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[Introduction to] Cooperative Strategy: Managing Alliances and Networks, Third Edition

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CHAPTER

1

Introduction

1.1 What this chapter covers

This introductory chapter defines cooperative strategy, and compares it with competitive and corporate strategy. Cooperative strategy can help to improve competitive strategy by enhancing the qualities that afford competitive advantage. It can also strengthen corporate strategy by making the corporate mission more attainable. The chapter notes the growing use of cooperative strategies in various forms. It then identifies the focus of the book and describes how it is organized into parts and chapters.

1.2 Cooperative strategy

Cooperative strategy is the attempt by organizations to realize their objectives through cooperation with other organizations, rather than in competition with them. It focuses on the benefits that can be gained through cooperation and how the management of cooperation can realize these benefits. A cooperative strategy can offer significant advantages for companies or public authorities that lack significant competencies, resources or opportunities. It enables them to secure these benefits through partnering with other organizations that possess complementary skills or assets. Cooperation may also reduce costs and risks, such as those associated with new product development and other forms of innovation. It may provide easier access to new markets, and opportunities for mutual synergy and learning.

A cooperative strategy can be realized through various forms of collaboration and partnership between organizations many of which can be described generically as ‘strategic alliances’. An alliance is a voluntary relationship between two or more independent organizations, such as firms, which is intended to achieve both their individual and mutual objectives. It does this through sharing or creating resources such as information, key brands, technology, production facilities, finance, and significant connections such as those with governments and politicians. Alliances are called ‘strategic’ when, as in normally the case, they are formed to help the partner firms achieve their strategic objectives, often as a direct response to major challenges or opportunities which they face.

In terms of their governance, alliances are positioned between markets and hierarchies (Williamson 1975, 1993). They have hybrid governance structures characterized by bilateral dependency between partners which remain independent actors. The partners mutually commit equity and/or other assets, and agree on how costs and profits are to be divided between them. In contrast to hierarchies in which one set of owners or managers have unilateral authority, the partners to alliances share rights to control and monitor activities, thus potentially weakening the control each can exercise and placing mutual trust at a premium.

Some alliances may be established with a limited time-span in view, perhaps just to accomplish a specific project, such as the exploration of a new oil field, or as a prelude to a merger between the partners or an acquisition by one partner. By contrast, other alliances are envisaged as long-term relationships. Later chapters examine the various forms that alliances can take, and these are compared in Chapter 5. The range is wide and includes collaborations between two or relatively few organizations such as joint ventures and research and development partnerships; multi-partner alliances such as oil-exploration consortia, industry-wide associations, innovation networks, global supply chains, collaborations through information and communications technology [ICT] platforms; and public-private partnerships.

The examples of alliances just given differ in terms of the number of firms involved and the purposes with which they are formed. Another way of comparing different forms of alliance is according to the level of integration and interdependence that is built into the relationship between the partner organizations. Figure 1.1 illustrates how this can vary, largely in line with the formality of the relationship between firms. At the least integrated end of the spectrum are purely informal collaborations intended, for example, to exchange information of mutual interest or to lobby governments jointly. These may be established simply to achieve a focused short-term objective. Medium to long-term supply chain agreements provide an example of more integrated operational cooperation between firms which involves a relationship that is more formalized and ongoing than purely market transactions. Contractual joint ventures are based on contracts that normally specify in detail the objectives, terms and conditions of the cooperation between the partners. Joint ventures that are established through an exchange of equity between partners or a shared investment in the equity of a new enterprise, represent a yet higher level of mutual commitment and integration between the alliance members. Although they are not included within the definition of alliances, for the sake of comparison Figure 1.1 places mergers and acquisitions at the other end of the continuum as arrangements where integration between organizations becomes total, at least in formal terms. Generally speaking, the greater the level of integration and interdependence between the partners in an alliance, the longer the alliance is intended to last.