the market and increase effectiveness including cost reduction. Therefore, possibilities of the creation of partnerships with other companies, more frequently started to become a subject of discussion during a process of planning firms' strategies. [Kale, Singh, 2009, p. 46]

Some companies, because of increased competition, were forced to create alliance networks in order to survive or maintain a dominant position on the market [Kogut, 1991]. The trend to collaborate seemed inevitable, however recently it has started to slow. The notion of the possible benefits from collaboration changed slightly. Now, firms are truly keen to perceive strategic alliances as a means to improve efficiency rather than maintenance of once growth and survival [Ahuja, 2000]. This improvement would be reached inter alia by economies of scale in the production process [Tidd, Bessant, 2010, p. 479], access to new sources e.g. technologies or raw materials [Rothaermel & Boeker, 2008].

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1. For the purpose of this research, the term – 'strategic alliance' is used interchangeably with: collaboration, partnership, alliance, relation.
4. Does collaboration always create economic value?

Even when clear motives exist for collaboration the global trend to work with partners slows. At this point we can raise the question: Why are firms not keen on working together and forming strategic alliances as they did before? If the general motive for such collaboration was the creation of value, does it mean partners are not able to produce additional value anymore? Even an answer on such simple questions like “does it pay?” or “how much does it cost?” may give us essential insight.

According to research conducted during the last two decades, firms have spent about 20% of their assets and over 30% of their general expenses on strategic alliances, more specifically on maintenance and development [Ernst, 2004]. However, around 50% of firms did not achieve their goal and terminated the relation ahead of time [Kale, Dyer & Singh, 2002]. Moreover, the growth of successful alliance did not reflect success of companies which were a part of such cooperation [Kelly, Schaan and Joncas, 2002, p.11]. Other research shows between 30 and 70% of such corporations do not meet prerequisites of strategic alliance maintenance, especially according to dominant partner perception [Bamford, Gomes-Casseres, & Robinson, 2004]. Such vast divergence can be reduced by another study which shows that around 50-60% of strategic alliances is a subject of failure [Spekman et al., 1996; Dacin et al., 1997; Frerichs, 1999; Duysters et al., 1999]. However, the alliances which withstand failure and persist also encounter a number of problems involving this concept. Further investigations found around 66% of international cooperation experience fundamental problems during the lifespan of such alliances, especially in the first two years of its existence [Bleeke and Ernst, 1993]. However from the opposing side, 26% of firms’ total income in 2007-08 came from strategic alliances [Kale, Singh & Bell, 2009]. This data give a general notion that firms’ cooperation in strategic alliance is not easy and not always profitable. However, further investigation to determine precisely why so many alliances fail and what circumstances favour the growth of collaboration is desirable.

5. Competitiveness, alliance and radical technology change

All kinds of strategic alliances are created in order to improve a firms competitiveness. There are different factors which have an impact on motiva-
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tion to collaborate, however all of them are directly or indirectly connected with competitive behaviour of companies. Therefore, it could be argued that successful alliances improve competitiveness of companies which are involved in such type of partnership. Also external knowledge adopted from universities can have positive impact on new technology creation, and be important aspect of rivalry and competition. However, all above refers to the competitiveness of company or collection of companies (institutions) involved in strategic alliance. Nevertheless, another important question arises on this subject, namely, how the creation of strategic alliances may influence the competitiveness of the industries or industry as a whole? In order to answer this question at least two sectors of industry should be analyzed and compared. At first, it seemed impossible to measure, however the concept of Schumpeter radical innovation may give essential insight to undertake further investigation.

Schumpeter argues that the force which makes firms or whole sectors may fall or decrease sharply, not because the industries are not innovative but because there appear new technology which enabled to produce new product or service in a more effective or cheaper way [Schumpeter, 1942].

In 1873, Carl von Linde patented new technology which enabled the production of refrigerators. This example clearly presents radical innovation which destroyed a previously existing sector of ice shipping. Beforehand, the ice sector was very well developed and innovative, with large fleet of ships to transport an ice from north America to almost any place in the world. However, since the first refrigerators appeared on the market, ice industry started to melting [Tidd, Bessant, 2010, p. 29-30]. This example clearly contrast two industries, emerging (refrigerators) and melting (ice industry). They both compete with each other which means that flourish of one industry is related with decrease of another. However, this situation had occurred before trend of establishing strategic alliances.

Another example of Schumpeter’s radical change can be music industry. The factor which changed the rules of the game was an invention of algorithm according to digital format which enabled to compress songs, and therefore transmit them easily. Normal audio files had been started to be replaced by new format, namely MP3. Firms such as Sony found it difficult to compete with new entrances which have started to use economics of internet. As a result there appeared new programmes such as P2P, Gnutella, Kazaa and Limewire which enabled to exchange music collections between users. However, other competitors started to launch new products on the market which were based on MP3 format. One of them was Apple with new iPod player and iTunes web site which offered huge number of songs to download at reasonable price (99 cents each song). In 2005 more songs was bought through internet than as CDs [Tidd, Bessant, 2010, p. 7-10]. Therefore, it is clear that innovation can reshape the whole industry. But, is it possible to faster such kinds of innovations? Or, can strategic alliances influence their creations?
One of the fields where strategic alliances appear quite often is the carmaker industry. For example, "GM was forming a long-term and broad-scale global strategic alliance with Peugeot-Citroën of France". The companies have started to work together in order to reduce costs by buying together materials from mutual suppliers. Also manufacturing small-to-medium-sized cars on common "platforms" may have positive impact on further cost reduction. There are more cases of such cooperation, however in many of them significant problems occurred. For example, alliance between Suzuki and Volkswagen now has its final in arbitration. Also strategic alliance between Daimler and Chrysler or between BMW and Rover were unsuccessful [The Economist, 2009].

Nowadays, there are many sectors of industries which compete each, with more advanced technology and strong strategic collaboration. For example the whole energy segment is constructed from competitive industries such as: oil and gas industry, renewable energy, coal and atom energy etc. The companies which operate on the energy sector often collaborate in order to achieve technological advantage over others. Even though, national governments support changes and competition between industries or favour one of them. Example of such cooperation is Boeing and Siemens which formed strategic alliance in order to develop "technologies to improve energy access and security for the U.S. Department of Defence, the largest energy consumer in the federal government" [Siemens’ official web site]. However, the importance of strategic alliance in value creation and its impact on competition between different entities should be a subject of further investigation.

6. Enhance cooperation

Most of the companies perceive strategic alliance as a possibility to adopt new skills or discover new technology from external resources. In particular, this perception refers to the notion that every partner of such relation may benefit from it. However, technology transfer from one company to the other must be carefully planned, especially when there is possibility to disclose some of the so-called ‘core technologies’. It is related with the high risk of lost technological advantage and, therefore position on the market. From the other side, firms which complement mutual core competencies may benefit from such collaboration together. Thus, selection of a partner is very important and it influences strategic alliances during its lifespan. Good example of partner selection and acquisition of new core competencies is Kodak. The company was aware that the lack of technology in-home may cause drastic decrease in sales. Therefore, the company acquired number of firms which had technology necessary to supplement Kodak’s core competencies (e.g. Imation Corporation). The company also suffered organizational problems because of company’s routine. In 1997-98, Kodak formed another alliance with Intel in order to work together on ‘Picture CD’ project. This strategy enabled to release new products on the market which increased company’s market shares by 20% in 2004 [Tidd, Bessant, 2010, p. 501]
Cooperation between companies also impact on the everyday behaviour of the employees. Some companies, especially those which business activity is repetitive are exposed to routine in conducting its activities. Therefore, collaboration and flow of new ideas from outside the company may give a fresh glimpse on previously adopted patterns of conduct. The most common examples of external patterns are the introductions involved with testing new technology, analysis and computing services and other technical services [Tidd, Bessant, 2010, p. 491]. According to the study conducted by Libecap (1989) strategic alliance may achieve greater rate of success when the economic incentive is combined with good communication between companies. The researcher suggest that CEOs should pay careful attention in partner choice. The study also suggest that the similarity in perception of benefits between two companies is high, then the rate of success increase too [Libecap, 1989]. According to Khanna, Gulati and Hohlria (1998) this rule works also the other way round. That means, if there is an asymmetry in alliances’ perception of common goal, there is a higher rate of failure or problems emerging. There are several reasons to claim that lack of homogeneity may cause decrease in rate of success in partnership. First, demand on coordination is greater when homogeneity does not meet the basic criteria. From the other side, necessity of management is greater when there are optimal allocation of efforts. Secondly, homogeneity among partners usually increase the rate of opportunistic perception of partners’ behaviour [Goerzen, 2007; Goerzen and Beamish, 2005].

Conclusion

Strategic alliances as a form of collaboration between different entities play very important role in the economically developed world. There is no doubt that such kind of cooperation can be essential to create economic value or produce new technological growth. However, creation of alliance does pave the way or success. There are many factors which may influence the outcome of this type of partnership. Starting from partner election, management and homogeneity, strategic alliance is not an easy task to undertake. Many of them fail, but those which succeed can shape the whole industry. In the modern world, companies have to be more efficient and competitive. Therefore, seeking new external resources leads to collaborate with each other and also with universities is the key to success. By this type of partnership every member of such collaboration can benefit from it. It means that mutual collaboration can improve ones ability to perform business, and thus stimulate growth of competitiveness. Also strategic alliances are a very important link to break the technological barrier, and therefore even provoke radical change of industries. But in order to be sure how it works further exploration is required.

References

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Summary
During the last three decades, it was possible to observe a significant growth of creation of strategic alliances between companies. Firms have been inclined to cooper-
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ate in order to survive or maintain their growth. Such kind of partnership directly or indirectly influenced the increase of competitiveness of the companies involved in such form of cooperation. However, during the last few years, this tendency has decreased. Therefore, few questions arise, namely: does the creation of alliances still have positive impact on competitiveness? How high is the risk to cooperate in such form. Does a strategic alliance have impact on creation of so-called Schumpeter’s radical technology change? This article aims to answer above mentioned questions and investigate the concept of strategic alliance and its influence on competitiveness.

Key words
strategic alliance, technology change, Schumpeter, innovation

Strategic alliance as means to increase competitiveness
(Streszczenie)

W ciągu ostatnich trzech dekad można było zauważyć znaczący wzrost zaawansowania strategicznych alianseów pomiędzy firmami. Był to swój rodzaj trend, aby związywać współpracę w celu przetrwania lub utrzymania dotychczasowego rozwoju firm. Takie partnerstwa często wpływały pośrednio lub bezpośrednio na podniesienie konkurencyjności firm związanych taką formą współpracy, jak i całej gałęzi przemyślu. Jednak w ciągu ostatnich kilku lat tendencja działania w grupie zaczęła słabnąć. W ten sposób nasuwa się pytanie, czy zawieranie alianseów w dalszym ciągu wpływa na podniesienie konkurencyjności partnerów, jak i rynku? Jakie jest ryzyko niepowodzenia działalności firm w formie strategicznych alianseów oraz jak je można ograniczyć? Czy współpraca firm w zakresie strategicznych alianseów może wpłynąć na wprowadzenie tzw. radykalnej zmiany technologicznej według koncepcji Schumpeter’a? Artykuł ten ma na celu udzielenia odpowiedzi na powyższe pytania oraz przybliżenie koncepcji strategicznych alianseów oraz ich wpływu na konkurencyjność.

Słowa kluczowe
alianse strategiczne, zmiany technologiczne, innowacje