

TOWARDS A THEORY OF BUSINESS ALLIANCE GOVERNANCE

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Abstract

The news of business alliance failure is as common as the news about its popularity. Much of this failure could be attributed to the inability of alliance partners to successfully govern and manage them. The governance of alliances requires an understanding of alliance characteristics, and the adoption of necessary processes for its development, management and control. This paper proposes a set of hypothesis regarding alliance governance and management. It is an extension of a previous work of the authors, when a typology of alliances and propositions on its organizational characteristics were presented (Sheth and Parvatiyar 1992).

A business alliance was defined as an ongoing, formal, business relationship between two or more independent organizations to achieve common goals. Two underlying dimensions of this definition were identified: purpose and parties. Each of these dimensions has two dichotomous levels: strategic and operative levels of purpose; competing and non-competing parties. The strategic purpose of an alliance is predominantly related to achieving organizational growth and corporate effectiveness whereas, the operational purpose relates to improving efficiency and operational performance of the firm. Alliance partners may perceive each other as competitors or non-competitors depending on the perceived role definition of each other. Based on the two dimensions of alliances (purpose and parties) and their dichotomous levels (strategic versus operative, competitors versus non-competitors), four types of business alliances were identified: cartels, co-operatives, collaborative and competitive alliances. In this paper the organizational characteristics of these alliances are revisited to suggest a set of propositions for successful governance of alliances.

Alliances formed for strategic purpose are characterized by greater uncertainty due to its long term and futuristic outlook. In such alliances, partners would seek greater commitment from each other so that the risks could be shared by both. There would also be a tendency to designate specific assets to such alliances to delimit the risks to the transaction specific assets and not the whole corporation. Because strategic purpose alliances generally involve greater commitment of resources and are concerned with the future direction of the firm, one would observe a greater involvement of senior management in its governance.

In alliances formed for operational purposes, achieving efficiency is most critical. That could be achieved through proper coordination, asset sharing and ongoing interaction at multiple levels of the organization. This requires a proper set-up of operational interface among the alliance partners, including multi-channel communication and coordination. Thus, operational purpose alliances are likely to be governed by several people at multiple levels of the organization.

In alliances formed among competitors, there is fear of competitive opportunism among partners, thus management would endeavor to closely control information flows and the degree of interaction between partners. As such, alliances with competitors will be functionally specific in character.

When the partners in an alliance are non-competitors, the degree of trust between them is high. They would tend to cooperate in multiple functions, seeking to learn from each other. Since the perceived threat of opportunistic behavior is low, more autonomy would be accorded in its governance and management. Free flow of communication is likely to be encouraged and broad based cooperation and collaboration will be adopted by the partners.

The governance characteristics of each type of alliance would be as follows:

Cartel type alliances will be functionally specific, often in the area of price or distribution function. Coordination among cartel members in the specified functional aspect of alliance, will be a key aspect of its success and governance. The information flow among partners will be controlled and limited to the aspect of alliance agreement. In other aspects of the business, cartel functions will be governed by the market forces. In other words, cartels would most likely resemble quasi-market governance.

Competitive alliances will also be functionally specific, but given its strategic nature, will be closely controlled by senior managers of the allying organizations. Most often, these senior managers would come from the functional area in which the alliance has been formed. To protect each other from competitive opportunism, information flow between partners will be highly controlled in the competitive alliance. Thus, most interactions between partners would be governed on a bilateral basis by the senior managers responsible for the alliance.

The purpose of a cooperative alliance is to achieve broad based efficiency for which multi-level coordination and ongoing interaction between partners is extremely important. Since cooperatives are not functionally specific, cross functional coordination would be common and interactions will occur at all levels of the organization. Generally, a free flow of communication between partnering organizations will be encouraged, because such free flow of communication is critical to achieve multi-level coordination. Cooperatives will therefore have multilateral governance structure.

Finally, collaborative or joint ventures are formed for strategic purposes. Partners generally commit specific resources to such ventures. It needs involvement of senior management and cross-functional cooperation. In most cases, a management team will be assigned to the collaborative venture and given autonomy for managing its operations. The strategic aspects of the collaborative venture will be also managed by the two partners, besides the independent management team. Free flow of communication within the venture and the development of an independent culture or theme will be encouraged in collaborative alliances. Collaborative alliances will therefore have a trilateral governance form managed by the two partners and a third party management team specifically created for the purpose.

References

Sheth, Jagdish and Atul Parvatiyar (1992), "Towards a Theory of Business Alliance Formation," *Scandinavian International Business Review*, 1,3, pp. 71-87.