An Essay on Strategic Collaboration

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Abstract

Purpose – The purpose of this paper is to do a comprehensive review of the research on strategic alliances and its different field.
Methodology – An extensive review of strategy alliance/collaboration literature is undertaken to identify the types of strategic collaboration organizations form.
Keywords- Strategic alliances, organic organization, inorganic organization, hybrid organization
Paper type- Essay

Introduction

Growth is a significant phase of lifecycle for all for profit firms. It is a process function which happens over multiple time periods. The growth of firm can be represented by the change of some variable over time. Sometimes, economic theorists distinguish two modes of growth: organic growth and inorganic growth (growth through mergers and acquisitions, P. Davidsson, F. Delmar) or through strategic collaborations. A firm growth theory was firstly given by Edith Penrose, in 1959, with intention to create a theory, which was logically consistent and empirically tractable. Researcher growth theory focus on the adjustment costs (AC) of growth and the productive opportunity set (POS) facing by the firm. In context to this many researchers also identified that, the firm's opted different routes of strategic collaborations for growing their businesses and to gain competitive advantages in dynamic environment. These routes are classified by many authors like organic, inorganic and hybrid strategic growth for businesses. Firm opts these routes for growth due to insufficient resources for growing business, senescence effect on organization, limitation to other countries boundaries, gaining new know-how in technologies and innovations, etc.

Before getting an insight of these strategic routes, let discuss first about strategy and its conceptual thought of collaboration. There are many opinions on defining ***strategy*** given by different theorist focusing on different dimensions. Mintzberg and Waters (1985) given their theory based on *intention-behavior continuum, and continuum of internal-external context* in business further added by him in 1987. The Strategy could be explained in a manner like, "one can trade a clear thread going from the present – future to static- dynamic to certainty –uncertainty to commitment – flexibility continuums". Authors like (Bourgeois, 1980; Gluck, Kaufman, & Walleck, 1982; Glueck, 1980; Hatten, 1979; Hofer & Schendel, 1978; Lenz, 1980b; Rumelt, 1979; Spender, 1979; Steiner, 1979) have given their opinion on strategy but Hambrick (1983) found that lack of consistency is due to two factors, first, he pointed out, strategy is multidimensional and the other, strategy must be situational and, accordingly, it will vary industry to industry. Chaffee 1855, mentioned three model of strategy in his literature, first linear model focuses on goal achievement through allocation of resources (chandler's 1962, p.13), second, an adaptive strategy, highlighted on co-alignment with the environment (Hofer 1973, et al.) and lastly, interpretive strategy based on social contract (keeley 1966), and non-programmed situation (Van cauwenbergh and cool, 1982).

Collaboration or Alliance is a process where two or more people or organizations work together to realize shared goals, this is more than the intersection of common goals seen in co-operative ventures, but a deep, collective, determination to reach an identical objective. **Strategic Collaborations or Alliances** are cooperative arrangements between two or more firms to improve their competitive position and performance by sharing resources (Hitt, Dacin, levitas, Arregle, & Borza, 2000). The research contribution in this area was marked also by Cunningham and Calligan (1991) on "competitiveness through networks of relationships", Auster (1994) on "theoretical perspectives on inter-organizational linkages", Hamel (1991) on "inter-partner learning in strategic alliances", Gulati (1995a) on "the relationship between repeated transactions and trust", Doz (1996) on the "learning processes in strategic alliances", and on "management of collaborations in technology based product markets".

Strategic collaborations are more critical than ever in today's enterprise, and as collaboration-oriented capabilities continue to advance, new themes are evolving that challenge the way organizations traditionally operate. These themes include: (i) **Borderless enterprises**, (ii) **Workplace mobility**, (iii) **Consumerization** and, (iv) **Process.**

Some of the research questions also explored while going through literature, why alliances are set-up (Gugler, 1992; Lei, 1993); purpose of the international context of cross-border strategic alliances (Snodgrass, 1993; Levinson and Asahi (1995), or how to achieve success in international strategic alliances (Bleeke and Ernst, 1993; Mohr and Spekman, 1994).

An answer to these questions were highlighted through the emerging formation base of the organizations whose focus on searching new efficiencies and competitive advantages while avoiding both market uncertainties and hierarchical rigidities. Therefore, organizations maintain and form *hierarchical relations, market relations, industry standards groups, subcontractor networks, licensing, franchising, strategic cooperative agreements, R&D consortia, cooperatives, equity investments, joint ventures, etc.*

These above alliance formation criteria do not apply to all the types of organizations. An organization has to set its future goals and progressive target where to reach. Some of the organizations do not prefer to joints their hand with other national and international firm's as to be in fear to losing its power of organizational control in long future, they want to flourish themselves on their own through organic growth strategy with an intention to keep an eye on penetrating the same market with different assortment fall in to category of organic organization, some joints to gain new tech know-how and advancement and expansion came under inorganic growth,

In the words of Powell, 1987; Borys and Jemison, 1989, Strategic alliances, along with acquisitions, mergers, and joint ventures, comprise part of a larger class of interorganizational relationships called 'hybrid organizational arrangements' (HOAs). Hybrid organizations can exist on either side of the for-profit/non-profit part; blurring this boundary by adopting social and environmental missions like non-profits, but generating revenue to accomplish their mission like for-profits similar to Chaffee third model of strategy interpretive strategy based on social contract (keeley 1966), and non-programmed situation (Van cauwenbergh and cool, 1982).

In "Towards a theory of hybrid organizations", by David Billis said that, "Hybrid organizations are ubiquitous. They are international, multi-sector phenomena and their unclear sector accountability often engenders unease and distrust". The hybrid business model has been termed ''sustainability driven". These organizations are positive deviants that demonstrate generative and mutually enriching connections between business, and the communities (Nardia Haigh, Andrew J. Hoffman 2012). In some of the cases researchers have common thought for inorganic and hybrid growth on the same platform. That's why from the view point of those researcher inorganic growth also refers to the expansion of the bottom line through mergers and acquisitions (whether they are friendly takeovers or hostile takeovers). The main advantage of inorganic growth is that it helps companies with large cash reserves to invest them in productive mergers and acquisitions that help the bottom line of the company. For example, Microsoft is case of In-Organic growth as it has successfully completed more than 100 acquisitions since 1986.

Organic growth in management parlance refers to the growth of a company that occurs naturally. In other words, if a company grows through increased revenues and increased profitability on its own without adopting to mergers and acquisitions, then it is considered to grow organically. Organic growth creates *Adjustment Costs* for a firm because of the need to bring in and restructuring organizational hierarchy and working, which will be correlated to the rate of organic growth. Apple Inc. is probably an excellent example of Organic Growth. Growth@Apple is driven by trend-setting product innovation. Macintosh, iMac, iPod and the latest technological breakthrough pioneered by Apple is the iPhone. But rigidity hinder the potentially growth rate of the firm because repeated use of resources (miller 1994), on the other side to increase rate of return on firm growth a firms has to opt and increase new resources while would simultaneously increase cost as well.

Literature Review

Neumann and Morgenstern (1947) were the first modern scholars to develop the concept of strategy for business, applying the tools of game theory to model interactions among small numbers of firms.

Ansoff (1965), in an early effort to provide coherence to strategy as field of scholarly study, viewed it as the necessary extension of managerial control from the internal to the external environment.

Few more milestone thoughts about strategy…….

Author's	**Strategy…..**
Liddell Hart (1967)	"The art of distributing and applying military means to fulfill the ends of policy." *
George Steiner (1979)	Strategy refers to basic directional decisions, that is, to purposes and missions and what one did to counter a competitor's actual or predicted moves.
Henry Mintzberg (1994)	Strategy is a plan, a "how," a means of getting from here to there.
Kenneth Andrews (1980)	"Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.
Michael Porter (1986)	Competitive strategy as "a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there."
Kepner-Tregoe (1980)	Strategy as "the framework which guides those choices that determine the nature and direction of an organization."

*substituting the word military with the word strategy in the definition.

Strategic alliance is any cooperative effort between two or more independent organizations to develop, manufacture, or sell products or services.

Gulati in 1998, define strategic alliance as a voluntary agreement between firms involving exchange, sharing or co-development of products, technologies, or services. As more and more companies are joining hands with other companies not only within their country boundaries but also tying nod with international countries for fulfilling their motives of gaining expansion or new learning and competitive advantage. Steve Steinhilber in 2008 said in his research that "strategic alliances are agreements between firms in which each commits resources to achieve common set of objectives. Through strategic alliances, companies can enhance their competitive positioning, are eligible for entry into new markets and share major risks or costs of development projects".

It has been noticed that a number of companies who showed positive outcomes in their business performance were found actively engaged in strategic alliances. Through strategic alliances they gain higher return on equity, better return on investment, and higher success rates compared with companies integrated through merger and acquisition, or companies in Fortune 500 list. Much of the fundamentals in this field were established with the seminal edited volume by Contractor and Lorange (1988a) on co-operative strategies in international business, with contributions from Buckley and Casson (1988) on a "theory of co-operation", Contractor and Lorange (1988) on "the strategy and economic basis for cooperative ventures", Harrigan on "partner asymmetries" – among other positional papers in the same volume. The research in the field was marked also by contributions from Cunningham and Calligan (1991) on "competitiveness through networks of relationships", Hamel (1991) on "inter-partner learning in strategic alliances".

Theoretically Strategic alliance is classified broadly in to three parts (i) non-equity alliance, (ii) equity alliance and (iii) joint venture. First type of alliance are formed through licensing, supply and distribution agreements, second type of alliance are formed when partners owned stakes in each other company, and last type of alliance are formed independently when partners put their resources jointly to form new firm for fulfilling their objectives.

Company ally when certain conditions apply, said by **Ben Gomes- Casseres of Brandis University**. He identified four situations when a company thinks to ally with other company;

- They have a capability their proposed partner value but does not have(and could not develop), and the partners have capability they want but do not have,
- It would cost more to buy these capabilities than to ally them
- It would cost more to merge the companies then create a series of alliance
- Combined the capabilities are more valuable than apart

Other than the above classification of alliances there few more various form of alliance- co-marketing programs, one-way licensing agreements, R&D contracts, strategic supplier relationship, cross-licensing, minority investments, cross-shareholding, etc.

Previous research suggests that there are number of factors and motives behind strategic collaborations. The strategic motives for organizations to engage in alliance formation diverge according to firm-specific characteristics and the multiple environmental factors summarized below, this diversity has triggered the development of several classification schemes in the theoretical literature (elaborated from Agarwal and Ramaswami, 1992; Auster, 1994; Doz and Hamel, 1999; Doz et al., 2000; Harrigan, 1988a; Hennart, 1991; Lorange and Roos, 1993; Zajac, 1990):

- Market seeking;
- Acquiring means of distribution;
- Gaining access to new technology, and converging technology;
- learning and internalization of tacit, collective and embedded skills;
- Obtaining economies of scale;
- Achieving vertical integration, recreating and extending supply links in order to adjust to environmental changes;
- Diversifying into new businesses;
- restructuring, improving performance;
- Cost sharing, pooling of resources;

- Developing products, technologies, resources;
- Risk reduction and risk diversification;
- Developing technical standards;
- Achieving competitive advantage;
- Cooperation of potential rivals, or pre-emptying competitors;
- Complimentarily of goods and services to markets;
- Co-specialization;
- Overcoming legal/regulatory barriers; and
- Legitimating, bandwagon effect, following industry trends.

It has been seen that the companies are focusing on new type of tie up to overcome the traditional ways of collaborations. John Hagedoorn (2002), studied different mode and pattern of partnership and find that contractual agreements are particularly preferred in high-tech industries, instead of partnering with high tech which only counted between 20% to 40% in pharmaceuticals, information technology sectors and aerospace and defense industry. Bruce S. Tether (2002) also mentions in his research that companies are engaged contractually for R&D purpose on continuous basis rather than full time partnership. Jianmin Tang in his research on manufacturing firms 2006 found that the value of process innovation is embodied in product innovation, R&D tax credits and R&D grants are highly significant, and more important for product innovation than for process innovation. Earlier research has shown different causes and pattern for collaborations, some for innovation or market capture or sharing of resources etc. Lee Li. *at el* 2012 in his research works has discovers a new rationale of international strategic alliances; that is, when firms experience hostile environmental dynamism, they tend to mitigate it to their partners.

To develop strong partner relationship in collaboration companies identified a new strategy called codevelopment. The present research studies new-generation new product development (NPD) practices called codevelopment alliances: Specifically, the aim was to develop a process theory of partner selection for achieving desirable outcomes from codevelopment alliances. Codevelopment alliances are nonequity-based collaborativerelationships enjoined by two or more firms to create value by integrating and transforming disparate pools of know-how related to new product or service development (adapted from Link and Bauer,1989). Both benefits and additional risks or costs may accrue from collaboration for NPD (Littler, Leverick, and Bruce, 1995). Benefits include providing access to new skills or technologies (Mohr and Spekman, 1994) or the means for creating or exploiting new markets (Littler, Leverick, and Bruce, 1995). Collaboration allows for cross-disciplinary integration, which may be essential for creating really new products (Chesbrough, 2003). Opportunities for the utilization of technologies that have not yet found application may be created (Chesbrough, 2003). Collaboration may lead to shared research and development (R&D) costs and risks (Perks, 2000) or it may increase the speed to market (Bronder and Pritzl, 1992; Deck and Strom,2002).

Further R & D also played a major role for alliance formation whether in inorganic or hybrid way. As mention by Seung, Ryu, Baik 2010 in their research by using Schumpeterian Model two objective require for collaborations, 1. synergy-seeking and (2) cost-sharing R&D alliances. He identified competition are innovation and imitation on the part of competitors; both tend to limit the time windows in which excess profits are earned from sales of existing products. Imitation by competing firms erodes the focal firm's rents. In 2004, Ren Belderbos, found in his research that, a major heterogeneity in the rationales and goals of R&D cooperation, with competitor and supplier cooperation focused on incremental innovations improving the productivity performance of firms, while university cooperation and again competitor cooperation are instrumental in creating and bringing to market radical innovations, generating sales of products that are novel to the market, and hence improving the growth performance of firms, same context also said by Bruce S. Tether 2002. Hagedoorn 2002, came to the conclusion in his literature that, contractual R&D partnerships enable companies to increase their strategic flexibility through short-term joint R&D projects with a variety of partners. This flexibility in R&D partnerships ties into the more general demand for flexibility in many industries, where inter-firm competition is affected by increased technological development, innovation races and the constant need to generate new products.

To overcome geographical and seasonal challenges, increase the use of technology, share knowledge and expertise, increase companys' knowledge, change the competitive position, use of other company infrastructure, develop a specialization on a specific area and create value, maintaining co-option for turning potential competitors into providers (Nurullah2012). This view with more extension to partner selection Business environment factors: operations including legal requirements, macro economic polices, price control, financial markets, distribution channels and method of contract enforcement. Tax incentives an dinternational trade regims. Industrial factor: Market share and technology Organisational factor, sizes, visible and tacit assets, collaborative histories, ownership forms, corporate social capital networks, product ranges and diversification, market shares, and market penetration through distribution channels. Globalization drivers and commodity chains: Globalization forces are among the key drivers forcing corporations to explore alternative ways of gaining and preserving competitive advantages. Factors; heightened competitive pressures on a global scale; shorter product life-cycles and rapid technological change; emergence of new competitors; personnel recruitment and placement practices that extend corporate social capital across national boundaries; and increased demand by global firms for systemic solutions (Emanuela Todeva, David Knoke, 2005).

Conclusions

Strategic alliances are more than simple instrumental means for achieving collective goals directly benefiting the collaborators. They also constitute each partner firms' corporate social capital, providing potential access to various assets controlled by other strategic alliance network members. Alliances provide opportunities for participants to tap into the resources, knowledge, and skills of their immediate partners in a portfolio of inter-firm agreements. Further, given latent reachability across strong ties and possibilities for activating brokerage efforts to interconnect the partners of partners, these complex patterns of social capital embedded within an organizational field-net of a strategic alliance offer enormous potential for significantly leveraging its member firms' resource capabilities. Theoretical conjectures and empirical investigations of strategic alliances over the past two decades reveal an accelerating proliferation of these inter organizational phenomena. Arm's-length market exchanges may prove less efficient than alternative interfirm arrangements for carrying out many complex co-production processes, such as R&D on highly uncertain technologies, as well as for overcoming legal-political-cultural barriers to cross-national transactions. Current debates over the globalization of business systems emphasize how both local and international environments foster international joint venture partnerships, but these environments may also inhibit the full realization of benefits obtainable through such relationships. The images of mixed advantages and drawbacks accruing from collaborative enterprises reflect the current ambiguous state of knowledge about strategic alliance networks and their multidimensional consequences.

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