

Strategic Alliances In The Financial Services And Chemical Industries

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ABSTRACT

The penetration and practice of strategic alliances and Total Quality Management in a goods industry (Chemical Industry) was compared to that for a service industry (Financial Services). The ingoing hypothesis that the Financial Services Industry and the Chemical Industry were similar as it relates to strategic alliances and TQM, based on the longevity of these concepts, was not fully supported. Clear industry similarities and differences were noted. For example, the penetration of TQM and strategic alliances was deeper in the Chemical Industry. This is thought to be the result of the earlier application of TQM and strategic alliances in goods industries. Company size, as measured by revenue, did not affect whether small or medium sized companies in either industry practiced TQM, engaged in strategic alliances or the number of strategic alliances that each had. The proportion of strategic alliance practitioners who also practiced TQM was statistically similar for both industries. Importantly, a high, and similar, proportion of strategic alliance participants in both industries achieved business growth. While those practitioners did achieve a reduction of the numbers of suppliers there is significant room for improvement in both industries. Strategic alliance performance met or exceeded expectations and alliance costs were on or below forecasts in both industries but the result was significantly better for the Financial Services industry in both instances. The lower outcomes for the Chemical Industry are most likely rooted in negative aspects of relationships with strategic alliance partners as suggested by the top 5 advantages and top 5 disadvantages responses. Significantly, a high proportion of strategic alliances will continue with most of these being with the current partner and a few with new partners. The Financial Services Industry outperforms the Chemical Industry on this measure.

It is recommended that firms in the Financial Services Industry closely examine the benefits that strategic alliances can yield, and then conduct pilot tests. On the other hand, firms in the Chemical Industry need to improve their relationships with potential partners in order to maximize the outcome of strategic alliances.

INTRODUCTION

The past two decades have been characterized by an expansion of business through globalization, and the increased utilization of technology in achieving firm goals. In order to secure a competitive edge and survive in a global market environment, companies have realized the need to form cooperative arrangements, and pool their resources and skills to expand their capabilities. Strategic alliances are part of the Total Quality Management philosophy (TQM), which stresses, as one of its objectives, the need to achieve excellence in the marketplace. These corporate agreements have become a way of life for firms to gain access to new technologies, improve quality, reduce costs, expand market share, and increase profits. The growth of strategic alliances in both numbers and diversity of alliance areas is significant, because they can greatly impact business performance, in terms of new service offerings and product introductions, and can help to achieve strategic goals that are far beyond the reach of the single organization.

The concept of the Strategic Alliance has been known since the 1980's. It is an element in the "Just-In-Time" platform of Total Quality Management (TQM). Despite this longevity, the open literature does not abound with articles about these topics for specific industries. Rather, any information is of a general nature. Some research in strategic alliances has been published, but this has been limited to a few industries. These include the biomedical/healthcare industry – Yeheskel et al., 2001; Judge and Ryman, 2001; the technology industry – Cyr, 1999; and the food industry – Whipple and Frankel, 2000 and Cante et al., 2003. The Financial Services Industry and the Chemical Industry have participated in such alliances in ways that have not been well reported in the literature. Accordingly, the purpose of this study was to investigate strategic alliances that exist in the Financial Services and Chemical industries, two essential segments of the U.S. business environment.

The Financial Services firms examined are mainly drawn from the banking, real estate, and investment sectors. The industry is unique in that it is subject to government regulation, which can affect corporate strategies and opportunities that can be exploited. Historically, banks, brokerage houses, venture capitalists, real estate investment trusts, and other financial services providers have secured their niche in the industry and operated independently. However, fierce competition and the need to survive have forced firms to diversify and provide a 'supermarket' of services to their customers/clients through strategic alliances with partners who can provide the needed resources and skills. Because firms retain their independence, alliances can be formed or created, and discontinued, depending upon their success. In addition, the Financial Services Industry was of interest because of the significant consolidation of firms through acquisitions or mergers to obtain incremental client offerings with a broad array of products in lieu of, or in addition to, the use of strategic alliances.

In the Chemical Industry, companies can specialize in one or more of the following: manufacture, distribution, sales, marketing, or basic technical research in materials, products and processes. The Chemical Industry was selected for study because it is an important sector of the U.S. economy that impacts most goods industries and many service industries. This sector heavily depends on technical research and development (R&D) for growth through new products, new processes, productivity and improved quality. The Chemical sector's results are affected by global competitors hence one would expect extensive use of strategic alliances with which to gain competitive advantages.

The choice of the Chemical Industry and the Financial Services Industry enables the authors to compare the penetration and usefulness of both strategic alliances and TQM in a goods vs. a service industry. This first study of these two industries would form a baseline of knowledge for each to be used to gauge growth, stagnation or decline over time. The intent is to re-examine these industries every 4 to 5 years.

THEORETICAL BACKGROUND

This study is based on three different approaches that explain inter-organizational strategic alliances. They include the transaction-cost theory, which proposes that firms develop strategic alliances to reduce costs, and this can lead to increased profits (Gulati, 1998); the strategic view, which suggests that firms pursue alliances to enjoy the benefits of economies of scale, risk reduction, and the expansion of firm resources associated with these collaborations (Powell, 1990); and the learning perspective, which proposes that firms enter into these alliances to gain access to specialized information (Dyer and Singh, 1998; Parise and Henderson, 2001).

METHODOLOGY

The research instrument was a 19-question survey similar to the one described by Cante et. al. (2003). The Financial Services Industry survey contained an additional three questions related to foreign alliances. The use of similar surveys that are industry specific allows one to make comparisons across industries regarding the responses to the questions and measures. The research was conducted in 2 mailings where the second pass was directed at those firms that did not respond to the first mailing within 90 days.

The surveys were designed to investigate the following topics:

- The size (revenue) distribution of the respondents;
- The percentage that engage in strategic alliances;
- The number of alliances for each respondent;
- The subject area of each alliance;
- The percentage that practice Total Quality Management (TQM);
- The size (revenue) effect on firm participation in strategic alliances;
- The effect of size on firms that practice TQM;
- Performance of alliances compared to expectations;
- Costs of alliances compared to forecasts;
- Business growth as a result of alliance participation;
- Alliance participation and the reduction in the number of suppliers, and
- The top 5 advantages and disadvantages of participating in alliances.

The primary sample, for the Financial Services firms, was initially compiled from the Forbes Magazine's annual compensation survey of the top 800 CEOs in the United States, for the years 2000-2001. The sampling procedure involves collecting data on the firms listed under the financial services section and then searching the *Lexis/Nexis News Wire and Business Wire Databases* for each firm's address and the name of its top executive. This process resulted in a final sample of 424 firms from the Financial Services Industry.

The Chemical Industry surveys were mailed to 237 firms of which 187 were members of the American Chemistry Council (formerly the Chemical Manufacturers Association) and all of the 75 companies in *Chemical & Engineering News'* "Movers and Shakers" feature (90% of the total population- the remaining 10% were either acquired, merged or liquidated/ dissolved or could not be located using the Thomas Registry or Dun & Bradstreet's directory or "Anywho. Com").

The questionnaires were mailed with a personalized cover letter to the top executives (CEOs, Presidents, or Chief Operating Officers) of the publicly traded firms that are listed in the databases described above. The cover letter explained the purpose of the study and assured respondents of anonymity and the confidentiality of their responses.

The study hypothesis was that both industries should be comparable on all measures regarding strategic alliances and TQM given the longevity of both concepts. Therefore, the responses of each industry were evaluated using Student's t-test and the Chi-square methods, as applicable, at the 0.05 level against the hypothesis of "no difference".

Table 1. Size (Revenue) Distribution of Respondents

Revenue	Financial Services	Chemicals
<\$100 Million	22.2%	35.3%
\$100-\$249 Million	38.8%	11.8%
\$250-\$499 Million	11.1%	11.8%
\$500-\$749 Million	22.2%	0%
\$750-\$999 Million	5.7%	11.8%
\$1-\$2.49 Billion	0%	11.8%
\$2.5-\$4.99 Billion	0%	11.8%
\$5-\$10 Billion	0%	0%
>\$10 Billion	0%	5.7%

RESULTS AND DISCUSSION

The size distribution of the respondents in terms of revenue, shown in table 1, was good except for the absence of any response from the truly "mega" financial services companies. The revenue range of the industries was segmented into small (<\$100 million), medium (\$100-\$999 million) and large (>\$1 billion) to facilitate the presentation and discussion of the rest of the information.

The results indicate that 33% of Financial Services firms and 53% of Chemical firms engage in strategic alliances, while 44% of the former and 88% of the latter practice TQM. Both of these results are statistically different (t-test, 0.05). Clearly, the Chemical Industry leads the Financial Services Industry, although both need to grow in the employment of strategic alliances and the practice of TQM for competitive advantages.

The differences between industries may reflect the earlier, and more intuitive, introduction of TQM and strategic alliances in the goods industries rather than some other problem.

Table 2. Does Size (Revenue) Affect Participating in Alliances?

Size (revenue)	% Participating in Alliances		Are these different? t-test at 0.05
	Financial Services	Chemical	
Small (<\$100 Million)	25%	50%	No
Medium (\$100 - \$999 Million)	35.7%	50%	No
Large (>\$1 Billion)	No data	60%	Insufficient data

Table 3. Types of alliance service

Type of service	% of Alliances
Retail Banking	
Commercial Banking	
Investment Banking	
Virtual Banking	
Basic Technical Research	
Information Technology	9
Distribution Technology	9
Debt Servicing	
Marketing	9
Market Research	
Check Processing	
Risk Management	
Fraud Detection	
Supply Chain Management	
Quality Management	
Credit Checks	
Human Resources	
Asset Management	
Mortgage Banking	18
Mortgage Services	18
Investment Management	18
Insurance	18

It was originally thought that size might affect participation in strategic alliances, the number of alliances and the practice of TQM, given the anecdotes that “it will take too many resources” to do so. As shown in table 2, size, as measured by revenue, does not appear to affect whether or not small or medium Financial Services or Chemical firms will participate in strategic alliances (no difference, t-test, 0.05). A comparison could not be made for large firms because of the lack of Financial Services large-firm responses. On the other hand, large Chemical firms were comparable to small and medium Chemical firms in that size was not an impediment. Also, size did not affect the number of alliances that either a Financial Services or Chemical firm would execute (no difference, Chi-square test) with the same caveat as discussed above. Additionally, the practice of TQM did not appear to be affected by size since there were no industry-to-industry differences at equal size or across sizes (t-test, at 0.05). Finally, there were no differences between industry on the question of the percent of strategic alliances practitioners who also practice TQM specifically: 66.7% of Financial Services firms and 77.7% of Chemical firms (t-test, 0.05).

Although the Financial Services firms may have strategic alliances in over 21 types of services (table 3), the majority of alliances were in 7 services namely, 1) investment management (18%), 2) mortgage banking (18%), 3) mortgage services (18%), 4) insurance (18%), 5) information technology (9%), 6) distribution technology (9%), and 7) marketing (9%). On the other hand, the Chemical firms have alliances in 6 types of services namely, 1) product technology (33%), 2) process technology (11%), 3) basic technical research (11%), 4) quality (11%), 5) information technology (22%) and 6) supply chain management (11%). The finding for the Financial Services Industry suggests that the need for alliances in many of the “types of services” has been reduced or eliminated by the acquisitions and mergers bringing these services to the new firm. On the other hand, the Chemical Industry service types represent fundamental, essential platforms for which a company can never have enough (or can never afford enough).

Are strategic alliances worth the effort? The respondents answered this in terms of business growth, reduction in the number of suppliers, performance against expectations and the ultimate costs compared to the ingoing forecasts.

The findings indicate that 100% of the Financial Services firms and 89% of Chemical firms engaging in strategic alliances experienced business growth as a result (no industry-to-industry difference, t-test, 0.05). Firms in both industries had comparable success in reducing the number of suppliers. As shown in table 4, both industries achieved good performance vs. expectations with 91% of Financial Services firms and 58.7% of Chemical firms that

Table 4. Performance vs. Expectations

Rating	Financial Services	Chemical
Exceeded Expectations	4.3%	0%
Met Expectations	87.0%	58.7%
Marginally Met Expectations	0%	39.1%
Missed Expectations	8.7%	2.2%
% Met or Exceeded Expectations	91.3%	58.7%
Are these different?	Yes, t-test at 0.05	

Table 5. Alliance Cost vs. Forecasts

Variance vs. Plan	Financial Services	Chemical
Significantly Higher (11+%)	4.4%	0%
Higher (+3 to +10%)	4.4%	39.1%
On Plan	91.2%	56.5%
Lower (-3 to -10%)	0%	4.4%
Significantly Lower (-11-%)	0%	0%
On or Below Plan	91.2%	60.9%
Are these different?	Yes, t-test at 0.05	

participated in strategic alliances reporting “meeting or exceeding expectations.” The industries were different (t-test, 0.05). Also surprisingly, while both industries had success with the cost of strategic alliances vs. forecast there was a difference (table 5) with the Financial Services firms reporting 91.2% of alliances “on or below cost forecast” and the Chemical firms reporting 60.9%. Some insight into the reason for the differences in “performance” and “cost” appear in the “top 5 disadvantages” to be discussed next.

The top 5 advantages and the top 5 disadvantages to strategic alliance participation are shown in tables 6 and 7. The advantages list

demonstrates some of the outstanding benefits of strategic alliances, and while the items are not identical for the two industries there are similarities related to new products and increased business. Interestingly, the Financial Services list includes “relationships” as an advantage. In contrast the disadvantages list for the Chemical firms are, for the most part, “relationship” items but from a negative viewpoint. Also newsworthy, is that the Financial Services only had two disadvantages to offer. Perhaps these negative relationship issues are resulting in lower performance than expectation with the added consequence of higher costs than desired. Clearly, the Chemical Industry needs to work on these issues in order to maximize the value of strategic alliances.

What is the future for the current strategic alliances? How many will continue with either current partners or new partners and how many will be discontinued?

Table 6. Top 5 Advantages of Alliance Participation

Financial Services	Chemical
Reliability	Market Access
Relationships	New Products
Resources and Products	Access to R&D, Technology
Customer Focus	Faster Growth
Increased Volume	Reduced Cost

Table 7. Top 5 Disadvantages of Alliance Participation

Financial Services	Chemical
Inability to Change Direction	Lack of Trust
Low Performance	Lack of Focus by Partner
	Insufficient Effort by Partner
	Cultural Differences
	Legal Aspects

All 23 (100%) Financial Services strategic alliances will continue and do so with the current partner(s) whereas only 22 (48%) of Chemical ones will continue and do so with current partners (statistically significant, Chi-squared test, 0.05). In the case of the Chemical strategic alliances, 13% will be discontinued, 11% will continue, but with new partners, while the balance, 28%, are too soon to judge.

CONCLUSIONS AND RECOMMENDATIONS

The ingoing hypothesis that the Financial Services Industry and the Chemical Industry were similar as it relates to strategic alliances and TQM was not fully supported. Clear industry similarities and differences were noted.

First, the penetration of TQM and strategic alliances was deeper in the Chemical Industry. This is thought to be the result of the earlier application of TQM and strategic alliances in goods industries. However, there is room for growth in TQM and strategic alliances in both industries.

Second, size, as measured by revenue, did not affect whether small or medium sized companies in either industry, or large Chemical firms, practiced TQM, engaged in strategic alliances, or the number of strategic alliances that each had. The proportion of strategic alliance practitioners who also practiced TQM was statistically similar for both industries.

Third, a high, and similar, proportion of strategic alliance participants in both industries achieved business growth. While those practitioners did achieve a reduction of the numbers of suppliers there is significant room for improvement in both industries.

Fourth, performance met or exceeded expectations and alliance costs were on or below forecasts in both industries but the result was significantly better for the Financial Services Industry in both instances. The lower outcomes for the Chemical Industry are most likely rooted in negative aspects of relationships with strategic alliance partners as suggested by the top 5 advantages and top 5 disadvantages responses.

Fifth, a high proportion of strategic alliances will continue with most of these being with the current partner and a few with new partners. The Financial Services Industry outperforms the Chemical Industry on this measure.

Corporate alliances play an essential role in the success of business organizations because they enable firms to achieve firm objectives that would otherwise be unreachable. The Financial Services and Chemical industries have participated in these alliances, which can create opportunities for each partner. Accordingly, firms are increasingly placing added emphasis on corporate arrangements because they are useful tools by which they can acquire knowledge and resources; satisfy customer/client demand; and take advantage of an expanding global market environment.

It is recommended that firms in the Financial Services Industry closely examine the benefits that strategic alliances can yield, and then, each should conduct a pilot test. On the other hand, firms in the Chemical Industry need to improve their relationships with potential partners in order to maximize the outcome of strategic alliances.

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