CONDITIONS FOR MAKING STRATEGIC ALLIANCES: THE CASE OF TWO ENTERPRISES FROM THE SOUTH MORAVIAN REGION

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Abstract


This paper focuses on the study of the role and importance of strategic alliances for small and medium enterprises. The purpose of the paper is to point out the conditions for making these cooperative relationships. This study is based on expert literature, mainly in foreign languages, which offers a relatively detailed breakdown of this topic. The research itself contributes to enhancement of knowledge by summarising the key aspects of strategic co-operation and presentation of the approach of two Czech enterprises by means of a case study. The first case study presents a small business with a development and growth strategy based mainly on strategic co-operation. However, despite positive examples many enterprises do not make any alliances, and their business relations can be described as "traditional". The second case study presents an example of such an enterprise and its approach to co-operation. Thanks to the two different viewpoints it is possible to arrive at a better idea about co-operation and to discover the factors that limit the creation of strategic co-operation. The final part of the work summarises the motifs – both active and passive approach – in making alliances and emphasizing some specifics of alliances. The outputs from the paper may lead to a broader discussion about strategic co-operation and serve as a starting point for further research.

strategic cooperation, strategic alliance, small and medium enterprises, research and development, competitiveness

Co-operation between business subjects represents a broad range of topics, which are developed by expert publications from various disciplines of science – social, technical, and natural. The central topic of the paper is the role and importance of strategic alliances for small and medium enterprises and the approach of these subjects to this form of co-operation. The aim of the paper is to demonstrate the conditions for making strategic alliances with business partners. Gulati (2007, p. 1) in the introduction to his publication defines an alliance as a group of inter-firm relations representing voluntary and long-term agreements between two or more enterprises in terms of exchange, sharing, or joint development of products, technologies, or services. Child (2005, p. 222) understands strategic alliance as such medium or long-term relationships between organisations – usually business enterprises – that are based on co-operation. Child states that the word "strategic" points out the purpose of setting up such alliances, which should aid achieving strategic goals of the enterprise through such methods that are more conveniently performed in co-operation than individually. The author explains that while in the past making alliances was considered a marginal activity of companies, currently it is a tool for achieving basic strategic goals such as a strong position on the market, gaining of valuable knowledge, and reduction of costs. Buzády, Tari (2005, p. 6) in their research defined strategic alliances as co-operating enterprises that, within
the co-operation, retain their independence in decision-making on an institutional level and in their market activities, while:

- Co-operation lasts more than one year,
- The parties share the risks and profits,
- Integration of activities occurs in certain economic and functional areas.

Vodáček, Vodáčková (2002, p. 26–40) differentiate three basic types of strategic alliance by their mission and application:

- Strategic alliances focused on sharing resources and activities. In such co-operation companies achieve their set strategic goals by sharing certain resources or activities in the sphere of logistics, purchasing, production, trade, marketing, finance, research and development, human resources, and in other areas. An alliance can be also made through the integration of certain functions—work positions.
- Strategic alliances aimed at the mitigation of competition conflicts. This is a modern interpretation of competition, which represents a replacement of “negative co-operation” (fight, rivalry) by being its counterpart, i.e. “positive co-operation” (collaboration, alliance). This category includes also co-operation with so-called potential competitors, which represent companies from the same sphere that currently do not directly compete with the given enterprise (due to their size, specialisation, know-how, etc.) but could become competitors if certain conditions changed (Buzády, Tari, 2005).
- Strategic alliances aimed at the creation, communication, and utilisation of knowledge. These alliances represent co-operation in research and development, which is usually financially demanding and is characterised by a high degree of risk. Through co-operation it is possible to accelerate and support the innovative activity of the company, use the partner’s information channels to source the information needed, gain knowledge and experience from the partner, etc. These three main purposes of alliances may overlap in some aspects.

Child (2005) states that the highest degree of integration of two independent companies is fusion. However, he does not include this form of co-operation among strategic alliances as the enterprises are integrated in a certain organisational structure and lose their independence. The author does not consider franchising and licensing to be alliances either. The position of strategic alliances within inter-firm relations or co-operation forms is shown on Fig. 1. Vodáček, Vodáčková (2009) differentiate between strategic partnerships and strategic alliances. In the first case it covers a broad range of different forms of relationships between the organisational unit and other subjects reaching from occasional communication and random co-operation to fusion and acquisition. They define strategic alliances as a sub-group of strategic partnerships.

Glaister (1996) differentiates the following basic motifs of setting up strategic alliances: distribution of risk, cost-cutting upon extent, transfer of technologies, building or protection of competitive position, vertical integration, and others. Zineldin, Doudourova (2005) state that there are many different motivations for making alliances, dividing them into the following groups:

- Financial, e.g. reduction of costs and increasing profitability,
- Technological, e.g. sharing of technologies, joint development,
- Managerial, e.g. interconnection of enterprises, loyalty,
- Strategic, e.g. creation, building, or strengthening of competitive position, supporting of key competences.

Detailed differentiation of motivations is included in the work of Van Gils, Zwart (2009). The importance of strategic alliances is constantly increasing (Child, 2005). The Czech Republic is no exception; the number of alliances increases year by year (Vodáček, Vodáčková, 2009). According to Child (2005) it is not a temporary phenomenon or a “fashion trend” but strategic alliances represent one of the leading forms of modern networks between enterprises.

**MATERIALS AND METHODS**

The theoretical information that formed the basis of the research came from publications by leading Czech and foreign authors specialising in management, business, and sociology (see Literature). Issuing from the study of expert literature in the preparatory phase it was necessary to formulate such a definition of strategic alliance as would consider its main definition but would be accurate enough to be studied on the level of individual enterprises. The main resource for this part of the work was the publication by Buzády, Tari (2005), which eliminated all those inter-firm relations that were not based on a long-term strategic concept. In particular these were occasional buy-sell contracts, long-term framework agreements on supplies, one-off alliances of companies in order to perform a single assignment, licensing contracts and franchise businesses, traditional supplier-contractor relationships where the contractor did not perform their own research and development, acquisitions and fusions were excluded too. With regard to these limiting conditions the research focused also on such forms of co-operation as are voluntary, benefit each party, share of risk, and connect the enterprises in strategic areas. Other important authors in this sphere were Vodáček, Vodáčková (2002), Gulati (2007), and Child (2005).

The research is based on a qualitative approach. It seeks the answer to the question of what are the conditions for setting up a strategic alliance.
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Inter-firm links

Contractual agreements

Non-traditional contracts
- Joint R&D
- Joint product development
- Long-term sourcing agreements
- Joint manufacturing
- Joint marketing
- Shared distribution/service
- Standards settings/research consortia

Equity agreements
- No new entity
- Creation of entity
- Dissolution of entity
- Joint venture subsidiaries of MNCs
- Mergers and acquisitions
- Non-traditional contracts
- Minority equity investments
- Equity swaps
- Non-subsidiary joint ventures
- Fifty-fifty joint ventures
- Unequal equity joint ventures

Alliances

1: Alliance forms within the range of inter-firm links (Child, 2005, p. 224)
In order to form a better idea about the issue two companies with different experience with alliances were selected for comparison (see Dickson, Weaver, 2011). One of them has strategic partners, while the other co-operates on “traditional” contracts. In both cases business relations between the two enterprises are defined including horizontal and vertical co-operation, co-operation with customers and suppliers, while the main conditions of co-operation are analysed as well as the companies' approach to strategic co-operation and distribution of competence and power in business relationships. The presented research is closely related to quantitative research that focused on the co-operation of small and medium enterprises in the South Moravian Region and was performed in the period 10/2010 – 1/2011. The analysis of the results of this research is currently taking place. The research project entitled Networks of Small and Medium Enterprises in the South Moravian Region was performed under Specific University Research at the Faculty of Business and Management of Brno University of Technology, project No FP-J-11-5.

**RESEARCH RESULTS AND DISCUSSION**

The first condition of making a strategic alliance is trust. It takes long to build. Everything else can be provided: resources, people, ideas, products – all this can be bought, paid for, discovered. But without trust nothing is possible.

(owner of iNexia, s. r. o.)

**Strategic alliance as a part of corporate strategy – case study of company iNexia, s. r. o.**

INexia, s. r. o. was established in 2006. In the number of its employees and annual turnover it belongs to the “small business” category. The only owner and director is Ing. Jiří Brázda, who provided an insight into the company's activity in the sphere of strategic alliances.

The studied enterprise provides services in three categories of information and communication technologies:
- administration of computer networks and servers,
- development of software applications, and
- consulting services.

Under each category the scope of services provided represents a complex solution for the client. This is where co-operation enters the scene. As the company is too small to satisfy the varied and extensive requirements of its clients while actually specialising in just one part of IT services (development and implementation of software), other services must be supplied in co-operation with business partners. Long-term relations that benefit both parties are preferred.

At the moment the company has about ten strategic partners. Co-operation is usually based on the sharing of resources or information. Under the individual projects each of the companies focuses on a different part of the assignment.

**Position of the enterprise in the alliance**

Strategic co-operation is characterised by the position of the given company (supplier, customer) and its influence on decision-making. The following types of strategic co-operation of the company with other enterprises can serve as examples:

- **Studied company as customer** (contracting authority, client).
- **Studied company as supplier** – a concrete situation when the strategic partner is a large enterprise that co-operates with multiple suppliers at the same time under one project.
- **Studied company as customer** (contracting authority, client).
- **Studied company as supplier** – a concrete situation when the strategic partner is a large enterprise that co-operates with multiple suppliers at the same time under one project.
- **Studied company as customer** (contracting authority, client).
- **Studied company as supplier** – a concrete situation when the strategic partner is a large enterprise that co-operates with multiple suppliers at the same time under one project.

In the decision-making sphere the general notion is that if a company co-operates with another company of similar size the influence of the partners on the decision-making process is equal. In case that the strategic partner is a large corporation it holds a prominent position in the co-operation.

**The purpose of setting-up strategic alliance**

The enterprise forms strategic alliances predominantly in the sphere of research and development with domestic companies only. In relation to the customers’ constantly increasing demands one of the main purposes of the strategic co-operation is the capability of providing comprehensive services for the client, which often includes the development of a new service or its innovation. In the case of a small company such a commission represents a considerable risk, which is why another of important motivations for co-operation is the distribution of risk between the partners in the development and implementation of services. Thanks to the distribution of tasks between the strategic partners these processes can be optimised. The companies aim for, and also expect from the co-operation, mainly an increase in domestic market share. The company director says that the distribution of tasks between small enterprises is very important in terms of securing competitiveness against large corporations.

**Conditions of setting-up strategic alliance**

The most important condition for setting up co-operation is trust. As the company director explained, when starting a strategic co-operation
relationship the enterprise is exposed to great risk. The partners must reveal their intentions, especially when it comes to a new project, which poses a threat of abusing the ideas of the other company. This is why reference, recommendations of close persons or personal experiences are crucial in such cases. However, the enterprise often co-operates with companies from fields where it has no previous experience and in these cases trust is paramount. As stated in the quotation at the beginning of the chapter, trust takes a long time to build and it is most valuable of all because the other things needed for co-operation are easier to source (buy, rent, borrow, pay-for, discover, etc.). Other conditions for setting-up strategic alliance in the studied enterprise include common interests in the sphere of business, possibility of cost-cutting via co-operation, and existence of positive experience of other co-operating companies from the region.

The building of a strategic alliance is a continuous process. If the companies expressed their interest, they define the subject and purpose of co-operation at their first meetings. After this the parties sign a contract and start working on the technical solution. The framework of co-operation gradually builds up with each of the parties playing its role. Without these conditions the company does not consider the co-operation a strategic alliance and perceives it as a risky business.

**Legal security of strategic alliance**

From a legal point of view the basis of strategic alliances of the studied enterprises with its partner companies is the contract. The most common types are contracts for work and brokerage contracts. In any case, companies pay attention to the contract exactly defining the rights and obligations of the business partners. For cases of breaking the obligations issuing from the contract there are contractual penalties. As the company owner says, a simple contract, which deals with the key problems in case of a conflict between partners in order to correctly close the co-operation, suits strategic co-operation very well.

**Discussion of results – case of iNexia, s. r. o.**

The studied enterprise creates strategic alliances predominantly with potential competitors, which means that the companies come from the same sphere (ICT) but differ in their competences. Competition is currently impossible, but this can change if certain conditions are changed. Thanks to this strategic co-operation, however, this risk is minimal. The companies may profit from the positive synergetic effect of combining know-how (see Mikoláš, 2005; Žižlavský, 2009). They can provide a complex service and gain commissions they would not be able to supply on their own or it would be unprofitable.

Although it may seem that the forming of strategic alliances is an issue of larger enterprises, i.e. companies with 50 and more employees and annual turnover over 250 million CZK, the described case demonstrates the importance and benefit of these business relationships for smaller businesses, too. The owner stated that strategic co-operation with business partners positively influences the growth and development of the company and therefore such co-operation is definitely important. When asked if he fears the risk of the co-operation failing, which can be lethal due to the small size of the enterprise, the owner quoted the former president of IBM, T. J. Watson, who says that to achieve real success you must double your failures. The risk of a seemingly perfect business relationship failing is always present and this is why well-functioning business relationships are valued so much. The owner believes that only such relationships can push his business forward.

**Co-operation based on a traditional contractual relationship – case study of IT, s. r. o.**

Co-operation based on a traditional contractual relationship is not characterised by the effort of closer connecting suppliers and customers, i.e. by performance exceeding the framework of contractual obligations on the supply of goods (services) and payments for these. The supplier and customer do not share activities, resources, or information; the parties do not jointly participate in research and development, and they also do not make an effort to reduce their competition by working together. The following case study presents the approach of such a company towards co-operation and thus also to strategic alliances.

The case study was carried out upon personal interview with, Jiří Petřík, the executive director of a company he does not want to be mentioned by name. We will therefore use a pseudonym: IT, s. r. o. The studied company was established in Brno in 1993 as a limited liability company. In the number of employees and annual turnover it is among small enterprises. IT, s. r. o. provides comprehensive services in identification systems. It focuses mainly on attendance systems, catering systems, entry control systems, commission systems, systems for planning human resources, and electronic gatekeepers. The target group of this company covers medium and large enterprises that use the mentioned services in order to arrange their company processes and enhance their efficiency and productiveness. IT, s. r. o. satisfies the demand for identification systems from its own capacity while also building a distribution network of
The position of IT, s. r. o. in business relationships

The enterprise co-operates on a vertical level, i.e. with its suppliers and customers. In the case of co-operation with suppliers the purpose is to get comprehensive commissions. These business relationships cannot be considered strategic alliances as there is no sharing of resources, information, or activities, and the companies do not co-operate in the sphere of research and development.

According to the executive director the customer has the greatest bargaining power in business relationships. This means that when the company is in the supplier position it usually does not hold a prominent position and strives for maximum satisfaction of the client. If the company acts as the customer the situation is different. In relation to suppliers the studied company makes an effort to build an equivalent business relationship and when making contacts it focuses mainly on equally sized (small) businesses. The legal basis of such relationships is always a contract. Co-operation of the company with competitors or potential competitors is rare.

Sales are performed by the company's own resources while also building a distribution network of authorised partners at the same time. Co-operation with distribution partners is always performed upon a contract on authorised sale of the company's products. The contract states the scope of the individual required actions of the business partner. The basic condition of this co-operation is repeated sales. IT, s. r. o., on the other hand, pledges to provide support to the partner during the co-operation.

Discussion of results – IT, s. r. o.

Reasons of the studied company for maintenance of the existing form of co-operation

Although IT, s. r. o. considers co-operation with suppliers to be a key issue it does not co-operate on strategic level with any of the suppliers. Suppliers are selected for co-operation according to the current offer and upon their reliability (positive previous experience, reference). When asked why IT, s. r. o. had not built any strategic alliance with the suppliers the executive director said that such partnerships are not a priority for the company. Despite accepting that co-operation in the development of information systems could reduce the company costs of development, there was no calculation to express and compare the total costs of the production, costs of production performed by a partner, or costs of a shared production. There are also questions relating to practical thoughts about strategic co-operation. One of the main ones is the reliability of the partner, which makes selection a very complicated task. However, the executive director sees potential in co-operation and accepts it as a possible solution.

The studied company does not currently co-operate in any strategic alliance, but that does not mean that it did not try to set up some in the past. There are experiences in co-operating with a (potential) competitor, which, despite long preparation, failed in the end – it did not work as a strategic alliance.

Possibility of developing current co-operation towards a strategic alliance

One possible direction of co-operation development is the already mentioned development of an information system where each of the partners would supply different components. Another dimension of this co-operation would be mutual sharing of a database of potential customers. A potential area of strategic co-operation is also sales. The network of distribution partners currently shows no signs of a strategic alliance but the company has developed a system, which, if functional, could form a basis for strategic partnerships. It relates to the sorting of distribution partners into three categories (basic, standard, and professional) by their activity – the number of performed sales and extent of services provided to customers – plus reward and support from the studied company.

When analysing the reasons against the setting-up of a strategic alliance we find out that there is one main reason, which is the approach of the management to this issue. Although the company has much good experience with co-operation there is currently no will among the management, which makes all the concepts just theoretical plans.

CONCLUSION

Co-operation – free, strategic, or close, is an inseparable part, a typical feature of business relationships. Besides traditional forms of contractual relationships in the Czech Republic, special business relationships are becoming more and more common (see Vodáček, Vodáčková, 2009). The case study of iNexia, s. r. o. showed that although forming of strategic alliances is typical mainly for medium and large enterprises, small companies commonly do so as well. However, this area is still not properly covered by studies and the

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2 Compare with Nenadál (2006, p. 289): “Experience shows that many customer organisations have not dealt with the basic problem of sourcing yet – the decision where to buy certain products or if to produce them.”
3 See Estélyiová, Koráb (2010)
authors of this paper think more detailed research could bring interesting results.

Some of the basic conditions of setting-up strategic co-operation include trust (Cullen et al., 2000; Daellenbach, Davenport, 2004; Schumacher, 2006). This was confirmed by the case of iNexia, s. r. o. Trust in the initial phase of co-operation is supported by references on the company, recommendations of close persons or similar experiences – all these sources of information play an important role in the selection of a partner. In the case of the studied company the conditions for further co-operation are common interests in business and the possibility of cutting costs via co-operation. Positive experience of other co-operating companies also strongly influences the decision-making process. On the other hand, common visions and goals of companies, existence of a company or a person that would play the role of a co-ordinator, as well as legal backing of the co-operation are considered less important than the previously stated aspects.

Despite many advantages that the strategic alliances offer there are also risks that must be considered (Grasenick et al., 2008). The risks of these business relationships should be defined alongside the benefits. If this is not done the decision can issue just from the mere will of the company management and its approach to co-operation. The case study of IT, s. r. o., besides introducing the experience of this company with co-operation, demonstrated this fact very clearly.

IT, s. r. o., despite not having a strategic business partner yet, does have previous experience with being in an alliance. This relationship, however, did not meet expectations and did not work as a strategic alliance. In spite of this, the executive director expressed his open approach towards strategic co-operation.

One lesson learned from the failed strategic co-operation is that the question of mutual trust between strategic partners is paramount. This points also to one important characteristic of small enterprises – their vulnerability. In this sense the highest priority is the solving of problems that relate to the company itself, as neglecting them may threaten the very existence of the business. If the company is successful it extends the scope of its interests and focuses on issues involving its environment – i.e. relations with other enterprises, which includes also strategic co-operation.

The building of strategic co-operation in the form of an alliance is a continuous process, which needs a lot of time and effort. Despite this there is still the risk that the co-operation may not meet expectations. If the opposite is true the common action of the companies may have a special added action – a synergetic effect that is beneficial for all the involved parties, which is a “reward” that is considerably limited by the framework of traditional contractual relationships.

**SUMMARY**

The central topic of the paper is the role and importance of strategic alliances for small and medium enterprises. The aim is to show the factors that define the forming of these co-operative relationships. The paper issues from the information on strategic alliances published mainly in foreign literature. The main scope of the work is based on two case studies and its output is the synthesis of information from expert literature and facts received from business practice.

iNexia, s. r. o. is a company developing software applications, administering servers and computer networks. It performs strategic co-operation in the form of an alliance in the sphere of research and development. The co-operating companies come from the same sphere (ICT) but possess different competences. By sharing their know-how they profit from the positive synergetic effect and are able to provide a better service for the customers, which enables them to get commissions they would not be able to perform by other means. The studied company creates a strategic alliance if the commission exceeds its key competences. The basic condition for its setting-up is trust. Other conditions include common interest of the partners in business and the possibility of saving costs. A strong motivating factor is also the existence of positive experience of other co-operating companies from the close environment.

The second studied enterprise is a company that develops identification systems. It is addressed by its pseudonym IT, s. r. o. This company performs all important activities itself or though traditional contractual relationships. The executive director stated that the building of a strategic partnership is not among the current priorities of the company. Although he agreed that co-operation in the development of information systems could reduce costs there were no exact calculations. When thinking about strategic co-operation in greater detail there were many other questions that required a lot of time for consideration and finding out information; the performance of a strategic alliance is a complex task. However, he sees future potential in co-operation and accepts it as a possible solution. The listed case studies show that the key aspect of setting-up co-operation is trust between companies. However, this is not the key condition – it is the will of the company management to perform such co-operation. The authors did not aim to judge which of the approaches is “better”. The paper can highlight some advantages of strategic co-operation and the authors believe that the outputs from the work will encourage further studies in this sphere.
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