

The use of strategic alliances as an instrument for rapid growth, by New Zealand based questor companies.

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Abstract

Businesses in New Zealand are often constrained by the small domestic market, distance from major markets and access to capital, all of which serve as impediments to growth. Consequently New Zealand has a high percentage of small to medium enterprises (SMEs') that remain small and fail to realize their growth potential.

Alliances have become a core element of today's business strategies in competing for a market leadership position. This study relates to the use of strategic alliances as an instrument for rapid growth by New Zealand based design led companies (questors). This study examined the experiences of a small number of such companies in relation to their use of strategic alliances. By identifying concepts that positively or adversely affect the likelihood of success of such alliances it is hoped that future questors can benefit from these findings when developing their own growth strategies.

The research approach was to undertake a literature review of the wider topic and postulate a conceptual framework that identifies a number of concepts that are likely to affect success. Validation of the conceptual framework was derived from case studies of questor companies that use or have successfully used strategic alliances as mechanisms to globalize their businesses.

The qualitative technique of semi-structured in-depth interviews was used to gather primary data in response to the research questions. This research indicates that the key contributor to the success or failure of alliances is whether all the parties will benefit equitably from the venture and the relative strategic importance of the alliance to the stakeholders. This finding validates and extends on the study conducted by Sengupta, Castaldi, & Silverman (2005). A new finding of special relevance to New Zealand business was that being design led was crucial to attracting the best alliance partners.

Strategic alliances are not a panacea for every company and every situation. However through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects. This study highlights the benefits of taking a long term strategic approach to the formation of alliances.

Declaration

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This Dissertation is submitted in partial fulfillment for the requirements for the Unitec degree of Master of Business Innovation and Entrepreneurship

CANDIDATE'S DECLARATION

I confirm that:

- This Dissertation Project represents my own work;
- The contribution of supervisors and others to this work was consistent with the Unitec Regulations and Policies.
- Research for this work has been conducted in accordance with the Unitec Research Ethics Committee Policy and Procedures, and has fulfilled any requirements set for this project by the Unitec Research Ethics Committee.

Research Ethics Committee Approval Number: 2006.424

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1. INTRODUCTION

**‘In the decades to come managers will either be part of an alliance or competing with one’
(Paul Lawrence, Harvard Business School)**

“Strategic alliances are agreements between firms in which each commits resources to achieve a common set of objectives. Companies may form strategic alliances with customers, suppliers, or competitors. Through strategic alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills, and share the risk or cost of major development projects.” (Bain and Company, 2006).

By its very definition, a strategic alliance is a partnering between businesses where there is a combination of effort and resources to achieve goals that will bring rewards to each of the entities involved. The basic idea behind a strategic alliance is to minimize risk while maximizing the utilization of financial, technical, physical and management resources with a clearly defined purpose and exit strategy.

Strategic alliances may be set up to achieve a diverse set of objectives, the most common of which are improved manufacturing capacity, distribution, R&D, product development, market entry, or marketing. Some of the obvious advantages of strategic alliances are that they are quicker and easier to form than formal partnerships, and the risks are diluted and split amongst alliance partners.

Alliances have become a core element of today’s business strategies and are especially prevalent in industries where change is rapid. In this context, the phrase “entrepreneurial strategic alliance” has been used to describe those alliances that focus on exploiting novel business models to achieve strategic objectives within necessary resource constraints. This type of alliance is highly effective in competing against rivals for global market leadership.

However, the high incidence of alliances that have ended in failure is something for concern. A study by Anderson Consulting revealed that 61% of alliances were either failures or limping along (Sparks, 1999). Many reasons account for the high failure rate, from diverging objectives and priorities to an inability to work well together. In order to help address this situation, the research described in this dissertation sets out to investigate the ways in which the value of strategic alliances can be maximized by design-led growth companies in New Zealand.

Firstly, this report provides an outline description of the intended project and a rationale for its perceived importance. The overall question addressed by this research is: “How can questor organizations in New Zealand best use strategic alliances as mechanisms for rapid growth?”, where ‘questor’ is defined as a design led enterprise with aspirations to succeed internationally as an exporter. In order to adequately answer this question, the research design is based on a literature review that covers three key elements:

- Strategic Alliances
- Design, and Design Led Enterprises
- Questor Enterprises

In order to facilitate discussion of these elements, a conceptual framework has been developed that involved four components :

- Identification of concepts
- Definition of concepts
- Exploration of relationships between concepts
- Operationalization of the concepts.

This conceptual framework formed the basis of the evaluation for the research. The overall research approach was to identify and describe a series of case studies based on questor companies that use, or have used, strategic alliances and design as mechanisms to globalize their businesses. Successful businesses consistently work to nurture relationships with their

strategic partners, and to build these relationships robustly in order to withstand the pressures of today's global economy of constant change and instability. Developing trust with stakeholders is the essence of building strong relationships.

The case study companies were selected based on characteristics of being innovative, design led, and high growth businesses, and the qualitative technique of semi-structured in-depth interviews was used to gather primary data in response to the research question. The results of these interviews have been documented and supported with further discussion, conclusions and recommendations.

2. OUTLINE OF THE PROJECT

This research focuses on the use of strategic alliances by design-led enterprises in general, and by “questor” organizations in particular, questors being defined as design-led enterprises with aspirations to succeed internationally as exporters (Design Taskforce, 2002). These questor companies would have already achieved rapid growth in New Zealand, and have primarily used, or are about to use, alliances to globalize the operations of their businesses.

The focus of the research is on the use of strategic alliances as an instrument for achieving rapid growth, and the domain of interest is New Zealand questor organisations that use or have used strategic alliances for this purpose. The research begins by reviewing relevant theory relating to the use of strategic alliances between questor organisations, both in New Zealand and overseas. A conceptual framework of strategic alliances as an instrument for rapid growth is then established, based on primary components identified from the literature, allowing the next phase of research to focus on those questors that have used strategic alliances as a way to achieve growth.

Rationale

Developing a design focused growth strategy means encompassing superior product and service design, marketing propositions and production, and operational efficiencies. In a global economy, alliances are a means of achieving these goals more rapidly than traditional means like partnerships or the appointment of agents/distributors. The use of alliances makes it easier to enter new markets, using the distribution networks and the knowledge of local partners. This means that less effort needs to be put into learning how to succeed in very different local environments, thus allowing for simultaneous and rapid entry into multiple countries.

While there are documented cases of strategic alliances between medium to large corporations, research into the effectiveness of this mechanism when applied to small and medium enterprises is scant to say the least (Sengupta, Castaldi, & Silverman, 2005). When the sphere

of interest is restricted to questors in New Zealand, the research is practically non-existent. This study addresses this gap in the literature by investigating entrepreneurial alliances between New Zealand questors and their local or international partners. It is anticipated that this research and its findings will be of significance to similar questor companies that have gaps in resources and competitive capabilities. Allowing such gaps to go unaddressed can put a company in a precarious competitive position and, through this research, other businesses will be able to analyse, evaluate and learn from the strategies that others have employed in globalising their businesses.

Aims and objectives

The aim of this report is to examine the experiences of a small number of New Zealand questor organizations in relation to the use of strategic alliances as an instrument for rapid growth, so that future questor organizations can benefit when developing their growth strategies. Its specific objectives can be summarized as follows:

- To evaluate the theories relating to strategic alliances as a mechanism for rapid growth.
- To identify a range of questors that have used strategic alliances to fulfill their growth aspirations.
- To identify the patterns and behaviors of alliances used by questor companies to achieve their growth objectives.
- To evaluate the characteristics of strategic alliances used by the selected questors in New Zealand against best practice models as documented in the literature.
- To identify barriers faced by prospective questors to the setting up of strategic alliances.
- To report on how some of these barriers were overcome.

Research questions

The overall question to be addressed by this research is:

“How can questor organizations in New Zealand best use strategic alliances as mechanisms for rapid growth?”

In order to adequately answer this question, the research design uses a case study approach to evaluate the characteristics of subject companies in relation to these questions:

1. What is the company vision and how has this been reflected in its New Zealand operations?
2. What were the key drivers in seeking a strategic alliance as opposed to going it alone?
3. What were the key objectives that the company sought to achieve through the alliance?
4. What channels and mechanisms were used to identify a potential strategic partner?
5. What are some of the key attributes that were looked for in a strategic partner?
6. How important has the design focus of the company been in attracting alliance partners?
7. What has been the typical life cycle of a strategic alliance and how has it ended?
8. What aspects of the strategic alliance(s) did questors think worked well?
9. What were some of the barriers faced that had to be overcome to establish a strategic alliance?
10. What aspects of the strategic alliance(s) did questors find the hardest to work with?

3. LITERATURE REVIEW

This study relates to the use of strategic alliances as an instrument for rapid growth by New Zealand based design led companies, in particular those questor enterprises who seek to rapidly globalize their business. Definitions of each key element are as follows:

- **Strategic Alliances:** are mutually beneficial long-term relationships formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. They are synergistic arrangements whereby two or more organizations agree to cooperate in the carrying out of a business activity where each brings different strengths and capabilities to the arrangement (Wikipedia, 2005). These partnering relationships are critical to the well-being of the partner organizations. There is a high degree of interdependence in that all partners have something fundamental to gain from successful partnering, and something fundamental to lose should the relationship break down.
- **Design and Design Led enterprises:** design is essentially the application of human creativity to a purpose - to create products, services, buildings, organisations and environments which meet people's needs. It is the systematic transformation of ideas into reality, and it is something which has been going on since the earliest days of human ingenuity (Bruce & Bessant, 2002). Design is an integrated process. It is a methodology (or way of thinking) which guides the synthesis of creativity, technology, scientific and commercial disciplines to produce unique (and superior) products, services and communications. (Design Taskforce, 2003). Design led business is about using design to communicate new ideas and innovations before they are anticipated by users (Design Taskforce, 2002). Design-led occurs when a company uses design to lead the company in all respects of the business. Design-led means that the design culture is embedded into the company culture – they become one. So design is a key component of the vision, and of course the vision is driven by values. Design is a core component of the competitive strategy. Design is a key 'skill' in terms of how the

company is organized. So, in capability terms, design is key to branding, design process, product design, and the people that are employed.

- **Questor Enterprises:** a questor enterprise is defined as one that is design led with aspirations to succeed internationally as exporters. Questors are focused on achieving high growth in a very narrow market niche, achieved through the application of an integrated approach to product and brand design, product development, and market entry planning, with design forming a key basis for sustainable long-term competitive advantage (Design Taskforce, 2002). Questor enterprises are already familiar with the concepts of IP and competitive advantage, and are export focused and determined to succeed internationally. Because of these ‘components’ they are candidates to be enabled and made more competitive through design. But to be design-led they need to make design a core competency!

Strategic Alliances Defined

Traditionally, strategic alliances are relationships between two or more suppliers, or like or unlike products and services, serving the same customer base and/or different customers. For example, the relationship between British Airways and QANTAS is a classic example of a strategic alliance, common in the airline, transport, automotive, computer, communications, service, banking and pharmaceutical industries (Lendrum, 1998). The terms used to describe these relationships are quite unimportant in themselves, for it is the underlying principles, concepts, practices, and behaviors that go into making them work that are important. To that end, these types of relationships could equally well be called strategic partnerships, alliances, partnering relationships, relationship marketing – or strategic partnering.

Strategic partnering is broadly defined as “the cooperative development of successful, long-term, strategic relationships between customer(s) and supplier(s), based on world class and sustainable competitive advantage for both parties; relationships which have a further separate and positive impact on the respective customer/supplier organizations outside the partnership

itself.’(Lendrum 1998, p.7). Lendrum further breaks this definition down to gain a deeper understanding of the subject :

- **Cooperative development** : this is a cooperative, trustworthy development based on shared vision and common goals. Continuous improvement takes place with this type of relationship.
- **Successful** : success is measured against pre-agreed Key Performance Indicators quite different from conventional financials. The measures to gauge success are wide and varied, reflecting the broad outcomes of the relationship.
- **Long-term** : five years is generally the minimum term, but the term becomes less relevant as the partnering relationship develops. The relationship is based on the spirit of the law not the letter of the law. This does not mean that there is no documentation in place; good partnering will have the entire current and future requirement in place, alongside other information needs for the management and development of the relationship.

Traditionally, strategic alliances are relationships between customers and suppliers. However, in today’s world, customers, suppliers and competitors are becoming increasingly indistinguishable. In some cases a single organization can play all three roles. The principles, concepts and practices of partnering are universal, and not restricted to vertical and horizontal relationships in the supply chain, but also apply internally and externally regardless of the type of organization.

Benefits of Strategic Alliances

Firms that enter into international strategic alliances will look to benefit in one or more ways. (Mahoney, Trigg, Griffin, & Pustay, 2001). There are four potential benefits that international business may realize from strategic alliances:

- **Ease of market entry:** Advances in telecommunications, computer technology and transportation have made entry into foreign markets by international firms easier. Entering foreign markets further confers benefits such as economies of scale and scope in marketing and distribution. The cost of entering an international market may be beyond the capabilities of a single firm but, by entering into a strategic alliance with an international firm, it will achieve the benefit of rapid entry while keeping the cost down. Choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations. Many countries are so concerned about the influence of foreign firms on their economies that they require foreign firms to work with a local partner if they want to do business in their country - Dubai is one such example. Some countries promote their policy goals by encouraging foreign firms to participate in alliances with local companies. China is a case in point, becoming concerned at the Chinese consumer's preference for Western brands as compared to local Chinese brands. The government was concerned with the local brands disappearing off the shelves, so Coca-Cola seized the opportunity to form an alliance with a local company to create a local brand ('Heaven and Earth') of non carbonated drinks, tailored to Chinese tastes.
- **Shared risks :** Risk sharing is another common rationale for undertaking a cooperative arrangement - when a market has just opened up, or when there is much uncertainty and instability in a particular market, sharing risks becomes particularly important. The competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks. Boeing developed a strategic alliance with several Japanese companies to reduce its financial risk in the development of the Boeing 777 aircraft; collaborating with Fuji, Mitsubishi and Kawasaki reduced its financial exposure when researching, developing and safety testing the 777 project. Boeing was the controlling partner in the alliance and, despite its being the world's most successful commercial aircraft manufacturer, it chose to form an alliance to reduce its financial exposure.

- **Shared knowledge and expertise:** Most firms are competent in some areas and lack expertise in other areas; as such, forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The information, knowledge and expertise that a firm gains can be used, not just in the joint venture project, but for other projects and purposes. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization. One of the more successful and better known alliances is the one between GM and Toyota, owned equally by the two partners and called NUMMI. GM wanted to observe Japanese management practices and Toyota wanted to learn to deal with labor and parts suppliers in the US market. Toyota managed the facility and made cars for both companies, GM used the lessons it learned to manage its own manufacturing division (Saturn), and Toyota used all the information it had acquired when it opened a new plant in Kentucky.
- **Synergy and competitive advantage :** Achieving synergy and a competitive advantage may be another reason why firms enter into a strategic alliance. As compared to entering a market alone, forming a strategic alliance becomes a way to decrease the risk of market entry, international expansion, research and development etc. Competition becomes more effective when partners leverage off each other's strengths, bringing synergy into the process that would be hard to achieve if attempting to enter a new market or industry alone.

In retail, entering a new market is an expensive and time consuming process. Forming strategic alliances with an established company with a good reputation can help create favorable brand image and efficient distribution networks. Even established reputable companies need new brands to bring to market, most times smaller companies can achieve speed to market quicker than bigger more established companies. Leveraging off the alliance will help to capture the shelf space which is vital for the success of any brand.

Strengths and Weaknesses of the Strategic Alliance

The scope of cooperation between firms varies significantly and, at one end of the scale, an alliance may be termed ‘comprehensive’, when the partners jointly participate in all functional areas of business from product design to manufacturing and marketing. On the other hand, an alliance may have a narrow focus on one particular functional area of business e.g. production alliances, marketing alliances, financial alliances or R&D alliances. At the beginning of this type of functional alliance, the partners are mutually dependant on each other, though the learning achieved can result in this dependence becoming somewhat diluted over time.

Alliances can also be used to pursue radically different strategies and, as such, can broadly be defined into scale alliances and complementary alliances – scale alliances fit defensive strategies and complementary alliances support offensive strategies (Garrette & Dussauge, 1999). Scale alliances compensate for size disadvantages and help to put the organization on par with global competition. However, they only address the scale issues in production, leaving the task of entering new markets and being at the leading edge of technology and innovation still to be addressed. Complementary alliances address these issues and also create favorable conditions for learning.

Understanding and developing core competencies are fundamental to achieving market leadership. Core competencies are those groups of activities, skills and technologies that a firm does well. This allows the firm to add direct value to the customer, providing a clear advantage and differentiation and allowing the firm to extend itself into a new market. Core competencies take time to develop, and in many cases the time frame to develop partnerships and alliances are not wholly dissimilar. Product life cycles have been dramatically reducing in the past few years, and therefore faster access to world markets is fundamental to a firm’s competitive advantage in today’s global market.

Whether an alliance will stand the test of time, or breaks apart, will depend on how well the partners work together, how well they adapt to both external and internal change, and their willingness to renegotiate the bargain if circumstances so warrant. Unless partners value the

skills, resources and contributions that each bring to the alliance, the alliance is doomed. Many alliances fail and break apart, and never reach their intended potential, because of frictions and conflicts among the partners. Ongoing commitment, mutual learning and continued close collaboration will go a long way to developing a strong alliance, with win-win outcomes for both partners, but the reality is that more alliances come apart than stay together. (Pavlovich & Akoorie, 2003). Biggs (2006) identifies the following as key factors that determine the success of a strategic alliance.



Figure 1 Critical Success Factors affecting Strategic Alliances (Biggs,2006)

However, even in cases such as these, it may well be that the advantages of alliance have been stressed, and sometimes over-emphasized, without a balanced presentation of costs and risk. In the situation of a small innovative organization, in an alliance with a larger company whose core strength is in its physical asset base, competitive outcomes can quickly be determined by

who has easiest access to the complementary assets – be it specialized marketing, manufacturing or distribution. Access to complementary assets, such as manufacturing and distribution, on competitive terms is critical if the innovator is to avoid handing over most of the profits to imitators (Garrette & Dussauge, 1999).

Well established firms generally see product technology as a major determinant of competitive success in their core businesses and, as a result, they increasingly look for new marketing strategies and product technology in smaller organisations to leverage the market access capabilities that they have built. It is an unfortunate reality, and significant cause for concern, that alliance partners intuitively think of an alliance in terms of its benefits to their own particular business. This often leads to undisclosed and secret agendas when businesses enter into a strategic alliance, and corresponding difficulties arising from an inability of the partners to share the same vision. (Mahoney et al, 2001).

Regardless of the deliberation that a firm puts into constructing a strategic alliance, care must be taken to avoid some pitfalls and limitations. There are five fundamental sources of problems:

1. incompatibility of partners
2. access to information
3. distribution of earnings
4. potential loss of autonomy
5. changing circumstances

As such, the resultant emphasis on trust is extremely relevant to the current research.

The Importance of Trust

Developing trust with stakeholders is the essence of building strong relationships- when the level of trust is low, business suffers. ‘Trust is a positive expectation that another will not act opportunistically’(Robbins, 2001, p.41). Trust always takes time to form, based on relevant and

limited samples of experience, building incrementally, and accumulating confidence in the ability to make a positive expectation. Although the influence of trust affects many stakeholders in the business, from the point of this research we will only focus on trust between the alliance partners.

The term 'positive expectations' implies that there is knowledge and familiarity about the other party, while the term 'opportunistically' refers to inherent risk and vulnerability. Whenever we disclose information we place ourselves in a vulnerable position, a position to be disappointed or to be taken advantage of. According to Robbins, there are five key dimensions that underlie the concept of trust:

1. **Integrity** is the most important of the five and involves honesty and truthfulness. Quite simply, if you do not believe that a company is honest, you are not going to trust them.
2. **Competence** refers to the organisation's knowledge and skills. If you do not believe that a company can deliver what it says that it can do, it will not be conducive to building trust in a relationship. Both parties will therefore need to show competence in their dealings right from the start in a relationship for a long term alliance between them to succeed.
3. **Consistency** refers to a company's reliability and predictability. Inconsistency between words and actions will decrease trust, therefore consistency is vital to build up a reputation that one will be reliable and predictable over the term of the relationship.
4. **Loyalty** is the willingness to save face for another. Loyalty is not something developed over the short term, but is developed over the long term. It is also not one of the first dimensions of the relationship to develop, as integrity, competence and consistency would generally precede it.

5. **Openness** is the last, but certainly not the least, of the dimensions underlying the concept of trust. Openness is the ability to rely on the company to tell you the whole truth. Within a strategic partnership, the higher the level of openness the lower the level of secret agendas each of the partners will be pursuing. Successful businesses will consistently work to nurture relationships with their strategic partners, building these relationships robust to withstand the pressures of today's global economy of constant change and instability.

Alliances in New Zealand

New Zealand is one of the most deregulated economies in the world, and has dedicated the last twenty years to reducing trade barriers, corporate regulations and abolishing subsidies. It has transformed itself from an agriculturally based economy to more diversified areas such as educational services, food products, tourism and forestry. However, New Zealand exports have been low as a share of national income as compared with other small developed nations and, in order to stay competitive, it will have to refocus its international export strategy. K.C Yong (2006, p.14) says that 'for New Zealand to survive aggressive international competition, it must avoid becoming the direct competitor of nations that can maintain lower production costs on manufactured products. The unique quality of New Zealanders as a creative and innovative people should be exploited to create niche value-added products and to create international brands that can fetch premium prices'.

Indeed, New Zealand is internationally recognized as a nation of innovators, with the Global Entrepreneurship Monitor (GEM) reports consistently placing it amongst the most innovative countries in the world (Frederick, Carswell, Henry, Chaston, Thompson, Campbell & Pivac, 2002). When the benchmark is lifted to high potential entrepreneurship, defined as businesses that are characterized by a growing employee base, foreign market expansion and the use of new technologies (Autio, 2003), New Zealand does even better – in a report presented to the United Nations that analysed countries in terms of high potential entrepreneurship, New Zealand ranked second behind Iceland (Autio, 2003).

However, New Zealand has its own unique business environment and culture, and it is recognized that New Zealanders are good innovators but relatively poor at commercializing their innovations (Frederick et al, 2002). Major barriers to successful commercialization in New Zealand are its geographical isolation from major markets, and an apparent dearth of venture capital (Ministry of Economic Development, 2005). As a result, New Zealand has a high percentage of small to medium enterprises (SMEs) and home based businesses, with many of these remaining small and failing to recognize or realize their growth potential. The National Bank Small Business Monitor (2005) reports that two out of three start ups in New Zealand fail, or suspend their operations, before completing five trading years - the reality for many SME businesses in New Zealand is that the local market is too small to provide sustainable growth, and there is a mismatch between the available venture funding and the financial requirements for undertaking international growth.

However, there are alternative approaches to internationalizing a SME business, and the 'Success by Design' report (Design Taskforce, 2003) identifies four principles used by companies who have successfully done so :

1. Excite the end user (engage)
2. Offer something new and different (differentiate)
3. Have the resources and skills to grow (scalable)
4. Hold on to the advantage that comes with that result (sustainable)

While many small New Zealand businesses appear to recognize these principles, most use design in an *ad hoc* or 'do it yourself' approach, mainly due to lack of understanding and resourcing constraints. New Zealand has a strong dependence on exporting primary products and, as a result, it has historically struggled to keep itself on par with other developed OECD countries. Its distance from primary markets increases the need to have a point of difference, a better product, and a brand strategy to attract the customer and, like Ireland, there is growing recognition that innovation is one of the key drivers of economic growth.

In this respect, products and services must have a point of difference to make an impact in the global market place. Innovation can take place directly with the products or services or indirectly in strategic alliances that would lead to changes in the products or services. A study commissioned by Design Industry Taskforce (Design Taskforce, 2002) took a critical look at the interface between business and economy, and found that revenue from value-added products had increased by 53.6% since 2000, compared to a 5.3% increase in revenue from commodity exports. This web based survey of 300 businesses, augmented by 20 in-depth interviews with CEOs and GMS, found that the diversity of export markets significantly increased as design was seen to add more and more value – in this respect, as Bateman (2006) has noted, innovation by design requires knowledge, investment, strategy and risk; but NOT innovating is a much greater risk proposition altogether.

In New Zealand, since moving to a free market economy since 1984, the environment has been changed for all businesses - but particularly vulnerable to change have been the thousands of small and medium size enterprises (SMEs). These SME businesses make up a huge proportion of the New Zealand business population and they contribute a great deal to the New Zealand economy. Since such a large proportion of the business population is made up of SMEs, that is where the future for New Zealand lies; the future lies with export, and that needs strategic partnerships.

There is no universally accepted definition of what is exactly meant by small business. According to Massey University's Small and Medium Enterprise Centre, SMEs include micro enterprises (enterprises fewer than 5 staff), small enterprises (fewer than 50), and medium enterprises (fewer than 100) in size. In New Zealand there are 350,000 or so SMEs, making up more than 99% of the business population and accounting for about 60% of all employment. (Cameron & Massey, 2003). However, the most common definition of a SME in OECD countries is a firm with fewer than 500 employees (OECD, 1997), and this is the definition chosen for the purposes of this report.

In a study conducted by Sengupta, Castaldi, & Silverman (2005), the focus was export performance of U.S. environmental technology (EnviroTech) firms, which are predominantly SMEs. These authors conceptualized and empirically tested a model of export performance dependent upon the perceived effectiveness of host country partner (HCP) alliances, export assistance, and trust in the HCP. They found that that firms planning to export needed two critical ingredients for success - first, forming close, cooperative, long-term strategic alliances with HCPs for mutual benefit; and second, paying specific attention to building trust in the HCP to achieve greater success with the strategic alliance and exports. The results of their study showed that 76% of the firms in the study used strategic alliances to enter the export market, and that there was a strong and positive relationship between the effectiveness of alliances and export performance.

Secondly, the study highlighted the important role of trust in strategic alliances between SME exporters and their HCPs - to the extent that the exporter trusts the HCP in the overseas market, it will perceive its business relationship with the HCP as better. As such, forming strategic alliances with trustworthy partners in overseas markets is a critical step towards globalization of exporting firms. In order to achieve export success, these firms need a paradigm shift in their thinking, away from traditional, adversarial relationships with distributors or sales agents, and movement towards long-term alliances. They also need to develop knowledge, skills and capabilities in the areas of negotiations, contract law, trust-building, and shared governance. They also need help in contacting potential partners in overseas markets - “maintaining country-specific databases of potential partners and arranging trade missions are useful activities that export assistance agencies ought to begin or continue to build”. (Sengupta et al 2005).

4. CONCEPTUAL FRAMEWORK

“A conceptual framework indicates how the researcher views the concepts involved in a study, especially the relationships between concepts” (Veal, 2005 pg 51) and, in this respect, the parameters of the research study are defined by the identified concepts and the framework within which they are set. A concept/variable is a general representation of the phenomena being studied, while a conceptual framework is the basis of the research and focuses on the concepts and the relationships between them as the basis for answering the research question.

“The concepts and suggested relationships do not come out of ‘thin air’ but should reflect the participant researchers’ understanding or informed speculation, based on direct observation of the phenomenon to be studied” (Veal, 2005 pg 52). In the current research, the research process was focussed on design led companies that used strategic alliances to achieve high growth in niche markets, thus making them questor companies. As such, the boundaries for the project were limited to organisations that subscribe to all of the following characteristics :

- Design led organisations;
- Classifiable as questor enterprises;
- And using strategic alliances to further their growth ambitions

The concepts above are the building blocks of the study, and Fig. 1 below shows how each of these concepts may be defined and operationalized or communicated in a qualitatively assessable form. The development of this conceptual framework involved three elements:

- **Identification and definition** of concepts: this is the starting point, but involves going backward and forward between the various elements until a satisfactory outcome is achieved.
- **Operationalization** of the concepts: this involves deciding how the concepts will be measured, whether qualitatively or quantitatively.

- **Exploration** of relationships between the concepts: since this research is qualitative (and hence explanatory and evaluative), it calls for a well developed conceptual framework. This conceptual framework forms the basis for the evaluation of results from the research.

Concept	Definition	Operationalization
Reasons for the strategic alliance	The reason why the organisation has chosen to enter into a strategic alliance as opposed to going it alone.	Questions that focus on the reason for the alliance.
Concerns in an alliance	The concerns about getting into an alliance	Questions about issues that (if left unresolved) could ruin an alliance.
What makes an attractive partner	The key attributes of the organisation that would draw organisations to partner it.	Questions that focus on what makes a credible partner.
Finding a partner	The processes by which key partners are identified.	Questions about mechanisms used by the organisation to meet partners.
Key partner attributes	Key attributes (both commercial and non commercial) that are important in partner selection.	Questions that seek to identify the key characteristics of good alliances.

Figure 2 Concept Definition

The key question of this research is **“How can questor organizations in New Zealand best use strategic alliances as mechanisms for rapid growth?”** with the overall focus of the research on validating the conceptual framework that is important in successful strategic alliances. The exploration of relationships between concepts is achieved by using a concept map which is highlighted in Figure 2 below. Concept mapping is a form of visual brainstorming, involving noting all the concepts that are deemed relevant to the topic to be researched; in this study the focus is on developing a conceptual framework that relates the

concepts (either positively or negatively) to the likelihood of success of the strategic alliance. Within the organizational boundaries of design led questors, the key concepts that were believed to be relevant fall into the main categories listed in Figure 1 above. These concepts were then spatially grouped with concepts that seemed related, with the perceived relationship between the concepts indicated by a series of lines and arrows.

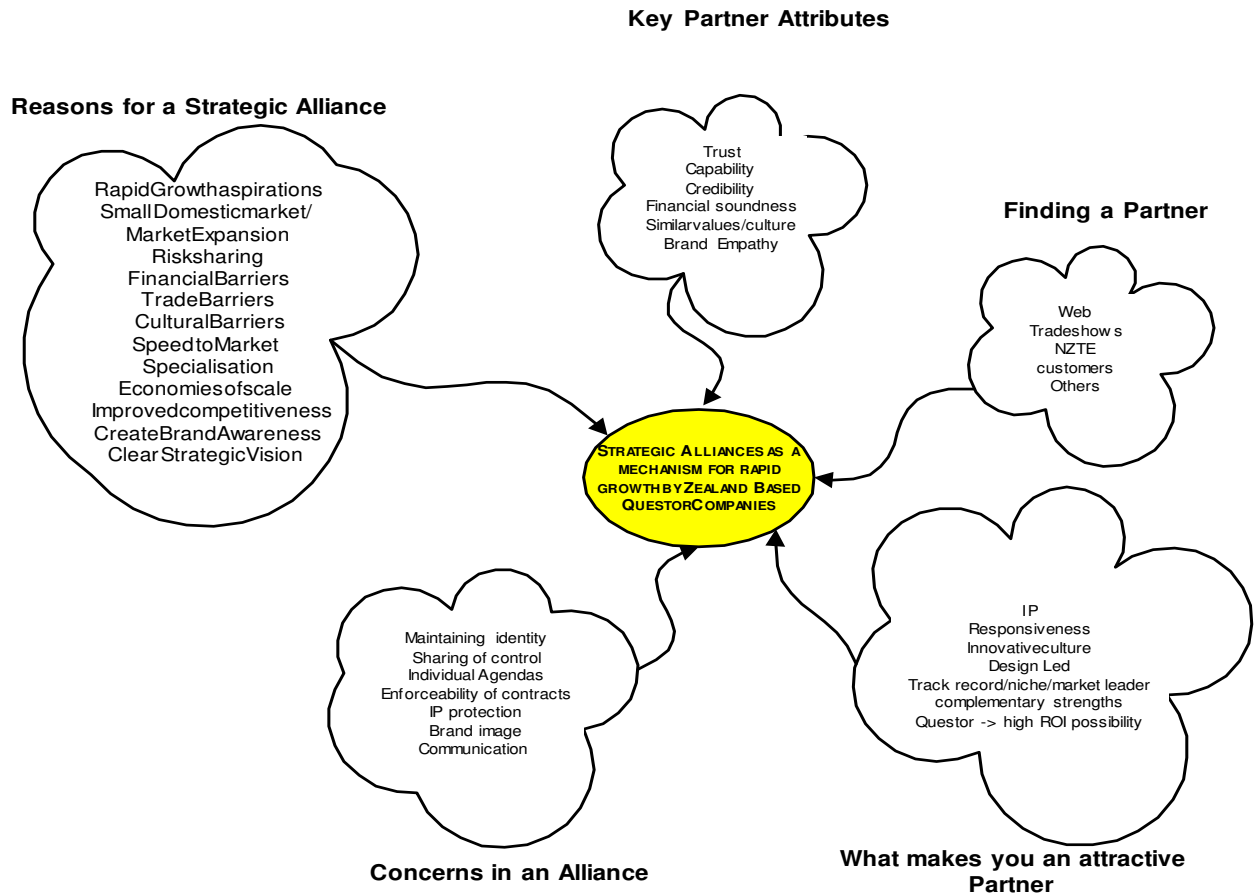


Figure 3 Concept map

5. METHODOLOGY AND RESEARCH METHODS

The approach to research used here is qualitative in nature. The qualitative approach is said to answer the question ‘what is going on here?’, and promises a useful insight into the stories, the perceptions, and the feelings of questor organizations who have been involved in alliance partnerships. This research uses the qualitative technique of semi-structured in-depth interviews, based on the ten questions identified in chapter two, so that the chosen subjects will be free to narrate what is important to them. In this way, the qualitative approach stresses the validity of multiple meaning structures, and emphasizes the holistic view, as compared to the narrower criteria of reliability and statistical compartmentalization of quantitative research (Bouma, 1996).

Qualitative research is also more appropriate for theory building, enabling the study of questor organizations in the light of relevant theory and then adding to this theory by identifying useful questions that have never been asked before. The research was conducted in the context of entrepreneurial strategic alliances, and has consequently generated a number of descriptive explanations with meanings interpreted, allowing the researcher to fully explore the experiences of the subjects and to interpret the meanings of these experiences within a given context. The depth of insight made possible through this form of research constitutes one of the primary advantages of this approach, and the level of personal engagement involved has meant that appropriate attention has been paid to multiple realities and socially constructed meanings.

The case study approach is believed to be ideal when a “how” or “why” question is being asked, about a modern set of events over which the researcher has no control, and also lends itself well to dealing with more explanatory issues and illuminating key features. One reason for choosing this type of research design is that it supports more continuous reflection on the research in progress, more interaction with the participants in the research, and there is usually more room for altering and refining the research process. Bouma (1996) states that qualitative research is less focused at the outset than quantitative research, and it therefore provides an opportunity for the researcher to learn from the subjects as the research progresses.

Case research is justified when there is an interest in explanations and analysis of situations or events, as in the case of these questor companies. Nevertheless, Yin (1994) makes clear that the case study approach is not universally accepted as reliable and legitimate, as it is difficult to generalize from a specific case. However, Yin also points out that scientific enquiries have to be replicated by multiple examples of each experiment, and that case studies can be based on multiple cases of the same issue (Yin considers single and multiple case designs to be variants within the same methodological framework). The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust.

According to Yin, five components of research design are especially important :

1. **The Study Question** : Yin suggests that the case study strategy is most likely to be appropriate for how and why questions. Therefore the question “how can questor organizations in New Zealand best use strategic alliances as mechanisms for rapid growth?” is appropriate for case research.
2. **The Study Proposition** : Yin suggests that, though the how and why questions point to the case study method as the appropriate strategy, the how and why do not identify the ‘what’ of what should be studied. He therefore suggests the identification of a specific proposition to meet this requirement, and the proposition suggested is that ‘the use of strategic alliances increases the likelihood of rapid growth for SME companies’. This proposition clarifies the research focus as a search for relevant evidence to define and ascertain the extent of rapid growth in each organization.
3. **The Unit of Analysis** : Based on Yin’s contention that the unit of analysis is fundamental to the problem of defining what the case is, the unit for this research is established as ‘design-led questor companies’. Testing of the study proposition has ensured a focus on relevant information about these companies, and has guided the research to stay within feasible limits.

4. Linking Data to Propositions : Yin suggest that one promising approach for case studies is the idea of pattern matching described by Donald Campbell (1975), where several pieces of information for multiple cases may be related to some theoretical proposition. What Campbell did was describe two potential patterns, and then showed that the data matched one pattern better than the other. The two potential patterns are considered rival propositions i.e. rapid growth versus slow growth, and the pattern matching technique is one way to help relate the data to the proposition.

5. Criteria for Interpreting Study Findings : Even though the data may match one pattern much better than the other, there is no precise way of setting the criteria for interpreting a study's findings. However, in the current case, it is argued that the different patterns are sufficiently contrasting that the findings can be unambiguously interpreted.

The overall research approach was to identify and describe a series of case studies based on questor companies that use, or have used, strategic alliances and design as mechanisms to globalize their businesses. The case study companies were selected based on previously discussed characteristics of being innovative, design led, and high growth businesses.

In this respect, the 'Success by Design' report (Design Taskforce, 2003) identifies six companies that have succeeded through the use of design and the adoption of design processes. Using this report as a sampling frame, an initial written approach was made to all six companies, outlining the parameters of the intended research and requesting their co-operation. Each letter was supplemented by follow-up telephone calls, as a result of which two companies agreed to participate. The third company was a questor company but not a participant in the 'Success by Design' report. The companies interviewed were :

Company A

A design and manufacturing company within the tapware and bathroom industry. The company was established over a hundred years ago and currently has over 200 employees in New

Zealand and Australia. Founded as a manufacturing company, the organization has shifted its vision to be design focused, leveraging its capabilities to create innovative design solutions. Recognizing that manufacturing is not its core business, the company has entered into manufacturing strategic alliances with overseas partners. The company is the recipient of several design awards and has a number of key brands. New and innovative products coupled with a strong focus on branding seem to be key drivers to take the company forward. Forty percent of the company's revenue comes from the international market, most of it from Australia, and it is currently poising itself for expansion into the US market.

Company B

An electronics company which is an international market leader in providing solutions for forecourt and pump control in fuel stations. The company was founded in 1987 and sees itself as a design and development company. Ninety one percent of the company's revenue comes from the international market and, over the years, it has developed a proven track record, with systems installed and supported in many international markets. The company focuses on design and its Intellectual Property (hardware and software development) is its key asset. It enters into distribution and marketing alliances to take and support its products in overseas markets. While Australia is its biggest market, the company has representation in Asia, Africa, Europe and the Middle East. The company has around 50 employees, and is looking to expand its capital base so that it can look for bigger markets such as the US.

Company C

The company is involved in the furniture industry and owns its own timber processing plant. They see themselves as a design and marketing company that makes furniture. The company has been in existence for over 15 years and, over the years, has won over 30 national and international awards for its business, export, design and environmental practices. The company has a strong design focus and culture, and equally strong environmentally friendly policies. It wholesales its products to retailers, eliminating the need for distributors. Nearly half of its business revenue is derived from its Australian operations, with the rest coming from New

Zealand sales. Their current plans are to extend to the US market and their strategic alliances are mainly on the supply side, with these partners based mainly in the European markets. The company has around seventy employees in New Zealand, and a warehouse in Australia with five staff based there.

Yin (1994) suggests that there are broadly six main sources of data collection, each of which has its own particular strengths and weaknesses:

1. documentation review
2. archival records
3. interview
4. direct observation
5. participant observation
6. physical artefacts.

In choosing to utilise documentation review and interviews as appropriate data collection methods, the research sought to easily compare responses and evaluate comparisons within a multiple case design. Easterby-Smith, Thorpe and Lowe (1991) suggest that unstructured or semi structured interviews are an appropriate method when:

- It is necessary to understand the construct that the interviewee uses as a basis for his or her opinions and beliefs about a particular matter or situation
- One aim of the interview is to gain an understanding of the respondents' world so that the researcher might influence it, either individually or collaboratively
- The step by step logic of the situation is not clear
- The subject matter is commercially sensitive
- The interviewee might be reluctant to be truthful other than in a climate of confidentiality in a one to one situation.

There are several problems associated with conducting interviews, not the least of which is that they can easily become time-consuming and costly. In addition, there can be a danger of bias due to poorly constructed questions, and there are important issues of confidentiality. However, in Campbell-Hunt, Brocklesby, Chetty, Corbett, Davenport, Jones, & Walsh (2001), the case study method was successfully used with a full range of enquiry techniques, some of which were included in the current research as follows:

- Interviews with senior managers
- Researching of all publicly available material
- Discussions within the researcher/supervision team to share and refine perceptions.

In Campbell Hunt et al (2001), ten organizations were involved in the case research, each of which had sustained strong competitive positions both within New Zealand and overseas. This work aimed to develop, rather than test, theory, and was conducted with medium scale organizations employing between 100 and 1000 people. The approach taken in the current research is similar to Campbell-Hunt et al, but conducted within the context of questor companies that have used strategic alliances as a mechanism for rapid growth. Given the scope and scale of the academic requirements governing this report, the research has been restricted to the three case study companies previously identified.

For each of the above companies, interview data was collected from three separate sources :

1. personal interview with the CEO or General Manager
2. personal interview with a production manager or other relevant floor-level manager
3. review of promotional brochures, website and other publicly available material

Interviews were conducted on a face to face basis, and typically lasted between 45 minutes to one hour. Though interviews were semi-structured, based on the ten questions identified in chapter two, they were conducted as far as possible in an identical manner, with the same questions being used as interviewee prompts, and asked in the same sequence – follow-up

probes were used as appropriate to clarify issues or generate a greater depth of response. All interviews were audio recorded and transcribed into written documents and these were reviewed and marked up to highlight the responses to the specific research questions. The transcribed documents were further reviewed for common themes within each specific question category and used to compile the results of this research.

The concept map discussed above helped to formulate the research questions. Answers were sought to these questions in the interviews by means of a research strategy which had to be feasible within the necessary time scale and available resources. Two important aspects of the process were identified:

Scale and Scope

While the topic was large and cumbersome, the research task had to be matched to the resources available. Figure 3 below presents the interview questions abstracted from the research questions, making it possible for the conceptual framework outlined above to encompass all the dimensions of the bigger issue (Veal 2005).

<i>Research Questions</i>	<i>Interview Questions</i>
<p>1. <i>What is the company vision and how has this been reflected in its New Zealand operations?</i></p>	<p>What is the nature of the business and the type of industry it is in ?</p> <p>How long has the company been in existence ?</p> <p>Are the original founders still in the business ?</p> <p>What triggered the opportunity to start the company ?</p> <p>What percentage of business revenue is derived from overseas operations ?</p>
<p>2. <i>What were the key drivers in seeking a strategic alliance as opposed to going it alone?</i></p>	<p>How does the company take its products and services to market?</p> <p>Has this model changed over time? If so, what has caused this change, and what are the positives and negatives of the different models?</p>

<p>3. <i>What were the key objectives that the company sought to achieve through the alliance?</i></p>	<p>Are you risk sharing ? What about the ease and speed to market ? What about culture and compatibility issues ?</p>
<p>4. <i>What channels and mechanisms were used to identify a potential strategic partner?</i></p>	<p>How long did it take to form a strategic alliance from the time it was decided that this was the way to go?</p>
<p>5. <i>What are some of the key attributes that were looked for in a strategic partner?</i></p>	<p>Trust, credibility, capability, financial strength, similar values and cultures? There are comprehensive alliances and functional alliances, e.g. production, marketing, finance, R& D. How would you describe the alliances that you are involved in ?</p>
<p>6. <i>How important has the design focus of the company been in attracting alliance partners ?</i></p>	<p>Based on the definition of design led, would you describe the company as a design led company ? Would you agree that design is a core competency of your company? What image do you see associated with the company, how would your customers describe the company? Do you see design extending beyond the IP in the products ? What makes you valuable to your strategic partner? Do you have a huge point of difference in the market ?</p>
<p>7. <i>What has been the typical life cycle of a strategic alliance and how has it ended?</i></p>	<p>Is there anything that you could have done to prevent the strategic alliance from ending ? Could you have seen the end coming ?</p>
<p>8. <i>What aspects of the strategic alliance(s) did questors think worked well?</i></p>	<p>Besides compatibility of products, do you look for compatibility in the long term vision of the strategic partner?</p>
<p>9. <i>What were some of the barriers faced that had to be overcome to establish a strategic alliance?</i></p>	<p>Would you say that trust is a huge component of a strategic alliance ? Is protecting your IP an issue ? What about language, does that pose any barriers ?</p>

<p>10. <i>What aspects of the strategic alliance(s) did questors find the hardest to work with?</i></p>	<p>Maintaining identity, loss of control, individual agendas, IP protection etc.</p> <p>One of the common objectives of strategic alliances is to quickly achieve rapid and sustainable growth rates. Has this been your experience? If not, what would you attribute this to?</p> <p>Trust is a critical component of successful strategic alliances. Given your past experiences with alliances would you agree and could you elaborate on it.</p> <p>“Coming together is a beginning, working together is progress, staying together is success”. How would you relate to this statement in terms of experiences with alliances with your business partners ?</p>
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Figure 4 Research questions and interview questions

Answerability

Since the research topic was quite specific from the beginning of the research process, the literature review and conceptual framework became the means by which the research questions were placed in the context of existing knowledge. Both in theoretical and practical terms, the concept of answerability simply refers to whether questions posed by the research are possible to answer. For example, for research question 1 (What is the company vision and how has this been reflected in its New Zealand operations?), it is impossible to encapsulate the vision of the company through a single answer. The advantage of using interview questions is to break down the vision into manageable parts to give the researcher a fuller understanding of answers to the research question.

6. RESULTS

1. What is the company vision and how has this been reflected in its New Zealand operations?

The key concept addressed by this question is company vision, and the responses to this question were mixed. One interviewee was not clear of the company vision, another interviewee answered with their mission statement, and another had a very narrow product focus rather than a broad overall vision for the company. The remaining three interviewees had similar visions - to be internationally recognized in their area of expertise, and to be the world leader in the design and supply of product – though one stated that such a huge vision was probably unrealistic. One interviewee elaborated further about becoming a world leader, not only in design, but in experience and as a brand.

Not many of the interviewees answered the second part of the question, which is how the vision has been reflected in New Zealand operations. One answered this by saying that the vision has been reflected in its New Zealand operations by the amount of resources that it has put into research. This research translates into good quality product that provides people with tangible benefits. This interviewee also felt that their vision was somewhat inspired by New Zealand's geographical location and, although the company was not overtly branded as a New Zealand company, they had branded the company and its products around the clean, green, fresh, healthy and outdoor lifestyle.

2. What were the key drivers in seeking a strategic alliance as opposed to going it alone?

The key concepts addressed by this line of questioning are rapid growth aspirations, risk sharing, financial and trade barriers, cultural barriers, speed to market, specialization, economies of scale, improved competitiveness, brand awareness, and clear strategic vision. In this respect, the experience, size and knowledge of the strategic partner were attractive attributes that contributed to seeking an alliance.

The companies in general understood the need to have a high level of skill and knowledge, so that they are not solely dependant on an alliance partner. When prompted about sharing of risk, the company with the manufacturing alliance agreed that it was one of the key drivers – the risk involved, particularly in manufacturing, could be quite high. All three companies achieved most of their sales turnover in international markets, therefore increasing sales volume (be it through a distribution alliance, supply alliance or manufacturing alliance) was one of the key drivers. For one of the companies that is heavily focussed on research, information sharing with their strategic partners is a key driver.

For one of the companies, it was not really an option as they had supply alliances. They are a design and manufacturing company, and therefore their focus and resources put them in a position to form strategic alliances with supply partners. By forming alliances as compared to just sourcing the raw materials from a number of suppliers, it guaranteed the company quality of product and also a constant flow of supply. Specialization is also a key driver for entering into a strategic alliance. Company B saw the alliance as a way to focus on their core product and allow the partners to handle any local software changes to support legislation in that country. Company A sought a specialist manufacturer to ensure the quality standards required to allow them to focus on their core design capabilities.

3. What were the key objectives that the company sought to achieve through the alliance?

This question is a secondary question to the one above, and was intended to identify verifiable criteria to determine the success or failure of the alliance. However, answers to this question were not clear, as questions two and three were interchangeably answered as one. Therefore the answers to this question are a bit hazy, though the points below were some of the leading objectives that companies sought to achieve through their alliances.

- Cost reduction
- Market expansion beyond a small domestic market
- Mutual benefit of business expansion

- Guaranteed supply
- Meeting quality demands
- Allowing the company to maintain a “Just in Time” inventory system
- Maintaining and sharing its environmental philosophy with its strategic partner.

4. What channels and mechanisms were used to identify a potential strategic partner?

The focus of this question was to determine which of the following sources proved most valuable to identifying a possible strategic partner : Worldwide Web, trade shows, NZTE, customers, and others. For one of the companies, trade shows are the vehicle that best helps them identify a potential strategic partner. They visit at least four trade fairs a year in Germany, China, US and Italy. They also look at recommendations from other New Zealand exporters, and use the two other channels and mechanisms that were common to all three companies - web searches and organisations like New Zealand Trade and Enterprise.

One of the companies, besides attending trade fairs in the US, has identified a potential strategic partner through informal industry connections. This company also recognised that they did not really have any clear strategy as such and, over a period of time, find that new suppliers “sort of come along” offering new products. All firms used the Web as a tool for getting a first look at possible partners, but relied on formal introductions being made through trade shows or organisations such as NZTE. One company receives a very large number of enquiries from across the world requesting distribution alliances, but even they rely on NZTE to research and short list suitable partners in the markets they were interested in. It therefore appears that the Web provides little more than a source of market intelligence, and that direct participation in trade shows and using the NZTE were the predominant mechanisms for identifying partners.

5. What are some of the key attributes that were looked for in a strategic partner?

The key concepts addressed by this question are trust, capability, credibility, financial soundness, similar values/culture, and brand empathy. However, the answers ranged from

longevity, proven history, cultural fit, and similar design ethos; to similar brand values, evidence of good systems and procedures in place, and excellent communication skills. Brand empathy, understanding the value in the brand, and brand alignment were also mentioned, as were other attributes such as like mindedness , common vision, quality of product or service delivery, and the sharing of common values. One of the companies stressed that it is important for them to have a partnership that works in both directions.

Communication seemed to be the common foundation that all three companies looked to establish with a potential strategic partner, and with that came honesty and trust. Company B, the electronics company, was very focussed on finding strategic partners that have enough information technology skills. They also stated that the most important thing is that the partner recognises that the alliance is one that will yield dividends in the medium to long term, and that a lot of hard work with little immediate reward would need to be done in the short term.

While capability was accepted as being paramount, all respondents ranked trust as a key element in choosing a partner. Two of them also made the choice based on the similarity of organisational culture and values (including environmental responsibility).

6. How important has the design focus of the company been in attracting alliance partners ?

The key concepts addressed by this question are intellectual property, responsiveness, innovative culture, design led, track record/niche/market leader, complementary strengths, and questor status (implying high ROI possibilities). Design has been very much a key component for all the companies in attracting alliance partners. The alliance partners would not be attracted or committed to the New Zealand companies unless they saw that their design was really innovative and world leading. Because industries are progressively moving forward, and improving at all times, good product design has proved to be a core component of their competitive strategy. The companies felt that they are kept in an endless design phase, and that the ongoing design requirement are accelerating as the products mature.

The outcomes that flow on from being a design focussed company, understanding who they are, the uniqueness that comes with this, and the way that they project their point of difference, has attracted them to alliance partners. Contrary to the above results, one of the interviewees felt that being design focussed did not necessarily attract their alliance partners but it was more the image that the company portrayed in the market. Companies wanted to be associated with them even though they were a small company but were seen as ‘right up there internationally’.

7. What has been the typical life cycle of a strategic alliance and how has it ended?

Most of the companies have typically long life cycles with their strategic alliances and not much if any experience with them ending. The companies were not aware of the tenure of the life cycle of a strategic alliance, as they had been in relationships ranging from six to nineteen years - as far as they could see, at this stage these are very long term relationships so they don't have any insight as such.

The relationships have been pretty robust, both parties have focussed on their core competencies, and the relationship has really worked well. Even though the companies have changed over the year in their focus on design or market, the strategic partners have watched that change, moved with them and supported the change. Company C talked about one of their strategic alliances that ended after four years because of the lack of brand alignment. Their lack of regard for the environmental impacts of their manufacturing process did not fit well with the New Zealand company's environmental policies, so they withdrew the business from them.

Company A had lost some alliances because their strategic partners had not kept up with the market trends and some had ended up in financial difficulties. One of the alliances also failed because there was not enough mutual benefit. The partner in this case was a big international organisation which saw this business as adding little value to its portfolio. Communication problems through language issues and software malfunctions surfaced from time to time, but seemed to resolved themselves with time and effort.

8. *What aspects of the strategic alliance(s) did questors think worked well?*

In general all aspects of the alliance seemed to work well for the companies, though one of the aspects that was frequently mentioned was communication. One of the interviewees summed this answer up quite nicely by saying that, at the start of the relationship, they experienced some teething issues because there was no history established. Even though there is a willingness within both parties to really embrace the other, each one moves with caution at the start, and so the relationship start-up is probably slower than what both parties would have liked. Once this stage is overcome (which often has a lot to do with communication and setting objectives), then the feeling of trust grows and the pace of development starts to change.

The alliances that Company B entered into worked especially well when the partner benefited from being able to offer a complete solution that included their own products and services and those of company B. This allowed both partners' brands to benefit from the success, as opposed to a mere distribution agreement, where the partner may only on-sell products – the manufacturing capabilities, and the ability to leverage off the alliance partner's core competencies, saw Company B deliver a superior product at a lower cost.

These findings validates the study conducted by Sengupta, Castaldi, & Silverman (2005) that mutual benefit, trust, shared values, and financial stability are key attributes of a successful and enduring strategic alliance.

9. *What were some of the barriers faced that had to be overcome to establish a strategic alliance?*

The key concepts addressed by this question and the subsequent one are maintaining identity, sharing of control, individual agendas, enforceability of contracts, IP protection, brand image, and communication. In particular, understanding each strategic partner's perspective, and the goals and objectives of each of their businesses, appears to be the most crucial barrier to be overcome to establish a strategic alliance. The difficulty with some alliances is the learning and

understanding of each partner's strengths, translating them into tangible benefits, and working those benefits to favour both the partners.

The time it takes to establish a strategic alliance, legalism and the associated cost was a barrier to at least one company. This appears to be more pronounced and frustrating when the partners are significantly different in size. As a rule of thumb, the larger the organisation the more legalistic and sluggish is the process of forming the alliance. Language, cultural differences and time zones were barriers experienced by all the companies but they were apparently overcome without too much difficulty. Another barrier was getting a short list of possible alliance partners that matched their requirements. This was a common theme across all the companies. For alliances seeking overseas partners, NZTE was generally recognized as the most effective way of gaining market information and setting up contact with possible partners. This source was followed closely by active participation in trade shows and expos as a way to attract possible alliance partners.

One commonly recognised issue that failed to materialise during the interviews was the possibility that alliance partners might lose some control or struggle to maintain their individual identity. This omission appears to contradict the literature in its generally held belief that these are significant obstacles to establishing and maintaining a successful alliance.

10. What aspects of the strategic alliance(s) did questors find the hardest to work with?

Company B has multiple strategic alliances, so this posed the company some difficulty in maintaining a sense of fairness across each of these relationships. To a greater or lesser degree, loss of control was generally felt across all companies but was strongest felt by the companies with distribution alliances. The area they have to work at all the time is making sure that their strategic partners communicate the brand correctly. One of the interviewees said that, if they find it too hard, they move on, and further stated "to me, a relationship should not be hard work. If it's hard work, its not a relationship".

In general, the interviewees did not have a lot to share with this question, though Company C stated that not having the partner respect the brand was extremely difficult to deal with. As with the previous question, interviewees seemed to accept that there would be some difficulties, but worked their way through them over time. The common theme again appeared to be that it is very difficult to change differences in values, and this appeared especially relevant to alliances with retailers.

7. DISCUSSION

As a researcher, doing these interviews was enjoyable but a lot more difficult than I had anticipated. While I had to let the interview take its course, I also had to ensure that all the questions were answered. Often the questions were not answered in the order that I had prepared, so that meant that I had to pay attention to what was being said and make adjustments to the prepared questionnaire or ask further questions to delve into the topic in more detail. In addition, while I was attentive to responses, I found myself tempted to respond with discussion and opinion that would have threatened the objectivity of my participation. No doubt the discussion will have been influenced by my female influence and Indian ethnicity – and hopefully by a freshness since my years in business have been but a few.

All interviewees believed that they had successful strategic alliances in place. However, though the literature review highlights a “common vision” as a key concept of a strategic alliance, few if any of the executives had a clear exposition of the company vision. This suggests at best a very weak positive link, and at worst no relationship at all, between the need for a clearly defined and realistic company vision and the success of a strategic alliance. Such a finding appears to be contrary to almost all the overseas research, which indicates a clear vision as a core driver for a successful strategic alliance.

For example, Biggs (2006) states that, while “doing the deal” is one of the primary objectives of a strategic alliance, rushing in too fast without a clear understanding of the strategic intent of the alliance could be setting the arrangement up for failure – Biggs identifies ten steps in a process of successful alliance construction, and these are captured in the diagram below. However, the current research indicates that none of the companies went through such a rigorous process in setting up and monitoring the progress of a strategic alliance, even although all the alliances appear to have worked out successfully. This apparent anomaly can perhaps be explained by the type and scale of the alliances, and the size of the sampled companies, relative to the general literature review which focuses on substantially larger international organisations. Given that the sampled companies would be typical of most successful New Zealand questors,

it would perhaps be reasonable to conclude that the majority of alliances by New Zealand questors would be tactical in nature, and a lack of a long term company vision or strategy would therefore not impact on the success of such an alliance, at least in the short term.



Figure 5 Ten steps in a process of successful alliance construction (Biggs,2006)

It is the view of the researcher that this reinforces the belief that few if any of the alliances researched were “strategic” in the pure sense of the word and that, given the structure of New Zealand questor organisations, the alliances are more operational in nature. It is therefore interesting, and worthy of further research, to see if the very meaning of the term “strategic alliance” is interpreted differently within New Zealand businesses - to be more of a project specific partnering than a true strategic alliance.

The researched companies represented a good spread of responses regarding the drivers for entering into a strategic alliance. The alliances covered were distribution alliances,

manufacturing alliances and a supply alliance. While the overarching driver for the alliances was to support the rapid growth desire of the companies, specific drivers were primarily focussed on ease of market entry and overcoming trade barriers, improved competitiveness (cost reduction and quality improvement) and refocussing on their specialized strengths, and improved ability to meet growth projections and to compete internationally by implementing a Just In Time (JIT) manufacturing operation with very low inventory of raw materials.

These findings suggest that the type of alliance does not significantly bias the likelihood of success. All companies had come to a point where they recognized that, in order to grow, they had to engage in overseas market expansion as the small size of the New Zealand market could not sustain their ambitions. These findings endorse the findings of Mahoney et al (2001) regarding the key reasons why firms enter into strategic alliances.

One of the reasons for the largely inadequate answers to question 3 was that I did not clearly define what answer I was expecting from interviewees to the previous question. The second reason was that the companies themselves were not able to clearly distinguish between key drivers in seeking a strategic alliance, and key objectives that they sought to achieve through the alliance. The literature review and the general body of knowledge about alliances suggests that classifying an alliance as successful requires a wider definition than merely achieving the financial objectives. The responses that were expected to this question could perhaps have been more clearly outlined, however it appears that none of the companies had detailed pre-determined KPIs to use as a yardstick for measuring the success of the alliance. Rather, the high level driver for the alliance was used to get a broad success/failure classification.

I suspect that few if any of the companies were in a position to quantify areas and degrees of success and, if there were specific measurable objectives for these, they did not come through in the responses. It is the researcher's belief that this is an area of focus that needs to be communicated to New Zealand questors embarking on alliances, to enable them to make informed decisions, track shortcomings and take early corrective action throughout the life of an alliance. Having specific KPIs to monitor and quantify success throughout the life of the

alliance should significantly increase the chance of success by preventing an alliance from straying or veering off the desired path.

It appears that, for overseas alliances, the NZTE provided an extremely valuable and cost effective source of identifying prospective partners, screening and rating them, and setting up contact between the prospective partners. A close second was direct participation in trade shows, though it appears that unsolicited approaches based on web searches for prospective partners have significantly lower likelihood of success. Likewise, every month, Company B receives numerous enquiries for some sort of distribution alliance – however, few if any of these have proven to be worth pursuing. It is the researcher's opinion that the widespread use of email marketing and spam has impacted significantly on the genuine use of the web as a mechanism for attracting a response from a credible partner, and there is still a heavy emphasis and value placed on direct face-to-face approaches.

The responses to question 5 once again endorse the findings detailed in the literature review that competency, trust and consistency are the key attributes that are sought in an alliance partner. All the alliances investigated were competency alliances as opposed to scale alliances, and the primary driver for the alliance was to find a partner with complementary strengths to enable the rapid growth objectives of the questor organisations. It is no surprise therefore that trust and the partner's capability were of paramount importance, and it is interesting to note that one of the questors did not proceed with a very competent partner because their values did not match. In particular, the possible partner (in a developing country) displayed total disregard for environmental issues, whereas the questor considered this one of its key values.

In alliances focussed on market entry, the key attributes for the partner appear to be their credibility and reputation and their financial strength. The latter was considered a key attribute for this type of alliance, recognising that they would need to contribute significantly towards the market development activities which had breakeven periods measured in years rather than months.

All companies interviewed strongly endorsed the fact that, had they not been design led, they would have been unlikely to have attracted such large and competent alliance partners. The innovative design focus of these companies attracts alliance partners who see this as an opportunity to do something different from their typical standardised but routine operations. The uniqueness of the concepts and approaches, the value placed on design, and the entrepreneurial spirit of the questors have proven to be key elements in attracting alliance partners who would otherwise have not been interested in investing time or effort in such a venture - given that the volume of business is only a very small percent of their business.

The design focus generates a belief in prospective partners that the alliance has the potential to provide them with benefits that they can leverage off, either directly or indirectly. This however does require a high level of trust as well as diligence in protecting valuable Intellectual Property. As such, a strong correlation appears to exist between the design led identity and the ability to attract credible alliance partners. Recognising this, two of the three companies are committed to rebranding themselves, and are participants in NZTE's 'Better by Design' programme.

The overall focus of question 7 was to determine the points of failure (if any do exist) in alliances and, by examining the converse, to identify the positive aspects of a strategic alliance that make it robust. The question also seeks to assess if there is a lifecycle to an alliance and the typical duration for one. In this respect, Biggs ([2006](#)) identifies eight causes of alliance failure :

- Overly optimistic assumptions
- Poor communication
- Lack of shared benefit
- Slow results of payback
- Lack of financial commitment
- Misunderstood operating principles
- Cultural mismatch
- Lack of alliance experience

In general, none of these companies had any real experience of failed alliances, for the tenure of their current and successful relationships varied from six to nineteen years. Of the alliances that had ended, Company C identified a mismatch of core values as the main reason, notably in relation to care of the environment. Company B had also experienced the end of some alliances, the prime reasons being that the partner company had not kept up with the market trends or had ended up in financial difficulties – one of the alliances also failed because there was not enough benefit to that company.

Responses to this question reinforce the findings that strong, sustainable and durable alliances require that the partner is a financially stable organisation, that the two organisations have similar values and that there is equitable value accruing to both parties. In addition to value, it appears that a good cultural fit between the organisations is important - for example, it would be a significant risk to an enduring relationship if one organisation was innovative and a risk acceptor, and the other was risk averse and shunned radical innovation.

Like its predecessor, question 8 was used to cross-validate validate the responses to other questions, in particular seeking to identify the objectives for entering into the alliance and the attributes looked for in a prospective alliance partner. All respondents acknowledged that, while it took perhaps longer than they would have liked to establish the relationship, once an appreciation (or at least an acceptance) of each other's methods was in place, the relationship delivered to expectations. One of the key findings from here is that regular ongoing communication is important to maintaining a successful relationship.

Company A was able to avail of the 'best of breed' manufacturing capabilities of its partner, Company B has successfully created distribution channels in numerous new markets, and Company C has cemented supply agreements that ensure quality, JIT supply, and an ability to cope with peaks and troughs in demand without having to stockpile raw material. However, none of the companies appear to have had any conscious metrics by which to measure the

effectiveness of the relationship and identify areas of under-performance. Company C (as part of its ISO 2001 accreditation) does conduct annual audits of its alliance partners' processes.

This is seen as an important weakness. "Although it is not that difficult to make a deal, it is difficult to develop performance measures for a deal that is not a full-blown acquisition," says Lorraine Segil, Los Angeles-based partner with relationship management consulting firm Vantage Partners, and author of "Measuring the Value of Partnering: How To Use Metrics To Plan, Develop and Implement Successful Alliances" (Segil, 2003). She continues by stating that, because partners in an alliance have little control over each other, the adoption of formal performance metrics is one way to maintain some degree of influence on the partner.

Though the discussion related to barriers might have benefited from a greater emphasis on establishing, rather than maintaining, an alliance, the findings are still relevant in the context of the research question. A common theme emerged in respect of New Zealand's isolation, and its effect on the high costs of air travel and participation in trade shows – these were seen as a significant obstacle to making contact with possible partners and establishing a strategic alliance. While NZTE has in general done a very good job in surveying the market and establishing contacts, Company B did note that in one instance (South America) they felt that the quality of information received was very poor in relation to the time and effort expended.

Once established, New Zealand's 'inconvenient' time zone, and the small overlap of working hours with Europe or the USA, were both seen as an impediment to maintaining good personal communication with alliance partners; company C identified trust as a major issue, as they had had bad experiences with overseas suppliers providing sub standard goods after the first few deliveries; and company B identified the costs, time, and legalism associated with partnering with very large organisations as a definite obstacle to establishing an alliance.

None of the respondents interviewed chose to mention issues related to loss of control, or difficulties in maintaining an individual identity. This appears to conflict with the literature review, and the generally held belief that these are significant obstacles to establishing and

maintaining a successful alliance, but conversely supports the earlier discussion that many of these alliances were not actually “strategic” in its true sense.

Experiences with partners not adequately valuing the brand, abuse of trust, differences in value systems, and having to disclose intellectual property to partners rated amongst the hardest factors that the alliance questors were forced to deal with. The different business values that permeate down from different cultures appear to be the area that requires greatest attention, and this should serve as a warning to New Zealand businesses intending to establish alliances with a partner in a country that has a significantly different culture - ignore cultural differences at your peril, for cultural differences need to be recognized and accepted if the alliance is to have any chance of success. This is an area which appears to require a clearly defined and deliberate consideration before any deal is struck and, if the proposed partner’s values and methods of doing business are going to cause concern to the New Zealand firm, it would be prudent to decline the opportunity.

At the core of an alliance is the hope of significant gain, and the current research highlights that, if there is an expectation that the partner will actively promote the local brand, then such an expectation is likely to result in disappointment. The core human behaviour of seeking to serve one’s own interest is actively demonstrated, even in strategic alliances, as each partner seeks to use the other partner’s strengths to position themselves as a bigger “virtual company”. As such, it would be naive to enter into an alliance believing the other party will prove to be a Good Samaritan, willing to work in the best interests of its partner. This again reiterates the discussion above that a clearly defined set of KPIs needs to be maintained to monitor the ongoing value being delivered by the alliance, and to take early corrective action to maintain the benefits.

All the companies interviewed recognized that a need to share their designs was an area of concern. Company B had a unique “firmware” based platform that afforded some degree of IP protection, but Companies A and C relied almost entirely on the strength of contracts signed. It is the researcher’s opinion that, given the costs of litigation in overseas markets and the costs of

patents, IP protection is an area of major concern for questors - and indeed for any New Zealand based “design led” business that sees its value in the knowledge economy. If this knowledge is not protectable, and has the potential to generate significant wealth, then such knowledge needs to be zealously guarded.

8. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

On November 21 2006, a strategic alliance arrangement was signed between New Zealand Trade and Enterprise (NZTE) and its Chilean equivalent, Corporación de Fomento de la Producción (CORFO). This strategic alliance follows the Trans-Pacific Strategic Economic Partnership Agreement (“P4”) between New Zealand, Chile, Singapore and Brunei, established earlier this year, that provided the framework for closer economic relationships between New Zealand and Chile ([NZTE, 2006](#)). NZTE’s Chief Executive Tim Gibson, who signed the strategic alliance arrangement with his Chilean counterpart, said the arrangement promotes greater international co-operation and collaboration between the two economic agencies. “By working collaboratively, utilizing both agencies’ economic development programmes, we can accelerate and support this growth more effectively for the mutual benefit of New Zealand and Chilean companies and the economic development of both nations”.

While this report has focused on alliances between companies, is this perhaps the way of the future at all levels of human endeavor? Governments have recognized the economic growth potential of companies working collaboratively with each other, and are now stepping up their support in order to accelerate and support this growth more effectively for the mutual benefit of the countries involved. Mr. Gibson made his intentions quite clear when he stated that “Our vision is that, by 2010, there will be significantly more”. With increased government support and assistance, more and more New Zealand companies will be encouraged towards global success through the formation of successful strategic alliances with international partners.

In order to withstand the pressures of today’s global economy of constant change and instability, strategic partnerships will have to be nurtured and built robustly. This research indicates that the key contributor to the success or failure of alliances is whether all the parties will benefit equitably from the venture and the relative strategic importance of the alliance to

the stakeholders. As an example, the research indicates that an alliance which is critically important to one member but of only minor importance to another is more likely to fail.

A finding from this research is that being design led was a key attribute of the business that attracted the best possible alliance partners. The importance of this finding cannot be understated and is of special relevance to New Zealand businesses and their ability to compete in a global economy.

A surprising finding from the research is that none of the participants had a clear strategic vision that drove the formation of the alliance. It appears that the alliances were formed to address more immediate operational and tactical issues rather than long term strategic positioning. However, the lack of such a vision did not appear to impede the formation of a successful alliance. However, developing trust with stakeholders is the cornerstone of building strong relationships. Even though this study did not focus intensely on trust, the question of trust was raised as part of the study and has reiterated the findings of other research that trust is a key ingredient for long term success.

Another finding which appears at odds with intuition is that cultural differences do not appear to be a significant obstacle to forming of a good alliance. The literature review also suggested that cultural differences, while important, are “one of the least important causes of alliance failure.” This research validates the literature review but emphasizes that the parties to the alliance need to be mindful of the cultural differences and that they take great care to ensure they are aware of them and accepting of these.

In this report, the research question “*How can questor organizations in New Zealand best use strategic alliances as mechanisms for rapid growth?*” was explored and expounded through semi structured in-depth interviews with senior staff from three innovative and design led companies. These three companies have achieved global success, and in each case their sales turnover was higher in international markets than in the domestic market, due in no small part to leveraging off their strategic alliances to achieve rapid growth. In each, this growth has been

synonymous with business globalization, providing an example and a trend for other aspiring New Zealand businesses to follow. A significant gap in the literature, relating to the effectiveness of strategic alliances between small and medium New Zealand questor companies and their international partners, was addressed through this research and it is anticipated that this research and its findings will be of significance to similar questor companies that have gaps in resources and their competitive capabilities.

Recommendations

Strategic alliances are not a panacea for every company and every situation. This research has highlighted a number of variables that have positive or negative impact on successful strategic alliances, and suggests that these variables could provide the basis for a simple checklist for determining the likelihood of success or failure of a strategic alliance. The research highlights a significant opportunity for further research across a wider sample of companies that would be required to refine and validate this approach. In this respect, Segil's work on developing metrics and processes to measure, monitor and control the health of an alliance could be expanded further in the context of the types of alliances that are typical of New Zealand businesses.

Most New Zealand companies face the challenges of seeking cost effective ways to overcome the disadvantages of a small domestic market, the relatively high cost of domestic production, and the distance to major markets. However, globalisation has undoubtedly opened the door to forming international strategic alliances - fewer trade restrictions, central government business development programmes, and the signing of strategic partnership agreements between governments are giving New Zealand companies a better chance of entering overseas markets if they have the right strategies for exploiting such opportunities.

Having a robust checklist that captures the body of knowledge from successful and failed alliances would, in the opinion of the researcher, prove to be extremely beneficial to small and medium sized organisations.

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Appendix 1

Appointment Request letter

Dear

I am a postgraduate student of Unitec's MBIE (Master of Business Innovation and Entrepreneurship) programme, approaching that part of my course where I am required to investigate a topic of interest in the business world. As I am the current managing director of a design-led company, focused on high-level growth through international expansion, I am keen to learn more about the experiences of similar companies in different commercial fields. I have therefore proposed to my academic supervisors that I research the ways in which the generic concept of design is used as a basis for sustainable long-term competitive advantage.

The overall research approach is to identify and describe a series of case study companies that use, or have used, the concept of design as an important aspect of strategic alliances aimed at globalization of business. In this respect, the Design Taskforce 2003 report 'Success by Design' report, and the 'Better by Design' study (www.betterbydesign.co.nz) have both identified companies that have succeeded through the use of design and the adoption of superior design processes. Your company was a participant in at least one of these studies and has therefore conformed with the defining characteristics of being innovative, design led and a high growth businesses.

I have made this initial written approach to you to request 15 minutes of your time to explain the way in which my proposed investigation has been designed, and to outline the ways in which both of us can benefit from its outcomes. I plan to telephone your

office within the next few days to request a suitable appointment time with you and will be happy to answer any immediate questions you may have at that time.

I look forward to talking with you.

Kind Regards

Bernadette Soares

MBIE Learning Partner