Development of an intra-corporate Centre of Cooperation

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Abstract

The pressure of competition has grown in the past few years through influence factors like the lifting of border barriers in the common market, the gradual opening of East European markets and globalisation. The potentials for competition can no longer be generated by corporate activities; this is possible only through the pooling of resources. The growing delimitation of corporate activities poses new challenges. Strategic alliances are failing in the face of non-available capacities, competences and intra-organisational deficit in coordination. Moreover, the alliances are not subjected to sufficient control. To solve the prevailing problem, a company's intra-corporate Centre of Cooperation is required.

Introduction

For some years now, a growing degree of division of labour can be observed in highly developed economies. This can be recognised, for instance, in the "wave of outsourcing", which started in the late 1980s. Altogether, it can be assumed that intra-organisational relations will become more quantitative and – as a consequence of the intensification of relations – also become more complex. In the wake of this development, a growing need for coordination which will pose new challenges for corporate activities will emerge. This need for coordination is not completely satisfied in intra-operational relations.

One basic problem is however, the fact that enterprises enter into strategic alliances without subjecting this to a sufficient mechanism of control. A intra-corporate Centre of Cooperation is required to counter this problem of control and coordination.

This paper is structured as follows: A circumscription of the term „strategic alliance" is first undertaken in section 1. Subsequently, the motive of an alliance is mentioned in section 2. In section 3, reasons for the failure of cooperation are treated.

In section 4, the question of rights of a Centre of Cooperation is placed in the forefront. Section 5 treats the development of a intra-corporate Centre of Cooperation. Potential lines of responsibility of the centre are generated as well as the question of the hierarchical structure of the project.

1. Circumscribing the term "Strategic Alliance"

In this paper, the phrase cooperation is used in a manner synonymous with strategic alliance. The difference between it and other forms of cooperation is based on the view of the area of cooperation.

In case of strategic alliances, two or more enterprises intertwine specific aspects of their activities in such a way that the exchange relations affecting them are not regulated by market transactions. Else they would appear separately in the market and confront each other as competitors (Backhaus and Piltz 1990, Henzler 1992). Strategic alliances therefore basically describe business-segment-specific horizontal cooperation (Backhaus and Meyer 1993, p. 332). This horizontal cooperation is characterised by the fact that cooperation exists between competitors of the same economic level offering identical or closely related commodities. It may cover the complete sector or only a few enterprises in an economic sector. Cooperation is done in a function-specific manner.

2. Motives for a strategic alliance

Through the globalisation of markets and internationalisation, the pressure of competition is steadily rising for economic enterprises. They are confronted with the problems of cost and allocation. The external pressure forces them to take operative intra-company measures for performance optimisation, rationalisation and restructuring.

There are several motives for strategic alliances; they can be caused by internal as well as externally-controlled factors. A few of the selected major factors are mentioned here, whereby it should be observed that a single motive is not always determinant to the emergence of cooperation but a whole variety of motives.

Motives for cooperation:

- Time advantage:
    Market and production cycles are shortened through technological advancement. Time thereby becomes a factor with which competitive advantage can be generated (Fontanari 1996).

- Know-how advantage:

  Cooperation is a means of compensation for know-how deficits in form of mutual learning and the exchange of capabilities (Bronder 1993).

- Risk reduction:

  The distribution of risks on several companies and the reduction of competitive pressure (Lutz 1993, p. 22).

- Quality optimisation:

  Improvement of quality as a result of growing consumer wishes.

- Innovative advantage:

  Concentration on central segments in order to keep pace with the speed of innovation.

- Saving of transaction costs:

  Saving of transaction or agency costs because as a result of the mostly high level of fixed costs, the companies are not competitive.

- Expansion:

  Exploration of new markets or the demolition of border barriers hindering market entry.

The individual motives reveal the high standards set for the enterprises to be able to remain competitive on the long run. The determinant factor is that there is often no potential for changes and the implementation of the envisaged aims. The shortage of resources has the effect that the enterprises are compelled to reconsider or change their corporate policies for the purpose of closing this loophole in resources and be able to meet the standards of competition. This can however, only be realised in a cooperative association.

If cooperation is so vitally important to the existence of companies, then the question may be asked why so many strategic alliances fail; what are the reasons for this? This will be treated in detail in the following section.

3. Reasons for the failure of strategic alliances

The number of national and trans-national strategic alliances will grow in many sectors, particularly in the countries of the new European economic area. Opposed to this is the number of such alliances as fail in their operative implementation; this is more than 50%

(Heck 1999, p. 9). Organisational and/or cultural reasons are mentioned as explanation. This however, doesn't seem to be a one-sided view. In this section, further major reasons for such failures shall be explored.

Reasons for the failure of strategic alliances are:

- Management has no strategic concept. Where there is however a concept, the operative implementation is not sufficiently regulated.
- Shortage of „Strategic Fit".
- Insufficient communication concept offering solutions for a bridging of the differences in entrepreneurial cultures. Shortage of „Cultural Fit".
- The alliance is not subjected to strategic control.
- The organisational feasibility of an alliance is not sufficiently verified.
- Shortage of „Fundamental Fit".
- Unrealistic expectations from the alliance.
- Question of the organisational-operative compatibility of the alliance partner is not cleared.
- Differences between members of management regarding the leadership of the alliance.
- Project management is granted little decision-making competence.
- Non-motivation of staff by management.
- The potential of the strategic alliance is not continuously exploited on a long-term basis.
- The complexity and time expenditure in the realisation of a strategic alliance is underrated.
- The purpose of cost-saving is defeated as a result of divisions on the areas in which this should first be implemented (Heck 1999, p. 30).
- Deficit in coordination within the enterprises. This deficit within the enterprise is a consequence of division of labour (Kirsch 1997, p. 570).

Potential problems increase in line with the size of the strategic alliance. The reasons for this are the number and quality of senior staffs under the management level. In large alliances, it is more difficult to push decisions through in a rapid manner. The coordination and control of the implementation of decisions are more complex and less calculable. In many cases, there simply aren't enough managers capable of leading an implementation to success in a consistent and professional manner (Heck 1999, p. 36).

As a result of the multiplicity of reasons in this area, the establishment of a Centre of Cooperation is necessary to enhance the optimal realisation of a strategic alliance. By listing

the arguments for and against the project, the issue of the rights of an intra-corporate Centre of Cooperation can be examined.

4. Rights of a Centre of Cooperation

Some arguments in favour of and against the project will be listed in this section; they only reflect a minimum aspect of the variety of arguments available.

Arguments in favour:
- Due to shortage of staff, companies cannot additionally re-deploy staff for cooperation purposes.
- Staffs do not have cooperation-specific entitlement to qualification measures (Löser 2000, p. 210).
- The complexity of an alliance requires internal coordination.
- 50 % of strategic alliances fail (Heck 1999, p. 9), see section 3 for reasons.
- Management is overwhelmed as a result of accruing duties in routine transactions.
- Reduction of transaction costs. These include the costs of searching, initiation, agreement, control and adaptation.
- There are often no cooperation-specific know-how and experience on the part of management.
- Growing readiness for cooperation activities.
- Solutions for coordination deficit must be provided with the enterprise.
- Motivation on the part of management for the realisation of cooperation.
- Arousing consciousness for the necessity of cooperation.
- Centre of Cooperation knows the structure of the enterprise and acts accordingly more in the interest of the enterprise than perhaps, external consultants.

Arguments against:
- The organisation integration in the hierarchy of the corporation requires additional investments.
- Centre of Cooperation causes additional expenses through Management.
- Accruing responsibilities can as well be assumed by Management.
- Sustenance of system.
- The success of a Centre of Cooperation is not quantifiable.
- Shortage of specialised and qualified personnel.

A comparison of the arguments in favour and against leads to the conclusion that the development of a Centre of Cooperation in the enterprise is reasonable.

If a Centre of Cooperation is to be integrated into an enterprise, then the question emerges as to the shape of the unit, the duties it has to perform and where to position the centre in the hierarchy of the corporation.

5. Development of an intra-corporate Centre of Cooperation

The following standards are required of an intra-corporate Centre of Cooperation; it must guarantee a possible hitch-free realisation of a strategic alliance. It must as well eliminate coordination and control problems.

The following lines of responsibility can be generated by the Centre:

- Structural coordination:
  Establishment of the strategic alliances

- Temporal coordination:
  Initiation and implementation of the cooperation,
  Termination of the cooperation

- Staff coordination:
  Supervisory schedule and responsibility (Relationship Manager),
  Motivation

- Result-related coordination:
  Measuring the target-realisation of cooperation,
  Deviation Analysis

It would be basically imaginable, that the Centre assumes and coordinates all duties in connection with an optimal realisation of a strategic alliance. To be able to live up to this responsibility, this Centre must however possess a degree of know-how, resources, negotiation instinct and decision-making authority. It must be in a position to act quickly on behalf of the corporation without consulting the General Management. This centre must have access to information at all levels of the corporation.

From the standpoint of the enterprise, the problem of integrating the unit in the hierarchy has become an issue. The cooperation centre should be positioned in the first hierarchical level of the corporation right beside the management level in order to have access to the subordinate levels and thereby, to the individual divisions and their resources. There must be direct channels of communication to ensure a rapid exchange of information (Schertler 1998, p. 43).

These conditions are necessary because cooperation cuts across all areas of a corporation and must be involved in the process of reaching optimal decisions.

The proximity to company management must also be ensured; it may even be imaginable to integrate the General Management into the centre.

Prospects

The aim of the paper was to create an internal unit in the corporation aimed at compensating for the inter-organisational deficit in coordination in case of a cooperation project. This Centre of Cooperation can assume the emerging responsibility and coordinate it in such a way that an optimal realisation of long-term cooperation is guaranteed. The hierarchical integration of the centre would be done in this case, at first level in order to gain access to the resources required.

The foregoing paper can be subjected to an empirical examination in order to advance scientific studies in this field one step further and provide further practical guidelines for a successful realisation of a cooperation project.

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