

A Research on Influential Factors Related to the Stability of Competition-Oriented Strategic Alliances

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Abstract

The characteristics of enterprises' strategic alliances definitely lead to their complexity and instability while relative stability serves as a premise and necessity for success. Starting from strategic alliances, this paper studies competition-oriented strategic alliance, a special alliance involving both competition and cooperation. Profound analysis is conducted inside and outside such an alliance on influential factors related to its stability.

Keywords: Competition-oriented strategic alliance, Stability, Transaction cost

1. Introduction

Strategic alliance refers to a long or short-term cooperative relationship between two or more enterprises to achieve their strategic goals (Yang, 2001). Ever since the beginning of the 21st century, market competition has been increasingly fierce, in which it is much more difficult for an enterprise to achieve survival and development with its own strength. Therefore, they have to resort to different forms of cooperation. By converting their ideas into new win-win or multi-win ones, many enterprises have expanded their cooperation ranges and methods, hence replacing their former non-strategic cooperation by a strategic alliance.

It is shown in our research that by the end of the 1980s over half of worldwide GNP had been created by cooperative strategic alliances among enterprises (Nooteboom, 1999). It is in the 1990s that strategic alliance got rapid development, leading to multiplied growth in number. In addition, with more fierce competition and constant development of strategic alliance, the competition among enterprises has also undergone fundamental changes. Besides their competition, enterprises also begin to establish cooperative relations with their rivals, converting their opposed competition to a cooperative one and a linear alliance intended for complementary advantages in industrial value chain or one intended for sharing and creation of knowledge, information and personnel to an alliance including both competition and cooperation which is what we call competition-oriented strategic alliance. There are both advantages and disadvantages lying in such an alliance among enterprises in the same industry. Only with balanced and stable operation, its advantages can be achieved. Conversely, there is no advantage at all.

2. The Stability of Competition-Oriented Strategic Alliances

It is a sustainable strategic choice to form such strategic alliance among enterprises (Cristina et al., 2004) in which enterprises are able to learn knowledge, organizational learning ability and so on from their rivals and enjoy some positive things brought about by their cooperation, such as maximized capital, R & D ability, improved knowledge and expanded market (Jorde & Teece, 1989). Besides, Beamish (1998, 1996) and Kougt (1958), noticing and studying the stability of strategic alliance, emphasize re-examining current and future strategic alliances. Through their investigation, Bleek and Emst (1991) have discovered that truly successful

strategic alliances account for only 30% of the total while others end up with M&A or disintegration.

Here stability refers to whether a system will keep its former state during movement or when influenced by disturbance (Huang, 2003). If related to a strategic alliance among enterprises, it means this alliance as an organizational form kept in an unchanged state for a period, which, of course, is relative stability. If instability, which reflects the relationship between imbalance inside a system and changes in the exterior environment, is related to a strategic alliance, this refers to the changed state which used to be stable. Inkpen and Beamish (1997) claim that an alliance's instability refers to the profound changes in unplanned alliance targets, alliance agreements, alliance control methods and alliance partnership. It is particularly emphasized that some alliances end after achieving set goals and some end as planned in their effective lifespan cycle, in which it is a natural and intended end and doesn't mean failure at all (T. K. Das, 2000).

The complexity and instability of such an organizational form are objectively determined by its characteristics, hence not influenced by any party's subjective wills. In the following part profound analysis is conducted inside and outside such an alliance on influential factors related to its stability

3. Exterior Factors Related to the Stability of Competition-Oriented Strategic Alliances

3.1 Economic Factors

When establishing a competition-oriented strategic alliance, its stability will be influenced by all parties' economic environment and industrial environment. In recent years, enterprises' direct investment flow more from low-profit industries to high-profit ones, which, also is due to many relevant factors, reflects the relations between macro economy and the success of an alliance. Another important factor is a nation's macro economy policies. When there are some changes in them especially in those related to the industries alliance enterprises lie in, all alliance parties will be faced with price control, tax changes, increased cost and so on. In a strategic alliance formed by both small and large enterprises, national policies may be in favor of certain enterprises, leading to different influences on different enterprises. As a result, there are greater chances that these enterprises have conflicts in profit allocation, cost allocation and risk commitment as well as greater difficulties in having effective cooperation and competition, hence influencing the stability of the alliance.

3.2 Political and Legal Factors

Political risk refers to the situation in which dramatic political changes have an impact on the political environment of alliance enterprises and therefore relevant vicious influences, such as the risk of being nationalized and that of war. If a company in an alliance stays in a country with extremely instable politics, government and policies, its risks in operation will be greatly increased, hence influencing the stability of partnership.

Legal factor refers to the situation in which the disparity among different nations' legal systems results in great difficulty in implementing some contract items. Generally speaking, the greater the disparity is, the greater differences there are in the implementation of contracts, the more chances there are that legal conflicts happen among partners and an alliance fails eventually. When establishing a competition-oriented strategic alliance, enterprises should give priority to protecting their own intellectual property right, which, as an invisible property right, means the legal right in earning achievements through intellectual creative activities. In a strategic alliance, the sharing of intellectual property is an inevitable issue, especially how to protect enterprises' intellectual property in a competition-oriented strategic alliance. Enterprises are expected to guarantee the stability of their alliance as well as their own intellectual property. Accordingly, they should resort to law at the very beginning to protect intellectual property in the form of contracts, hence reducing their risks.

3.3 Cultural Factors

Corporate culture, formed in an enterprise's long-term survival and development, is special for the enterprise itself and stands for the total of the utmost targets, value standards, basic beliefs and behavior norms followed by most personnel as well as the manifestation of these aspects in corporate activities. With corporate culture being man-oriented, enterprises have to face a multi-cultural environment once a strategic alliance is established and therefore will be confronted with cultural shock caused by cultural differences. Cultural shock, mutual opposition and resistance among different culture forms or elements, will influence both the formation and the stability of strategic alliances. Cultural amalgamation can exist in the following three patterns in competition-oriented strategic alliances: 1) assimilation, expressed as "A+B=A". In this pattern, due to A's profound cultural backgrounds, B abandons its corporate culture totally to be amalgamated into A's cultural system. 2) integration, expressed as "A+B=C". In this pattern, two enterprises' cultural systems achieve mutual promotion, incorporation and development. 3) insulation, expressed as "A+B=A+B". In this pattern, different

enterprises in an alliance maintain their separate culture, which tends to result in unsuccessful cooperation and trust and therefore negative effect in cultural amalgamation.

For example, at the very beginning of the strategic alliance made up of Guangzhou Automobile Factory and French Peugeot Automobile Company, the institutions of Peugeot Company were used. Although they are quite reasonable and scientific based on the experience of joint enterprises' establishment in many countries, disagreements still arose due to the differences in the two companies' management and cultural backgrounds. Their cooperation ended up with failure as Guangzhou Automobile Factory withdrew its shares through share acquisition.

4. Interior Factors Related to the Stability of Competition-Oriented Strategic Alliances

4.1 All Parties' Trust Degree inside an Alliance

Since different parties in a competition-oriented strategic alliance offer the same or similar products or services, their cooperation is actually based on a promise for future action. Mutual trust plays a critical role in stabilizing such an alliance.

First, different members' limited rationality and uncertain future events lead to lack of trust. Complex and uncertain future events influence the stability and operation achievements of the whole industry an alliance lies in. Influenced by exterior factors, individual rationalities will eventually result in the lack of rationality and efficiency in the whole alliance; one or several enterprises' individual rationalities among others' collective rationality will lead to low efficiency of the whole alliance as well as more individual rationalities. Accordingly, new value created by the alliance will be lower and therefore the mistrust among members will be growing which will end up with disintegration.

Second, transaction cost is involved in such a strategic alliance. When it is positive in real life, some contracts may fail due to high transaction cost. Under such circumstances, if both parties in an alliance choose long-term contracts, some cost brought about by a series of short-term contracts can be avoided in a proper way. With Japan and U.S., two large automobile manufacturing countries in the 1990s, as an example, Japanese automobile manufacturers had higher trust in their suppliers than American ones, which directly resulted in their stronger coordinative effect.

4.2 Consistent Strategic Goals among All Parties

In a competitive alliance, a member who fails to follow alliance targets will give the highest priority to its own interest, failing to achieve the initial goal when establishing a strategic alliance and causing some enterprises' losses.

When choosing their partners, enterprises have different purposes: to pursue a superficial form, to take advantage of other members' resources instead of offering anything to others; to merge others by establishing an alliance at the very beginning. To be more specific, some enterprises in an alliance don't care about the mutual interest brought about by the success of this alliance but hope to develop their own projects and expand their own market shares by using others enterprises' visible or invisible assets. Some enterprises focus on their partners' market shares, technological advantages and so on and want to merge them in the form of alliance. For instance, in 1996, Fuyao Glass Corporation and French Saint-Gobain Glass Corporation joined to be Wanda Automobile Glass Company. However, due to their insufficient understanding of each other, they failed to form a common target from the very beginning since Saint-Gobain wanted to enter Chinese market while Fuyao intended to expand to overseas market. Such a disparity in target led to their break-up three years later.

4.3 Strength Comparison among All Parties

According to the strength of all parties in an alliance, strategic alliances can be divided into strong-strong alliances, strong-poor alliances and poor-poor alliances. As is shown in a research made by Mckinsey Company, strong-poor alliances achieve the success rate of about 30%, poor-poor alliances achieve that of 40% while strong-strong ones achieve that of 67%. It is clear that comparable strengths can provide necessary guarantee for strategic alliances especially competitive ones. When entering PC industry in 1998, TCL joined with GVC to establish TCL-GVC Computer Company with the intention to achieve a win-win goal by taking advantage of GVC's advantages in technology, manufacturing, products and purchase as well as their own strengths in brand and sales resources. However, in real practice, GVC didn't put enough importance on TCL, refusing to offer attachments with better cost performance and not allowing TCL to use other companies' attachments. As a result, they broke up finally.

5. Conclusion

Basically, a competition-oriented strategic alliance has instable organizational structure and relationship, which may eventually cause its break-up even before achieving its target. However, our research on the stability of competition-oriented strategic alliances is objective. Exterior factors in economy, politics, law and culture as well as interior factors such as whether different parties have mutual trust, common targets and their strength comparison influence the stability of strategic alliances.

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