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STRATEGIC ALLIANCES

How to make them succeed

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Resumen

Mediante este trabajo hemos analizado como en este tiempo en que la internacionalización es un hecho necesario y las empresas desean globalizarse, éstas deciden unirse con el fin de conseguirlo.

Aquí analizamos los diferentes tipos de unión posible centrándonos más específicamente en las alianzas estratégicas pero viendo también las adquisiciones. Primero analizamos cuando es más conveniente aliarse con otra empresa o adquirirla. Esto lo llevaremos a cabo mediante el desarrollo de una serie de elementos a tener en cuenta. Una vez visto esto, analizamos los principales motivos por los que las empresas deciden aliarse, entre los que destacan la obtención de conocimiento y recursos. Además analizamos las diferentes variantes de alianza estratégica como son las licencias, franquicias, contratos de investigación y desarrollo, Joint Ventures, etc. y cuando es más conveniente desarrollar una u otra.

En este trabajo, puesto que como veremos las alianzas tienden a fracasar ya que las empresas no las implementan correctamente o no dedican el tiempo suficiente a analizar el entorno y las condiciones para ver que estrategia le conviene más a la empresa, analizaremos los elementos necesarios para hacerlas funcionar y los factores claves de éxito de dichas alianzas como son la experiencia, la reputación, la confianza, los objetivos claros, el Know-how, la cultura…

Además en este trabajo analizamos el caso de la alianza estratégica surgida entre Disney y Pixar en 1991. Este análisis lo llevamos a cabo teniendo en cuenta los factores que Dyer et. Al menciona en su estudio. Este análisis lo realizamos con el objetivo de conocer si la alianza realizada por ambas empresas fue una estrategia acertada o si por el contrario deberían haber llevado a cabo otra estrategia, la cual les habría aportado mayores beneficios.

Resum

Mitjançant aquest treball hem analitzat com en aquest temps en què la internacionalització és un fet necessari i les empreses volen globalitzar, aquestes decideixen unir-se per tal d'aconseguir.

Aquí analitzem els diferents tipus d'unió possible centrant-nos més específicament en les aliances estratègiques però veient també les adquisicions. Primer analitzem quan és més convenient aliar-se amb una empresa o adquirir-la. Això ho portarem a terme mitjançant el desenvolupament d'una sèrie d'elements a tenir en compte. Un cop vist això, analitzem els principals motius pels quals les empreses decideixen aliar-se, entre els quals destaquen l'obtenció de coneixement i recursos. A més analitzem les diferents variants d'aliança estratègica com són les llicències, franquícies, contractes de recerca i desenvolupament, Joint Ventures, etc. i quan és més convenient desenvolupar una o una altra.
En aquest treball, ja que com veurem les aliances tendeixen a fracassar ja que les empreses no les implementen correctament o no dediquen el temps suficient a analitzar l'entorn i les condicions per veure quina estratègia li convé més a l'empresa, analitzarem els elements necessaris per fer-les funcionar i els factors claus d'èxit d'aquestes aliances com ara l'experiència, la reputació, la confiança, els objectius clars, el Know-how, la cultura ...

A més en aquest treball analitzem el cas de l'aliança estratègica sorgida entre Disney i Pixar el 1991. Aquest anàlisi el duem a terme tenint en compte els factors que Dyer et. al. esmentà en el seu estudi. Aquest anàlisi el realitzem amb l'objectiu de conèixer si l'aliança realitzada per ambdues empreses va ser una estratègia encertada o si per contra deurien haver dut a terme una altra estratègia, la qual els hauria aportat més beneficis.

Abstract

Nowadays internationalization is a very important factor that companies must take into account and most companies want to globalize. Through this paper we have analysed how companies decide to join in order to get this internationalization.

We analyse the different ways of binding and more specifically strategic alliances but also seeing acquisitions.

First we analyse when it is more convenient to ally or acquire another company. This will take place through the development of a number of elements to consider. After seeing this, we analyse the main reasons why companies decide to ally, among them obtaining knowledge and resources. We also analyse different variants of strategic alliance such as licensing, franchising, research and development contracts, joint ventures, etc., and when it is most desirable to develop one or the other.

In this work, since as we will see partnerships tend to fail due to companies do not implement the strategy correctly or do not spend enough time analysing the environment and conditions to see which strategy fits better with the company. Because of that we will analyse the elements necessary to make alliances work and the key success factors for alliances such as the experience, reputation, trust, clear objectives, know-how, and culture...

Also in this paper we analyse the case of the strategic alliance between Disney and Pixar in 1991. For make this analysis we take into account Dyer et. al. factors. This analysis is done with the aim of knowing whether the alliance by both companies was a successful strategy or if instead they should have conducted another strategy, which would have brought greater benefits.

Keywords

Strategic alliance – Acquisition – Resources – Internationalization – Knowledge – Company – Partner – Capabilities – Objectives.

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Introduction

Nowadays the world is moving very fast and globalization is becoming an ordinary term and phenomenon in business. This globalization is leading the internationalization of companies around the world. This internationalization is understood as the business tendency to cooperate across national boundaries, has ceased to be a discretionary option and become a strategic imperative to business and corporations.

Companies have no choice, if they want to obtain rewards from the market, they must persist growing. Because of that we can see how firms need to enter in new markets in order to keep growing and be able to compete in the market.

Choosing the right mode of entrance is crucial because the wrong choice can impose constraints in the future development options and also, once a company choose a mode of entrance, then it is very difficult to change it.

The internationalization of a business is a way to expand and increase it. Firms have many ways to achieve this internationalization. They can produce and do everything by themselves, they can purchase it from the market, or they can joint a partner firm and do it together.

Nowadays, firms are more open to the opportunity of combine resources with other firms in order to gain market. To do this resources combinations, firms have to identify their potential partners and they have to decide whether is better to achieve it with an alliance or with an acquisition depending on both firms characteristics.

This cooperation between companies by strategic alliances in order to get access to the partners resources have increased during the past quarter century. Also they have increased due to the difficulty of growing on their own.

As companies gear up for greater growth, collaboration is a high priority. One of the main reasons why companies decided to collaborate together is to create value. They see that by the combination of two firms' resources they are more efficient than each one operating on their own.

These globalization and internationalization phenomenon are a good opportunity to revitalise the strategic of the firm, and all this is essential to survive in the market. However an important problem appears. Most of the companies' acquisitions or alliances fail. A few may succeed but most of them either destroy or do not add shareholders value, or if they do, they do it but very few.

This paper will analyse the different choice mode of entrance into a new market, looking which of the different options is better, whether it is by a strategic alliance, an acquisition, exporting... After that we will analyse when is better to ally or acquire paying attention in different factors such as business similarities and complementary between two firms, the partner-specific knowledge of both firms, the resources and synergies they desire, the market place they compete, etc. After that, this paper

focuses on study strategic alliances specifically, it analyses the main reasons why companies decide to enter into a strategic alliance, the different types of alliances, the factors that companies have to take into account in order to make it work and the strategic alliances key success factors. We can say that this paper will study how alliances must be done in order to not fail.

Once seen all these, the hypothesis that this paper wants to prove is that if companies follow some specific steps and they analyse some factors before choosing their strategy they will have more chances to succeed with it.

Also we want to prove that this succeed is never hundred percent sure to obtain.

1. Choice of mode of entrance into a market

As we already said in the introduction, globalization and internationalisation are nowadays getting more importance in the business strategy. Because of that, a company must adapt to the local environment at least some aspects of its products or processes when they decide to expand themselves to different countries. It is required the creation of specific know-how, related with each local market, in order to succeed in this adaptation. Some of the company previous know-how will be adequate to this specific new market however, local products and processes can be cutting-edge and they can have the potential to create global advantage.

We can find many different modes of entry, when we consider the ways to enter into a specific market. The choice of one of these modes and of and specific entry strategy requires many variables that must be taken into account. As Mitchell P. Koza and Arie Y. Lewin say:

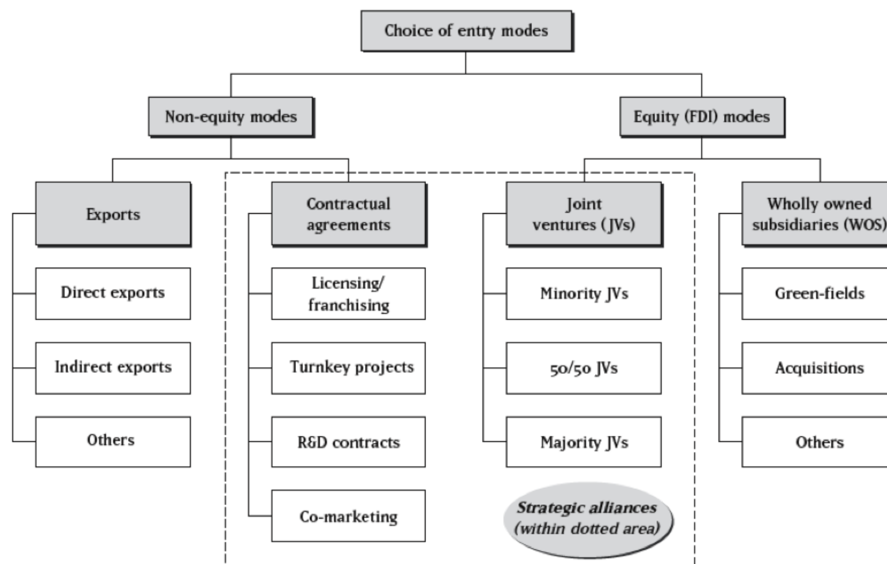
> The choice of a specific entry strategy is a function of many variables including managerial cognition of the environment (Meindl et. Al. 1994), history and path dependence such as recent experiences with particular strategies or imprinting conditions, managerial preferences (Lewin and Stephens 1994), dominant industry practices, externalities such as governmental constraints on further industry concentration, propensity for risk, influence of "garbage can" processes, the information structure spanning the firms (Balakarishnan and Koza 1993), and the like.[i]

Looking to all this variables and different kind of modes (as we will see later in this paper) that must be taken into account to choose the specific entry strategy we must consider Mitchell P. Koza and Arie Y. Lewin affirmation that says that "it becomes difficult to specify a model which explains specific individual firm choice for a particular strategic response to a particular time."[ii]

One of the most important things why companies decide to work together are the firm resources. As T. K. Das and B. Teng say: "that valuable firm resources are usually scarce, imperfectly imitable, and lacking in direct substitutes (Barney, 1991; Peteraf, 1993). Thus, the trading and accumulation of resources becomes a strategic necessity."[iii] Mergers, acquisitions, and strategic alliances are variously employed due to certain resources are not tradable because of either they are mixed with other resources or they are embedded in organizations. With all this we can see how firms use these mergers, acquisitions or strategic alliances in order to get other firms'

resources, and obtain by doing this competitive advantages that had been unavailable for the firm.

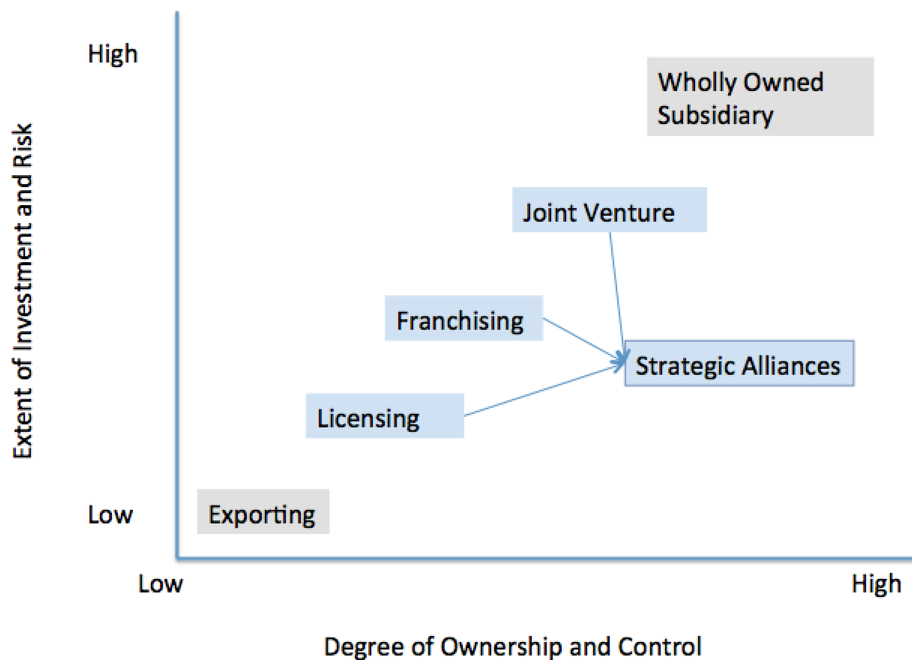
As mentioned earlier, there are different ways to enter into a new market that can be used by a firm. They can build a capacity themselves; they can buy it through an acquisition, or by having a strategic partner. This is the simplest way to look at the different entry modes. If we develop this three entry modes, we find more specific different modes. First of all we must say that the choice of entry modes can be split in between non-equity modes and equity modes. Among the non-equity modes we find exports and contractual agreements. The exports can be, direct exports, indirect exports among other less used methods, while the contractual agreements can be licensing or franchising, turnkey projects, R&D contracts or co-marketing. These contractual agreements are one type of Strategic Alliance. After seeing this, we must look the equity modes in where we find the Joint Ventures and the Wholly Owned Subsidiaries (WOS). The Joint Ventures can be Minority JVs, 50/50 JVs, or Majority JVs and all these also belong to Strategic Alliances. In the Wholly Owned Subsidiaries we find green-fields, acquisitions and others.
The graphic[iv] presented bellow shows clearly all this divisions:
Graphic 1 Choice of entry modes



Source: ESADE, International Strategies, 2013

This different ways of entry strategy require different extent of investment and risk and also they have different degree of ownership and control, for example exports requires very low investment and risk and it also have very low level of ownership

and control, while wholly owned subsidiaries require a high level of investment and risk but it also have a high level of ownership and control. The graphic[v] presented bellow shows the position of some of the different modes of entry, depending on their extent of investment and risk and their degree of ownership and control.
Graphic 2 Different modes of entry



Source: ESADE, International Strategies, 2013

Now we are going to analyse the most relevant of this modes of entry, considering their risk, return, control and integration. Choosing the exporting mode represents low risk, low return, moderate control and negligible integration. By choosing contractual agreements, the risk is low, the return is low, the control is low and the integration is negligible. Joint Ventures represent moderate risk, moderate return, moderate control and low integration. Acquisition represents high risk, high return, high control and moderate integration. Finally Greenfield investment represents high risk, high return, high control and high integration. All these characteristics will be deeply analysed further ahead.

We have already talked about doing strategic alliances, or having a wholly owned subsidiary and with the graphic we have seen acquisitions as a mode of entry. When we talk about acquisition as a mode of entry, we have also to take into account

divestitures. While acquisitions are a way to expand boundaries, divestitures are a way to contract them. As Belén Villalonga says: "What constitutes a divestiture for one firm in the dyad is an acquisition for another."[vi] An example for this is the case of Volkswagen and Ford when in 1991 they form a Joint Venture in Portugal. Volkswagen was in charge of designing the product, while ford had to build the plant. In 1999 they agreed that Volkswagen would buy Ford's stake in the venture. This supposed an acquisition for Volkswagen and a divestiture for Ford.
In this project we will not analyse divestitures because what we want to study are the ways for a firm to expand their boundaries through strategic alliances.

If a company decides to enter in the market through local production, they have to decide whether rather to set up Greenfields operations or acquire an existing production. As Anil. K. Gupta and Vijay Govindarajan say:

> A Greenfield operation gives the company tremendous freedom to impose its own unique management policies, culture, and mode of operation in the new subsidiary. In contrast, a cross border acquisitions poses the much tougher challenge of cultural transformation and post-merge integration. However, setting up greenfield operations also has two potential liabilities: lower speed of entry, and more intense local competition caused by the addition of new production capacity as well as one more competitor.[vii]

In this paper we will focus more in analyse acquisitions rather than Greenfields, however we must know that for globalization strategies Greenfields are good to obtain economies of scale while for multidomestic strategies acquisitions are better because they can give a local responsiveness of the market.

Once we have seen all the different kinds of entry modes we have to say that the real power and benefits from the firms come from understanding how all the different strategic options work and how can they be used simultaneously.

2. When to ally and when to acquire

Alliances and acquisitions are different and alternative ways to expand firms boundaries. As Lihua Wang and Edward J. Zajac say: "alliances and acquisitions are typically considered to be alternative governance structures, […] relatively little is known as to when firms should pursue one vs. the other."[viii] As we already have said, alliances and acquisitions are different strategies to expand the business and each one has unique advantages and disadvantages that must be taken into account in

order to choose one or another. The decision to do one of these two strategies usually implies not doing the other.

Nowadays, as Jeffrey H. Dyer, Parshant Kale, and Harbir Singh say: “companies still don’t cope very well with either acquisition or alliances.”[ix] Many executives consider them like similar and most companies don’t compare them in order to choose one of them. There are just few of them who consider them as alternative strategies to gain some profits. Related with this we must emphasize the fact that some of the world’s most prestigious companies still do not have enough understanding of when to ally with or acquire another company. Jeffrey H. Dyer, Parshant Kale, and Harbir Singh introduce in they work an example that really represents this fact.

> Coca-Cola and Procter & Gamble announced in February 2001 that they would create a $4 billion joint venture that would control 40-plus brands and employ more than 10.000 people. Coke would transfer Minute Maid, Five Alive, Fruitopia, Cappy, Kapo, Sonfil, and Qoo brands, among others, to the new company, and P&G would contribute two beverage brands, Sunny Delight and Punica, and Pringles chips. Coke would tap P&G’s expertise in nutrition to develop new drinks, P&G’s flagging brands would get a boost from Coke’s international distribution system, and the new company would slash costs by $50 million, ran the prepared script. Yet Coke’s stock dropped by 6% the day the alliance was announced, while P&G’s shares rose by 2%. Investors wondered why Coke had agreed to share 50% of the profits from a fast-growing segment with a weak rival in its core business. The unspoken question: if Coke needed P&G’s soft-drink technologies and brands, why hadn’t it simply bought them? It wasn’t long before companies wondered the same thing; Coke and P&G terminate the alliance in July 2001.[x]

Jeffrey H. Dyer, Parshant Kale, and Harbir Singh conducted a survey of 200 U.S. companies in 2002 to find out what executives said about acquisitions and alliances, and what they actually did, the results[xi] are the following:

Graphic 3 Survey results

Source: Dyer, J.H., Kale, P., Singh, H. *When to ally and when to acquire.* Harvard Business School 2007

With this survey we can see as the majority of the executives that answered the survey considered alliances and acquisitions as different, but when they have to act, they do not consider both of them and they do not have any criteria to choose between them.

In order to decide whether ally or acquire a firm, executive must analyse four factors before taking a decision. These four factors are:

a) Resources and synergies that the firms desire
b) Combined relational capabilities
c) Market conditions
d) Partner-specific knowledge or collaboration capabilities

2.1. Resources and synergies that the firms desire

Related with the resources, companies must look if the resources that they need to combine to create synergies are soft resources or hard resources. Soft resources are hardly measurable (it is hard to give them an economical value), while hard resources are easily measurable, thus easy to determine their economic value. When the synergies must be created by the combination of soft resources (i.e. human resources, intangible assets…) between companies' equity alliances are the best option, rather than acquisitions. One of the exposed reasons that Jeffrey H. Dyer, Parshant Kale, and Harbir Singh refer to is "employees of acquired companies become unproductive because they are disinclined to work in the predator's interests and believe that they have lost freedom."[xii] Besides, if the target company is abundant in soft resources, and as mentioned above, they are hardly measurable, making it hard for any interested potential acquirer to fix a price for the mentioned target company. Therefore, the risk of fixing an inaccurate price for an acquisition is high. While, if the company is abundant in hard resources, as they are easily measurable, the interested acquirer company would easily know what the company at stake is worth – reducing the risk of paying too much. From the other hand, when synergies must be created by the combination of hard resources acquisitions are the best option. As Jeffrey H. Dyer, Parshant Kale, and Harbir Singh say: "that's because hard assets are easy to value, and companies can generate synergies from them relatively quickly."[xiii]

Moreover, before deciding whether ally or acquire, companies must consider the amount of redundant resources that they will have if they team up with another company. With these redundant resources, the company have two options, they can use them to create economies of scale, or they can eliminate them and by doing this they will reduce costs. As Jeffrey H. Dyer, Parshant Kale, and Harbir Singh say: “when companies have a large amount of redundant resources they should opt for acquisitions or mergers. That gives executives complete control over decision making and allows them to get rid of redundant resources easily.”[xiv]

Here we also have to take into account the similarity and complementarity between the resources of the two firms. Lihua Wang and Edward J. Zajac define resources complementarity as “the extent to which two firms’ resources are different, yet interdependent and mutually supportive.”[xv] If the resources of the two companies are complementary, then an alliance formation will be better than an acquisition, while if the firms’ resources are similar an acquisition will be better than an alliance.
This figure[xvi] represents the effect of similarity and complementarity between firms
Graphic 4 Effect of similarity and complementary between firms

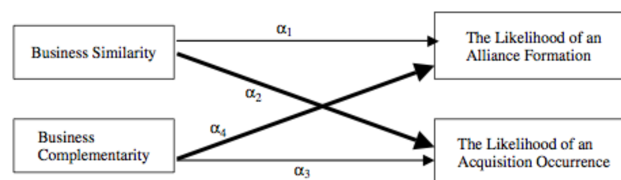


Figure 2. The effect of similarity and complementarity between two firms and the governance of a resource combination between two firms
Hypothesis 1a: $\alpha_1 < \alpha_2$
Hypothesis 1b: $\alpha_3 < \alpha_4$

Source: WANG, L., ZAJAC, E.J. *Alliance or Acquisition? A Dyadic perspective on interfirm resource combinations.* Strategic Management Journal, 2007

Companies can create synergies by the combination of resources between them and this is from where they obtain profit. Before choosing the strategy that the company will follow in order to enter in the new market, companies must analyse the key resource-related issues. As Jeffrey H. Dyer, Parshant Kale, and Harbir Singh say

> Firms bring many of resources to the table: human resources (intellectual capital, for instance); intangibles (like brand names); technological resources (such patents); physical resources (plants, distribution networks, and so forth); and of course, financial resources.[xvii]

Jeffrey H. Dyer, Parshant Kale, and Harbir Singh consider that there are three types of synergies, which appear from the combination and customization of different resources, and these different synergies create different forms of collaboration. The first kind of synergy is the modular synergy that companies create "when they manage resources independently and pool only the results for greater profits."[xviii] For this type of synergies, non-equity alliances are the ones that fit better with them. The second type is the sequential synergy, which appear "when one company completes its task and passes on the results to a partner to do a bit."[xix] For this synergy it is very important to have a rigid contract, and equity alliances are the ones that fit better with this synergy. Finally, the last one is the reciprocal synergy, which appears "by working closely together and executing tasks through and iterative knowledge-sharing process."[xx] For this kind of synergy, acquisition is the strategy that fits more with it. To sum up[xxi]:

Graphic 5: Different factors and strategies

Factor	Strategy
1. Types of Synergies	
Modular	Nonequity alliances
Sequential	Equity alliances
Reciprocal	Acquisitions
2. Nature of Resources	
Relative value of soft to hard resources	
Low	Nonequity alliances
Low/Medium	Acquisitions
High	Equity alliances
3. Extent of Redundant Resources	
Low	Nonequity alliances
Medium	Equity alliances
High	Acquisitions

Source: DYER, J.H., KALE, P., SINGH, H. *When to ally and when to acquire.* Harvard Business School 2007

When companies want to create modular or sequential synergies, and the resources that they will use to do it are mostly hard they can choose contractual alliances (non-equity). When companies want to create sequential synergies using soft resources, they should do an equity alliance. Finally when companies want to create reciprocal synergies or have large quantities of redundant resources, they should do an acquisition, without taking into account the type of the resources.

2.2. Combined relational capabilities of two firms

The election between whether to ally or acquire a firm also depends on the relational capabilities of both companies. According to Lihua Wang and Edward J. Zajac, "an organization's capability is its ability to execute routines and solve problems and is often based on routines that codify an organization's dispersed learning."[xxii] There are many different types of capabilities but in order to decide if ally or acquire we should look the relational capabilities. Relational capability of a firm "refers to its ability to interact with and manage other firms in inter-firm relationships."[xxiii] Companies obtain this capability from previous experiences; if the company has experience in inter-firm relationships, then his relational capability will be more develop. According to Lihua Wang and Edward J. Zajac there are two types of relational capabilities; acquisition capability, which is "the ability of a firm to deal with its transaction partners in an acquisition."[xxiv] And alliance capability, which is "the ability of a firm to deal with its partners in an alliance."[xxv] If a firm already have relational capabilities, then it becomes easier for them to establish more inter-firm relationships with other companies. As Lihua Wang and Edward J. Zajac say "if two firms have more combined relational capabilities, then it is more likely that the two firms will transform these capabilities into economic benefits in similar transactions in the future."[xxvi]

Form one hand; if two firms combine their alliance capabilities it has a positive influence in the formation of an alliance or an acquisition between them. From the other hand; if two firms combine their acquisition capabilities it has a positive influence in the formation of an acquisition or alliance between them. However, these two types of relational capabilities are quite different; alliances and acquisitions are different relational activities involving different routines. Because of that, if a company has more alliance experience, then their alliance capabilities will be better and because of that in the future they will tend to do alliances with other companies rather than acquisitions. On the other way, if a company has more acquisition experience, then their acquisition capabilities will be better and because of that in the future they will tend to do acquisitions rather than alliances.

This figure[xxvii] showed below summaries this combined relational capabilities
Graphic 6 Combined relational capabilities

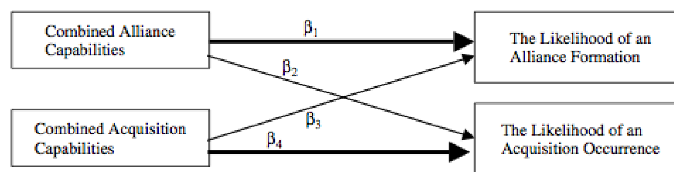


Figure 3. The effect of relational capabilities of two firms on the likelihood and governance of a resource combination between two firms
Hypothesis 2a: $\beta_1 > 0$
Hypothesis 2b: $\beta_2 > 0$
Hypothesis 3a: $\beta_3 > 0$
Hypothesis 3b: $\beta_4 > 0$
Hypothesis 4a: $\beta_1 > \beta_2$
Hypothesis 4b: $\beta_4 > \beta_3$

Source: WANG, L., ZAJAC, E.J. *Alliance or Acquisition? A Dyadic perspective on interfirm resource combinations.* Strategic Management Journal, 2007

2.3. Market conditions

The decision whether to ally or acquire with another firm it should not only depend on internal factors, but companies they also would have to pay attention to the external factors that can influence them. The external conditions that companies must check before the election are the degree of market uncertainty and the forces of competition.

Related to market uncertainty, Jeffrey H. Dyer, Parshant Kale, and Harbir Singh consider that risk exists "when companies can assess the probability distribution of future payoffs; the wider the distribution, the higher the risk."[xxviii] While uncertainly "exists when it isn't possible to assess the future payoffs."[xxix] Nowadays some companies decide between allying or acquiring with another firm without knowing if they will have payoffs, when they will have it, and what might they be. Because of that, before deciding what to do, they should break down this market uncertainty and this can be done by two different ways, one is discussing with the potential partner about the uncertainty related with the technology or the product, and the other one is check if customers will use their product, service, or technology. Depending on the answer obtain by these two ways companies will be able to know if this market uncertainty is high, medium, or low. Depending on how it is, it will be better to follow a strategy or another, for example, if the uncertainty degree is low is better to do an acquisition, while if it is high or medium, then is better to enter in a non-equity or equity alliance because this two suppose a less invest of money and time, and if with time they see that it works, then they can acquire the firm but if it doesn't, then it is easier to terminate it[xxx].

Graphic 7 Degree of market uncertainty

4. Degree of Market Uncertainty

Low	Nonequity alliances
Low/Medium	Acquisitions
High	Equity alliances

Source: DYER, J.H., KALE, P., SINGH, H. *When to ally and when to acquire.* Harvard Business School 2007

Related with the forces of competition, before entering in an alliance or acquisition companies should check the number of competitors that they have and see if any of them fits as a potential partner. Depending on the number of competitors then it will be better for the company to follow a strategy or another. For example, if the company have many competitors in the market, then in order to pre-empt the competition it will be better for them to acquire, however as we had say before, if the level of uncertainty is high, they should avoid acquiring. This competition also refers to the level of competition for resources competition (in particular). There might be few good competitors, but at the same time, the numbers of specialists in one field are scarce. There might be very limited resources to share in between a small number of competitors and that is why there are no more qualified competitors, due to the lack of presence of qualified resources[xxxi].

Graphic 8 Level of competition

5. Level of Competition

Degree of competition for resources	
Low	Nonequity alliances
Medium	Equity alliances
High	Acquisitions

Source: DYER, J.H., KALE, P., SINGH, H. *When to ally and when to acquire.* Harvard Business School 2007

2.4. Partner-specific knowledge of two firms or collaboration capabilities

Once a company does a transaction (either alliance or an acquisition) with another firm, both of them obtain a specific partner knowledge that can be developed with repeatedly dealings between them. This partner knowledge appears from social relationships and its main characteristic is trust between the companies. It has high value when the two firms decide to do more transactions together in the future. With this repeated interaction between firms they are able to reduce the information asymmetry, due to the trust that they obtain from each other and the relational routines for solving problems and for learn from each other that they generate by working together. Developing this routines and procedures leads to an effectiveness and efficiency of the interactions.

Related with the information asymmetry, we can say that the repeated interactions help firms to know each other products and process better. By repeating transactions together, two firms can get to know each other really well, so they can identify and learn easily the critical knowledge from each other developing routines to facilitate this learning process. For Lihua Wang and Edward J. Zajac this is known as the absorptive capacity of a firm. Dyer and Singh (1998) define it “as the ability of a focal firm to recognize and assimilate valuable information and knowledge from a particular partner in an inter-firm relationship.”[xxxii] Because of all this, previous transactions between two firms increase the chance for repeat the same type of transaction in the future, moreover it also facilitate the develop of other kind of transactions together.

Here we must consider the interlock ties. Lihua Wang and Edward J. Zajac consider that “having interlock ties makes the two firms aware of each other’s existence and also provides them with general knowledge about each other’s managerial capabilities, trustworthiness, and financial performance.”[xxxiii] If two companies have this interlock ties, then the likelihood to do any transaction, either an alliance or an acquisition increase.

As we said before, repeated transactions provide to the companies each other’s knowledge and specific routines related to the type of transaction. Because of this, the information obtained during previous transactions can help developing future alliance and acquisitions, however if the information come from previous alliance experiences, the company will have general information that will help to futures alliances and acquisitions and the specific routines and procedures needed for alliances, but they will not have the specific routines and procedures needed for acquisitions. At the same time if the information comes from previous acquisitions experiences, the company will have general information that it will help to futures alliances and acquisitions and the specific routines and procedures needed for acquisitions but they will not have the specific routines and procedures needed for alliances. Because of that, companies that have done previous alliance they will tend to continue doing alliances and the ones that have done acquisitions will probably do more acquisitions, all this because they feel more comfortable and save, even if this choice is not appropriate for what they want to gain from its transaction. Because of that if the company is able to develop both skills (alliance and acquisition) they will be able to prevent such mistakes and grow faster than their rivals.

This figure[xxxiv] represents how this partner-specific knowledge works

Graphic 9 Partner-specific knowledge

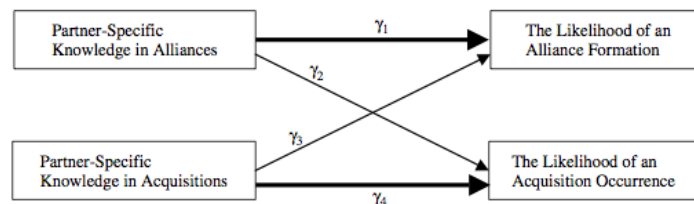


Figure 4. The effect of partner-specific knowledge of two firms on the governance of a resource combination between two firms
Hypothesis 5a: $\gamma_1 > \gamma_2$
Hypothesis 5b: $\gamma_3 < \gamma_4$

Source: WANG, L., ZAJAC, E.J. *Alliance or Acquisition? A Dyadic perspective on interfirm resource combinations.* Strategic Management Journal, 2007

Once we have seen all this, we can say that if companies actually take all this factors into account in order to choose whether to ally or acquire another firm they will make better deals. Also if they develop the ability to execute both alliance and acquisitions, knowing how they work, when to use them, and their specific advantages and disadvantages it will be a better source of competitive advantage.

3. Strategic alliances

3.1. Introduction

Over the last decade, many changes have occurred related to business due to the phenomenon of internationalization and globalization, and this business are moving toward a more cooperative supply chain arrangements. Strategic alliances are one of this interfirm cooperation. Some years ago they were just the corporate giants the ones that were performing strategic alliances, however nowadays a go-it-alone strategy is no longer a viable alternative for many normal size companies. Because of that they enter into strategic alliances. As Stevan R. Holmberg and Jeffrey L. Cummings say “alliances are now a central strategic component and a core offensive and/ or defensive competitive weapon.”[xxxv]

In these strategic alliances, partners can be from the same country or from different countries, creating and international strategic alliance. Nowadays tendency is to enter into international strategic alliances because the world has never been as interdependent as it is now, so international cooperation is fundamental in order to

survive and grow in the market. As Miguel A. Gallo says “Advances in the development of strategic alliances between companies from different countries and the resulting increase in knowledge on how to make such alliances work offer and opportunity to speed up the internationalization of the firms.”[xxxvi]

The strategic alliances can be simple or highly complex, however most of these strategic alliances are very complex to manage successfully and they have high degrees of instability and poor performance.

> More than two thousand strategic alliances are launched worldwide each year, and these partnerships are growing at 15 per cent annually. Yet despite all the growth and headlines, slightly more than half of the strategic partnerships fail. More than one-third of the companies that take part in alliances struggle with them. Only nine per cent consistently build alliances well.[xxxvii]

Strategic alliances have been defined in different ways by many authors; For Steve Steinhilber, strategic alliance “is a relationship between one or more organizations that -through the combination of resources- can create significant and sustainable value for everyone involved.”[xxxviii]
For Niren M. Vyas, William L. Shelburn and Dennis C. Rogers strategic alliance “is an agreement between two or more partners to share knowledge or resources which could be beneficial to all parties involved.”[xxxix]
For Judith M. Whipple and Robert Frankel, an alliance is “a long-term relationship where participants cooperate and willingly modify their business practices to improve joint performance.”[xl]
For T. K. Das and Bing-Sheng Teng strategic alliances “are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners.”[xli]
For R. M. Grant and C. Baden-Fuller “the term of strategic alliance has been used to refer agreements characterized by the commitment of two or more firms to reach a common goal entailing the pooling of their resources and activities.”[xlii]
With all these, we consider strategic alliances as a way to access to complementary resources and knowledge that belong to other companies in order to obtain a competitive advantage in the market.

According to Mitchell P. Koza and Arie Y. Lewin,

> alliance research is conducted by economists, organization theorists, sociologists, strategic management, marketing, operations management, and international business scholars, and employs the gamut of methodologies and theoretical frameworks indigenous for those fields.[xliii]

In these strategies mutual benefit must exist in order to both parties remain committed.

3.2. Why companies should enter into strategic alliance?

According to Steve Steinhilber there are three main reasons why companies that compete in the global marketplace should enter into an alliance:

a) Customer expectation: consumers and business demand more integrated solutions to solve their needs, and this makes companies work together in order to differentiated their offers.

b) Product life cycle: the life cycles of the products are becoming shorter and shorter, and because of that companies need quickly to achieve significant volumes and global share. There are just very few companies that have the necessary to achieve this by themselves; the rest need to create alliance with other firms to get it.

c) Anytime/anywhere communication: nowadays due to the technology development and the cheap bandwidth, services and capabilities can be delivered from anywhere in the world, because of that, companies should focus on their strength, on what they do best, and rely on partners to complete them.

3.3. Motivation for entering in strategic alliances

There are different motivations for firms to enter into strategic alliances; Child and Faulkner consider that the motivations can be divided into five categories. The first one is the transaction-cost motivations; this is because companies want to achieve transaction-cost economies. The second one is resource-based motivations; this is because firms want to obtain their missing resources or complement the ones that they already have. The third one is strategic-positioning motivations; this is because companies want to achieve a better strategic competitive position in the market. The four one is learning motivations; this is because most of the firms that enter into an alliance they do it in order to gain more knowledge. Finally the five one is named as other motivation and this one includes the risk reduction, speed-to-market, first-mover advantage, etc.

For Stevan R. Holmberg and Jeffrey L. Cummings they say that there are

> three primary motivations behind strategic alliances: 1) co-option – co-opting potential rivals, as well as those with complementary products/services, helps a firm gain competitive strength; 2) cospecialization – synergy from combining complementary specialized resources, skills, etc.

> contributes to a firm gaining unique skills and resources and, 3) learning and internalization – learning and internalizing new skills contributes to a firm's stock of tacit or embedded skills.[xliv]

We consider that the two main motives of entering into strategic alliances are the resources and the knowledge.

Referring to the Knowledge, many firms have considered knowledge accessing as the main motive for alliance formation. We can find two different dimensions of the knowledge. One is the knowledge generation, which includes those activities that increase an organization's stock of knowledge. The second one is the knowledge application, which includes those activities that organize existing knowledge to create value. These two dimensions differed in the way that knowledge is shared between the firms. The alliances based on knowledge generation, the purpose of this alliance is obtaining knowledge, each firm wants to transfer their knowledge and absorb the others company knowledge. While the alliances based on knowledge application, the purpose of the companies is to access into the others company knowledge in order to exploit complementarities. Knowledge generation requires specialization while knowledge application requires diversity of knowledge. With all these we have to say that in alliance, knowledge application is the main motive between the two of them.

In order to integrate the knowledge into the firm we find two different mechanisms: routine and direction. According to Robert M. Grant and Charles Baden-Fuller, "Organizational routines are complex patterns of co-ordination that permit different specialists to integrate their knowledge into the production of goods and services while preserving the efficiencies of knowledge specialization."[xlv] They also consider that direction

> Provides a low-cost method of communicating between specialists and the large number of persons who are either non-specialists or specialists in other fields. Firms convert sophisticated specialized knowledge into directives, rules, and operating procedures that can be imposed through authority-based relationships.[xlvi]

With all this we have to say that this knowledge integration obtained through the strategic alliances allows companies to specialize each firm in different areas and then linking them together by the alliance. Also these strategic alliances can help to overcome the problems of under-utilized knowledge. With all this we show why knowledge is one of the most important motives for entering into a strategic alliance.

Firm's resources are important indicators of the likelihood of firms entering into strategic alliances. These resources will give a reputation to the firm or to the product, and this will stimulate the alliance.

Here we must take into account the resource characteristics that encourage firms to enter into a strategic alliance. These characteristics are: imperfect substitutability, imperfect imitability and imperfect mobility. The imperfect mobility refers to the difficult or impossibility of move a determinate resource from one firm to another and this can be because this resource is not tradable or because it is embedded to the firm, so here the firm hits with barriers in order to get the resources from the other firm while with the imperfect substitutability and imperfect imitability they face with barriers to obtain similar resources from elsewhere. Related with this imperfect substitutability and imperfect imitability we have to say that if a firm has a competitive advantage due to his resources, then this makes more difficult for other firms to imitate this competitor or to employ substitutes. With all of this we can say that all the resources, which are imperfectly substitutable, imperfectly imitable and imperfectly mobile, can be obtained through strategic alliances. Because of that, as T. k. Das and B. Teng say “the more a firm’s resources are characterized by imperfect mobility, imperfect imitability, and imperfect substitutability, the more likely the firm will get involved in strategic alliances.”[xlvii]

We can also find different types of resources, which in different ways influence the choice of alliance structures. Different authors have classified the resources in different ways, the simplest one is differing them between tangible and intangible resources (Grant, 1991). Hofer and Schendle consider that the different types of resources are: financial, physical, managerial, human, organizational, and technological. Here we will develop the classification done by Miller and Shamsie who suggest that, “based on the notion of barriers to imitability, all resources may be classified into two broad categories: property-based resources and knowledge-based resources.”[xlviii] From one hand, property-based resources are the firm’s legal properties, here the owners have the property rights of the resources, because of that, and the other firms cannot obtain them unless they have the owner’s permission. These legal properties are an efficient way to protect the resources. In these property-based resources we find human resources, patent, contracts, copyrights, trademarks, registered designs and physical resources. From the other hand, knowledge-based resources include all the intangible know-how and skills of the company. This kind of resources are not easy to imitate due to other companies do not have access to them because of the information and knowledge barriers.

Table 1 Types of resources

Table 2. Typical Resources Based on Resource Characteristics and Resource Types

Resource Characteristics	*Resource Types*	
	Property-Based Resources	*Knowledge-Based Resources*
Imperfect Mobility	Human resources	Organizational resources (e.g., culture)
Imperfect Imitability	Patents, contracts, copyrights, trademarks, and registered designs	Technological and managerial resources
Imperfect Substitutability	Physical resources	Technological and managerial resources

Source: DAS, T.K., TENG, B.S. *A resource-based theory of strategic alliances.* Journal of Management Vol. 26 n°1 2000

This figure[xlix] shows the different kinds of resources and they characteristics so for example we can see how patents are property-based resources with imperfect imitability.

> The key difference between property-based and knowledge-based resources springs from the fact that "the protection of knowledge barrier is not perfect" (Miller & Shamsie, 1996). Whereas property-based resources enjoy near-perfect legal protection, knowledge-based resources are more vulnerable to unintended transfers. Once others get adequate access to knowledge-based resources, it is difficult to keep these resources within the confines of the firm for long. Consequently, alliance partners will be concerned with losing their knowledge-based resources through an alliance (Hamel, 1991; Mowery, Oxley, & Silverman, 1996)[l]

Strategic alliances may help retain those resources that are under-utilized internally and to obtain other that will complement the ones that they already have. As T. k. Das and B. Teng say "only if a firm can not efficiently get needed resources from elsewhere – except by a sharing arrangement with its owners – will it be willing to form a strategic alliance."[li]

Obtaining resources is more about creating competitive advantage in the present, while retaining resources is about securing competitive advantage later on.

With all this we have already analyse the most important motives why firms enter into strategic alliances.

3.4. Exploration and exploitation strategic alliances

The decision for a firm to enter into a strategic alliance can be motivated by they desire to explore new opportunities or to exploit and existing resource or capability. Exploration alliances come from the desire to explore and discover new opportunities. The alliances that represent the most this exploration desire are the learning alliances, where companies are able to learn from each other, and also they build a learning network in order to discover new products, methods, or resources. Usually these alliances do not involve joint equity relationships, however equity relationships can occur here as well. Exploitation alliance consists in sharing the company's resources and with this they complement each other. For doing this, companies usually, but not always, establish a daughter company where both partners have equity positions, however it can also appear as a license, franchise, or as a network. Depending on the results that companies desire to obtain, they will choose either an exploration or an exploitation alliance. We have to highlight that the returns of exploring new opportunities appear in a long term time period, while the returns of exploiting existing capacities appear in a short time period. Because of that, most of the companies prefer the exploitation strategic alliances, also because they can lead to a stronger competitive position in the market.

3.5. Typology of strategic alliances

As we have said before, strategic alliances can take a variety of forms. The most common division made consist in dividing strategic alliances between equity and non-equity alliances. Equity alliances are the ones that involve equity exchanges, while non-equity alliances do not involve them. In this research we will follow the division made by T. K. Das and Bing-Sheng Teng, who identify four types of strategic alliances: joint ventures, minority equity alliances, bilateral contract-based alliances, and unilateral contract-based alliances.

We also have mentioned that the key of strategic alliances is that each partner brings valuable resources to the alliance. These resources that companies will bring are the ones that will influence in the type of strategic alliance that the firms will enter to, so depending on the kind of resources bring, the companies will choose one type of strategic alliance or another one. When they enter into a strategic alliance, the main objective that companies want to achieve is accessing to their partners resources while at the same time they want to protect theirs. As T. K. Das and Bing-Sheng Teng say: "the principle is to find the structure that balances the two issues: being able to procure valuable resources from another party without losing control of one's own resources."[lii]

Also we have to consider the option that a company may be able to bring to the alliance different types of resources. Because of that, in order to choose one strategic alliance or another, they must firstly define which is their main or principal resource and after choose the strategic alliance that best fits with it.

Now we are going to analyse the four types of strategic alliance that we have mentioned before.
Joint Ventures: a joint venture is a separate entity in where both companies/partners work together joining efforts. One problem that companies can face in joint venture alliances is the opportunistic behaviour that some partners can have. This means that one of the partners will just look to maximize his owns interests, without paying attention to his partner interests. This opportunistic behaviour tends to be higher when the resources that companies bring to the alliance are knowledge and skills, which are not protected by the law. This opportunistic behaviour is stronger in joint ventures due to companies work together in a really close way so is very difficult to keep others from accessing one's knowledge. With this we see how joint ventures are an opportunity to acquire knowledge-based resources from the partners. With all these we can say that joint ventures report big benefits to a company when its partner main resource contributed to the alliance is a knowledge-base resource, while if it is a property-based resource, his benefits will be more limited. As we already said before, companies also want to protect their own knowledge resources form their partners, because of that a company will just be interested to enter in a joint venture if its main resource is not a knowledge-based resource but a property-based resource, because it will be more protected and it will be more difficult for the partner to get it. With all these we can say that a company will just want enter into a joint venture if its main resource is a property-based resource and its partner main resource is knowledge based resource.

Minority equity alliances: in this kind of alliances, one partner takes an equity position from another, and with that they share the ownership. This kind of alliances are difficult to implement as well as difficult to get out, because of that the companies that enter on them they do it for a long term. Also due to this intent of long-term duration companies behave honestly, opportunistic behaviour is more controlled and partners are more careful to not take advantage from the other partner. In contrast to the joint ventures, companies want to enter into minority equity alliance when they bring knowledge-based resources to the alliance, and their partner brings property-based resources. These companies do not want joint ventures because it implies a high risk

of taking their knowledge by the partner, while they can not get to much from them because they bring property-based resources and as we have already said, they are protected. Also contract alliance will not fit hear also because they will not protect enough the company from the opportunistic behaviour.

Bilateral contract-based alliances: this type of alliance appears when both companies bring knowledge-based resource to the alliance. In this cases companies see the alliance as a learning race and once they have learn from each other they tend to want to terminate the alliance, because of that bilateral contract alliance work better than joint ventures and minority equity alliances in this situations, because they are much more easy to dissolve and they also do not leave their knowledge-based resource to expose, due to companies are not as close as they are in joint ventures.

Unilateral contract-based alliances: in this kind of alliances there is a very light engagement between partners. In this alliances, both partners bring resources are property-based resources and because of that is very difficult for partners to get each other's knowledge, because it is protected or it is embedded to the firm. Because of all this, the alliance is basically an exchange of property rights.

The figure[liii] bellow represents the four types of strategic alliances that we have developed.

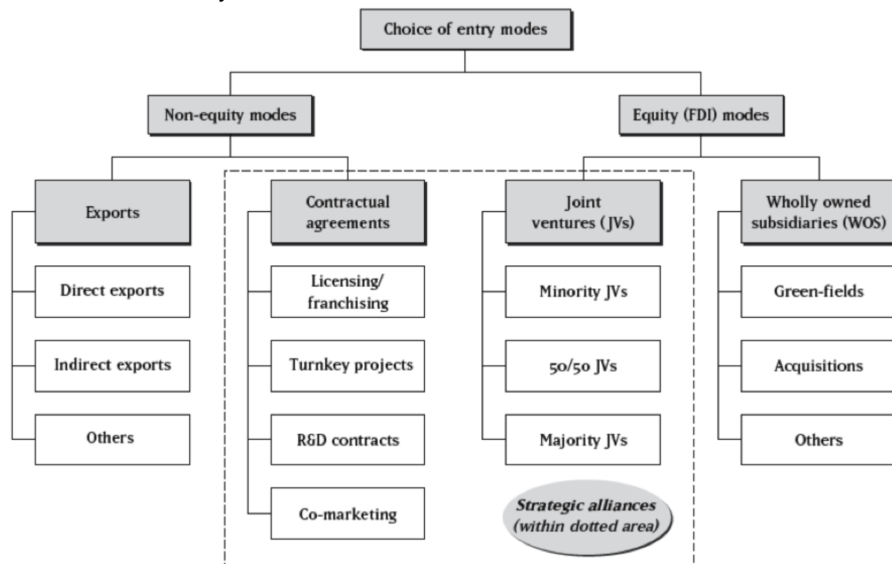
Table 2 Types of strategic alliances

	Partner Firm (B)	
Firm (A)	*Property-Based Resources*	*Knowledge-Based Resources*
Property-Based Resources	Unilateral Contract-Based Alliances	Equity Joint Ventures
Knowledge-Based Resources	Minority Equity Alliances	Bilateral Contract-Based Alliances

Source: DAS, T.K., TENG, B.S. *A resource-based theory of strategic alliances.* Journal of Management Vol. 26 n°1 2000

Finally we have to classify the different types of strategic alliances that show the figure[liv] of the choice of mode epigraph into these four categories.

Graphic 10 Choice of entry modes



Source: ESADE International strategy, 2013

From this figure we have to say that licensing, franchising, and R&D contracts belong to the unilateral contract-based alliances while joint R&D and co-marketing belong to bilateral contract-based alliances.

Licensing is a business arrengement where one firm allows another one to use its intellectual property rights such as patents, trademarks, technology, etc. in order to manufacture or creat its products under defined contions and for a specific payment.

Franchising is an agreement between two companies where one party allows the other to use its trademark, business systems, processes etc. in order to produce and distribute the product or service under defined condistions and for a specific payment.

R&D contract is an agreement between two or more companies where their aim is to develop a product.

Co-marketing is an agreemtn between two or more companies where they agree to market each others products

Minority and majority Joint Venture is when two or more companies create a new company and their invesment is different.

50/50 Joint Venture is when two or more companies create a new company and they invest the same amount.

3.6. Multiple strategic alliances

Multiple strategic alliances appear when different companies enter into different kinds of alliances with each other, creating a connection between all of them. For example Toshiba enter into an alliance with IBM and Siemens to develop a superchip. At the same time Siemens did an alliance with Fugistu and another one with matsushita.

The main reason for companies to enter in this multiple strategic alliances is to have more access into advances technology, which is very important for their future, and also to get and use more intellectual property rights from the others companies. With this multiple strategic alliances firms can share the development costs from new technologies, they get profits, they diversify their risk, and the set standards for the industry.

3.7. How to make strategic alliances work

As we have say among all this paper, strategic alliances entail a certain risk, and some of them fail; because of that if companies are able to form and manage these alliances better than competitors they will get competitive advantage. Related with that, some companies are better generating alliance value than others. In this subepigraph we want to analyse how and what they do to do it better. We have seen that companies that have a dedicated alliance function achieved a 25% higher long-term success rate with their alliance than those without such a function[lv]. Related with this dedicated alliance function companies can appoint a director or a vice president of strategic alliances, and provide him/her a staff and resources.

If companies have a dedicated alliance function, according to Jeffrey H. Dyer, Parshant Kale, and Harbir Singh, there are four things that this dedicated alliance function can do in order to make alliances work:
Provide internal coordination: the inability of partners to mobilize internal resources is one of the main reasons why alliances fail. As Jeffrey H. Dyer, Parshant Kale, and Harbir Singh say this dedicated alliance function “has the organizational legitimacy to reach across divisions and functions and request the resources necessary to support the company’s alliance initiatives.”[lvi] It also can create a contacts network through the organization and with it people can know from where they can get specific resources,

and it also helps to develop trust between organizations. This dedicated alliance function it also works as a mechanism for communicating which are the company's main goals.
Related with this internal coordination Steve Steinhilber considers that there are three essential blogs, which are necessary to make strategies work. The first one is to have the right framework, it means that before to start, companies must identify their objectives and how this alliance will help them to achieve them, who might be potential partners and if this alliance will be in a long or short term. The second one is to have the right organization; it means that alliance needs good managers that will drive them. These managers they must be diplomat, salesperson, strategists, etc. Finally the third one is to have the right relationships because strong relationships are the glue that holds everybody together.

Increase external visibility: This dedicated alliance function can let the market know about their new alliances and the rate of success that they are gaining. By this external visibility they make the reputation of the company grow showing that their alliances add value. With all this, the companies show how committed are they with their alliances and how good they manage them, so they attract potential partners interest.

Improve knowledge management: This dedicated alliance function can study, learn and get feedback from the prior and on-going alliances. With this study they can create routines about the creation, implementation, and work of the strategic alliances. Some companies that have this dedicated alliance function have created guidelines and manuals that compile their knowhow in order to help them to manage future alliances, choosing the proper partner, avoiding cultural clashes, and sharing specific knowledge etc.

Facilitate intervention and accountability: By the creation of a dedicated alliance function companies are also forced to develop alliance metrics and to evaluate the performance of the alliances.

With all this we can say that companies with a dedicated alliance function can reduce risk, hold stakeholders accountable, set clear expectations, etc. With that as Steve Steinhilber say "companies will be working smarter, rather than simply working harder."[lvii]

3.8. Why are alliances good?

There are many different reasons why is good to enter into a strategic alliance, one of them is that by this strategic alliances, companies are able to respond more rapidly to the market changes, because companies alone, by themselves, they are not able to do it. Also, they are good because they may require some investments, and because of that companies must be fully committed with the alliance and dedicate time to make it successful. They are also good because nowadays companies cannot do it all in a vertically integrated model, because of that they have to identify they core business and with the alliance they can focus on it and let the partners to focus in others. Finally we can say that alliances are an essential tool that can help companies to attack new market opportunities.

3.9. The life cycle of alliances

According to Steve Steinhilber we can say that successful alliances have a life cycle and there are five stages on this alliance life cycle:

- Evaluating a strategy and potential partners: The first step before entering into an alliance should be to determinate which goals the company want to achieve, and which problems the company can solve with that alliance. With that we can say that a strategic alliance cannot succeed if companies do not know why they entered into them. Because of that companies have to start with a clear strategic, thinking what the companies are trying to do with it, and once they know what they want to achieve with the alliance they can already start to evaluate and analyse potential partners.
- Forming the relationship: In this stage companies should create a joint business plan that outlines the resources that each company will bring to the alliance, the opportunities, and the necessary invest. Also here is important to do a due diligence and follow a clear process. The high executives of both companies should work together for build mutual trust.
- Incubating the partnership: here they have to establish how both companies will work together, as Steve Steinhilber says, “it is the foundation for every alliance”[lviii]. They have to structure the all-important governance agreements, ad they have to outline how companies will communicate, collaborate, and make decisions together during the alliance. Here they can also establish an alliance management team who will be in charge of ensure that partnership works fine. Also they have agreed on a systematic structure for taking decisions together. Finally with all this clear they can launch the alliance, but

they should know who the target audience for this launch is, the impact that this announcement can cause, and the possible reaction of the competitors.

- Operating the alliance: in this stage, companies develop the business plan that that they used to establish the alliance, introducing set of initiatives, dividing them between short and long term wins. Here they create and implement the product, working together. During this stage both companies study together different opportunities, they create plans to develop this opportunities, they create the products, and they launch them.
- Transitioning or retiring the alliance when it no longer meets mutual goals: with time the goals of an alliance may evolve and alliances need to be redefined to update their strategic goals. Doing an acquisition, entering into other alliances or by changing the business strategy may create the desire to end the alliance. Because of that, companies can do two things, either they focus the relationship on a more limited area where both companies can still bringing value to each other, or they retire the alliance, terminating the agreement. The last option is the hardest ones, because it implies accepting the fact that the alliance fail, and also it is very delicate process, because depending on how it goes, it will affect companies reputation and future alliances because it will affect on how potential partners and customers see them.

3.10. Key success factors in alliances

As we have said before most of the alliances that companies enter into fail. Despite this high fail rate, companies must enter into them, due to nowadays firm's lack of resources that not let them to have a competitive advantage on their own. Once we have seen this we can say that creating, developing, and maintaining a successful strategic alliance is a very difficult task. Firms notice the necessity of entering into a strategic alliance but they still not understand how to manage or maintain it, especially when both partners were competitors before and now have to pass from rivals to a cooperative relationship. The organization of these alliances is the main barrier to alliance success.

With all these we can say that there are multiple factors that determine the success of these strategic alliances. Now we are going to analyse this factors, and for that we first have to differentiate between pre-alliance formation factors which are the ones that contribute to performance at the outset of the strategic alliance and the post-alliance factors which are the ones that determine the development of the alliance.

In the pre-alliance formation we find the following factors:

Prior experience with partner: as we have already said, prior experience with a partner is really important in order to decide to enter in a strategic alliance or not. Everything will depend on the fulfilled of the expectancies either if they are positive or negatives. The prior alliances allow companies to know each other better, so they already understand each other and they know each other's resources and capabilities. Because of the high lever of failure in the strategic alliances, the fact of knowing each other and possessing all the necessary information increase the likelihood of entering into an alliance predicting the behaviour of the partner, which can reduce conflicts.

Partner reputation: when companies do not have prior experience with a particular partner, they rely on the reputation of that partner. This reputation is defined as Bernhard Nielsen says as "the knowledge held by individuals about the potential partner in terms of this partner's behaviour in prior network relationships."[lix] This reputation is very important for future alliances, because is what partners usually first look in order to choose a potential partner.

Country risk: stable public institutions, free open markets favoured by government policies, and a proper and transparent legal system are some of the elements that determine the country risk. A lack of these elements will affect negatively to the likelihood of alliance formation and success.

The post-alliance formation factors are the follower:

Clear goals: as we have said before is really important that companies know what they want to obtain from this alliance, which goals they want to achieve. But it is also important that they know their partners goals so they can both obtain what they want from the alliance. Here communication plays an important roll. Managers have to communicate between them to see if all of them have the goals clear, and if the procedures are well defined in order to achieve these goals.

Ability to meet performance expectation and collaborative know-how: once the alliance have been formed, a cooperative prior experience can be really important to the management of the alliance. As we have said before, when the main objectives of strategic alliances are to get knowledge access, if companies already have some experience on this field, this accessing will be easier. With all this, companies that have the ability to meet performance expectation will have more chances to succeed

in their alliances because they will be able to know their and their partner specific goals and also the alliance specific goals, so they will be able to work together easily to make them possible.

Trust: trust is one of the most important factors for success in strategic alliance. It must exist because in strategic alliances, each partner depends on the other to satisfy their goals. Trust has an intangible nature that makes it hard and difficult to define and measure. Madhok (1995) defines trust as the "perceived likelihood of the other not behaving in a self interested manner"[lx] Bradach and Eccles as "a type of expectation that alleviates the fear that one's exchange partner will act opportunistically"[lxi] and T. K. Das and Bing-Sheng Teng say "trust entails a positive expectation about the partner, suggesting that unpleasant outcomes are less likely."[lxii]

Judith M. Whipple and Robert Frankel consider that trust can be divided into two different categories: competence-based trust, which examines specific operating behaviours and character-based trust that "examines qualitative characteristics of behaviour inherent in partners' strategic philosophies and cultures."[lxiii] However T. K. Das and Bing-Sheng Teng they divided trust into other two categories: goodwill trust and competence trust. From one hand, "Goodwill trust is about one's good faith, good intentions, and integrity. It is about whether a firm has reputation for dealing fairly and caring about its partner firm's welfare in alliances."[lxiv] From the other hand, competence trust is not about the intention to do appropriate things. It is about the ability to do them. This kind of trust shows if the partner is capable to accomplish its tasks in the alliance.
As Bernhard Nielsen says "trust has been shown to increase cooperation, improve flexibility, lowering the cost of coordinating activities and increasing the level of knowledge transfer and potential for learning."[lxv] So we can say that trust has a positive impact on alliance performance. Companies need this trust both in the implementation and in the developing phases of the alliance. It intensifies as an alliance matures over time and partners become more familiar with each other.
Trust is relevant in risky situations, and because of alliances are risky, trust is very important on them. It reduces uncertainty in transactions and the perceived probability and impact of undesirable outcomes.
Finally we can say that it is even more important in international strategic alliances where there is collaboration across national boundaries.

Control: Control is essential in strategic alliances. It consists in influence the behaviour of the partner, and it can be defined as “a process of regulation and monitoring for the achievement of organizational goals.”[lxvi] With control companies can checked that the activities are being carried out according to the plan. “Control can be achieved through governance structures, contractual specifications, managerial arrangements, and other more informal mechanisms.”[lxvii]

Control, as trust, reduces the perceived probability and impact of undesirable outcomes.

T. K. Das and Bing-Sheng Teng consider that there are two different types of control: process control and social control. The process control is focused on the process that turns appropriate behaviour into desirable output while social control “aims at reducing the discrepancies in goal preference of organizational members through the establishment of common culture and values.”[lxviii] This second type of control appears due to the impossibility of partners to agree upon goals.

Control can also have negative effects to the alliance specifically with trust, because regulation can implied a sense of mistrust. But this depends on the situation and the type of control, for example social control facilitates the creation of shared goals by influencing people’s behaviour. This does not affect negatively to trust; on the contrary it increases trust by mutual understanding. However process control can undermine trust because with it people loss their autonomy to decide due to the implementation of strict rules and objectives.

Senior management support: it provides resources and encouragement to people who are directly involved with the activity of the alliance. They have to agree about both long-term goals and direction and short-term plans and day-to-day work.

Protectiveness: as we have said before, knowledge is one of the main motives why companies enter into an alliance; because of that knowledge protectiveness is a safeguard against the opportunistic behaviour. Moreover the partners of the alliance that have as a main resource knowledge resources, they tend to be more protective in order to not let it go. However if companies tend to protect a lot their knowledge with strict policies or with shield mechanisms, their partners can see this as a lack of honesty and open collaboration and it can lead to conflicts, misunderstanding and uncertainty between companies. Because of that, the level of protectiveness should be the lowest possible.

Complementarity: it refers to the competencies that each partner has in the alliance and their overlap. Partners' competencies should complement each other's in order to achieve their goals. Bernhard Nielsen consider that

> Similar competencies are expected to lead to more efficient transfer and absorption of knowledge because firms need to posses a knowledge base in the same or similar area in order to allow for an understanding of the intricacies of the knew knowledge as well as of its applicability to the firm's unique circumstances.[lxix]

Partner compatibility: two partners are compatible when they posses the ability to work and plan together efficiently. If they have this compatibility it means that they can cooperate and that they can develop a problem-solving ability. Partner selection is the clue to achieve this partner compatibility and one of the clues to build a successful alliance. Because of that it is very important that before starting the alliance companies analyse their potential partners. This selection has to link the alliance objectives and the strategies of both companies.
As Seabright, Levinthal, and Fichman said: "The criterion for a partner selection is the fit between one organization's resource needs and another's resource provision, relative to an opportunity set."[lxx]

According to Stevan R. Holmberg and Jeffrey L. Cummings this partner selection can be divided into four steps:

- Aligning corporate and strategic alliance objective: the first step for achieve a good partner selection is that companies know their alliance objectives, and how the alliance will create value to both of them. They have to be able to tie the alliance objectives with the corporate objectives. With that they will be able to know how to design the alliance.
- Developing appropriate sets of critical success factors: companies have to see alliances as a way to potentiate their critical success factors which are the specific activities that the firm has to perform well and that are the sources that gives that company advantage over its competitors. After this companies have to see how their critical success factors can fit with each potential partner.
- Mapping alliance targets: for be able to choose the best partner to enter into an alliance, companies should do a potential partner map that should show the range of industry players and their component sub-segments and firms. It also should represent the objectives and goals that they want to achieve. With this we can say that this map represents the broad industry groups and the specific firms.

- Dynamic congruence analysis tool for alliance partner selection: it consists in evaluating the potential and the advantages of the different industry groups in order to decide with whom enter into an alliance. Companies should analyse each company's resources, capabilities, plants, etc. With that they will be able to see which company will fit more with them and also will help to achieve all the objectives.

Cultural distance: Strategic alliances and especially international strategic alliances are affected by difference in cultures. This difference in cultures can create misunderstandings, problems, and confusions between companies. As close as companies and countries are, the less cultural difference will be. The biggest difference appears between Asian and Western companies because for Asian companies the decision process takes longer than for Western companies, so they have to be patient.

4. The study of a case: Disney and Pixar – Dyer et al. (2004)

Walt Disney is one of the biggest companies in the world that provides family entertainment. The company was founded on 1923 as a cartoon studio and today has become a global corporation. During all this time they have created and distribute movies, thematic parks, merchandising, etc. In 1991 they enter in an equity alliance with Pixar. Pixar is a computer animation company with creative, technical, and production capabilities to make new movies. In 1991 Steve Jobs was the founder of Pixar company and he accepted enter into that equity alliance with Disney.
Pixar's objective is "to develop computer animated feature that make all types of audience memorable with characters and stories by using technology and creative talent."[lxxi] While Disney's objective is "to be one of the world's leading producers and providers of entertainment and information, using its portfolio of brands to differentiate its content, services and consumer products."[lxxii]
There were several reasons why both companies decided to enter in such alliance. For Disney, they would be able to get Pixar's technology in computer animation, which was very important to Disney since it was struggling with its production, they were used to hand-drawn animation and had not been able to develop competitive computer animation. The choice of entering into an alliance with Pixar made the production phase much more cost efficient than what it had been within Disney. Therefore, seen from a corporate strategy perspective, where one of the main

questions to be asked throughout the supply chain is, whether they should make or buy the different phases – from this perspective, it all made sense. Each of the companies was focusing on what they had as core business and covered each others' necessities in a more efficient way than each of them on their own. Together with Pixar, Disney would also be able to be more creative. Disney was a very hierarchical company and they had a lot of bureaucracy, so they space for creativity was very small. Also with this alliance they would be able to use Pixar's characters on merchandising and in the theme parks, which would provide more profit, and the revenues would increase.
From the other hand Pixar would get a distributor. Disney will be in charge of distributing the movies to movie theatres and cinemas, which represented a cost between 10 to 15 per cent for Pixar of distribution fee. Regarding the ancillary revenues, such as rental and home entertainment markets around the world, as well as merchandising, would only benefit Disney. So Pixar would not benefit of being able to have other lines of products such as toys while they will be focusing on their core strength, the computer animation.
When they enter into that alliance in 1991 they agreed that during that period three films would be made, one of them was Toy Story, and that the share revenues would be 10% to 15% for Pixar and 85% to 90% for Disney, depending on the success of the movie. Furthermore, they agreed that Disney would have the complete ownership of the films and characters. In 1997 both companies renegotiated the alliance and they decided to extend the former agreement with a new one that states that five films would be made (not three as the previous agreement), besides, the share of revenues would be split in to 50-50 percentage and the films' and characters' ownership would be a shared as well. These five movies were A Bug's Life, Monsters, Inc., Finding Nemo, The Incredibles, and Cars.

As mentioned above, Pixar was paying a distribution fee of between 10 to 15 per cent while the industry average was 8 per cent, while at the same time they had an exclusivity contract that did not allow Pixar to produce for other distributors. The possible sequels that could be produced were also in Disney's property – withdrawing a production possibility and risking the image of the brand Pixar (in case that the story was not successful, the end customer could confuse a Disney 3D animated production with one from Pixar). Moreover, the ancillary benefit that appeared from merchandising, home cinema sales, among others were not shared between Disney and Pixar, which resulted in further discontent on Pixar's behalf. These contract features seemed unreasonable for Pixar's management that started to wonder if they should open up for other partners after having tried – without

success – to improve the contractual conditions that they had together with Disney from 2004 to 2006. After 15 years of alliance, it would be Disney that would acquire Pixar for $7,4 billion on January 2006.

The question is if the alliance made any sense, or they should rather have gone for an acquisition from the beginning. There is a framework that Dyer et al. (2004) developed in order to discriminate when it would make more sense to go for an acquisition, non-equity alliance or equity alliance when a company alone was not able to achieve or sustain growth organically. In this particular case, we will see that the framework does not provide a clear answer, but rather points out the decision factors that should be considered before any kind of action is taken.

As mentioned, Dyer et al. (2004) points out the factors that have to be kept in mind to successfully conceive collaborations or co-operations that either lead to achieve or sustain growth. It is indicated depending on the answer to each factor which kind of collaboration strategy would suit the best. Those factors are divided into three categories and are distributed as follows:

- Resources and synergies
    - Type of synergies
    - Nature of resources
    - Extent of Redundant Resources
- Marketplace
    - Degree of Market Uncertainty
    - Level of competition
- Collaborating competencies
    - Previous experience with alliances and/or acquisitions

We will see through the application of this framework, both Disney and Pixar had to keep in mind a wide range of considerations before they proceeded to an alliance- or acquisition based strategy.

Initially, regarding the type of synergies that the companies wanted from one another were sequential, since Pixar was producing the animation movie that was later distributed and marketed by Disney (even though Disney had its own in-house production, but did not co-operate with Pixar – i.e. for the production of sequels). According to Dyer et al., the best thing to do is to create an equity alliance to assure the supply and purchase of the products.

Regarding the nature of resources, Pixar was totally based on the creativeness of its employees that developed software by highly skilled employees, but the nature of the assets is clearly hard to evaluate, and an equity alliance tends to be the best-suited option. Either way, after 15 years experience between Pixar and Disney, it was

clearly possible to evaluate the inputs and outputs that the firm required, which diminishes the risks that appear in an acquisition (even though it has been proved that the acquisition of companies with large soft assets tend to loose more personnel than acquisitions of companies with large hard assets).
Considering the extent of redundant resources, we would normally say that an equity alliance is the preferred option when the desired synergies are sequential and the nature of resources is soft, since it is not normal that there exists any redundancy in the resources. In this case, as mentioned earlier, there were redundant resources since Disney had in-house production of the sequels. There would be clear synergies and cost reduction through an acquisition.
The degree of market uncertainty was high because of the nature of the industry, which is technologically intensive. A market that depends on the technologic development (a low predictive variable, because of its dynamism) is by default highly uncertain. The recommendation is to establish an equity alliance.
The level of competition for resources was very high since there were only a couple of well established and developed computer generated animation producers at the time of the case (DreamWorks and Pixar), while the number of distributors was very high and they tried to find suppliers to forge alliances with them. Therefore an acquisition would be the best-suited strategy regarding this factor.
Lastly, if we consider the collaboration capabilities of the companies, we would see that Disney had a very vast experience with acquiring companies as Miramax Films (1993), Capital Cities/ABC (1996), Baseball's Anaheim Angels (1996), Fox Family Network (2001), Saban Entertainment (2001), and the Muppets (2004), while they had not a vast experience with previous alliances. On Pixar's behalf, they had no previous experience in allying or acquiring. This all pointed towards a possible acquisition by Disney could be the preferred way to go.

As mentioned earlier, we have seen the different factors that are relevant to keep in mind whenever a company doubts between doing an alliance or an acquisition. Throughout the analysis, we have seen that there were factors that talked more towards an acquisition, at the same time that there were others that pointed more towards an equity alliance. Of course, it is not possible to make a decision by only making a simple analysis, but somehow it gives an idea about which issues need a deeper analysis and consideration. In this sense we can say that there were arguments to head towards an equity alliance and an acquisition. Hopefully, an equity alliance has the possibility of developing itself toward an acquisition (a strategy that has a higher risk), while it is hardly possible to proceed the other way around. Another case (from another industry), between Intel and DSP has been repeatedly

criticized, as they should perhaps have used an equity alliance as a springboard to an acquisition, instead of directly acquiring. And following this line of argument, it seems to make sense that after 15 years of equity alliance, the relationship evolved to become a successful acquisition. As a good sign, we can refer to Disney's market capitalization, where their stocks were trading above $56 in 2013, while in January 2006 their stocks were only traded at $25. And they were also able to pursue their objective, increasing their product portfolio and sell it through a wide range of channels (theme parks, television, movie theatres, merchandising, etc.). As Disney's CEO Bob Iger said "we are looking to buy wither new characters or businesses that are capable of creating great characters and great stories"[lxxiii].

5. Conclusion

As we have said during this paper, even the importance of nowadays internationalization, there are just few companies that tackle it effectively. In order to succeed in this internationalization companies need "high level of personal commitment to the process, self-confidence and the necessary managerial capabilities."[lxxiv] If any of them is missing it is going to be difficult to succeed.

During all this research we have been saying that the number of strategic alliances that fail is quite high and we can see this even more if we compare their failure rate with the failure rate of single firms' strategies. This difference appears due to the uncertainty that involves cooperation between partners.

Nowadays there is no company able to do everything on its own, so alliances are necessary in order to survive in the market.

Strategic alliances are becoming more important for companies. As Stevan R. Holmberg and Jeffrey L. Cummings say "strategic alliances are an increasingly important core element in many firms' strategies to create and sustain their competitive advantages in dynamic market environments."

As we have said, companies cannot be good in all the stages of their value chain. They will be better in one part or another. Because of that, partnering is a good solution, because each company can focus working on the part of the value chain where they are stronger and obtain like this higher business value.

We can say that companies prefer enter into an alliance when they work in a market that requires high investment. They prefer these alliances because with them they can reduce their risk.

Once a company enters into an alliance, one of the most important things that they have to do for success is to implement the core elements of their company, to the alliance.

Strategic alliances are embedded in the firm's history and they and the company's strategy co-evolve together.

Succeed of strategic alliances or in the mode of enter that companies choose is really important because when a global company wants to enter into a new market, the local competitors will react by introducing entry barriers for protect themselves. In this situation as we have said during this paper the global companies can do different things, they can acquire a dominant local competitor, acquire a weak local competitor and make it grow, enter into an alliance with a local firm, enter into a poor defended niche, or enter attacking the strong local firms. So if the decision that they make fails, they will not succeed on this market.

With this research we have seen how the rationale to enter into a strategic alliance is to share and obtain new resources that companies cannot have or obtain by mergers or acquisitions, so by doing this we create value combining both companies resources.

At the beginning, the alliance is based on the mutual benefit that each firm brings to the alliance; however with time one company can realize that it does not need its partner anymore because it already gets all the knowledge or the main resource that the other firm bring to the alliance. This situation can lead to the alliance termination, or companies can try to find another reason or objective to continue together.

When companies enter into a strategic alliance to get presence in a new market they will have to understand the characteristics of this market and make some changes in their business model if it is necessary to adapt to this new market and to the local consumers.

For an alliance to succeed is very important that companies analyse the environment before enter into an alliance. This includes analysing themselves in order to determinate their long and short term goals. This analyse can be done by a SWOT. After that they have to analyse the entire potential partner, which will help them to negotiate the strategic alliance. As a conclusion we can also say that for the success of the alliance is very important that both companies have goal compatibility in long and short term, which will make partners go in the same direction and that both know what value each of them will bring to the alliance.

To make a good alliance the resources that each firm brings into the alliance must be useful for both companies so they can achieve higher resources combinations. If they

are wasteful resources the cooperation will not be really good and more conflicts and problems will appear.

Trust and forbearance are one of the key things to make alliances work. Communication is really important in order to build trust. Companies need to be clear with each other partners, with their employees and with customers, making them know where are they collaborating and where are they competing. Also we can say that as close as cultures and managerial practices are, the better firms will work together. All the conflicts and problems that appear in the alliance can lead to unsatisfactory alliance performance.

Two partners are compatible when they have the ability to work and plan together. If they have this compatibility it means that they can cooperate and develop a problem solving ability. Also we have seen that alliance managers are important to make them work.

Once companies have taken into account all these elements, they will have more chances to succeed with their alliances. If the alliance is made in a proper way it can create business value such as: accelerate company's entrance in a new market, let company's focus on its main resources, on what company's do best, it can help reducing costs and risk and accelerate competitive advantage, and the company can also achieve a differentiated value.

With this paper we can say that alliances fail due to: differences in culture, incompatible objectives, lack of executive commitment and trust, ineffective governance structure, poor alliance leadership, etc. Companies can prevent this fail with proper preparation, alliance management, and communication.

With this project we have seen that the key to success nowadays in the fast moving market is to be able to collaborate with other companies through strategic alliances.
If companies focus themselves in what they are good and rely on other companies for what they are not so strong, they can create competitive advantage.

In this complex world, where everything is changing constantly it is necessary for a company a range of strategies to manage their alliances. It is all about thinking strategically and creatively.

Building alliances capabilities will give a company the chance to get competitive advantage and a long-term success.

Finally with Disney and Pixar's case we have seen how if companies follow the proper steps and they analyse the entire environment before making a decision, their choice will probably be the proper one and will help companies to increase their revenue and be more efficient, like Disney and Pixar. Because of that we can say that a previous analysis before entering into a strategic alliance is the key to make it work.

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