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STRATEGIC ALLIANCES BETWEEN FIRMS – A MODEL OF COMPETITIVE STRATEGY IN FOOD INDUSTRY

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Abstract:
A statistical analysis on food engineering companies from the North Eastern of Romania was made in order to emphasize the fact that alliances are clear examples for companies to achieve more important and stronger market presence. Today, alliances are a fact of life for business, a substantial part of current operations as well as a future strategy. Among other existing solutions, creating strategic alliances (through various types of cooperation, collaboration and partnership) is a solution for business firms to get competitive advantages. Strategic alliances have become increasingly more and more important in the global economy and nowadays they are a kind of competitive weapon for survival in the business world. Even if there have been made many alliances between business organizations, a "magic formula" for creating them has not been found yet, because each alliance has its own particularities and its specificity. Since the foreign literature and Romanian literature on strategic alliances, clusters, networking and other forms of cooperation / collaboration between firms are extremely broad, we shall present a synthesis and give a definition of strategic alliances, by focusing on the key reasons for creating strategic alliances.

***Keywords**: strategic alliances, advantages and disadvantages of strategic alliances, reasons of strategic alliances*

1. Introduction

The current global competition induces a permanent pressure for new alliances, acquisitions or mergers between large multinational corporations in various fields [1]. In this context, the strategic vision of big corporations must necessarily take into account cultural differences that separate countries in the world to succeed in various foreign markets. In other words, only big companies build their "initial strategic framework", afterwards making appeal to a cycle of strategic management process (various distinct strategies are blended, changed or adapted quickly if the market requires etc.); we understand that the only element of stability in the global context is only this initial strategic framework, further on any adjustment or modification being even recommended [2]. Companies have used strategic alliances as a key source of competitive advantage, and many have formed alliances worldwide with the objective of increasing the economic benefits of the parties involved. Strategic alliances or strategic partnerships are a suitable option in situations where competitive advantage can be achieved together, not separately [3].

2. Materials and methods

2.1. Strategic alliances

To define clearly the terms used in this article various books and articles, which are specified in the references, were consulted. A questionnaire was applied to a total of 31 food companies, becoming a case study.

Currently, the companies admit that both competition and cooperation are necessary to ensure optimal growth in a very restless world economy. Strategic alliances are now considered to be one of the most powerful mechanisms for combining competition and cooperation and for industrial restructuring at global level.

Organizational alliances are favorite forms under the conditions in which the company has to be connected permanently to pulse standing market, the price mechanism remaining important, the risk of information leakage is not disturbed, the financial risks are high, the resources are limited and flexibility is very important. The term ”alliance” refers to a particular type of relationship between firms, and becomes an ”umbrella” for this cooperation, collaboration or other activities between those entities [4]. Currently there are several forms of cooperation agreements between companies, organizations or enterprises and the terminology describing these agreements is far from uniform and consistent in the literature where we find various terms such as *”joint ventures”*, ”*collaboration contracts*”, ”*partnerships*”, ”*business alliances*”, ”*strategic alliances*”, or simply "*alliances*" , "*strategic coalition*" [5] or "*strategic network*" [6]. It is very confusing for those who want to understand the field of application, characterization and distinguish between the different ways in which companies collaborate and therefore, in a general definition, we can designate practically as business alliances (or simply alliances) all forms of cooperation relations between different companies involving joint contributions and property and a common control. We consider a strategic alliance as a strategic association, collaboration or union or as a strategic pact.

Strategic alliances have been defined so far in the economic literature from different perspectives and as a result there are many definitions of this kind of collaboration. According to our own opinion, we can define strategic alliances as arrangements, agreements, collaboration, business or partnerships through which two or more partners, even if they are or can be competitors or potential competitors in the market, who want to cooperate with each other in mutual benefit to support or strengthen the competitive advantages of participating companies. We can also consider that an alliance is a “marriage” between partner companies and at the time when partners do not understand each other, then a “divorce” takes place, actually the dissolution of the alliance. Even simpler, a strategic alliance is sometimes referred to as a "partnership", which gives organizations / business units the chance to unite forces in view of a beneficial mutual opportunity and support of competitive advantages [7]. Alliances are created in order to achieve the objectives of the partners involved in.

According to the experiences of the past 15-20 years it can be concluded that those companies that have a "strategic alliance", without any coherent and clear "alliance strategy" are almost sure to end up in failure [8]. The difference is not only of semantics. A strategic alliance refers to an agreement and a specific organization or a contract; an alliance strategy is much broader and deeper and includes four elements: a business strategy which shapes the design of the alliance; a dynamic view to guide the management of each alliance; a clear approach to manage the alliance firms; an organizational infrastructure to build and support the ability of alliance.

The experience and the research made over the last few years show that there is no universal method of establishing strategic alliances, the methods applied in a case are not fit in another one, each strategic alliance having its specific characteristics. Strategic alliances are considered to be intermediate in the relations between firms, being located between ordinary transactions and mergers between companies. Strategic alliances are agreements between companies that remain independent and are often in competition.

Therefore, it is argued that the definition of strategic alliance involves some important issues that can be listed as follows [9]:

a) strategic alliance is a cooperative strategy that needs a good partner to make a developing partnership;

b) organizational resources and capabilities are shared, whereas the new ones are acquired and developed by a well-managed strategic alliance;

c) participating firms pursue common objectives and create a process of adding value to improve their competitive advantage by creating competitive advantages of cooperation.

The great diversity of alliances existing so far shows that strategic alliances are ideal tools to combine cooperation and competition in corporate strategies.

The models of cooperation and competition can be classified into the following category [10]: to cooperate, then to compete: when companies are not ready to compete in a particular area, first they cooperate with competitors for short-term goals; then cooperating companies can compete with each other, once they have got their competence or performed a common standard; to cooperate while competing: companies can continue to compete while they cooperate in certain fields; to cooperate with each other and compete with others: companies can conclude cooperation agreements with third parties to compete.

2.2. Reasons and contexts for involvement in alliances

It should be mentioned that the formation or development of strategic alliances cannot be achieved overnight, as it involves several steps:

- the decision of adopting a business alliance strategy;
- selection of the right partner, depending on the reasons for which the alliance is formed;
- negotiations based on each party's needs;
- establishing the partnership form and implicitly the management one, to ensure benefits for all the parties involved.

The firm's decision to adopt a strategy of alliance must be a decision based on the orientation of the company strategy [11], and according to various studies conducted on several companies it was found that strategic alliances are very important in the success of the participating companies. If companies cannot buy new technologies fast enough, it is essential for them to work together [12]. The second step in creating an alliance, partner selection criteria can be summarized as follows:

- sharing of unique skills with the partner (skills and knowledge related to the alliance: the specific goals and objectives) [13][14];
- resources including tangible and intangible assets, such as technical, managerial, financial and reputation [15];
- co-specialized assets and access to such assets (including complementary resources and capabilities [13], [15], [16];
- access to international or local markets [17];
- alignment of partners' compatibility including the cultural side, their strategic fit and the desire to contribute to the alliance [17];
- inter-organizational learning potential to increase town skills [18];

In other words, we should have in view that for creating a successful alliance the following 10 rules must be obeyed [8] that we can call the "*Decalogue of successful* *alliances*" or "*The 10 commandments of successful alliances*":

1. clear strategic goals - alliances are never an end in themselves, they provide tools to achieve business strategy;

2. suitable partner - a partner with compatible goals and complementary capabilities;

3. specialization - The allocation of tasks and responsibilities in alliances should be made in a way that allows each party to do what they know best;

4. creating incentives for cooperation – working together does not happen automatically, especially when partners were previously rivals;

5. reducing conflicts between partners - the scope of the alliance and partners' roles should focus on avoiding the competition against each other in the market;

6. sharing information - ongoing communication develops trust and maintains joint projects on target;

7. staff exchange - irrespective of the alliance, contact staff and site visits are essential to maintain communication and trust;

8. operation with long-term horizons - mutual tolerance in short-term conflict resolution is enhanced by the expectation of long-term gains;

9. development of joint projects - successful cooperation in a single project can be helpful for partners on „*stormy weather*" in less successful joint projects;

10. flexibility – alliances are dynamic and open relationships which must evolve with their environment and look for new opportunities.

The diversity of involvement reasons in a strategic alliance can be divided into four distinct categories [19]: *organizational reasons* (different types of learning and incorporating tacit collective and integrated skills; restructuring; performance improvement; acquisition of distribution facilities; recreation and supply extent in order to adapt to environmental changes; complementarity of goods and services to markets; legitimation.), *economic reasons* (finding a market; cost and resource sharing; risk reduction and risk diversification; achievement of scale economies; co-specialization.), *strategic reasons* (achievement of vertical integration; achievement of a competitive advantage; diversification into new businesses; access to new technologies; technological convergence; research and development; development of new products and technologies; cooperation with potential rivals or competitors' disadvantage; monitoring trends in the industry) and *political reasons* (development of technical standards; overcoming of legal or regulatory barriers).

By analyzing the reasons for the formation of strategic alliances we can say that alliances are created [20]:

• to reduce competition, because more and more competition in most industries occurs between different strategic alliances, between firms and not in isolation - this means that former competitors cooperate in a strategic alliance and thus they act against others who have already joined;

• to acquire dimensional savings in production and marketing, since by pooling their efforts in the manufacture of components, assembly and marketing of products, companies can achieve economies of scale which are not feasible in terms of production volume of each company if taken separately;

• to reduce disparities in terms of technical and production skills, as partners learn from each other about the conduct of joint research, the sharing of technologies;

• to gain access to other markets or to learn from alliance partners.

2.3. Case study

A case study was conducted on 31 companies in the food industry in the North East of Romania, companies that run in the field of processing meat and meat products, milk and dairy products or bread making, as follows: 58% of the companies surveyed are enterprises with a number of employees ranging between 50 - 249, 32% of them with a number of employees between 10-49 and 10% have fewer than 9 employees.

The aim of our research was to establish the influence of alliances, partnerships or collaborations between companies that are active in the food industry on their income and survival in the global market today.

The objectives proposed in this research aim at:

- setting the number of business alliances, partnerships or collaborations made by business organizations and the percentage of annual turnover derived from these alliances;
- determining the main reasons for which companies get engaged in a business strategic alliance, partnership or collaboration;
- identifying the key elements influencing the results of a strategic alliance;
- setting elements that determine and influence the performance of an alliance or partnership;
- having in view the fierce competition of the global marketplace, companies can survive by making a larger number of alliances, partnerships or collaborations;
- over 50% of their turnover comes from these alliances;
- determining the reason for which a firm is involved in a business alliance, by facing competition in the market.

3. Results and discussion

According to the survey made, we have found out that 26% of companies are not involved in any strategic alliance business, 13% of them have already made alliances, 6% are part of 2-3 alliances and 55% of these companies are part of more than 4 alliances, partnerships and collaboration business, aspect graphically shown in the figure 1.

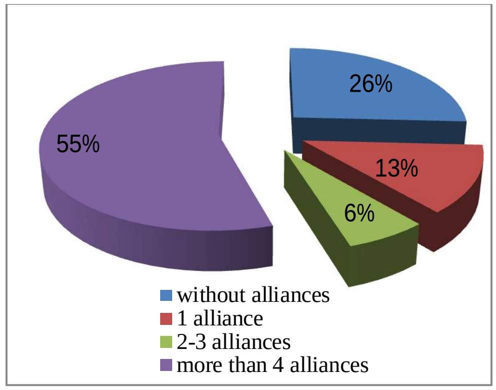


Fig.1 Company's involvement in business strategic alliances

From the data analysis it is obvious that our first hypothesis is confirmed since almost three quarters of the companies analyzed (74%) have made at least one partnership, collaboration or a business alliance.

Considering the reasons for which a company gets involved in an alliance, partnership or collaboration we found the data shown in the figure 2.

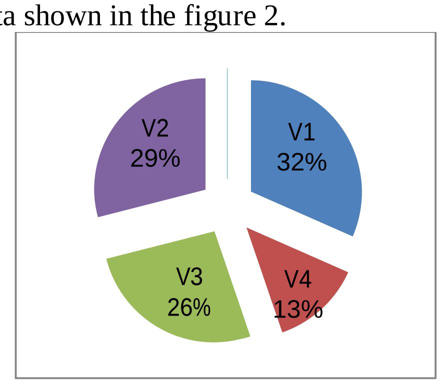


Fig.2 Reasons for which a company got involved in an alliance, partnership or collaboration

From the above figure we remark that: 32% of them have made an alliance to deal with competition on the market (*V1* in the graph), 29% of them to gain access to other markets or to learn from alliance partners (*V2*), 26% to reduce disparities in terms of technology and production (*V3*), 13% to capitalize scale economies in production and marketing (*V4*) and all.

From the analysis of time when the company has become part of an alliance, a partnership or a collaborative form, one can notice that 91% of business organizations are involved for more than 4 years in such collaboration and 9% of firms for 2-3 years only. These data are shwon in the figure 3.

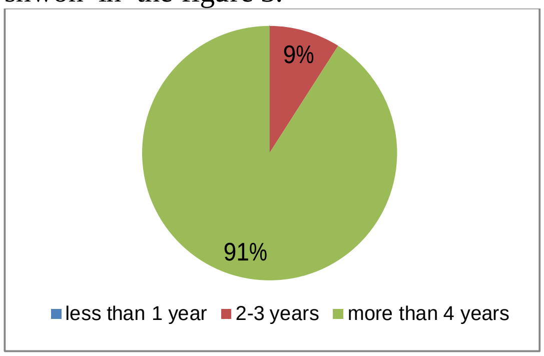


Fig. 3 How long the company has been engaged in a strategic alliance

By studying the situation in which the company was part of a strategic alliance, partnership or collaboration that ceased to exist or did not exist at that moment, we found that 78% of the companies surveyed did not display such a situation and 3 % of them came across at least once with such a case, these issues being shown graphically in the figure 4. It should be mentioned that 19% of the companies surveyed preferred not to answer to this question.

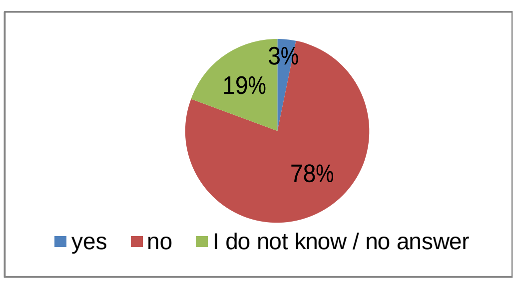


Fig. 4 Company has been part of a strategic alliance which does not exist at present

Another objective of our research was to determine the percentage value of the annual turnover of the companies studied resulted from business alliances which includes those organizations or companies.

By analyzing the data obtained, we found that the annual turnover of 26% of the companies derives in the proportion of 11% to 30% from the alliances created, 52% of companies have less than 10% of their turnover being influenced by their alliances, and 9% of companies have the annual turnover in the proportion 31-49% deriving from the alliances created.

It should be mentioned that in the case of 4% of the organizations studied, over 50% of their annual turnover is given by the alliances made as part of that organization, and 9% of companies did not want to specify any answer to this question.

A graphical representation of the influence of alliances on the annual turnover of the organizations is given in the figure 5**.**

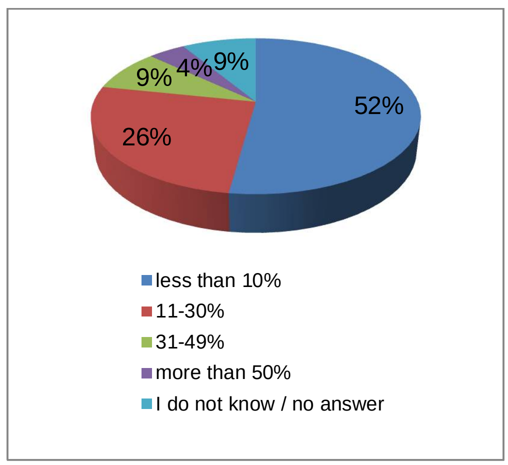


Fig.5 Proportions of annual turnover derived from the alliances made

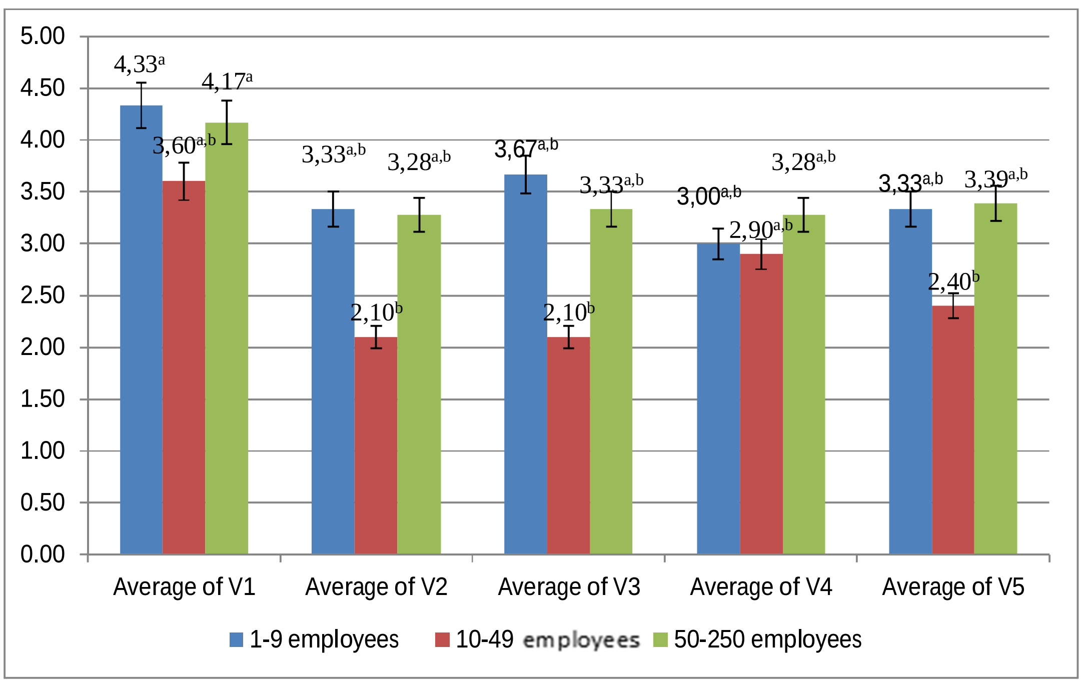
To find out what the main elements influencing significantly every form of business alliance are, the following aspects are highlighted: selecting a compatible partner and a focus for setting the stage for communication based on mutual trust has the biggest influence for micro-enterprises (companies with 1-9 employees) and medium businesses (firms with 50-250 employees); special attention should be given to critical information to maintain partners' competitiveness being of the same strategic importance for all companies; firms with 10-49 employees have the lowest quotations on those elements that influence business alliances.

These aspects are graphically presented in the figure 6**,** where: *V1 - selecting a compatible partner and a focus on setting a communication stage based on mutual trust; V2 - choosing a partner whose resources and skills complement each other; V3 - striving to learn more and faster about the partner's technology and management used; V4 - special attention to critical information so as not to be disclosed to the strategic partner in order to maintain competitiveness; V5 - subsequent management of cooperative alliance.*

Respondents were asked to specify the degree to which each option is fulfilled, ticking on a scale of 1 to 5 points (where 1 point represents "*a very small influence*" and 5 points represent "*a very large influence*").

Means of scores were compared by using one-way analysis of variance (ANOVA) and Fisher (LSD) test, in order to assess significant differences among samples. All analyses were performed by using the software program XLSTAT™ (Addinsoft©, U.S.A.).

The variance analysis did not show significant differences among average scores given by firms with different number of employees (figure 6). In general, the average scores fell between 3 and 4.66 points in the scale for firms with 1-9 or 50-250 employees, respectively and between 2.1 and 3.6 points in the scale for firms with 10 - 49 employees. The variant V1 obtained the best scores. Thus, "*selecting a compatible partner and a focus on setting a communication stage based on mutual trust*" has "*a large influence"* in creating strategic alliances.



Means with different superscript letters are significantly different
(Fisher (LSD) / Analysis of the differences between the categories with a confidence interval of 95%)
Fig.6 Elements that influence strategic alliances

In the figure 7, principal component analysis (PCA) of data regarding the scores for the main elements influencing significantly every form of business alliance was computed. Two principal components (PCs) accounting for 86.24% of the variation of scores can be observed in the figure 7.

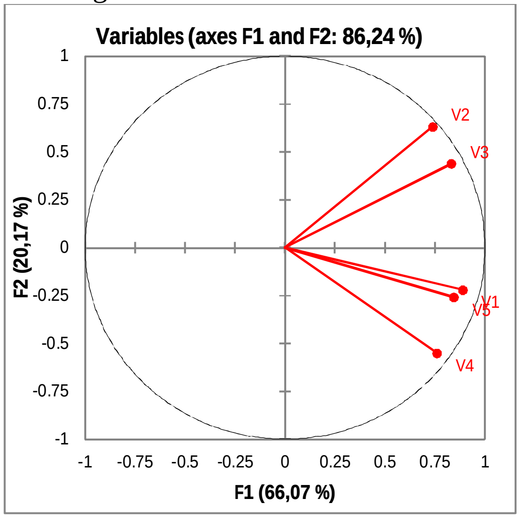
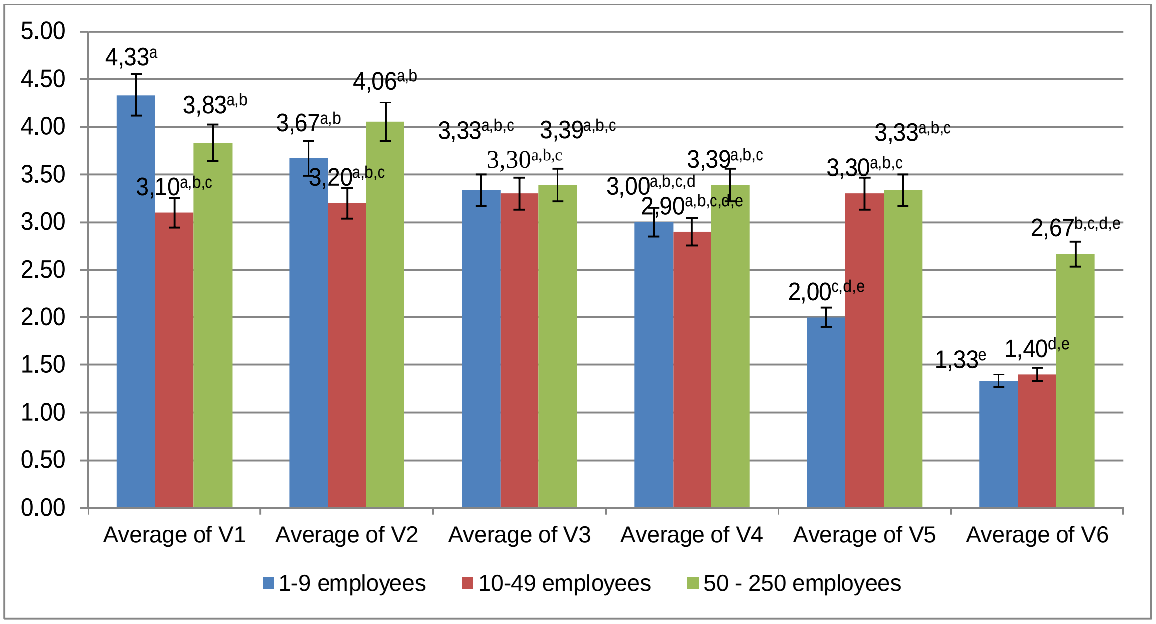


Fig.7 PCA for scores of elements that influence strategic alliances

The first factor (F1) explains 66.07 % of the total variance with significant parameters V1, V5 and V3 and the second factor (F2) explains 20.17% of the total variance with significant parameters V2 and V4. By means of the next question *"What are the reasons for performing an alliance or a partnership*", with the following items*: V1 - alliance or partnership provides improved access to technologies for the companies involved; V2 - alliance increases the sales market and / or entering new markets; V3 - alliance determines economies of scale and on this basis a reduction of costs; V4 - competitive advantages are gained by pooling global resources; V5 - improved access to new knowledge by identifying new distribution channels, new technologies or know-how; V6 - access to capital is facilitated*, respondents were asked to specify on a scale of 1 point (for "*a very small*") to 5 points ("*a very large*") the grade of influence. Means of scores were compared by using one-way analysis of variance (ANOVA) and Fisher (LSD) average test. These aspects are shown graphically in the figure **8.**



Means with different superscript letters are significantly different
(Fisher (LSD) / Analysis of the differences between the categories with a confidence interval of 95%)

Fig.8 Elements rendering business alliances performing

Every manager and company representative's views were analyzed to identify the basic elements influencing the performance of any kind of collaboration and the following can be mentioned: firms with 1-9 employees consider that an alliance performance partnership improves access to new technologies for the companies involved; organizations with 10-49 employees consider that an alliance performance is equally due to several factors, such as: improved access of the alliance or partnership to new knowledge by identifying new distribution channels, new technologies or know - how, improved access to technologies for the companies involved and the alliance benefits from increasing market outlets and / or from entering new markets; companies with 50-250 employees believe that the main aspect determining the performance of an alliance resides in its increases regarding the sales market and / or entering new markets.

The variance analysis showed significant difference ($p \geq 0.05$) among average scores for "*elements rendering business alliances performing***",** given by firms with different number of employees (figure 8) and "*alliance or partnership provides improved access to technologies for the companies involved*" has "*a large influence*" in business alliances performing.

In the figure 9, principal component analysis (PCA) of data regarding the scores for the main elements influencing significantly every form of business alliance was computed.

Two principal components (PCs) accounting for 82.58% of the variation of the scores can be observed in the figure 9. The first factor (F1) explains 69.67 % of the total variance with significant parameters V2 and V4 and the second factor (F2) explains 12.91% with significant parameters V6 and V3.

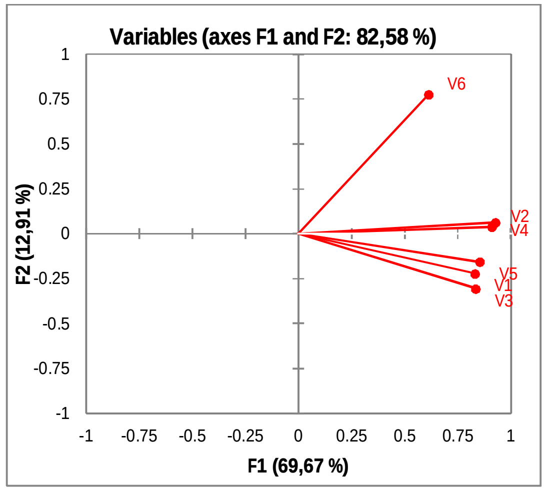


Fig.9 PCA for scores of elements rendering business alliances performing

4. Conclusions

Strategic alliances regardless of their forms they can exist are being questioned by some researchers, considering that the secret of a real competitive advantage is the competition itself [21].

However, strategic alliances are a product of globalization that can respond best in certain situations to emerging challenges. Alliances are a way to reap the rewards team effort - and gains from forming strategic alliances appear to be substantial. Therefore, we conclude that the creation of alliances brings significant profit as well as other benefits: increase in competition, increase of the need to operate on a global scale, rapid change of market and industry convergence in many markets.

It is those who make appeal to such forms of cooperation type to decide whether to take this step and to assess long-term benefits that may arise from it.

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