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Sponsorship relationships as strategic alliances: A life cycle model approach

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Abstract In recent years, academics and practitioners have recognized that sponsorship relationships operate as strategic alliances. Additionally, they have emphasized the lack of analytical approaches which allow an understanding of the developmental process of such alliances. In an attempt to fill this gap, we examine how key sponsorship characteristics change over different stages of the life cycle (formation, operation, and outcome) to determine the success or failure of the relationship. Specifically, we propose a life cycle model that articulates general paths in sponsorship relationship developmental stages and the behavior pattern of sponsorship characteristics. Throughout this framework, we illustrate our reasoning with examples drawn from the UBS/Team Alinghi sponsorship relationship.

1. Sponsorship relationships: In search of a new perspective

In today's ultra-competitive and complicated business environment, an increasing number of sponsors and sponsored parties refer to one another as partners, thus reflecting the complexity of sponsorship relationships. Rejecting the conventional view of sponsorship as a short-term transaction and marketing communication tactic, modern sponsors now recognize the strategic role of sponsorship and the great potential for creating value from a longer-term relationship. Such perspective is evidenced by Volvo's statement regarding the corporation's approach to sponsorship, as expressed on its website:

"Volvo recognizes the potential of sponsorship, the power of partnership established and developed with care and through co-operation….Our strategy of longevity and loyalty provides the stable platform major sponsorships require in order to germinate, mature, and progress." (Volvo, n.d.).

In his article on the development of sponsorship understanding, Meenaghan (1999) highlighted the need for new perspectives to examine sponsorship relationships in a more appropriate way. Farrelly and Quester (2003) concurred with this, confirming a notable lack of both analytical and empirical studies of the mechanisms of sponsorship relationships. Two years later, the authors explored the subject from a strategic point of view and found that a sponsorship relationship has the potential to

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operate as a strategic alliance, unveiling opportunities for both parties to invest jointly in order to achieve their own strategic goals (Farrelly & Quester, 2005).

A key limitation of this study, however, stems from its static perspective. Indeed, an understanding of long-term sponsorship relationships demands a dynamic perspective. As Wolfe, Meenaghan, and O'Sullivan (2002) noted, a sponsorship relationship is dynamic, like any long-term inter-organizational relationship that adapts and develops over time.

According to the strategic management literature, a *strategic alliance* is a close, long-term, mutually beneficial agreement in which resources, knowledge, and skills are shared with the objective of enhancing the competitive position of each partner. The authors of this definition, Spekman, Forbes, Isabella, and MacAvoy (1998), went on to point out that the literature on strategic alliances has paid little attention to issues related to the alliance developmental process.

Only in recent years has this process been subject to scrutiny by a select few authors, such as Ring and Van de Ven (1994), adding a temporal dimension which affects how alliance partners negotiate, execute, and evaluate over time. Moreover, researchers have begun to analyze the alliance over its life cycle stages, through which relationships emerge, grow, and dissolve. In reviewing the literature on developmental stages of strategic alliances, Das and Teng (2002) concluded that all models contained:

- A *formation stage*, in which the partners are identified, negotiations are carried out, and the alliance's strategy is formulated and set up;
- An *operation stage*, in which the partners start to operate the alliance and implement the agreements; and
- An *outcome stage*, in which the alliance either becomes mature and stabilizes or continues to change and reform.

Extending this line of thought, our aim is to determine how sponsorship relationships as particular strategic alliances evolve through different developmental stages over time, and to explain how the key characteristics of sponsorship relationships change over these different stages. To this end, we propose a life cycle model of the sponsorship relationship which we develop from an integrative approach. Specifically, we combine the relational view of the firm developed by Dyer and Singh (1998) and the alliance developmental process theories studied by Das and Teng (2002).

2. Sponsorship relationships from the relational view of the firm

Dyer and Singh (1998) argue that an increasingly important unit of analysis for understanding competitive advantage is the relationship between firms. Consequently, they identify four potential sources of inter-organizational competitive advantage: specific relational investments, knowledge-sharing routines, complementary resources/capabilities, and effective governance.

In the sponsorship context, Amis, Slack, and Berret (1999) found that companies whose sponsorship initiatives were successful approached their sponsorship agreement as a strategic resource, which they developed into a distinctive competence which in turn contributed to achieving a position of sustainable competitive advantage. As mentioned, it has been recognized that creating and maintaining a successful sponsorship requires the involvement of both the sponsor and the sponsored from a strategic alliance approach. Therefore, the four sources of inter-organizational competitive advantage classified by Dyer and Singh (1998) could be key determinants in a sponsorship relationship. Next, we explore in greater detail each of these four notable sources.

2.1. Specific relational investments

Investments of time, money, and effort must be undertaken to build strong and lasting relationships. Madhok and Tallman (1998) argue that expenditures and activities dedicated toward the relationship acquire the properties of a *specific relational investment* (i.e., they are specialized in the particular application and not transferable to alternate uses).

Sponsorship researchers such as Quester and Thompson (2001) found that rights fees are likely to be ineffective unless they are accompanied by the commitment of significant additional resources beyond those that can be classified as strictly financial. These additional resources have to be allocated to leveraging activities, which typically involve promotion of the association between sponsors and sponsored parties, in order to achieve any real degree of success. In this respect, Amis, Pant, and Slack (1997) studied the agreement between Canadian firm Owens-Corning and the Canadian freestyle skiing team, signed in 1986 and then extended until 1998. The authors describe how Owens-Corning worked hard to ensure that freestyle skiing gained Olympic sport status, realizing that the company's profile would rise higher from supporting an Olympic (as