The Effects of Strategic Alliances on Marketing Efforts: The Roles of Cooperation

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Strategic alliances can be more commonly observed in today's business practice even though the failure rate remains so high. In this paper, the definition of strategic alliances is formally documented; several different types of alliances are introduced; and reasons why so many firms have failed are discussed. Also, other than strategic alliances, a relatively newer notion, coopetition, is well defined and discussed as well. Finally, the author proposes a new model that intends to explain the relationship between strategic alliances and their effectiveness by introducing a potential moderator, coopetition. The author also provides research propositions for future further testing work and research.

Keywords: strategic alliance, coopetition

INTRODUCTION

In a dynamic corporate environment, companies need resources and competitive advantages not only to keep fighting but also to survive. For those firms in need, "strategic alliances have grown in importance as a means of doing business across national boundaries" (Kauser & Shaw, 2004). "These alliances, known as alliances or global strategic partnerships, means business arrangements whereby two or more partners cooperate in mutual benefit, which is designed specifically to support and strengthen the competitive advantages of partners" (Nicoleta, Liana, & Maria, 2009). With growing interest in these alliances, a significant amount of research has been done in this particular area. Therefore, it is worth overviewing the research work to see what this specific research stream has accomplished.

On the other hand, due to more complicated ways of doing business, a new notion has been developed, *co-opeition* (Choi, 2005). "The concept of 'coopetition' has become very important in today's business environment as mindless competition does not lead to anything productive" (Ganguli, 2007). The most important contribution of this paper is that this study formally defines co-opetition and examines both its benefits and potential problems. Given the fact that research on coopetition is at its early stage, this study provides groundwork on which future research on co-opetition can build (Choi, 2005).

STRATEGIC ALLIANCES

The notion of strategic alliances has been studied for years. Many researchers have given different definitions regarding strategic alliances. According to Keasler & Denning, "Strategic alliances are contractual business agreements to pool resources and engage in a new business venture with or without an equity investment" (Keasler & Denning, 2009). The major objective for firms to seek for strategic alliances is to share their resources and gain more competitive advantage along with their partners. Under these circumstances, “strategic alliances are agreements between firms in which each commits resources to achieve a common set of objectives” (Nicoleta, et al., 2009).

Strategic alliances are especially beneficial for small firms with limited resources. Since the alliance is 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, firms involved in those alliances are required to commit to share resources. This definition is similar to Culpan’s one that “strategic alliances as a variety of long-term both-equity or non-equity collaboration between firms established to gain a competitive edge for the partners” (Culpan, 2008). This definition further introduces the idea that those relationships are long-term and may be involved with both equity and non-equity collaboration.

Therefore, integrating those different definitions mentioned above, strategic alliances can be defined as “long-term contracts between legally distinct organizations that provide for sharing the costs and benefits of a mutually beneficial activity” (Robinson, 2008). They are not only agreements but also contractual commitments between partners. Right now, the definition of strategic alliances is pretty clear, but why do firms need to or want to strategically have contractual relationships with other firms? How do strategic alliances work for those participating firms? In the following section, I intend to answer those questions by providing an overview of what has been done so far.

Why Strategic Alliances Are Useful?

With the competition and globalization increase, more and more firms are under pressure to improve their competitive advantages. “Alliances between organizations are becoming increasingly popular as a way to extract greater value from the marketplace” (Shah & Swaminathan, 2008). A decade after the seminal work of Chan, Kensinger, Keown, and Martin (1997) and Das, Sen, and Sengupta (1998), “corporate use of strategic alliance contracting and the associated market response appear to have increased” (Keasler & Denning, 2009). Strategic alliances enable business to have competitive advantage over their competitors through access to a partner’s resources, including technologies, capital, markets and manpower.

As I have said, “growing pressures from globalization and advances in technology force firms to look outside traditional boundaries for the resources and capabilities needed to compete” (Hughes & Beasley, 2008). Therefore, strategic alliances gradually become very powerful tools for firms to enhance their competitive advantages, especially for those small or median firms with limited resources. “For small businesses, strategic alliances are a way to work with others toward a common goal while not losing their individuality. Alliances are a way to collect rewards of team effort” (Nicoleta, et al., 2009). “Typically, the business venture has a finite length with partners performing specific tasks and partner contributions in the area of technology, product development, marketing, licensing, research, or skills” (Keasler & Denning, 2009). After all, “the purpose of alliances is to minimize risk while maximizing profits” (Nicoleta, et al., 2009).

Other than domestic strategic alliances, international ones are also increasingly used by firms which want to improve global competitive advantages. “For many firms, international strategic alliances have become an institutionalized phenomenon strongly influencing organizational structures and behaviors” (Kauser & Shaw, 2004). Some firms perceive international alliances as strategic weapons (Harrigan, 1988), while others consider them a superior method of investing corporate resources. “Furthermore, while there is a growing volume of literature on international strategic alliances, there is a lack of empirical evidence about why alliances are formed and how effective they are in achieving alliance objectives” (Kauser & Shaw, 2004).

TYPES OF STRATEGIC ALLIANCE

Joint Ventures

“‘Joint ventures’ are business agreements whereby two or more owners create a separate entity” (Harrigan, 1988). Research has shown that “since 1978 the number of joint ventures announced and operating within the United States has blossomed, and the proportion of economic activity they represent has increased in many industries" (Harrigan, 1988). However, the more joint ventures are used, the more normative cooperative strategy framework is required (Harrigan, 1988). "More joint ventures will undoubtedly be launched in the wake of increasingly rapid rates of technological change, deregulation and globalization, especially where boundaries are blurring between industries due to the capabilities of information processing and data transmission technologies to link together formerly disparate products" (Harrigan, 1988).

However, "while JVs offer benefits such as entry into new markets, minimization of xenophobic reactions, help in obtaining new skills and technology, reduced risk through resource sharing, provision of economies of scale and scope, to name a few, they are not without their drawbacks" (Morris & Cadogan, 2001). Among those potential disadvantages, cultural differences, ownerships, firm structures, mutual trust, and strategy differences are found to be major factors that affect the success of joint ventures (Yuan, Runtian, & Wenhao, 2008; Zhang, Shu, Jiang, & Malter, 2010) .

Logistics Alliance

Logistics alliances are "formal or informal relationships between companies and logistics providers" (Lal, van Laarhoven, & Sharman, 1995). Logistics alliances provide firms powerful tools for enhancing supply chain performances "based on close working arrangements, a shipper lead in design and evaluation, a tendency to outsource almost everything, ambitious targets, and a strong performance ethic" (Lal, et al., 1995). Since globalization has been prevailing recently, supply chain performances usually can play very critical roles in companies' competitive positions. Therefore, the success of these alliances is so meaningful to those participating firms that "they are poised to become a building-block in the coming 'network economy" (Lal, et al., 1995). The so-called network economy is "a system in which companies focus on their core competencies and outsource other activities to external providers that can perform them more quickly, more cheaply, and more effectively" (Lal, et al., 1995).

Technology Licensing

According to Hagedoorn et al., "when companies decide to engage in technology transfer through exclusive licensing to other firms, they have two basic options: to use standard licensing contracts or to set-up more elaborate partnership-embedded licensing agreements" (Hagedoorn, Lorenz-Orlean, & van Kranenburg, 2009). Both of those options are what we refer to technology licensing which is commonly observed in a strategic alliance between two high-tech firms.

Specifically speaking, when two firms have a licensing agreement, they usually sign a contract or an agreement which provides legal constraints on the transfer of technology, in which they give permission to another firm to produce a product or utilize a service "with the objective of achieving commercial gain, in return for a fee to be paid by the licensee to the licensor" (Hagedoorn, et al., 2009). On the other hand, partnership-embedded licensing agreements are those agreements "where companies engage in technology transfer through a licensing agreement that is implanted in a broader agreement, a partnership, which also has other objectives than the single act of transferring technology from one company to the other" (Hagedoorn, et al., 2009).

Franchising

Franchising is a specific type of organization strategy and is the practice of using another firm's successful business model (Hoffman & Preble, 2001). For the franchisors, franchising is an option to create a network to distribute goods or services while still being able to avoid direct investments and liability over a chain. In this situation, the franchisor's success is based on the success of the franchisees. On the other hand, because the franchisees take over the responsibilities of running the business, "the franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business" (Hoffman & Preble, 2001).

R&D Alliance

R&D alliances allow firms to "access new technologies, realize economies of scale and scope in their R&D activities, and shorten development time" (Sampson, 2004). In recent years, inter-firm R&D alliances have become more common (Hladik, 1985; Morris and Hergert, 1987: Mowery, 198S). However, "to benefit from R&D collaboration, firms must create a structure that both supports the efficient transfer of knowledge based assets and also minimizes unintended leakage of such assets to potential competitors" (Sampson, 2004). Therefore, "since firms often do not wish to make better competitors of their partners, the ability to safeguard against leakage is critical" (Sampson, 2004).

Brand Alliance

Brand alliance is defined as "The linking or integration of the attributes of two or more brands to offer a new or perceptually improved product to the consumer" (Uggla & Åsberg, 2010). Under this definition, "brand alliances can be thought of as cooperative marketing activities involving short-term and or long-term combinations of two or more individual brands" (Voss & Gammoh, 2004). However, not all firms can form a brand alliance with others; "both brands should have established brand equity and recognition and the collaboration should have mid to long-term duration" (Uggla & Åsberg, 2010).

Even though brand alliances are usually referred to physical products, "brand alliances can be represented either physically by using two or more brands on a product (e.g., Diet Coke and NutraSweet) or symbolically by associating brand names, logos, or other brand assets in marketing communication efforts" (Voss & Gammoh, 2004). Furthermore, Kapferer (2001) argued that brand alliances and the emergence of co-brands and ingredient branding structures might change the levels of branding: "Often, brands that have been successfully positioned at ingredient level, may be tempted to change to a different strategic level and become the overall product brand".

Marketing/Co-Marketing Alliance

"Marketing alliances are formalized collaborative arrangements between two or more organizations focused on downstream value chain activities" (Swaminathan & Moorman, 2009), while co-marketing alliances are a form of working partnership, defined by Anderson and Narus (1990) as the "mutual recognition and understanding that the success of each firm depends in part on the other firm". Both of these two alliances focus on the integration of entire value chains and inter-partnerships among all firm-level activities. "They are contractual relationships undertaken by firms whose respective products are complements in the marketplace and are intended to amplify and/or build user awareness of benefits derived from these complementarities" (Bucklin & Sengupta, 1993).

Since co-marketing alliances emphasize on the comprehensive cooperation, they "involve coordination among the partners in one or more aspects of marketing and may extend into research, product development, and even production" (Bucklin & Sengupta, 1993). Compared to buyer-seller or manufacturer-distributor relationships, "co-marketing alliances are lateral relationships between firms at the same level in the value-added chain and represent a form of symbiotic marketing" (Bucklin & Sengupta, 1993). Therefore, "a marketing alliance gives the firm access to new markets, provides a firm with access to entire products, product features, brands, or services, and supplies a firm with access to new knowledge and skills" (Swaminathan & Moorman, 2009).

WHY SO MANY HAVE FAILED?

In the year 2000, "over 10,000 alliances were formed and the rate of alliance formation has grown at 25% per year since 1985. Furthermore, alliances are estimated to account for 16% of firm value which is expected to increase to 25%" (Michael Wittmann, 2007). Even though the 2011 data is not available yet, it is not difficult to imagine that this upward trend is going to continue as strategic alliances are more and more common in present days. However, more than half eventually failed (Michael Wittmann, 2007). Why so many strategic alliances have failed?

Before discussing the reasons, the definition of failure for strategic alliances has to be defined. According to Wittmann (2007), “alliances may be considered failures when, for example, (1) no expectations are set and no value is created by the alliance, (2) performance expectations are set and not met, and (3) an alliance persists to exist even when it has ceased producing value”. In practice, “alliance failure has been defined as the termination of an alliance” (Michael Wittmann, 2007).

There must be many reasons for those alliances to fail. Researchers and practitioners have identified several reasons for this failure including “over-dependence of one partner on another, opportunistic behavior, conflict, incompatible goals, changes in the business environment, disintegrating relationships, and failure to use formal performance measures” (Michael Wittmann, 2007). Since the success rate for strategic alliances is not as high as most firms expect, firms should be more careful before be involved with any form of strategic alliances (Nicoleta, et al., 2009).

CO-OPETITION

In the mid and late 1980’s, while other researchers kept studying on the tradition of competitive behaviors of companies, more and more researchers turned their attention to the cooperative aspects of inter-firm interactions (Choi, 2005). In the early 1990’s, “sharing the similar background to that of the concepts emphasizing cooperation, a new concept, “co-opetition,” was created. Unlike the other concepts, co-opetition focuses on both cooperation and competition at the same time” (Choi). The word is developed from the words ‘cooperation’ and ‘competition’, and is used to “define the complex multidimensional business relationships that today’s companies have with one another” (Ganguli, 2007).

According to Choi (2005), he further provides more detailed definition for this special term. He defines coopetition as “the situation where a group of competitors cooperate in activities associated with creating mutual benefits while at the same time, they compete with each other in activities associated with dividing up the benefits” (Choi, 2005). Furthermore, in 1996, the book, Co-opetition by Brandenburger and Nalebuff, promotes the popularity of the concept (Choi, 2005). Based on Ganguli (2007), “Coopetition stresses on the fact that it enables resource sharing instead of resource duplication, which is seen in competition”.

Now we have understood what coopetition stands for. But why do firms need to cooperate with their competitors? How does this special alliance work for participating firms? In the next section, more detailed research work done by researchers can provide some good answers to these questions.

WHY COOPETITION IS NEEDED?

In today’s business world, the relationships among partners and competitors are much more complicated than they used to be. Therefore, “It is very difficult to say definitely whether one company is a straightforward partner or a complete opposition of another” (Ganguli, 2007). One company can be the partner for another firm’s one particular unit of function while may directly compete with that company’s another unit of function (Luo, Slotegraaf, & Pan, 2006).

Cooperation has been considered as “a low cost route for new competitors to gain technology and market access; in fact it helps in avoiding investments like R&D by enabling new entrants to learn from partners” (Ganguli, 2007). In addition, the concept of complementor is very crucial with respect to the concept of coopetition. Complementors can be defined as “players from whom customers buy complementary products or to whom suppliers sell complementary products” (Ganguli, 2007).

Coopetition actually shifts the focus from substitutors more towards complementors. Ideal examples of complementors are hardware and software companies (Ganguli, 2007). “Complementors’ products make a company’s product more valuable and whose products are made more valuable by the company’s product. Participating firms can learn from partners’ valuable know-how and skills while they protect their own core competence or advantage; and a firm can gain advantage through strategically balancing competition and cooperation” (Ganguli, 2007).

BENEFITS OF COOPETITION

Since coopetition emphasizes on both competitors and cooperation, "the synergy of coopetition has been theorized to produce various benefits, including learning, cost savings, resource sharing, and innovation" (Luo, et al., 2006). Those benefits are similar to what strategic alliances can bring. Therefore, we can also demonstrate coopetition can help firms enhance their competitive advantages since "competitors outside the co-opetitive relationship do not possess all the skills and resources that are available to the firms in the co-opetitive relationship, their products and services are not likely to match those from the firms in the co-opetitive relationship" (Choi, 2005).

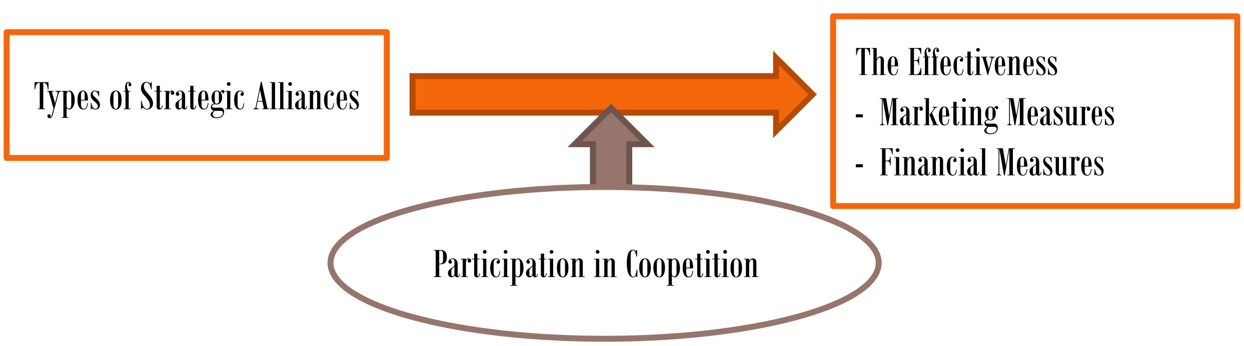
On the other hand, coopetition also helps in building better relationships with the customers, as firms compete in the market by providing different product or service features but jointly develop productivity and quality by providing the customers with more options or levels of the features which may not be possible for a lone firm (Ganguli, 2007).

In addition, some researchers also provide evidence that cross-functional coopetition is even more helpful. Based Luo et al. (2006), "Beneficial influence of cross-functional coopetition on firm performance indicate that fostering cooperation but quenching competition may limit a firm's full performance potential". Therefore, when firms have coopetition relationships, "fostering the joint occurrence of cross-functional cooperation and competition can direct conflicts toward constructive interactions and actually promote a firm's overall market learning and performance" (Luo, et al., 2006).

THE PROPOSED MODEL

After strategic alliances and coopetition are discussed, we can see that there is no research done in studying both notions simultaneously. Since strategic alliances have been commonly utilized by companies and coopetition is increasingly adopted by firms as well, it could be reasonable to say that there must be firms that have strategic alliances with some firms and also participate in coopetition with others. Coopetition requires direct competitors to be involved so it may not be possible for firms to have both alliances with the same firms. However, it might be worth wondering whether different types of strategic alliances may produce different results in effectiveness when the firm has other coopetition relationships. The proposed model is shown in Figure 1.

FIGURE 1
THE PROPOSED MODEL



RESEARCH PROPOSITIONS

In addition, several research propositions can be drawn from this model. These propositions provide a possible direction for future research. The propositions are listed below:

P1: *The marketing effects of strategic alliances are different if different types of alliances are utilized.*

P2: *The financial effects of strategic alliances are different if different types of alliances are utilized.*

P3: *The participation in coopetition positively moderates the relationship between strategic alliances and the marketing effectiveness.*

P4: *The participation in coopetition positively moderates the relationship between strategic alliances and the financial effectiveness.*

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