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Full Length Research Paper

Strategic alliance governance in Zimbabwe policy and strategy

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Worldwide interest in strategic alliances has increased dramatically partly because of their potential to expand firms operations in the short run. Among the many issues posed by the increasing interest in strategic alliances, this paper focuses specifically on the dynamics associated with the governance of strategic alliance relationships. Furthermore, due to the constant deterioration of the Zimbabwean economy and the resultant heightened customer expectations, Small to Medium Enterprises (SMEs) have to enter into collaborative relationships which involve a high level of trust, goal alignment and commitment. The research used a multi-method field approach to gather, information on strategic alliances and corporate governance from 50 strategic alliance relationships from a wide spectrum of firms in a variety of industries in Zimbabwe. Ultimately, this paper identifies four critical governance areas into a framework for strategic alliance governance. The advent of the Internet has increased the ease of application or collaboration to form strategic alliances. Factors such as increased competition because of easier market entry, speed of data, and demanding customer requirements are necessitating a revolutionary change in the way that SMEs are managed. The struggling economy of Zimbabwe provides a platform that enables SMEs to extend their alliances to its suppliers thereby forming dynamic industrial districts. These factors, shared with an eagerness to contribute towards information and technology flow, will enable an efficient alliance thereby responding to the needs of customers.

Key words: Strategic alliances, governance, trust, networks.

INTRODUCTION

The world is changing. The business operational environment is now characterised by high volatilities and uncertainties than it never was before. Globalisation has become the order of the day and a reality to all players both on the domestic and international scene. Those firms that have become oblivious of the global economy are destined to the archives of business history. Corporate strategists are kept busy constructing and coining new strategies to cope with the changing environment. The business environment has become increasingly uncertain and highly competitive.

Kirzner (1997) and Machovec (1995) point out that firms must seek new knowledge in order to survive and prosper. In response to this, history has proven that businesses change strategies continuously in order to adapt to the changing environment. During recent times, stra-tegic alliances have a viable organisational form and a critical means of strategic implementation. Over the years, new concepts have been developed and utilised successfully by businesses in their quest to gain a com-petitive edge over their rivals. These strategies include total quality management, business process re-engineer-ing, just in time, supply chain management, and electro-nic commerce.

A closer look at the above business strategies indicates that, businesses have focused on developing their internal value chain capabilities in order to compete and adapt effectively within their changing environment. However, in recent years, firms have also realised that there was a need to place additional attention to external strategic options in response to the growth in international and global competition. One such strategic option comes in the form of strategic alliances or collaborative partnerships.

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LITERATURE REVIEW

Strategic alliance and corporate governance

The past decade has witnessed a phenomenal growth in strategic alliances. Strategic alliances are now a vibrant feature of the corporate landscape, and one that recently has seen a surge in popularity. Firms world over in all different kinds of industries have entered into strategic alliance networks with key players along their value chain. Beverland and Bretherton (2001), Kalmbach and Roussel (1999) estimated that by 2005, strategic alliance business related transactions would account for 25% of all business transactions in the world with a gross value of between US $ 25 – 40 trillion. It is undisputable that, no one organization can boast of having all resources and services it requires in achieving its strategic goals.

Drucker (1996) is of the view that no one company anywhere in the world is big enough or strong enough to do everything on its own. Firms face many challenges such as the digital divide, globalisation, political influences and cultural indifferences. In response to some of these challenges, a few firms have opted to use strategic alliances to bridge the gap of limited resources. Strategic alliances intend to provide a solution to the private and the public sector.

Strategic alliances are viewed as long-term partnerships of two or more firms that work together to achieve strategically significant objectives that are mutually beneficial to the partnering firms (Elmuti and Kathawala, 2001). On the other hand, Parkhe (1993) defines strategic alliances as relatively enduring inter-firm corporative agreements. This process involves flows and linkages within the value chain that use resources or governance structures from autonomous firms, for the joint accomplishment of individual goals linked to corporate mission of each sponsoring firm. Various researches (Inkpen, 2000b; Saxton, 1997; Parkhe, 1993) concluded the reasons for the formation of alliances. Research in the Zimbabwean context has produced similar findings as proposed by Varadarajan and Curringham (1995).

The definitions of strategic alliances clearly show that collaborative partnership are synergistic arrangements where collaborating firms corporate in a business venture by bringing together different strengths, capabilities and resources. There is therefore enormous potential that can be generated by strategic alliance relationships if they are properly implemented and exploited (Bracellaria, 1997).
Strategic alliances tend to create diverse managerial issues as it involves the exchange of knowledge between firms. Inkpen (2000b) cautions that when knowledge is exchanged between firms there is always a risk that this knowledge could be misused. He goes on to say that, firms can protect themselves either by contracts or by resorting to trust. Creating an environment of trust is critical in order for strategic alliance to succeed and it requires lots of time and attention to detail. While many firms often rush to jump onto the bandwagon of strategic collaborations, few succeed. To the outsider strategic alliances may appear to be always beneficial in today's competitive market. Reality on the ground indicates that strategic alliances have not brought about the results as envisaged by initiators of strategic collaborations in many instances. Among alliance members there may be an imbalance of power in terms of size, resources, image, or market size. Over time, one party may find it no longer needs the skills or knowledge of the other partner. This provides governance challenges to the allies. Kalmbach and Roussel (1999) found out that a failure rate as high as 70% existed in strategic alliance relationships internationally.

In a Zimbabwean survey of 287 alliance relationships created between 1995 and 2005 in the Hotel, Leisure, Construction and Retail businesses revealed a 62% failure rate (Saungweme, 2006). Eighty two percent of managers who responded to the survey indicated that the major problem they faced was failure by other partners to be transparent, accountable, fair, and honest in their dealings. The result was distrust and subsequent failure of an alliance relationship. Such problems culminated into major corporate governance challenges to the partnering firms. The prevalence of a high failure rate has prompted this research.

From an analytic perspective, Neilson (2002) points out that much research effort has been placed on examining underlying conditions favouring alliance formation such as factors motivating alliance formation, and cites researchers such as (Harringan, 1985; Teece, 1986; Countractor and Larange 1988). A second group of researchers namely, Kognt (1986), Doz (1996) and Nakamura et al. (1996) are described as researchers who are interested on the impact of alliances on partnering firms. Nielson (2002) identifies a new crop of researchers in strategic alliances who have put up research interest in the dynamics of strategic alliance, these include Gulati (1998), Koza and Lewin (1998) and Neilsen (2000). This crop of researchers focus primarily on the core issues involved in strategic alliances such as operations, impact on individual aspects of the firms structure.

Corporate governance

The term governance deals with the processes and systems by which firms operate. It is derived from the Latin word, which means 'steering,' 'controlling' and 'driving'. Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance" (OECD, 1999). The focal point of the research was to obtain answers to how corporate governance can be used to reduce the high failure rate given the attractiveness of the benefits accruing from strategic alliances. The research utilises the research findings to develop a framework for strategic alliance governance.

RESEARCH DESIGN AND METHODOLOGY

Research design

Using a multi-method field approach, information on strategic alliances and corporate governance was gathered from a study of 50 strategic alliance relationships (25 successful and 25 collapsed) from a wide spectrum of firms in a variety of industries in Zimbabwe. The thrust was to find out what firms in alliance relationship should focus on in order to enhance strategic alliance governance.

Qualitative approach

This study investigated in-depth factors, which were difficult to capture through a quantitative approach. Fifty firms were used capture attitudes and perceptions of strategic alliance partnerships.

Research methodology and data collection

Data was gathered using in-depth interview with senior management executives and historical data analysis of minutes, contracts and other alliance documents. Transcripts for interviews were examined for key concepts and themes on strategic management and alliance governance. Using iterative interviewing, the constructed data was interpreted and verified through further discussions with respondents. The researcher utilised the telephone, email, and face-to-face discussions to feed back to research participants their responses for further interpretation and clarification. Thus this research can be classified as a typical participative research as identified by Lawler (1985).

RESEARCH FINDINGS AND DISCUSSION

The research findings presented in this paper seek to contribute to research on the dynamics of strategic alliances by focusing on the challenges emanating from governance of strategic alliance relationships and how corporate leaders should handle such challenges as to maximise the perceived synergistic relationship that can grow from strategic alliances. This research found the following major reasons for the formation of strategic alliances in Zimbabwe:

i) Technological gap reduction.
ii) Skills development.
iii) Market development and exploitation.
iv) Risk reduction.

These findings are consistent with literature on the fact that firms opt for alliances as a reaction to conditions of uncertainties and challenges stemming from their environment. In Zimbabwe, economic challenges, technological disadvantages and limited global market place abilities and expertise have resulted in firms undertaking strategic alliances as a strategic option in an endeavour to meet their organisational goals.

In this study, 80% of firms observed said strategic alliances gave managers a better means of reducing risk and vulnerability in volatile and uncertain environment. For example within the mining industry in Zimbabwe, firms that had strategic allies with international partners were assured of continuous supplies of essential raw materials despite limited or unavailability from the local market due to acute foreign currency shortages. Strategic alliances thus offer significant advantages such as cost and revenue to partnering firms who lack in particular competencies or resources by securing these through links with allies who possess complementary skills or assets and may offer easier access to new markets and opportunities for mutual benefits (Kelly and Johnson, 1994).

The dynamics of strategic alliance and governance

The following list is a summary of the major issues that the research found to contribute to the dynamism of governance of strategic alliances. Based on the data collected, the research classified the major governance issues related to strategic alliances into four broad categories listed below. Firms that utilise strategic alliances as a strategic option should concentrate on the following four key aspects in order to come up with a sustainable well-governed strategic alliance relationship:

i) Pre-alliance planning.
ii) Governance structure and management.
iii) Institutional support.
iv) Communication protocol.

The above factors are discussed in turn within the context of the research findings and literature reviewed.

Pre-alliance planning

Planning is a key management function that involves the selection of strategies, formulating programmes and allocating resources towards clearly defined courses of action to meet the strategic option selected by the organisation in meeting its strategic intent. This process involves, deciding in advance what to do, how to do it, when to do it and who is to do what. The analysis of the research findings indicate that 96% of respondents identified pre-alliance planning as vital to the subsequent success of an alliance relationship. The first step in the alliance process is the formulation of an alliance business plan. An alliance business plan is a blue print for the overall alliance relationship. An alliance strategy will be clearly spelt out in the plan. The alliance strategy is a building block or extension of the corporate strategy and must be aligned with the mission and vision of the partnering firm. In other words, an alliance strategy must identify with the overall objectives of the firm.

Objectivity and compatibility

Firstly, management must decide the reason or objective for entering into a strategic alliance. This involves answering the key question, "Is it necessary for the organisation to use strategic alliance as a strategic option?" A strong answer in the affirmative is necessary as there is no rational is setting up an alliance when the firm is not going to derive any utility from it. Such clarification ensures that the firm has a clear and well-defined framework to follow when negotiating an alliance relationship. Without clarity, key governance issues are left out during planning phase.

Secondly, the objectives of the alliance relationship must identify with the overall objectives of the firm as articulated in the mission statement of the firm. The research findings indicate that where there was compatibility of goals, there was bound to be a high probability for a successful alliances relationship.

Another dimension to objectives was found to be obtaining in the field. Firms that utilise the strategic alliance option must be wary that they do not act ultra vires their own mission and vision. Once a firm ignored its own objectives as spelt out in its mission statement and adopt other non- core business activities, there was bound to be a decline on the internal governance systems, which would culminate into poor governance relationships with external strategic partners.

It is imperative for planners to examine their partner's documents, including their object clause right up to the memorandum of association of the partner. This helps in reducing any subsequent governance challenges that may surface in future.

Partner selection

In pre alliance planning, the planning team must decide the mechanism they will use to identify and select partnering firms. This is usually done once the alliance strategy objectives and format have been determined. Partner selection should be based on ability, competency and compatibility of needs. These needs range from financial, political, technological and organisational areas. It would be unwise and futile to select a firm with different goals and need than a partnering firm desires. Ninety percent of the respondents indicated that alliance partners must ensure that the basis of the alliance arrangement was founded on complementary needs.

One mechanism alliance leaders can use in selecting partners would be to focus on the reputation of their ally before they join hands with them. This is usually difficult when the partner is a foreign firm. Extra care and caution is needed. The data relating to the foreign firm must be thoroughly investigated and authenticated before being used for decision-making.

Intellectual property plan

There are circumstances where intellectual property may be involved in alliance relationship. A clear Intellectual Property Plan (IPP) should be put in place during the planning phase. It would be an advantage to consult a firm's corporate lawyer to help put in place an IPP that will provide guidance as to how intellectual property should be handled in strategic alliances. In this research initiative, not even a single firm or organisation had an IPP in place to guide decision markers where intellectual property was involved in an alliance arrangement. The greater challenge that faces small to medium entrepreneurs in strategic alliances was the inhibitive cost of professional services such as legal services. The respondents proposed that small to medium enterprises could seek to establish a professional services aid facility that would see them contribute premiums into a pool of funds that would be used to assist those in need. Such a proactive approach could go miles in reducing governance issues as firms would be free to seek expertise knowledge in areas they had limited knowledge. This notion seems to be adding to the argument of institutionalisation that has been raised above. The research findings indicate that alliance managers believe that pre alliance planning should be carefully done if alliance relationships are to be successful. Eighty two percent of managers projected a high success rate of more than 60% if firms were involved in serious pre-alliance planning.

Government structure and management

It is imperative to develop a sound management and governance structure to be applied in a strategic alliance relationship. During the initiation phase, the structure and communication channels of the alliance relationship are informal as initiators map the way forward by developing the purpose and scope of the alliance (Waddock, 1989). Once the alliance has been formalised, structures under which the alliance relationship will function are developed (Waddock, 1989). Wohlstetter et al. (2005) point out that an alliance relationship between two or more firms in essence, becomes an organisation itself once it is operational. Like any organisation, an alliance will require effective internal structures and processes to be put in place to ensure the smooth flow of activities. The initial structure and processes must be to be promoting good governance.

Corporate governance encompasses systems, structures and processes that an organisation puts in place to oversee its affairs. These affairs range from the setting of corporate objectives, to the development of structures to attain these objectives and the subsequent monitoring of performance of the corporation. The following are some of the key proponents associated with management and governance of alliances.

Leadership

Leadership is a crucial component to an effective management of alliance relationship. Firms must identify an individual to champion the alliance relationship. This is a leader whose clearly understands and identifies with a partnering firm's strategic view. The champion's role is to chat the organisation's way forward and to promote the meeting of a firm's objectives in an alliance set up. Waddock (1989) says the champion must possess the requisite energy and resources to set the alliance in motion and keep it on track during plateaus or setbacks. In all strategic alliance relationships that were studied, leadership was available and champions could be identified. In an alliance, the champions must continuously focus on milestone developments as set in the strategic alliance business plan. In addition, the champion must create and maintain an environment of trust. Effective leadership is crucial in managing the day-to-day operations of an alliance relationship. Smith and Wohlsetter (2001) identify (use present tense because writers never die and are always present) the three roles effective leaders in alliance relationships assumed. They say effective leaders roles are architects, information brokers and boundary spanners.

As architects, effective leaders play the key role of pre-alliance planning as they design the structures that facilitate the day-to-day management of the alliance relationship. Their role as information brokers focuses on communication that is, distributing information throughout the alliance. Such information would ensure that all stakeholders receive the requisite information at the right time to use it to advance the cause for the partnership. Lastly as boundary spanners, they pay the crucial role of being the public relations people, dealing with external stakeholders. This role allows them to protect the alliance arrangement by disseminating only the necessary information that would not harm the alliance's governance efforts. In addition to the roles identified by Smith and Wohlstetter (2001), 60% of the respondents identified an additional role that could enhance good governance in effective leaders-mentorship.

Mentorship revolves around such terms as advising, counselling, guiding, tutorship, teaching and monitoring. There is no doubt that for effective leadership to be in place, leaders must become mentors as well. This helps minimise governance issues of accountability, transparency and equity as leaders try to bolster a similar to participants in alliance arrangement. In line with effective leadership, there is need for leaders to draw their efforts and attention to succession planning in alliance arrangements. The succession planning debate cannot be overemphasised. If an organisation is to successfully chart its way forward it must clearly design leadership structures that allow for any eventuality during the tenure of an alliance relationship. This calls for the grooming through mentorship identified above of potential future alliance champions.

There were four cases in the study that saw the initial champion exiting the organisation at some point along the strategic alliance life span. This resulted in serious problems emanating from leadership crisis and lack of insight and foresight on the part of the ones who took over the leadership of the alliance arrangement from one partnering side. In all the four cases, the alliance arrangement eventually collapsed.

The nature and form of alliance

Once the reasons for alliance formation are clear, the firm must clarify the type of an alliance relationship. There is a variety of these. In this study, 12% of the firms failed alliance relationships were caused by lack of clarity on the exact nature of the alliance relationship. It is important that parties to an alliance relationship are clear as to whether the relationship is a joint venture, licensing arrangement, product swap, marketing arrangement or other forms. It is advisable to seek legal and other forms of expert knowledge when alliance relationships become increasingly complicated or are being arranged or upgraded. In some instances, contracts, memorandum of understanding and other agreements may be signed. The implications of committing an organisation to a particular agreement must be clearly known to management as it may have far-reaching consequences in future.

Dispute resolution mechanism

In an alliance situation, corporate governance must specify the relationship between, and the distribution of rights and responsibilities amongst the main groups of partners, board of directors, management, workers, shareholders, customers and the community. Disputes are bound to occur in the running of the alliance relationships. It is therefore significant that a plan of how disputes can be resolved is put in place well before hand. An organisation that has been unfairly treated may seek recourse in courts. While this might provide a solution, respondents (n=11) in failed alliance relationship, highlighted that this mechanising of handling disputes is very expensive and may take long to settle a dispute. There has been significant growth in the use of alternative dispute resolution (ADR) methods internationally. The use of such methods as mediation, negotiation and arbitration has been used successfully in a variety of circumstances in resolving disputes away from the courts. In addition, there is support institutions that provide training and skills associated with alternative dispute resolution mechanism. In today's world legal fees are exorbitant in Zimbabwe for example seasoned lawyers with more than ten years experience may cost as much as USD $360 per hour (ZW$90,000) in legal fees.

There was a consensus amongst respondents that ADR are critical in handling disputes in both domestic and international alliances. Based on literature and respondents views, the following characteristics of ADR mechanisms are critical in advancing good governance in collaborative partnerships:

Visibility: Alliance partners must be fully knowledgeable of the existence of ADR mechanisms. It is also desirable that such methods are clearly spelt out during alliance negotiations and it is critical that this information be available at the time a dispute arises.

Accessibility: The ADR mechanism must be readily accessible by allies when a dispute arises. Accessibility not only means that the mechanism can be called upon when needed, but that there are no unreasonable barriers to access such as unreasonable costs to the ADR.

Cost effectiveness: The cost of an ADR mechanism should be significantly less for allies than formal legal actions. This is particularly true where formal actions involve time consuming dispositions, hearings, legal representation and cross-border logistics.

Timeliness: To be effective, third party ADR mechanisms must resolve disputes quickly if they are to meet the needs of allies. In contrast, seeking legal recourse through courts may not be as responsive. Quick resolution however, must take into account the need for the parties to provide (or the mechanism to collect), sufficient information upon which to base a resolution.

Friendliness: An ADR mechanism must not cause unnecessary and unjustified embarrassment to an alliance partner. The objective of the ADR would be to ensure that an alliance relationship is sustained in the friendliest of manners.

Finality: The ADR mechanism should ensure that the resulting decision fully and finally resolves the dispute amongst the parties.

Enforceability: The ADR mechanism should ensure that the decisions rendered and agreed upon by the parties are quickly and completely honoured.

The management of strategic alliances as indicated above introduces a complex combination of new management challenges that often need to be coordinated and addressed. It is the alliance management's responsibility to establish a relationship of trust, honesty and integrity between the partners. This will address challenges emanating from cultural dimensions. A key point to note is that an alliance relationship is dynamic and is characterised by continuous change, which managers must be able to manage least new governance challenge develop bogging down the alliance relationship.

Governance audit and evaluation

Governance has now taken centre stage in all development related circumstances in the world. This research has highlighted the need for a clear governance and explicit decision-making process. This argument is in tandem with what Kantar (1994) says is critical in the governance of alliance relationships. She proposes that a well-defined alliance governance structure must provide a forum upon which stakeholders come together, make decisions and carry out the work of the alliance.

This research concurs with this notion. In addition to this, respondents in this study called for an evaluation mechanism to be put in place.

There must be a governance audit instrument that will enable alliances to evaluate their adherence to sound corporate governance practices. The evaluation process will provide partners with opportunities to identify areas for improvement and future directions in governance issues. From a governance viewpoint, shareholders and business executives monitor, evaluate and agree the strategic direction and business objectives that the firm has taken. In addition, they prioritize the business objectives so that resources can be allocated where needed. The above discussion has demonstrated the importance of governance. Efficient and effective management is responsible for implementing the alliance strategy. Poor management results in the failure of strategic alliances.

Institutional support

One major set back that has beset the operatives of strategic alliances particularly in Africa is the lack of support from institutions deliberately set to provide knowledge and expertise where businesses face challenges. Support institutions can be defined as those institutions that are not directly involved with an alliance relationship but whose impact has profound effects on the governance of the alliance relationship. These include trade associations, learning institutions, the judiciary, government departments such as the tax authorities, trade and investment promotion department and many others. These institutions play a pivotal role in providing education and supportive structure that advance governance in strategic alliance relationships. Firms such as Zimtrade, Small Enterprise Development Centre, The Export Processing Zone, Zimbabwe Investment Centre, Zimbabwe Development Bank to mention a few provide market linked information and other support facilities to entrepreneurs in Zimbabwe. Respondents pointed out that there was need to for these institutions to expand and widen their horizon by focusing on the promotion of sustainable strategic alliance relationships.

It would be ideal for support institutions to develop templates, sample agreements, and other governance enhancement instruments for use by users of services they provide. The Internet can also provide a platform

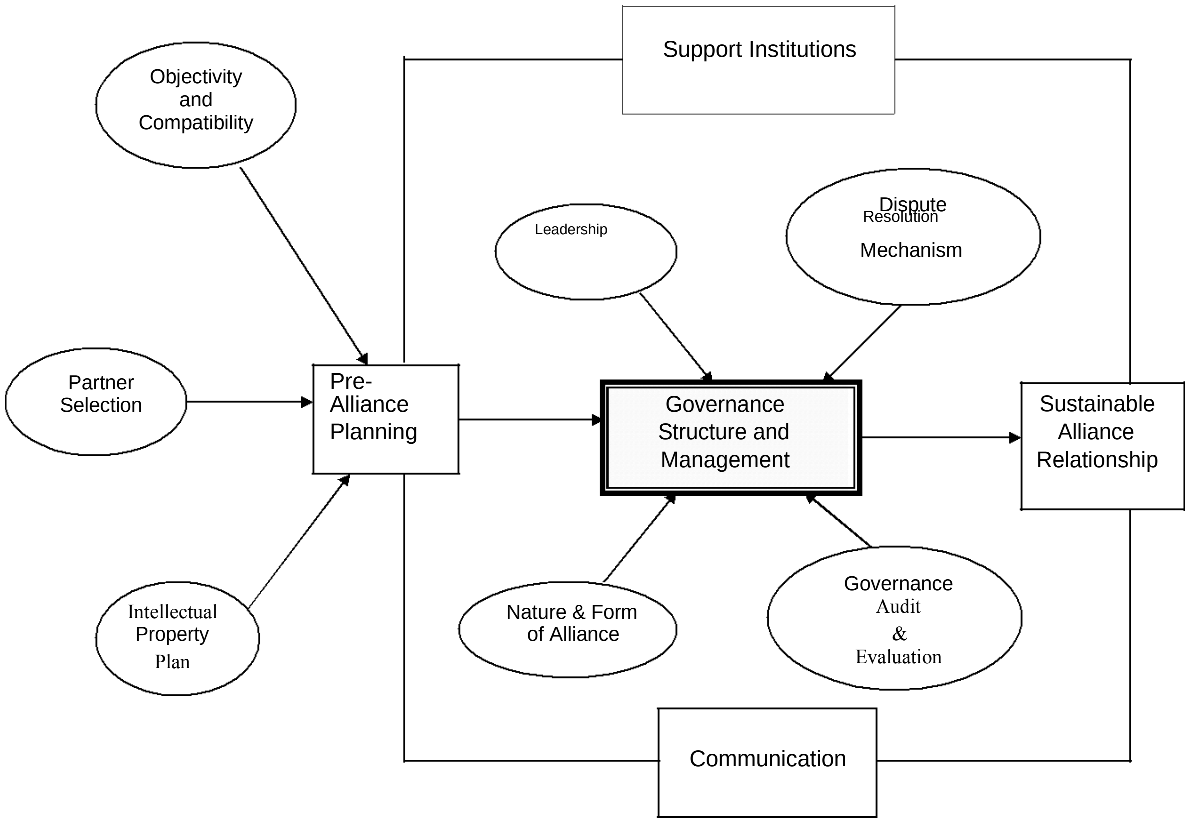

Figure 1. A framework for strategic alliance governance. Source: Saungweme and Naicker, 2008.

upon which the governance enhancement instruments can be posted and utilised by partners. Other institutions that are capable of provide support could be our inspectorate and licensing bodies. These play a crucial role in legitimising alliance transactions. For example, the Zimbabwe Revenue Authority, the health inspection division, the central bank and others must ensure that they provide an efficient and effective vehicle upon which alliance relationship can thrive. Too long a delay at a port of entry may mean goods are damaged or stolen resulting in loses. One situation that we encountered in our research related to goods that were delayed when being exported. The goods eventually were damaged at the port of exit and created huge loses to the alliance relationship. The participating allies eventually traded accusations at each other. This culminated into future antagonism and eventually the alliance relationship collapsed.

Communication protocol

Communication can best be defined as the passing or sharing meaning to a strategic ally. This is one of the pivotal and unifying factors that promote good governance and a sustainable alliance relationship. Alliances must have open communication in which partnering firms share critical alliance related information. Alliance information must flow through the right channels to the rightful recipients so that alliance objectives are met fully. To support this development, the research found out that there was need for a robust alliance information system. Today's world is powered by e-business. It would be ideal to develop e-alliance information system backed by an information communication platform that supports all alliance initiatives. An e-alliance system will allow real time communication to transpire between alliances partners especially those in remote places. Documents could be uploaded and downloaded daily on the e-alliance platform, while other important communications could be stored on the information communication platform. To date such an arrangement has not yet developed in the Zimbabwean situation despite the increased usage of the internet to power communication throughout the world. There has been widespread usage of the email facility in communication between allies (n= 37) indicating a potential use of the e-alliance system.

The discussion on the dynamics of strategic alliance governance is represented in Figure 1.

Conclusion

The above discussion has highlighted the major issues associated with the dynamism of strategic alliance governance. The research identified pre-alliance planning, governance structure and management, support institutions and communication as pivotal to alliance governance.

Today corporate governance has taken a central feature in the way organisation are controlled and managed. It would be prudent for all managers to observe key concepts in corporate governance so as to foster equity, transparency, integrity and honest in all alliance dealings.

The findings from the Zimbabwean situation have highlighted the key issues that managers must focus on. It is hoped that the framework for strategic alliance governance developed in this paper will go a long way in enhancing the governance of strategic alliance relationship. Strategic alliances are now dominating the strategic management platform today. Alliances are not a static phenomenon and managers should keep on the watch for new developments associated with the governance of alliance relationships.

Finally, there is need for additional research work to be carried out on how support institutions can promote governance of alliance relationship.

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