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Strategic Alliances and Innovations in the International Business

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Abstract

During the last decades, organizations have been under the constant pressure to make changes and to innovate. One of the factors of the highest influence certainly are new technologies, especially information technologies, which made the market globalization increasing and rising of new organization forms such as strategic networks and alliances. The interest for alliances and their contribution to performances of partner organizations is getting higher in modern conditions. An innovation today should not be seen as the product of only one actor, but as the result of cooperation between two or more parties.

The innovation process should be treated as a multidiscipline and multidimensional process in which a great number of people participate. With direct or indirect connections and through different communication channels, organization is able to approach wide spectrum of other organization resources, and this enables creation of larger number of projects with lower investments and risks.

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For an organization, entering the alliances is no longer the matter of finding new resources, but it becomes the main cause of strategic innovation and preparation for unpredictable future challenges and development. Cooperation among enterprises brings certain risks, among which are most often information drain, loss of the control and independence, conflicts because of different aims and interests, increased complexity, and all these factors can produce negative influence on innovation creation and on innovative potential of the participant. Although an alliance should reduce expenses, risk and time necessary for new product development, innovation process within an alliance can sometimes be very complicated and can appear to be more expensive solution in the end.

Keywords: alliances; innovativeness; benefits and risks.

1. Introduction

Modem business conditions are characterized by fast and often unpredictable changes, new and emerging technology arising, shortening product life cycles, sophistication of consumer demands and using competitiveness on the global level. In such a situation only a few of a large companies having strong financial and human resources (meaning knowledge and learning) can provide successful in-house expertise. "The cost of building and sustaining the necessary technical expertise and specialized equipment is rising dramatically. Even for the largest corporations, leadership in some market segments they have traditionally dominated cannot be maintained because they lack sufficient technical capabilities to adapt to fast-paced market dynamics" [1]. Quite often happens that relatively marginal technologies for one enterprise represent the key factor for another. In cases as these providing such technologies from external sources as one of the technology transfer forms can be seen as a reasonable solution to avoid risk, decrease costs and time needed for in-house development.

In high technology areas, which are characterized with shortening technology and product life cycles, there is a constant pressure on firms to stay flexible, in order to have quick responses to new market needs and technological possibilities. It is very important and desirable that the firms gain capabilities to make a fast and successful movement from research in one technological area to another. All this reasons make it necessary to an enterprise to take part in different forms of cooperation with external organizations. Connection and cooperation between various enterprises today is not only the key for success, but often become means for survival in global competition environment.

Through interactions with other organizations from environment, the company can develop or diversify its business. Market conditions today are rapidly changing as a consequence of technological innovations, economy and society development, cultural changes and many other factors. That is why firms are in the position to search to new responses and solutions using creative way of thinking in different areas. To find those new responses and to realize competitive advantage, firms have to focus their attention particularly on innovations. Innovativeness has always been an important task for management and entrepreneurs, but for today's conditions it is absolutely crucial.

2. Defining alliances

Alliances, being formal or not, usually represent an agreement between two or more sides for cooperation in specified areas. The agreement may have limited affect in the sense of certain information exchange or some temporary collaboration until one of the partners makes his access to the new market. Some of agreements are concerned about collaboration in the form of certain joint ventures or a project, sharing costs in the domain of innovations, considering R&D, but also construction, prototype and testing [2]. In some alliances, agreements lead to mergers, i.e. joining technologies and capabilities of two or more companies. "Strategic alliances...involve shared responsibility for the development and execution of a particular program, service, or product line. These alliances capitalize on the individual strengths of each participating organization, benefiting from bringing together strengths in such areas as operational management, market positioning, and brand recognition. Expenses are usually shared”. Nevertheless, alliances are something more than collaboration agreements. “They are living systems that evolve progressively in their possibilities"[3].. Alliances are not only the pure exchange, where one partner gets what the other loses, but they represent collaboration for making a new value together. Besides direct, short-term collaboration reasons, relations network offers participants different future options, opens new horizons, and unpredictable possibilities.

Alliances can be built with different groups of partners/participants: other companies, universities, research institutions, national committees and agencies, suppliers, distributors, clients/buyers. Today, alliances are more than bilateral connections and very often they cover high number of different partners, which makes it more difficult to define common strategy, increases the divergence risk and the sensitivity of the network. Alliances between two international companies can, also, be hard to manage, because even bilateral links include cooperation in many areas. For example, Phillips has fifteen current alliances with Sony, which involve several business units within Philips.

3. Formation motives

There are a lot of reasons and possibilities for collaboration between organizations. The UMIST survey of more than 100 UK-based alliances has shown that the most common reasons for collaboration for product development are in response to changing customer or market needs. Most frequently, reason for cooperation is to decrease costs and risks related with new products and process development, together with the time needed for commercialization. Motives for collaboration can be access to partner's market and technology, supplying process simplification, as well as providing better economic indicators of production. Alliance formation motives could be classified in four categories: financial (cost savings, price reductions, leverage capital), technological (access to R&D, access to information technology), strategic (access to new markets, core competency) and managerial (reduce supply base, stabilize supply/demand, simplify supply process, and increase loyalty) [4].

Technology and innovations are often the key drivers in the formation of business partnerships. Motives especially important in inter firm co-operation with a technological focus are related to [5]:

- Basic and applied research and some general characteristics of technological development (increased complexity and inter sector nature of new technologies, technological synergies, access to scientific knowledge or to complementary technology, reduction and sharing of uncertainty and costs in R&D);

- Concrete innovation processes (capturing of partners' tactic knowledge, technology transfer, shortening of product life cycle, reducing the period between invention and market introduction);
- Market access and search for opportunities (monitoring of environmental changes and opportuшt1es, internationalization, globalization and entry to foreign markets, new products and markets, expansion of product range).

4. Alliances and innovativeness

Strict international rivalry, explosion of market segments and fastened technological changes made innovativeness become one of the most important enterprises characteristics, not only for development, but for the survival itself. Enterprises are nowadays expected, no matter what their field is, to respond to the changeable customers' demands and rivals' moves. Ability to notice possibilities, to appear on the market with new products and processes, quickly, efficiently and effectively is of the key importance for the competitive fight. Development of the successful product opens new markets and attracts new customers, but it also brings new abilities to organization and new know-how that can be applied in future project development. It all increases interest for an enterprise and its products in wider surrounding, which enables development of new connections and relations with other organizations. "Companies nowadays feel the need to continuously innovate not only their products but also their position in the market. Strategic innovation is the key to wealth creation” [6].

Enterprise innovativeness depends on many internal factors (organization, internal connections, members' motivation, etc.), but it also depends largely on enterprises cooperation and connections established with organizations in the surrounding. It is widely recognized that one of the key factors of influence on organization's propensity to innovate can be seen through a competitive environment. An adequate positioning which can be provided by taking part in alliances makes it possible that an enterprise uses all advantages of such an environment for increasing its innovative capabilities.

Entering the alliances brings benefits in situations when we have high expenses for transaction for obtaining technology. As the time passes, there is greater confidence between partners, thanks to the accumulated knowledge and experience, and expenses for transactions are becoming smaller. In such a case, for an enterprise it is much cheaper and more useful to buy and sell technology as a member of an alliance. Alliances can be used as an opportunity for obtaining new information about the market and competitors. Today we have more and more strategic alliances for new technology creation or for approach to new markets. An analysis of the alliance portfolios of large multinational companies, such as Intel, Philips, Hewlett-Packard, Sun and Microsoft, shows that growth rates of knowledge intensive alliances are on average three times higher than of other alliances. Exactly these alliances give partners opportunity of joint innovative products and processes development, new marketing approaches and organizational solutions by using complementary participants' competence [7]. In order to use fully all the advantages of partnership it is necessary to develop appropriate structures, processes and skills in accordance with organizational and interpersonal differences among partners. The most productive relationships achieve five levels of integration; strategic tactical, operational, interpersonal cultural integration.

Flexibility is very often pointed out as one of the key advantages of alliances, and it implies quick reactions on continuous evolutions and revolutions connected to products, technologies and markets. Strategic flexibility is simply the ability to do things in different ways depending on needs. In an ideal case, enterprises that have specialized in certain activities have their complements in partnership with those that have flexible technology and that respond to changeable market conditions. These enterprises rely on each other and they share the key expertise and know-how. There is enlarged need for both flexible and agile organization forms that can adjust to novelties, innovations and changes.

Alliances bring significant advantages in new products and processes development where joint work reduces time and expenses and contributes to the quality. Rationalization very often leads to the situation that suppliers and buyers are included in the product development, and that way it is easier and faster to respond to the market demands. Speed is the advantage that is of crucial importance for successful innovation. As a good weapon, speed can be paid off in three ways: speed brings competitive advantage, greater profitability, and it reduces unpredictability. Work in cross-functional teams and ideas exchange within an alliance contributes to the acquisition of speed, innovation and quality that enterprises expect from any partnership. New knowledge has to be available to the organization members, and specific meetings and programs for regional managers from partners' enterprises can help ideas exchange and can improve the learning process.

The learning process demands appropriate management through planning, direction, coordination and control of all phases of learning. Encouragement of your own R&D activities, work on products and processes innovation is part of total activities of organizational learning. Ultimate aim is to turn acquired knowledge into action that is to provide critical mass of knowledge in organization for reaction in wanted direction. Success and usage of full potential of alliances through establishment of innovative, flexible, adaptive and responsive learning organization significantly depend on complete establishment and successful management of organizational learning.

4.1. Benefits of entering the alliance

There are many benefits of entering the alliances for an enterprise potential and it is difficult to enumerate them. Possible benefits that strengthen innovative potential of the enterprise can be classified into six categories (technological, financial, marketing, management, production and strategic), although it is difficult to draw sharp line between certain benefits because they are entwined and dependent on each other [8]. Technological benefits are: access to partner's new technologies, access to information technology which enables real-time exchange of information, access to missing resources, access to partner's R&D expertise, ideas and results, joint NPD, reduced time, cost and risk of development process, improved quality of development process, access to technical resources, construction and product specifications, use of mutual potential for R&D, construction and testing, different forms of technology transfer. Financial benefits are: reduced costs and increased profits as a result of: lower duplication of activities, waste and losses, educed purchase price between partners, joint new product development, better use of capacities, shared business risk, financial sources for joint ventures, participation possibilities in profit share. Marketing benefits are: mutual scanning of market changes and discovering the opportunities, mutual potential for new product and market development, access to partner's market (especially in global alliances), benefits of partner's reputation, use of known names and trademarks, mutual new product promotion, potentials for innovations in market activities. Management benefits are: use of individual and mutual experience, staff exchange and management training, reduced supply base with a few core suppliers leads to management simplification, with stabile supply/demand relations and efficient supply chain, loyalty between partners. Production benefits are: information about new products and processes, access to partner's production resources, improvements in equipment/capacity utilization, less expensive components, possibilities for licensed production. Strategic benefits are: linking partners' core competences, achieved new and sustainable competitive advantages, synergy effects (2+2=5), strategic flexibility, learning through alliances [9].

Motives that exist in enterprises when they make decisions about joining an alliance are actually the benefits from the partnership that they expect in future. Apart from that, some unexpected benefits appear during the cooperation, since the real value of an alliance lies in numerous possibilities not only in current period, but also in large and very often unpredictable potentials for future cooperation, that can bring significant financial benefits to participants, as well as competence development and strong competition. Of course, in a concrete case there won't be al\ said benefits of partnership, but with careful choice of partners and type of connection, appropriate resources management and management towards collaboration, many of these benefits can be used.

4.2. Innovation clusters and innovation networks

In identifying the relation between different types of strategic alliances and innovativeness, it should be important to emphasize the particular role of innovation infrastructure specific forms such as innovation clusters and innovation networks. Innovation clusters arise aiming at increasing productivity and competitiveness of the companies, and represent geographic concentrations of interconnected companies, specialized suppliers, service providers and associated institutions in the particular area. As for the innovation networks, there still exists the need to define this generic form of strategic alliance more precisely, since there is no real consensus in the literature about the situation an innovation network is said to be established, although there is some agreement that a network means more than a series of supplier and customer relationships. Authors from the field of innovation management, also, observe this kind of strategic connection as the structure organized for the main reason of constant learning.

It should be notified that, actually, the foundation of this approach are industrial clusters, leading to discussions regarding the potential impacts of regional planning policies in the fostering of innovation and growth at the local level. In that sense, one of the tools concerning innovation policy in EU is that of well-known Innobarometer, an opinion poll which is carrying out by European Commission DG Enterprise and Industry, with the key objective to explore the needs in innovation, investments and output accomplished; the latest one is directly analyzing this aspect of innovation, where company clusters are considered as important means of increased innovation and competitiveness, providing, due to the concentration of complementary businesses, that "key factors of development can be produced more economically and competition is above the average". It is interested to point out that the current Innobarometer on "Cluster's role in facilitating innovation in Europe" for 2006, was carried out in the 25 member states (at that time), in four candidate countries (Bulgaria, Croatia, Romania and Turkey) as well as in Norway, Switzerland and Iceland; according to this survey results, while a quarter (26%) of cluster companies in the EU do not actively participate in any business network, almost as many (23%) participate more than one, and the plurality of companies is active in one such network (50%). Also, the important information is that only 41% of the managers form the New Member States claimed to be familiar with cluster concept [10].

4.3. Risk in alliances

Apart from a lot of advantages, strategic alliances have their disadvantages as well, and they have to be considered when making decision upon joining an alliance, as well as when choosing a partner. Joining an alliance, with good motives, carefully and well-chosen aims and partners, does not have to mean that it will bring desired results. The results of an alliance will sometimes be completely opposite to expectations that partners had at the beginning, so it is very important that partners are aware that alliances carry some risks and restrictions with themselves. More and more authors point out those alliances can reduce firm's ability to innovate. Cooperation among enterprises bring certain risks, among which are most often information drain, loss of the control and independence, conflicts because of different aims and interests, increased complexity, and all these things can have negative influence on innovation creation and on innovative potential of participants. Loss of independence is inevitable it is one of the main disadvantages of alliances [11]. Usually smaller and weaker participants have to subdue their decisions to the alliance's decisions. In all alliances partner enterprises lose part of their control, and with time, apart from the economic efficiency, the very destiny of the participants is connected to the destiny of the whole net. Although an alliance should reduce expenses, risk and time necessary for new product development, development within an alliance can sometimes be very complicated and can appear to be more expensive solution in the end. Business functions integration in alliances is sometimes very difficult and complicated, because there is always a tendency focused on aims of the parent company. Too many partners sometimes bring standstill into the alliance and sometimes it is difficult to define mutual aims and to estimate real contribution of each partner to their realization. Causes of standstill can .be technological as well. Established technological standards with the aim of provision of compatibility can limit the degree of participants' freedom in the innovative technological solutions research

5. Conclusion

Innovation management deals with uncertainty and innovation process requires a high level of flexibility. Innovations usually involve new technology and new links with the market, therefore existing routines and business processes will often be insufficient. Strategic alliances thus provide a large potential for improving the innovation process. Alliances are flexible forms, open for changes and new opportunities, due to development of independent centers of innovations and competences. Each center can follow the different path, building its own networks of relations which make new resources of innovative solutions. Benefits of entering the alliances are, above all, significant costs, time and risk reduction in new product and process development, which results from mutual work on R&D with technology transfer between partners. Benefits from using the full potential of alliances depend on established management of learning through alliances and it is very important that partner organizations continuously develop capabilities for learning and full exchange and capture of knowledge and skills. Strategic alliances can enhance profitability and competitiveness of an enterprise, while the mutual experience is transferred to future projects and rise innovative competences of partners involved. Entering the alliances, an enterprise faces a dilemma which type of relationship should develop with other organizations. In making decision between strong and weak relationships, before all, the difference should be made between the key strategic partners that could be trusted and partners for short-term cooperation that could become competitors in the future. However, weak relationships, which connect organizations from different groups in alliance, may become extremely powerful source of innovativeness, as innovation often results from a new combination of knowledge sources.

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