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Unpacking strategic alliances: The structure and purpose of alliance versus supplier relationships

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Abstract

While strategic alliances have received a great deal of attention from academic researchers and practitioners, we still know relatively little about the contracts that govern these alliance relationships and their difference from more complex buyer–supplier contracts. Through an exploration of 15 alliance contracts to develop jet engines between a major aerospace manufacturer and eleven different alliance partners, we seek to understand the structure and purpose of these alliance contracts and their differences from standard buyer–supplier contracts. The alliance contracts we study are designed to share risk, facilitate learning and the exchange of knowledge, specify roles and responsibilities, and provide administrative mechanisms for adapting and resolving disputes. What emerges from this study is a better understanding of how alliances differ from other types of interfirm relationships and how these differences are reflected in the alliance contract.

JEL classification: D23; L14; L24; O33

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While alliances have become an increasingly prevalent means of organizing economic activity (e.g., Dyer and Ouchi, 1993) we know relatively little about how they are structured and operated. Alliances have been defined so broadly that they are often impossible to differentiate from other interfirm relationships. Gulati (1995, 1998) defined alliances as "any independently

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initiated interfirm link that involves exchange, sharing or co-development." It would seem that this definition would include any interfirm linkage and such broad definitions are common in empirical research on alliances.

Alliances and other "hybrid" organizational forms are typically viewed as mechanisms for governing exchanges or relationships that are more involved than a standard market exchange but do not merit full integration (e.g., Williamson, 1991; Zenger and Hesterly, 1997; Gulati, 1998). While there has been a lot of empirical work on alliances, we still know relatively little about how they differ from long-term buyer–supplier relationships.

One aspect of alliances that has gone largely unexplored is the alliance contract and how it plays a role in codifying a different type of relationship than a long-term buyer contract. While strategy research has seen a tremendous number of alliance articles published in the last 20 years, the same cannot be said of economics research. Empirical economists have instead focused on long-term buyer–supplier contracts and how they are used to create proper incentives and/or overcome exchange hazards (e.g., Crocker and Reynolds, 1993; Joskow, 1988; Masten and Crocker, 1985). This literature in economics is focused on the contract and the role that it plays in enabling exchange, and in this paper we seek to bring this focus on the contract to examine alliance governance and determine how it differs from long-term buyer–supplier relationships. In doing so, we hope to provide a better definition of what makes alliances unique and how to craft effect contracts to govern alliance relationships.

We study 15 alliances entered by a manufacturer of jet engines (hereafter referred to fictitiously as AeroCorp) that involved three different engine development programs and eleven different alliance partners. The alliances include all engine-related alliances entered by AeroCorp from 1977 through 1998. We contrast these alliances with a sample of AeroCorp's supplier agreements that are used to procure similar parts.

The alliance and supplier contracts addressed four main sets of issues. First, the contracts specified payment terms and incentives for each of the parties involved so that risks could be clearly identified. Second, the contracts were designed to clarify the structure of the relationship and how the parties would interact. Third, the contracts specified what information, resources and knowledge would be exchanged. Finally, the contracts outlined warranties, liabilities and how disputes would be resolved.

We find that alliance contracts differed from more traditional longer-term buyer–supplier contracts in several important respects. Alliance contracts tended to have a longer duration, involve more intricate administrative structures and dispute resolution mechanisms, and specified the exchange of much more firm-specific information, technical knowledge and capabilities (i.e., more learning). In addition, alliances were broader in scope, had very different payment terms (revenue sharing and timing of payment), and involved more joint decision-making. Supply contracts, on the other hand, were shorter and more directly focused on describing the direct interaction and what was necessary for each party in terms of payments from AeroCorp and quantity and quality details for the supplier. There was a good deal of overlap in issues covered under both types of agreements, but the alliance contracts were much longer, more complex and covered a wider range of issues due to the broader scope of the relationship.

These findings provide some important insights about theories of contracting and alliances. First, we need to define alliances more carefully when doing empirical work in order to avoid coming to contradictory conclusions due to studying very different types of relationships but calling the all of them alliances. There are many important differences between alliances and traditional supplier relationships that should guide what we classify as an alliance for the purposes of empirical research. Definitions that include all exchange relationships as alliances