ABSTRACT
The paper deals with strategic alliances as a contemporary method of international business. Strategic alliances are the interorganizational linkages for establishing, strengthening and maintaining strategic competitive advantages for the achievement of individual aims of partners and a joint aim which with exchanging and completing of resources enable an increased effectiveness of actions, market power and risk sharing, and where the joint effect is higher than individual effects of partners in alliances. Regardless to variety of definitions it is still possible to extract particular common elements which separate the alliances from other strategic ways of doing business: co-operative connection of two or more otherwise independent organisations, achieving the competitive advantages on one or more strategic areas, synergy effect \((2+2=5)\), and achieving particular aims of the participant and common goal. Strategic alliances are the factor which will have to be taken very seriously into consideration also by Slovenian (or Eastern European) manufacturers in domestic and international business relations.
1. INTRODUCTION

In the process of globalisation of international business when state or regional borders are vanishing and we are losing the classical definition of origin of the product, dimensions of competition process are being changed as well.

Because of systematic outsourcing of the production operations which tendency depends on production costs and product complexity (the components are coming from various countries) the importance of the »Made in...« effect (pointing out the country of origin) is being abolished while the »Made by...« effect (pointing out the brand i.e. reputation of the product »holder«) is gaining significance.

An example is the production of sports equipment, the majority of which is manufactured in the Far East (origin) because of low production costs, yet the market competitiveness of these products remains unaffected since the strength of the brand (and everything it reflects - quality, design, reliability, price, etc.) is decisive for the consumer's choice (Adidas, Nike, Reebok, Puma, etc.). On the other hand, one cannot say that such a complex product as the automobile originates in a specific country if we know that its components are manufactured in various parts of the world. Is the Rover truly a British product if the technological know-how and engine come from Japan (Honda) and the owners of the company are from Germany (BMW) and Japan (Honda)?

In world wide economy companies are facing global market which was raised in the framework of multilevel and wide range phenomenon called globalism. The definition of globalism (internationalism, transnationalism) is in general quite wide but on economic field it basically means raising the awareness about meaning of opening to international - global - market. Global market is one of the consequences of scientific-technological
development which enabled gradual transition to post-industrial, innovative and intellectual society which exceeds state borders.

Along with the global market the global marketing has developed. The purpose of the global marketing is to exceed the individual approaches and to standardise the marketing processes, programmes and mixes. That is happening because there are identical or similar consumer’s needs. It also enables the company to use competitive advantages on the global level and however to avoid careless standardisation which can bring positive effects on the short term, but on the long term it causes permanent damage. The general idea of international marketing is emerging from standardised product concepts but they can be still used for the production of different variations of the products for national markets of segments i.e. various target groups. This means that various differentiated models can be made from one general idea basing on the same technological process.

Besides the differentiation of products and segmentation of markets transformation of antagonistic relations (direct confrontation) into co-operative relations should be added to the concept of modern market circumstances even among market participants who at first were not expected to have those relations. In such cases we are dealing with non-antagonistic relations which are called in the theory of games - the games with a positive sum (win-win), unlike the antagonistic army strategies which are called zero-sum games.

The traditional comprehension of competitive relations (where the »natural« rival principles are taking place) in gradually withdrawing on behalf of the modern concept of searching for common benefits from that type of relations which are out of range for those who do not take part in these relations. On the first site the increasing of co-operation between the competitors in opposition to more and more intensive competition process. Therefore there is a certain paradox of so called co-operative competition, shown as co-operation before the market and competition in the market.
These types of co-operation which are taking place on strategic level are usually called strategic alliances, linkages and partnerships.

The happenings before the appearance in the market are usually hidden from the consumers for they are following the perceptions of the product already offered in the market. This product is usually guided by systematically chosen brand policy. Perception of the connections before the appearance on the market depends on aims partners want to achieve and on established brand of the partners.

Countless examples in daily practice confirm such views. One can hardly find a manufacturer in the automobile industry who is not, in one way or another, linked to other manufacturers, even if competitors\textsuperscript{1}.

In 1991, more than 5,000 strategic alliances were officially recognized, while "unofficially" there were at least twice as many (Lynch 1993, 18).

2. CONTENTS OF STRATEGIC ALLIANCES

Although strategic alliances first appeared in the beginning of the 20th century (and the first traces of coordinated associations as early as in the 18th and 19th centuries) as a special form of business operation, their theoretical study and broader application is relatively new both in the professional-scientific and business-applicative spheres.

\textsuperscript{1} An illustrative example are the strategic alliances of the General Motors company, whose number exceeds 400 (Sherman 1992). GM has a 38% equity share in the Japanese manufacturer Isuzu, a 50% share in the Korean manufacturer Daewoo and the Swedish Saab, collaborates with Ford and Chrysler in R&D and together with them owns a joint venture company for the production of transmission systems, has formed a buying alliance with Honda in Spain, produces cams and shafts for Renault, markets Isuzu automobiles in the U.S. through its sales network, while Isuzu markets the European Opel in Japan, and both companies supply one another with components and engines. GM also has an equity share in the Suzuki automobile company, with which it established a joint company in Canada, through which Suzuki vehicles are marketed in the U.S., while Suzuki markets Pontiac and Chevrolet models in Japan. GM also has a joint venture with Toyota in the U.S. (NUMMI) for the manufacture of automobiles and trucks and yet another in Australia, etc. (Lynch 1993, 65). The GM company has more than 40 alliances only with other car manufacturers.
It is therefore not surprising that both the contents and definitions of strategic alliances are extremely diversified as the result of, on the one hand, the greater or smaller significance attributed by various researchers and authors to specific elements of alliances in their studies, which in turn condition the definition of alliances and, on the other hand, of business practice itself, since each company is a specific business system with unique characteristics, products, strategies, functions and relations with the environment, and consequently each alliance between two or more companies is always specific to a certain extent. For this reason there is no generally accepted conceptual approach that can adequately explain this expanding phenomenon.

The definition of alliances is thus frequently limited to listing their various forms. In literature, strategic alliances have often been defined as coalitions, hybrid, multi-layered, hollow and overlapping organizations, quasi-companies, transorganizational systems, joint ventures, hybrid arrangements, international corporations, strategic partnerships, risky ventures, competition alliances, global strategic alliances, strategic networks, strategic tools, value-adding chains, etc.

Regardless to variety of definitions by many authors it is still possible to extract particular common elements which separate the connections from other strategic ways of doing business:

- co-operative connection of two or more otherwise independent organisations;
- achieving the competitive advantages on one or more strategic areas;
- synergy effect (2+2=5);
- achieving particular aims of the participants and common goal.

Strategic alliances are the interorganizational linkages for establishing, strengthening and maintaining strategic competitive advantages for the achievement of individual aims of partners and a joint aim which with
exchanging and completing of resources enable an increased effectiveness of actions, market power and risk sharing, and where the joint effect is higher than individual effects of partners in alliances.

Strategic alliances are therefore aimed at attaining those goals which an individual company is incapable of attaining on its own. Certain goals simply cannot be realized without the creation of strategic alliances (the so-called network approach).

One should bear in mind that, for a particular company, the formation of strategic alliances of one kind or another is only the means or part of its integral strategy which defines the company's long-term goals, the manner of attaining them and how to ensure the necessary resources. A strategic alliance is not a substitute for a company's strategy, but its integral part, or, in the words of Bleeke and Ernst (1993, 9), "an intermediate strategic device that needs other transactions surrounding it". Alternatives to alliances may be "go-it-alone" approaches, acquisitions, mergers, continuation of existing collaboration, etc.

However, not every form of cooperation between two companies can be considered a strategic alliance.

3. TYPES (FORMS) OF STRATEGIC ALLIANCES

3.1 Classification of Strategic Alliances
There are even greater variations in the classification of strategic alliances than in theoretical and practical definitions of alliances appearing in specialized literature and business practice, frequently on account of the inconsistent application of criteria for distinguishing between various forms of alliances.

Forms or types of alliances may be classified according to several distinguishing criteria:
a/ formality of alliance

- formal alliances (contractually defined cooperation)
- informal alliances (various cooperative associations, e.g. buying cooperation)

b/ type of integration

- vertical alliances
- horizontal alliances
- conglomerates (e.g. consortiums)

c/ capital links

- joint ventures
- noncapital links (contractual cooperation without pooling of capital)
  minority equity share (less than 50% equity in partner company)

d/ business functions

- production (joint production) and service alliances (joint delivery of services)
- research & development alliances
- marketing alliances
- buying alliances
- financial and accounting alliances (e.g. accounting outsourcing)
- other alliances (legal, international trade, information functions, etc.)
- multi-functional alliances

e/ linking area

- national alliances
- regional alliances
- transnational alliances

f/ participation of state

- without participation of state institutions
- with participation of state institutions (e.g. projects such as Esprit, Airbus, Sematech, etc.)
Since each of the above classification criteria relates only to one aspect of a strategic alliance, each partnership should be evaluated according to all criteria.

3.2 Joint ventures - the most frequent form of strategic alliances
In literature as well as in business practice, the concept of strategic alliances is frequently limited to joint ventures. In reality, strategic alliances are a much broader concept and joint ventures are only one of its possible forms, since the definition of strategic alliances does not necessarily include capital affiliation. However, joint ventures are a relatively frequent and most intensively studied form of strategic alliance. If various informal alliances are considered, joint ventures account for less than 10% of all strategic alliances (Lynch 1993, 29).

Joint ventures involve the creation of a new legal entity which, like a new company, may be independent of its founders and, like any other company, function according to economic principles. Joint ventures are therefore the most transparent, yet only one of the possible forms of strategic alliance. Capital interlinking is not a guarantee for the success of a strategic alliance (e.g. the unsuccessful alliance of Olivetti and AT&T, in which the latter had a 22% equity share in Olivetti in the period from 1983 to 1989).

3.3 Mergers & Acquisitions
Mergers and acquisitions can not be considered strategic alliances, as they involve changes in legal status and capital structure, whose consequence is the continuing existence of a single company. There is no interorganizational link, but merely the intraorganizational realization of strategic goals that were set prior to the merger or acquisition.

Hall (1995, 12) emphasizes that an essential component of strategic alliances is the discretionary right of a partner to withdraw from the
alliance if it fails to bring the expected results. Thus, the association of partners is completely voluntary, based on their independence, which, as explained above, is not the case with mergers and acquisitions.

However, some research studies have shown that numerous strategic alliances result in acquisitions. According to Bleeke and Ernst (1993, 31), of 18 alliances studied, 78% resulted in the acquisition of one of the partners.

3.4 Japanese forms of strategic alliance
In comparison with other alliances, Japanese strategic partnerships have certain particularities. The term "keiretsu", which has no direct English translation, has become widely used in defining Japanese cooperation links. This term has in most cases replaced the previous "more colourful, but less accurate" Japan, Inc. Japanese strategic alliances\(^1\), by numerous characteristics considered the predecessors of modern strategic alliances, are divided into horizontal keiretsu and vertical or pyramidal keiretsu. Whereas horizontal keiretsu unites large companies and a strong "central" bank, vertical keiretsu links one large company with thousands of smaller ones, whose role is usually to support the central large company by supplying materials and services.

Horizontal keiretsu is usually named after the central bank, whose functions considerably exceed those of traditional business banks. The bank's role within an alliance is not limited to lending funds, but it is also

\(^1\) There are a great many terms used in literature to designate Japanese business integrations, such as, for example, a network of small, independent manufacturing companies freely organized around a large commercial or manufacturing company and performing various production and distribution activities; apparently independent companies cooperating voluntarily for financial, commercial or strategic reasons; loosely linked political confederations; stable, strategically coordinated alliances; coherent mini-economies; industrially linked business groups; closely linked complexes of industrial and financial corporations; intermarket groups; industrial groups of affiliated and supporting industries; hierarchically organized systems of subsidiaries, suppliers, subcontractors and distributors linked to large producers, etc.
the owner (one of the three largest shareholders in more than half of the participating companies), supervisor of loan utilization, investor in high-risk projects and rehabilitator of companies in trouble. Precisely the latter function gives members of the alliance greater security, as banks normally do not allow the liquidation of members of an alliance.

Besides a large, strong central bank, another typical characteristic of horizontal keiretsu is a central trading company which associates small vendors and producers in order to ensure favourable purchasing and selling conditions as well as short-term internal crediting and factoring. The third characteristic is interorganizational capital affiliation within the alliance, which prevents entry to third parties. The alliance also ensures a greater degree of internal financing and internal, interorganizational trading. The delegation of executive and management personnel also takes place within the association.

Vertical keiretsu is divided into production keiretsu (associating suppliers and performers of services for a large final producer) and distribution keiretsu (association of retailers and wholesalers and the final producer).

Some other countries have also followed Japan's example (e.g. South Korea, Taiwan, Columbia, India, etc.). In South Korea there are 4 giant "business conglomerates" (Hyundai - 46 subsidiaries, Samsung - 55, LG Lucky Goldstar- 48 and Daewoo - 25) known as "chaebol", which generate 84% of the total GDP and 60% of South Korea's exports (The Economist 1996). By far the most powerful conglomerate in Columbia is Sindicato Antioqueno, comprised of two large industrial companies (a cement manufacturer and a food manufacturer) and an insurance company, uniting a total of 116 organizations (Business Week 1996).

Of great importance for the establishment or strengthening of business links with Japanese companies is a good knowledge of Japanese forms of strategic alliance, which, for historical, geographic, economic and cultural
reasons represents an authentic form of partnership. Links with certain companies will by all means facilitate entry on the Japanese market. An analysis by McKinsey & Co. has shown that 2/3 of industrial companies successfully performing on the Japanese market have resorted to partner alliances for three reasons (Jones 1993, 155): access to distribution channels, access to good management and workers, and attainment of favourable business results in a short period.

4. OBJECTIVES OF STRATEGIC ALLIANCES

In addition to general external factors, such as rapidly increasing international competition, technological and general advancement and globalization, the motives for the existence of partnerships stem from the internal goals of individual alliances, which may vary considerably. These goals generally relate, on the one side, to effectively overcoming development problems and, on the other side, to taking advantage of opportunities, which usually involves the elimination of deficits in resources and/or the optimal and synergetic exploitation of available complementary resources of members of the alliance which, as individual companies, are incapable of controlling all the key areas of operation or consider such control uneconomical.

The objectives of the strategic alliance process are described in the table 1. Attaining the set goals represents a motive or reason for the formation of alliances. Devlin and Bleackley (1988) stress that certain alliances were also formed on the basis of irrational factors such as, e.g. fear of nonparticipation in alliances in which other participate, or simply surrendering to "fashion whims".
### TABLE 1: Objectives of strategic alliances

<table>
<thead>
<tr>
<th>Goals</th>
<th>Subgoals</th>
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| MARKET-RELATED | • increasing marketing opportunities and abilities  
| | • overcoming obstacles or making use of the advantages of commercial, political and economic integrations  
| | • satisfying ever-growing ecological requirements  
| | • enriching the offer of products and services by adding or complementing product lines  
| | • taking over leading market shares and maintaining existing ones  
| | • conquering market niches on emerging markets  
| | • responding to growing competition  
| TECHNOLOGY and DEVELOPMENT | • joining R&D capacities or sharing increasing R&D costs and investments in technology  
| | • adapting to emerging innovations and general and technological advancement  
| | • joining and exchanging know-how, experiences and information  
| | • reducing the time needed for the introduction of new products  
| | • setting global standards  
| REDUCING RISKS AND INCREASING INTERNAL STRENGTH | • dividing and dispersing risks  
| | • defence against risky or undesired take-overs  
| | • increasing internal strength by learning from others  
| | • enhancing growth with early links  
| ACHIEVING ECONOMIES OF SCALE AND RATIONALIZING OPERATION | • economies of scope  
| | • economies of scale  
| | • dislocation of individual business functions  

In connection with various goals of individual alliances, it would seem appropriate to mention the classification of alliances proposed by Bellenger (1994). Bellenger divides strategic alliances into complementary (e.g. Renault distributes the Espace model, which is produced by Matra-Automobile), integrative (e.g. the Renault-Peugeot-Volvo connection for the manufacture of the V6 engine), and additive (e.g. Airbus) alliances. Garrette and Dussauge (1995, 113), who employ a similar typology, designate the last mentioned type as a pseudo-concentration alliance (consortium).
5. STRATEGIC ALLIANCES ACCORDING TO SECTORS

Various studies, reviews and analyses have shown that most strategic alliances were in the automobile, pharmaceutical, space-aircraft and chemical industries, biotechnology and information technology, and in service activities.

A study of the strategic alliances of American companies with other companies (Culpan and Kostelac 1993, 111) led to similar conclusions, and revealed that strategic alliance is present in practically every sector (industry, various services, government institutions). This is in reality a very important finding, which confirms that strategic alliance is not limited only to certain fields or sectors. And as much as strategic alliance is not limited to fields of activity, it is also not limited to a specific geographic area. A good example are the capital affiliations of multinational corporations with Eastern European companies for the purpose of achieving joint goals (VW + Skoda, Czech Republic; Fiat + FSM, Poland; John Brown + Gasprom, Russia; Suzuki + a Hungarian consortium, etc.).

6. WEAKNESSES OF STRATEGIC ALLIANCES

In spite of the fact that strategic alliances represent one of the most important modern forms of international business operation\(^1\) ("the predominant industrial organizational form up to the year 2000"), the degree of their success or survival is not high. A study by McKinsey & Co. and Coopers & Lybrand (Culpan and Kostelac 1993, 118) has shown that around 70% of formal strategic alliances disintegrate or fail sooner than expected. Another study (Garrette and Dussauge 1995, 31) mentions that

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\(^1\) Interviews conducted over the past few years with almost a thousand executives from international corporations indicate that these professionals are fully aware of the significance of associated companies in future. In their opinion, alliances will be one of the essential characteristics of companies in the 21st century (Wind 1992).
only 40% (of 880 cases studied) survive for more than 4 years. According to Bleeke and Ernst (1991), only 51% off 49 alliances studied were beneficial for both partners, and one third for none. A slightly lower success rate (45%) was found by Hunt and Morgan (1994), who analysed 895 strategic alliances.

Many researchers have attempted to illuminate the reasons for the failure of strategic alliances. De la Sierra (1995, 190-207), for example, gives as many as 12 reasons for the failure of certain alliances, which represent a direct threat to strategic partnerships: changes in strategic goals and orientations, changes in management, incorrect estimate of partner's abilities, different visions, impossibility of cooperation due to different styles of management and different cultural norms, failure to meet market expectations, difficulties in joint performance in the market, only apparent compatibility of various products, increased strength of one partner, transfer to another industrial sector, insufficient financial resources, sale of equity share in a partner company to a third party. The cases studied prove that the reasons for the failure of alliances can vary considerably.

In analysing the disintegration of alliances, it is necessary to distinguish between their changed form of operation (e.g. acquisition, merger) and their actual failure or disintegration. According to Lynch (1993, 305), who excluded alliances which changed their form of operation from the sample studied, the failure rate of alliances in the chemical industry over a 25-year period is only 25%. Some alliances have been successful for a very long time (e.g. Westinghouse + Mitsubishi, Fuji + Xerox, etc.) and their alliance lasts as long as there is a common need, after which one partner may leave or take over the alliance.

In recent times, the question of the human factor or management in strategic alliances is very often brought to the fore, as many alliances are not sufficiently prepared to confront this aspect of joint operation. A study of 38 alliances (Datta and Rasheed 1993, 252) showed that of the 100-5000
hours generally spent on the preparation of an alliance, only 2-4% of these were actually devoted to the discussion and adoption of adequate staff solutions (the incompatibility of management practices was the reason for the failure of a promising alliance between Dunlop and Pirelli (Devlin and Bleackley 1988)).

Some interesting views in this respect were expressed by Hall (1995, xviii), who says that cultural differences are completely irrelevant for the failure of alliances, since "all combinations of entrepreneurial cultures are potentially compatible". Hall developed the so-called compass model, which enables us to assess the compatibility of individual cultures and may be used for all levels of integration. The model, described in detail in the above-mentioned reference, is considered suitable for: evaluating the cultural styles of potential partners, neutral discussions on mutual differences and ensuring bases for common understanding with the new partner company, preparing steps towards a new "ideal" culture, if so desired by the partners, evaluating the costs of cultural differences, managing misunderstandings and preventing conflicts resulting from cultural differences. This allows us to discard three myths: that an alliance is possible only between companies with compatible cultures; that success can be achieved by forcing one culture on another; and that managing a partnership does not differ from ordinary management (no additional knowledge and skills are required).

Studies of unsuccessful strategic alliances allow for the formation of certain conclusions:

- alliances between strong and weak partners are rarely successful;
- alliances with more or less balanced ownership (shares) are more successful than those in which one partner has a majority interest;
- many alliances result in acquisitions, which are not necessarily the consequence of their unsuccessful functioning, but merely the realization of strategic objectives;
alliances which have gradually changed their initial purpose or demonstrate greater flexibility in changing conditions are generally more successful than those who fail to do so.

7. CONDITIONS FOR THE ESTABLISHMENT AND FUNCTIONING OF STRATEGIC ALLIANCES

The successful functioning of strategic alliances is subject to the fulfilment of certain conditions and the decisions to be adopted in this process are not easy ones and cannot be successful without adequate preparations, planning and a systematic approach.

The establishment and successful functioning of strategic alliances is subject to the following conditions:

- compatibility of objectives (objectives of individual partners and common objectives);
- capability of creating strategic advantages (costs, market, information, resources...);
- interdependence of partners;
- devoting sufficient attention to the alliance, acceptance of obligations, mutual support and trust;
- adequate communication and effective solving of conflicting situations;
- coordination of activities and properly adjusted management and adequate supervision;
- planning (adequate preparation and a project-oriented approach).

Long-term success is not possible without a systematic approach as early as in the phase of analysing the actual environment and potential partners from the aspect of the fulfilment of the said conditions.
For this very reason many successful alliances have developed from previous long-term cooperation arrangements, which allowed them sufficient time to assess the suitability of a partner for a strategic alliance.

8. STRATEGIC ALLIANCES - A NECESSITY FOR SLOVENIAN PRODUCERS AS WELL

Individual Slovenian producers find it extremely difficult to compete in the global market with large international systems which have concentrated enormous funds for research and development purposes, tremendous staff potential and favourable financial sources precisely through various forms of integration. It would therefore be illusory to expect that an individual Slovenian manufacturer could, in the given circumstances (unpolished or even negative image of Slovenia, limited resources, weaknesses of transition period, etc.), compete on an equal footing with these international conglomerates.

The existing external partnerships in Slovenia are usually the result of long-term cooperation in the past or the fruit of various coincidences of one kind or another. As regards internal associations, a systematic approach to their formation practically still does not exist, which is partly also the consequence of objective circumstances (e.g. "closed" organizations in the past, self-sufficiency due to the availability of the former Yugoslav market or the markets of Eastern Europe, etc.).

However, more recent examples of internal integration are encouraging. A good example of a consortium or coordinated joint performance is the cooperation of Slovenian toolmakers who have established a special joint technological and development centre named Tecos. A group of smaller Slovenian fashionwear companies have established an association which shall coordinate their endeavours for the creation of a joint policy. Textile manufacturers are discussing the concentration of know-how and experience in the Fashion Centre. Studio Marketing has established
cooperation with the J.W. Thompson company for the purpose of servicing old and new customers of this company in the former Yugoslavia and Albania. And so on... Unfortunately, however, these are only rare exceptions, many of which have not yet come to life in practice. As already mentioned in previous sections, strategic alliances are not limited to certain activities or specific organizations. Among other things, Slovenia should ensure more intensive cooperation between scientific and research institutions and industrial sectors.

In view of the present Slovenian circumstances, when large business systems have disintegrated or are disintegrating and a multitude of small producers and performers of services is emerging, successful (and profitable) performance on international markets will require intensive planning and the systematic formation of internal alliances (e.g. consortiums, comprehensive horizontal and vertical alliances, joint R&D projects, etc.), as well as external, international partnerships. Without strategic partnerships, numerous Slovenian manufacturers (the same is valid for the most of Eastern European countries) will not be able to secure their existence and prosperity.

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