Understanding Strategic Alliances: An Imperative for the Success for Projects and Portfolios in Hybrid Organizations

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1- Projects and Portfolios in Strategic Alliances

The organizational vision allows firms to set the extent and pace of their growth, guiding long-term operations. Based on the vision, the corporate strategy gets its shape by logically arranging initiatives and decisions, defining intermediate goals that materialize through the value generated by projects and portfolios. In some cases, delivering these initiatives demands the use of resources and capabilities that go beyond those found in single firms. The specific demands that frame these initiatives incentivize the formation of hybrid entities that, by exploiting complementarities, help achieving long-term objectives of parent organizations.

The development and exploitation of oil assets in extreme locations, such as ultra-deep offshore basins or arctic regions, is a clear example of the challenges faced by a corporation that attempt to generate value in constrained business environments. Successfully exploiting these assets requires strong organizational commitment, with large disbursement of capital and significant deployment of technical resources over long periods of times (usually decades), though the successful delivery of projects and portfolios. The level of complexity of these initiatives is considerable, exposing corporations to substantial risks, especially during exploration, construction and operation, exacerbated by variables that are specific to the local business environment. As a consequence, it is usual that multiple organizations combine resources and capabilities in strategic alliances to mitigate challenges and share the benefits of conducting these endeavors.

In essence, strategic alliances are hybrid forms of organizations based on cooperative relationships in multiple firms. These relationships, usually medium to long term, are focused towards the achievement of common objectives, using resources and/or governance structures from the parent organizations. It is important to highlight, however, that one of the main attributes of these hybrid organizations is that they are also networks formed by relationships of power and trust where there's a constant exchange of influence and resources, as noted by Thorelly (1986). In other words, the amalgamation of resources and capabilities of multiple firms will therefore result in a new structure with a unique set of elements that will generate value for the parent organizations though an inter-organizational symbiotic relationship.

Although the formation of strategic alliances offer significant advantages in terms of complementarity and shared exposures, they also bring important risks and

organizational inertias that need to be considered when planning and managing projects and portfolios. Indeed, a recent study conducted by the international consulting EY in 2015 reported that megaprojects executed by Joint Ventures have a higher failure rate compared to those performed by their single entities counterparts, evidenced in substantial delays and cost overruns. Considering the fact that oil majors are the preferred operators in Joint Ventures (JV) due to their technical capabilities and experience, it is reasonable to imagine conflicts emerging from divergences in corporate cultures, processes and objectives between operating and non-operating partners.

In a similar analysis, Jergeas and Ruwanpura (2010) noted that misalignment among the JV project partners is a contributor to cost and schedule overruns in mega oil sands projects in Alberta. Among the underlying causes, the authors identified in the study important elements emerging from partners' interactions, including cultural differences, internal conflicts in the alliance and divergent criteria on the way projects should be structured and managed. In a partnership scheme, project complexity will be circumscribed by operational attributes of parent organizations. This can often derive conflicts associated to differences in corporate visions and long-term objectives. When conflicts at the strategic level occur, an opportunistic environment materializes in the hybrid organization, generating uncertainty about the other party's behavior, as noted by Ren, Gray and Kim (2009), ultimately impacting the performance of the alliance.

Understanding the key structural elements in strategic alliances is essential to recognize some of the organizational variables that will constrain projects and portfolios that require capabilities and resources from multiple organizations. By the same token, it is also important to evaluate some of the issues that make strategic alliances fail. This will only assist in the design of the most appropriate organizational architecture for the hybrid organization, but also will increase the mitigation potential of managers when problems in the relationship emerge.

2- Key Elements in a Strategic Alliance

A strategic alliance is a marriage. Its planning and formation must be carefully structured. The architecture of the hybrid entity must be based on specific complementarities of capabilities and resources, framed on the long-term vision of the parent organizations. It is important to highlight that, rather than looking for common denominators to resolve a punctual problem, an alliance requires a solid understanding and agreement on the organizational and cultural elements that will define it, including which attributes from a specific parent organization will take precedence in the partnership over those of another partner.

The identification of the key elements that form a strategic alliance has been a topic of discussion among scholars, but Borys and Jemison (1989) proposed a very

appealing categorization founded on four key descriptors that form the core of a theory of hybrid arrangements, briefly explained in the following paragraphs:

Breadth of Purpose: Strategic Alliances must have a reason for their existence. The strategic objective of the hybrid entity must have a perfect correspondence with the strategic objectives of the parent organizations. Defining the purpose of the partnership is essential as it 1- provides the institutionalized direction in the partnership and 2- acts as legitimating mechanism among and within the partner organizations.

Boundary Determination: The clear representation of the boundaries within the strategic alliance establishes the interfaces between rights and responsibilities of each organization. The establishment of clear boundaries not only defines the legitimacy and the utilization of the resources by each partner, but also affects the internal cohesiveness of members in the hybrid entity.

Value Creation: Fundamentally, the partnership must create a value in a way that each of the partners alone could not. As a result, the competitive advantages of each partner organization should increase with their hybrid arrangement. However, it is important to remember that the value creation may not be evident until the organization reaches a certain level of maturity, recognizing the challenges in managing these types of organizations due to the fact that partners often lack of reciprocal understanding of the other's operations.

Stability Mechanisms: As strategic alliances are conformed by organizations with different cultures, it is necessary to identify the rules and systems that will orient the operations in the new entity, considering the optimal implementation of specific practices from each parent organizations. Finding this optimality is particularly important in the establishment of commitment since this indicates that partners need to understand (and agree) in the complementary capabilities of their counterparts. Achieving stability in a hybrid organization requires a set of shared norms and expectations of justice that must be established through common practices and/or the allocation of legal mechanisms that allow enforcement of hybrid contracts. In the same vein, another author, Culpan (2008), explained that the sustainability of the competitive advantage offered by the strategic alliance is a function of the resources and capabilities of the parent organizations. Therefore, it is necessary to stimulate an environment where knowledge is exchanged as a result of the operation of the partnership.

A robust understanding and implementation of the key elements that form the strategic alliance is paramount for the subsistence of the new organization that it will operate as a separate entity. However, although a certain level of autonomy should

exist in the alliance, it is worth to mention some of their differences with traditional forms of organizations. This differentiation allows appreciating how some of the performance metrics in projects could be affected when conducted under a partnership scheme, highlighting the areas that have potential for the exploitation of mutual benefits. Table 1 presents some of the key differences between strategic alliances and traditional relationships, adapted from a study conducted by Masrurul (2012) with a specific focus on seven key organizational variables:

Variable	Strategic Alliance	Traditional Organization
Cost	Sources of Costs are understood and then eliminated	Costs are pushed on to end consumer
Value	Focus is on generating value to the partners for the benefit of the partnership	Focus is on low-cost alternatives as trade-off, jeopardizing the value of the end product
Productivity	More tolerance to low productivity as they understand failures, bottlenecks and variability as factors that optimize the systems and increase the value of the partnership	Increase variability by introducing more / new suppliers
Information	Alliances practice open communication and encourage transparency, understanding that knowledge sharing is more powerful than knowledge protected	The use of information is based on a competitive scheme
Resources	Resources are strategically assigned and engaged to enhance the potential of the partnership	Resources (time and money) are viewed as instruments of self protection
Relations	Alliances define operating principles (such as Joint Operating Agreements in Joint Ventures) to frame the relationships regardless the assigned personnel	Relations are personality-dependent systems that reflect the agendas of the stakeholders
Risks & Rewards	Risks and rewards are shared and optimized	Assigns risks to external stakeholders while keeping rewards

Table 1: Differences between strategic alliances and traditional organizations (adapted from Masrurul, 2012)

3- Common Issues in Strategic Alliances

Issues emerged in strategic alliances can normally be traced back to weak formation and panning mechanisms and processes. The resolution of these issues can be challenging since multiple deficiencies can simultaneously emerge materializing as systemic problems. The following paragraphs describe some of the issues that jeopardize the stability and subsistence of a hybrid organization:

Deficiencies in Justifying the Purpose: Fundamentally, the reason for existence is the most critical aspect that must be addressed prior to engage any type of integrative effort with another corporation. Some companies decide to ally based on specific reasons to address market variables neglecting other business

configurations that could be more adequate for their growth (e.g. mergers, acquisitions). The purpose of the alliance, as explained by Borys and Jemison (1989), is what allows managers of the hybrid organization to make claims to the other partner's employee (e.g.: secondees) and/or resources: although the alliance is the product of the combined sovereignty of different companies, the purpose is what provides direction, acting as a legitimation mechanism. In other words, the purpose of an alliance 'glues' the operational capabilities and 'seals' differences among partner organizations.

Failure to Establish Boundaries and Interfaces: The level of participation and the definition of the scope each partner is intended to cover is another critical factor that increases the likelihood of conflict in the alliance and can affect its efficiency and performance. As noted by Borys and Jemison (1989), decisions must be made in terms of the resources and obligations that belong to each partner and, equally important, those that don't correspond to one of the parties. When boundaries are not properly defined, partners tend to allocate some of the obligations of the parent organizations to the alliance by loading it with illegitimate demands. Besides the evident impact on performance and efficiency, these practices decrease the probability of achieving the objectives the hybrid organization was created for.

Partner Selection: the formation of an alliance must be justified by an economic motivation. However, it is also fundamental not to discount the importance of "soft" elements with potential to jeopardize the stability and subsistence of the partnership. Corporations shouldn't save efforts in evaluating the organizational features that define the potential strategic partner. Once the alliance is formed, the cost of addressing incompatibilities tends to be high and the leverage of the affected partner is usually low.

There is a large body of literature proposing multiple interrelationship variables that should be verified when selecting partners and forming hybrid organizations. However, there seems to be convergence among scholars in some of the most important elements. Wittmann (2007) for example, proposed verifying the affinity with a potential partner as a function of five elements: Strategic Fit, Capabilities, Compatibility, Commitment and Control Parameters. Shenkar and Luo (2008) proposed the 5 C's framework that evaluates the characteristics of a potential partner envisioning the operation of the strategic alliance. This 5 C's model revolves around verifying:

1- Compatibility of the goals or alignment in the strategic objectives between corporations.

2- Complementarity of the resources: how each partner's resources are going to synergize and add value for the success of the alliance

3- Cooperative Culture: the level of cooperation of each organization, including understanding the flexibility and configuration of parent firms

4- Commitment: the extent of contribution each organization is willing to provide to ensure the optimal functioning of the alliance

5- Capabilities: the potential of each partner to carry on business in terms of strategic, organizational and financial competence.

Lack of Awareness in Cultural Differences: The awareness and understanding of cultural differences is crucial to avoid dysfunctions in the hybrid organization. This is a particularly important topic in large endeavors (such as megaprojects) developed by multicultural alliances with parent organizations with different geographical backgrounds. Differences in management styles and decision-making processes are among the most disruptive factors that could lead to failure if not properly understood. As explained by Child (2005), individuals from different cultural background will have a different perception of some elements that may appear "trivial" in more homogeneous (non-multicultural) environments. Some of these elements are authority, relationships, facing uncertainty, and the perception of time among others. Therefore, it is necessary to clearly identify and understand cultural differences in order to develop awareness among individuals and reduce the potential for misunderstandings in routine activities. Similarly, Grant (2012) recommended creating awareness of these differences provided their influence on negotiation styles and different perceptions of the business environment based on the cultural background of a stakeholder from a partner organization.

Poor Information and Knowledge Management: Knowledge sharing is one of the key advantages in hybrid organizations, but because the strategic alliance will combine information and assets that are owned by each partner, special considerations must be taken to ensure an effective and secure management of information. Shenkar and Luo (2008) noted that the constant flow of information between partners makes it challenging to control it, increasing the potential for leakage of critical data that could benefit third parties. Consequently, strong protocols and processes for information management must be in place to protect the competitive advantage of the alliance, its stability and the integrity of the parent companies. From an internal perspective, Grant (2012) recommended the design and implementation of robust confidentiality provisions in the alliance that a- protect proprietary information or technology, b- define the level of access each partner will have to the other party's corporate information and c- clearly defines who owns the technology used or produced by the alliance, envisioning the final destiny of this information once the alliance cease to exist.

Lack of Trust: As trust is one of the most essential elements in any relationship, it has a high potential to accelerate the collapse of a strategic alliance. The level of trust is essential to create a cordial environment of mutual collaboration that encourages the continuous and open flow of information. Essentially, partners must rely on mutual trust to ensure successful performance and operations in a hybrid organization. Child (2005) emphasized that, in a strategic alliance, partners must develop a relationship that goes beyond the contractual obligations and nurtures interactions for the cohesiveness of the alliance, timely addressing issues as trust is very fragile and can be threatened by normal tensions emerged from the day-to-day activities.

Weak Protocols for Conflict Resolution: As expected in any type of alliance, conflict will naturally emerge from dissimilarities in processes and systems from parent organizations, especially when conducting routine operations. As noted by Child (2005), this could originate incompatible expectations between partners, triggering conflicts that can affect the stability of the alliance. If not properly addressed conflicts have negative connotations in the exploitation of efficiencies the alliance is intended to generate. Robust protocols for conflict resolution must be designed and agreed upon during the formation of the alliance and must be clearly documented in the operating agreements, depicting the specific steps to satisfactorily overcome conflicts while ensuring continuity in operations.

4- Final Remarks

Ensuring the success of projects and portfolios performed in hybrid organizations require a robust definition of the strategic relationship through key elements that guide operations. We cannot forget that, as indicated by Lam (2004), strategic alliances are not independent entities that exist by themselves, but mechanisms to accomplish the business strategies. In this sense, projects and portfolios are vehicles to materialize objectives in the parent organizations: the performance of the strategic alliance is measured by the value delivered to the partners. One of the most successful examples, the Dow-Corning Joint Venture formed by the Chemical Corporation Dow and the glass manufacturer Corning, joined efforts to exploit complementarities Since the partnership was focused on the elaboration of silicone and silicone-based technologies, an intensive engagement in large R&D portfolios was required. With the time, Dow-Corning became the largest silicone-products manufacturer in the world.

On the other hand, it is also fundamental to understand the most common contributors for the failure of strategic partnerships since these issues will tend to materialize at the project level. This occurred in the failure of the NASA-Lockeed Martin partnership: According to CNN (1999), the $125 million Mars orbiter was lost

because Lockeed Martin used English units of measurements, contrasting with NASA's internal design processes based on conventional metric system, particularly in this project of such a high importance for the space program. The failure of this alliance allows appreciating the negative effects of lack of clarity in the boundaries definition that made the internal project interfaces collapse.

Clear rules of engagement and interactions are essential to ensure a productive inter-organizational symbiosis. It is necessary to invest substantial efforts at all stages of an alliance, especially in the front-end stages of planning and formation. Equally important is to establish clear protocols to effectively resolve conflict. This will allow designing and implementing an appropriate governing strategy for the new organization that considers the amalgamation of corporate culture and provides a robust criterion that will guide operations and adequately measures the performance of projects and portfolios. Finally, it is fundamental to ensure visibility of the engagement protocols at all levels of the hybrid organization to successfully exploit the efficiencies built in the complementary relationship. Striving for the performance of the alliance is paramount not only for its survival, but also for the negative effects to the parent corporations in cases of failure.

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