Week 1: Intro + Chapter 1 – Intro to alliances

- Early Industrial age – economy was based primarily on tangible resources (inventory, land, factories, equipment)
- Current information age, businesses must create and deploy tangible resources (employee skills, information technologies and corporate culture) to encourage innovation and improve their competitive strength
- To develop and maintain competitive advantages, many firms turn increasingly to alliances; instead of just acquiring resources, they enjoy the benefits of combining their own resources with the assets of others.
- Alliances thus have become cornerstones of the competitive strategy of many firms, enabling them to achieve objectives that otherwise would be difficult to realize.
    - alliances provide firms with an opportunity to increase their innovative capacity, improve their market response, achieve efficiency and share investment risks with partner firms.
    - to reap the benefits from alliances, firms must overcome internal and external adversities by efficiently and effectively managing their alliances.
- An alliance is a voluntary, long-term, contractual relationship between two or more autonomous and independent organizations (i.e. firms), designed to achieve mutual and individual objectives by sharing and/or creating resources (This definition covers JV, partnerships, co-creation efforts, but it excludes arrangements such as market transactions, mergers & acquisitions)
- 4 Implications of Alliance (implication from the definition)
    - 1) An alliance is an instrument that firms use to achieve their objectives, ultimately to develop and sustain their competitive advantage, therefore, an alliance management constitutes a strategic activity within firms.
    - 2) The definition indicates that an alliance consists of two or more firms, which remain independent organizational entities but connect voluntarily through an alliance contract. Although alliances thus offer firms flexibility in achieving their objectives, they also represent relatively unstable organizational arrangements, because there is an absence of hierarchical governance
    - 3) As critical resources get exchanged, firms engaged in alliances grow increasingly dependent on each other to realize their joint and individual objectives. This situation implies that firms must manage their alliances proactively to resolve any tension between cooperative forces focused on value creation and competitive forces oriented toward value appropriation.
    - 4) The definition implies that alliances are transitional entities, because firms can dissolve them at any convenient time. The threat of premature termination requires systematic management attention to resolve any emerging adversities.
- Why firms increasingly use alliances to develop and sustain a competitive advantage
    - Alliances are critical weapons in firms' competitive arsenals, and in recent decades, alliance activity has increased substantially.
    - Survey research indicates that managers consider alliances primary vehicles for growth and firms cannot create value on a stand-alone basis; the way business is conducted today is based on partnerships.
    - The rationales for engaging in alliances shift with economic and industry developments:
        - During the 1970s for example, firms focused on product performance (i.e. efficiency and quality) and engaged in alliances to obtain access to technology and new domestic and international markets, as well as to realize market stability.
        - During the 1980s, the focus shifted to obtaining flexible market positions, as continuing globalization, increasing competition and more demanding customers required firms to become flexible. Their alliances provided flexibility, deployed to build industry stature, consolidate industry positions and gain economies of scale and scope.
        - Then during the 1990s and 2000s, firms switched their attention to learning and capability development for innovation; they began using alliances to ensure a constant stream of predictions for advancing technology, proactively maximize value, optimize their total cost for product or customer segments and gain an ability to respond to changing internal and external conditions.
    - Alliances help firms comply with institutional and market demands for sustainability
    - Alliance Advantages:
        - *Access to resources*: Firms form alliances to gain access to capital, specialized skills, market and technological knowledge, or production facilities, which can help them focus on core competences.
        - *Economies of scale*: High fixed costs require firms to collaborate to expand production volume.
        - *Risk and cost sharing*: Alliances enable firms to share the risk and cost of particular investments.
        - *Access to a (foreign) market*: Partnering with another firm is often the only way to obtain access to a (foreign) market.
        - *Learning*: Alliances offer firms an opportunity to learn from their partners; for example, lean manufacturing, product development, management know-how or technology capabilities.
        - *Speed to market*: Firms with complementary skills collaborate to increase speed to market and capture first-mover advantages.
        - *Reputation*: Firms form alliances to increase their reputation and legitimization. Lobbying activities and collective pressure prompt governments to adopt policies that favor specific industries.
        - *Neutralizing or blocking competitors*: Firms can gain competencies and market power to neutralize or block the moves of a competitor (e.g. entry barriers).
        - *Assessing acquisition partner*: Alliances offer a way to know a potential acquisition candidate better and decrease information asymmetry.

        - *Flexibility*: Alliances provide more flexibility than hierarchies and markets and are subject to less regulation than mergers and acquisitions.
    - Alliance disadvantages:
        - *Loss of proprietary information*: Proprietary information can be lost to a partner who is a competitor or eventually will become one.
        - *Management complexities*: Because alliances require the combined effort of multiple firms, they entail coordination complexities, often resulting in conflicts, frustrations and costly delays.
        - *Financial and organizational risks*: The opportunistic behavior of partners can undermine the value creation logic of an alliance. Inter-organizational routines also may make it difficult for a firm to act independently.
        - *Risk of becoming dependent*: A power imbalance arises if one partner becomes overly dependent on the other. This situation increases the risk of opportunism, exploitation, and (hostile) acquisitions.
        - *Loss of decision autonomy*: Joint planning and decision making may result in a loss of decision-making autonomy and control.
        - *Loss of flexibility*: Establishing an alliance with one partner may prevent partnerships with other potential firms.
        - *Antitrust implications*: The benefits of alliances disappear if they are challenged on antitrust grounds. Some countries have strict regulations that prohibit certain business relationships.
        - *Learning barriers*: Although alliances provide access to knowledge, learning barriers may make it difficult to integrate and exploit new knowledge.
        - *Long-term viability*: Despite predetermined objectives and end dates, internal and external contingencies often cause premature termination.
- The causes for alliance failure
    - The success or failure of alliances might be attributed to environmental contingencies, the cultural distance between partners, broad or narrow alliance scopes, the alliance contact, the governance form adopted, emerging alliance instability, management control, the quality of the working relationship or learning processes.
    - Failure of alliance results from mismanagement and ad hoc (unprepared) decision making, alliance success stems from the adoption of systematic approach to alliance management.
    - 3 Key reasons of Alliance failure
        - 1) Failure stems from a lack of understanding of the potential pitfalls and hazards that pertain to the different alliance development stages.
        - 2) Failure can be attributed to an unawareness of the unique challenges imposed on them by different alliance objectives, diverging partner firm characteristics and unique alliance contexts.
        - 3) Alliance failure is more likely when firms neglect the institutionalization of their alliance know-how and know-what – which we refer to as alliance capabilities.
    - To reap the benefits from alliances, firms must deal systematically with these three issues, which will enable them to achieve, efficiently and effectively, a good design and management approach to their alliance relationships.
- 7 Alliance development stages:
    - **1)** Alliance strategy formation - A firm must decide whether a market exchange, internal growth, a merger or acquisition, or an alliance depicts the most viable option to achieve its objectives. If a firm decides to opt for an alliance, it should formulate an alliance strategy.
    - **2)** Alliance partner selection - A firm must identify a suitable partner that can help it to realize its objectives. After a systematic search and selection process, a firm formulates a short list of potential partners and using partner selection criteria it chooses its definitive alliance partner.
    - **3)** Alliance negotiation - Partners negotiate the collaborative scheme by using negotiation strategies and tactics. Negotiators discuss contributions, compensation, and coordination issues and if consensus is achieved the partnership is formalized in an alliance agreement.
    - **4)** Alliance design - Partners design the alliance by selecting governance form, formulating contractual provisions, and by deciding on management control mechanisms. It is a critical stage because it prescribes how and in which conditions the alliance is executed.
    - **5)** Alliance management - The alliance becomes operational; the coordination of day-to-day processes. Decisions relate to coordination, monitoring, communication, inter-partner learning, responding to adversity, modifications and building high-quality working relationships.
    - **6)** Alliance evaluation - Partners design and implement a performance metric system. Based on joint and/or individual assessments, they decide whether alliance objectives, alliance design, and/or alliance management require adaptations. Alternatively, they could decide to exit the alliance.
    - **7)** Alliance termination - Alliance structures have a limited lifetime; in principle, all alliances must be terminated at some point in time. Partners formulate a termination plan and make decisions pertaining to extracting value, reducing possible losses and protecting reputations.
    - An alliance transforms and proceeds to the next stage only after it has achieved the objectives of the preceding stage. Thus, each development stage is characterized by specific issues and requires specific decision-making rationales and steps.
    - The alliance development framework incorporates a cyclical approach, such that the seven stages remain interlinked through learning and adaptation. All decisions made in one stage have effects on subsequent stages, and alliance development can follow an iterative development path, such that stages may be revisited if needed.
    - Alliance failure often results when organizations skip one or more stages and/or managers fail to complete their decision-making tasks for each development stage. Management thus plays a critical role (i.e. decision