# Strategic Alliances

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***Abstract:*** *The purpose of this paper is to summarise, analyse and explain the concept of strategic alliances, as elaborated by Rosabeth M. Kanter holder of the Ernest L. Arbuckle Professorship at Harvard Business School, in her 1994 article for Harvard Business Review "Collaborative Advantage: The Art of Alliances''. In addition to Kanter's article, we will be using as reference on the topic some write-ups that analyse the real-world phenomena of strategic alliances on business development and the likelihood of successful alliances, namely "Strategic alliances: the silver bullet to recover and thrive in the new normal" by Deloitte "Why Strategic Alliances Fail: New CMO Council Report" by Kimberly A. Whitler from Forbes. We will be summarising these works and deciding whether they make a good case for strategic alliances or not, then conclude with our own thoughts on the concepts approached by these articles.*

***Key words:*** Strategic alliances, success factors, risk analysis, critical evaluation.

**JEL: L14, M10, L22, M16.**

**1. Introduction**

A strategic alliance is a cooperative arrangement that permits two or more entities—such as businesses or organisations — to work together toward mutually beneficial objectives while maintaining their individual identities. These partnerships are created to take advantage of one another's advantages in terms of skills, resources, market presence, and strength in order to attain strategic goals that would be difficult or impossible to accomplish separately. In today's work environment, creating an atmosphere where employees collaborate with each other and engage in various projects together is essential.

Strategic alliances can be facilitated through various forms, including partnerships, joint ventures, co-marketing agreements, cooperative research and development projects, and distribution agreements.

Within the context of a strategic alliance, participant entities maintain their own identities and autonomy while working together to achieve shared goals. These partnerships can have a range of durations, from short-term agreements to long-term, binding commitments, depending on the particular interests and background information that are relevant to the parties involved.

**2. Literature review**

Ever since R.M. Kanter analysed the subject in the 1994 publication for the Hardvard Business Review magazine, more and more scholars and businesses have approached the subject from their own perspective.

Given the subjective nature of strategic alliances, and the rapid changes in the business environment, we note an increase in the studying and use of strategic alliances:

*Table 1: Gates Usage of different strategies in achieving organisational growth in 2018 (in %)*

| M&A | Strategic Alliances | Joint Ventures | Organic Growth | Outsorcing |
|---|---|---|---|---|
| 13% | 31% | 16% | 23% | 17% |

*Source: CEO Outlook, KMPG (2019)*

In her 1994 article for the Harvard Business Review, Rosabeth defines alliances as "a fact of life in business today". She notes that decision makers are focused on increasing financial gains, instead of finding a balance between financial and human terms, as they are placing their attention on shareholder interest, and forget to give managers the means to create value. (Kanter 1994, 96). In the case of short alliances, the usual goals are to ease the process of market penetration and reduce cost of research and development, an example being Toyota partnering with BMW to create the Toyota GR Supra. However, for medium to long lasting partnerships, goals shift from gaining independent benefits, to creating mutual growth, as is the case with Wizz Air and Booking.com.

For the latter forms of alliances to prosper, certain criteria must be valid. Business alliances must generate value that surpasses the initial deal, the connection should evolve and create access points for opportunities and the future. In a successful alliance collaboration is crucial, similar to the prisoner's dilemma, creation of value that benefits both parties equally is far more beneficial in the long run than just an exchange. They need a complex web of internal infrastructures that support learning and interpersonal relationships because they cannot be managed by formal procedures. From a continental perspective, North American companies have an opportunistic view of relationships, giving minimal importance to other aspects of partnerships, such as cultural and organisational. Asian companies blend relationships into their business model, and therefore are proficient at using them. European companies are in the middle of the scale (Kanter 1994).

The life of a business alliance shares similarities with that of a personal relationship. There are five steps in creating a successful alliance. In the first, called courtship, two businesses meet, become drawn to one another, and learn they are compatible. They decide and seal the agreement during the second phase, called engagement. Phase three finds the newly joined companies discovering they have different ideas about how the business should run, similar to a couple setting up housekeeping. Phase four involves the couples coming up with ways to reconcile their differences and learning how to get along. As old marrieds, each organisation finds in phase five that it has undergone internal changes as a result of adapting to the ongoing relationship. The selection of a suitable partner is a tedious and resource consuming process that can be reduced if businesses have a strong understanding of their internal factors, chemistry as personal and social interest of decision makers can affect the longevity of the alliance and compatibility with the CEOs of the candidate company. The latter implies similar future goals, appetite for risk, and even business philosophies.

The author gives a real-world example on the use of the aforementioned elements in selecting and building a partnership. The Foote, Cone & Belding and Publicis, both ad agencies with a respectable global ranking. What brought them together was the desire to expand their international reach and the announcement that one of their major clients was reducing its ad agencies by 95%. Both FCB and Publicis approached their expansion strategies with humility, which led to their willingness to cede power; they both felt that industry globalisation was weakening their competitive advantage and that they couldn't grow alone. They had both looked for the appropriate partner for a number of years without success, so they had enough experience with other possible partners to be happy with each other's qualities. Although each business excelled in areas where the other did not, the strengths each contributed to the partnership were about equal. The businesses shared few areas of direct business conflict, comparable experiences with shared clients, and comparable creative approaches and operating philosophies. Their joint efforts have yielded results that support those conclusions. Together, Publicis and FCB have run a pioneering international alliance since 1988, establishing a network of 173 agencies across 43 nations. When all of the partners are combined, the agency became the second largest in Europe, the second largest in North America, and the ninth largest worldwide.

The FCB-Publicis alliance serves as proof that, particularly in quickly evolving industries, prospective partners need to discover alignment with legacy, philosophy, and aspirations because possibilities of this nature are frequently fleeting and will not support a long-term partnership. Other opportunities cannot arise in a relationship that falters or dissolves as soon as the initial project is finished (Kanter 1994).

This example illustrates the true power of alliances to create value even on a global scale when other people might get the wrong impression that independent development has the same effect as a partnership. The success of the alliance lies in the foresight abilities of the CEO's and focusing on long term goals and creating growth for both parties.

2.2 Threats

As both companies grow, many more people in many more roles will need to collaborate with members of the other company once actual initiatives get underway. Today, product life cycles are shortened due to dynamic demand, forcing organizations to focus on short-term innovation (Voica, et al., 2021). Furthermore, all the changes brought about by the new era of digitalization are occurring at a rapid pace, producing significant changes both at the organizational level and in the daily lives of individuals (Veith & Costea, 2019). Four factors make this wider involvement a threat to the promise made at the top:

1. Individuals in other roles might not feel the same level of connection and rapport that the CEOs did. In this context, one of the most important challenges managers face in leading teams, sometimes from a distance, is communication (Veith & Dogaru, 2020). In the early years of their collaboration, key executives from Publicis and FCB kept in constant contact by frequently visiting each other's headquarters. They had a great deal of informal and official time together. However, other staff members hadn't communicated with one another and occasionally needed persuading to collaborate with their foreign counterparts.

2. Workers might not be as committed as upper management and have less cross-cultural working experience. It's possible that they just perceive the operational reasons why the partnership doesn't make sense and are unaware of the strategic background. For instance, a team member working on a new financial product that would be introduced with a foreign partner frequently complained to his manager about the risks involved in the product and the challenges of introducing it; in fact, the team member even suggested ending the project. He was unaware that the foreign partner was a crucial gatekeeper for a profitable development agreement in a different nation. Senior management were willing to put up with this risky endeavour in the hopes of earning more money somewhere else.

3. Typically, just a small number of employees devote their entire time to the partnership. Others frequently overlook tasks pertaining to the new alliance because they are judged solely on how well they execute their primary duty. Venture managers frequently prioritise the events or executives of their own firm and defer to those of the partner since they are more worried about their own future in the parent company that hired them.

4. People who are only a rung or two below the top may be against the partnership and work to sabotage it. This is particularly true for companies with robust separate business divisions or for professional associations whose goals diverge from those of the company as a whole.

5.Cultural integration calls for the relationship's participants to be able to communicate effectively and understand one another's cultures in order to overcome their disparities (Kanter 1994).

### 3. Research methodology

In this paper, we adopted a qualitative approach based on the analysis of secondary sources. Our main reference is Rosabeth Moss Kanter's seminal article, "Collaborative Advantage: The Art of Alliances", published in the Harvard Business Review in 1994, which provides the theoretical foundation for our review. In addition, we examined two recent contributions on the topic of strategic alliances: Deloitte's report "Strategic alliances: the silver bullet to recover and thrive in the new normal" and Kimberly A. Whitler's article published in Forbes, "Why Strategic Alliances Fail: New CMO Council Report". Through critical reading and comparative discussion, we aimed to identify key themes, assess the strengths and limitations of the arguments presented, and formulate our own reflections on the role and effectiveness of strategic alliances in contemporary business environments. No primary data collection was conducted, as our work is focused on theoretical synthesis and interpretation.

### 4. Results and discussions

This article published by Deloitte on their website in 2019 tackles the issues companies faced during the COVID-19 pandemic, what changes occurred and what the present business environment influences the attractiveness of strategic alliances.

A survey on insurance companies conducted by Deloitte highlighted the sudden digitalisation of the world during the pandemic and the unpreparedness of most companies "79% of respondents believe the pandemic uncovered shortcomings in their company's digital capabilities and transformation plans" (Deloitte, 2019). On the same note, the financial services sector faced a surge in digital adoption throughout products and demographic segments. Even with the return to normality and the end of the pandemic, the use of digital products is only increasing. "In a context of rapid digitisation, including the increasing importance of marketplaces, platforms and ecosystems in the distribution of products, strategic alliances can offer a fast and sometimes less risky access to assets and intellectual property compared to 'build' or 'buy' strategies". (Deloitte 2019)

In addition to fostering innovation in how current markets operate, technology is also opening up new markets for previously undiscovered asset classes.

The growing significance of marketplace, platform, and ecosystem models in the financial services industry, which offer more scalable and affordable client care as well as an improved client experience, is one example of this trend.

Strategic alliances are naturally suited to achieving the size needed to establish a sustainable market, provide clients with innovative, value-adding services, and improve their overall experience.Deloitte shares a similar view on the strategic alliance life cycle as professor Kanter

Figure 1: The life cycle of srategic alliances


*Source: Deloitte, Strategic Alliances (2019)*

This article published by Kimberly A. Withler on the Forbes website, gives us some real life examples and statistics as to why most strategic alliances fail before being able to create that co-operative advantage. The article starts by stating  disparity in the percentage of people who view alliances as a crucial part in the development of their business (85%) and the percentage of failed alliances (60% or more) (Withler 2014).

The main issue in maintaining alliances lies in the lack of governance. The author shares a similar opinion with professor Kanter as she also states that a formal approach is insufficient in managing an alliance. However, the author sees the solution in a leader giving the "orders" (Withler 2014) for the creation of the strategic plan, not mentioning the steps for a good alliance that professor Kanter highlighted (Kanter 1994, 97).

The advertising of a partnership does not mean it will be successful, giving the example of the Apple and IBM partnership. Press releases at the beginning and then a long period of time without anything happening. The author gives 3 means to leverage strategic partnerships:

1.The resources allocated should march the importance of the partnership

Continuing with the Apple-IMB example, if they considered the alliance of importance, then both firm should have allocated a budget, trained managers and providing clear oversight

2.Treat your partner as you would your customer

It is rare for partners to receive the same treatment, consideration, or care as customers. And yet, in many circumstances, partners lead the door to more clients. Furthermore, a lot of businesses lack foresight and fail to consider the consequences in the event that a partner loses patience. It might not be worthwhile to pursue the relationship in the first place if you lack the resources to manage it properly.  As a result, it would be beneficial to assess partner satisfaction even though most businesses only measure customer satisfaction. In order to guarantee that everyone is happy, the governing leader must effectively manage this function.

3.Formalize a strategic plan

Managers are skilled in creating strategic plans. Creating one for a strategic alliance can be beneficial in a number of ways. Initially, it might assist you in promoting alignment both within your company and between the two businesses. Formalising expectations and laying the groundwork for attaining them are two benefits of formalising objectives, goals, strategies, milestones, and metrics. There's a good chance that someone in the partnership will feel let down if it's not formalised.

## 5. Conclusions

In conclusion, while companies can grow and develop on their own, there is a clear advantage in collaborating with other businesses to facilitate an increase in their market share, developing new technologies and adapting to the constant change in trends. The process of developing a strategy for a viable alliance is a hard and resource consuming task, however, with a clear goal and carefully chosen approach, companies can develop long lasting relations that are generators of value and innovation, as demonstrated in the works authored by Rosabeth M. Kanter, Deloitte and Kimberly A. Wither.

The influence of the research conducted by professor Kanter created the template for future businesses to improve their approach and to shift from searching just for an exchange and to look for partnerships with high value creation potential.

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**Acknowledgement**

Presented at the Business Olimpics (AFER 2024)