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# Strategic alliance: synergies and challenges

## A case of strategic outsourcing relationship "SOUR"

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***Abstract*** *The number of strategic alliances has almost doubled in the past ten years and is expected to increase even more in the future. More than 20,000 corporate alliances have been formed world-wide over the past two years, and the number of alliances in the USA has grown by 25 percent each year since 1987. Outsourcing is a form of strategic alliance which is attractive for many organizations, but it is not simple or easy to create, develop, and support. There are many implementation problems and the failure rate is projected to be as high as 70 percent. In this paper a case study methodology is employed and the chosen case is outsourcing. Our case study shows that the development of a long-term strategic outsourcing relationship requires moral, ethical standards, trust and a willingness not to try to exploit the new relationship at the expense of long-term cooperation. The paper concludes that a strategic outsourcing relationship needs a specific management strategy and that companies should also pay more attention to the burdens embedded within it.*

## Introduction

Few, if any, phenomena in public or private management and organization have raised so much scholarly attention in such a short period of time as cooperation, strategic alliances and partnerships between complementary or competitor organizations.

Inter-organizational cooperation can be fruitfully examined from a wide range of theoretical starting points. They include strategic management, organization theory, economic and industrial analysis, network theory, game theory, the sociology and psychology theories, and evolutionary theories, to name only the most obvious. Models of bilateral (e.g. marriage) and multilateral (e.g. multi-state coalitions) relationships can also be applied to the study of inter-organizational collaboration. More interestingly, the collaboration phenomenon challenges researchers to extend these theories by providing a complex phenomenon to understand. This makes strategic alliance research intellectually challenging. This new situation was brought about by the radical changes in the global economy (Zineldin, 1998; Bredenlöw, 1999).

The number of strategic alliances has almost doubled in the past ten years and is expected to increase even more in the future (Auster, 1987; Herbert and Morris, 1988). More than 20,000 corporate alliances have been formed worldwide over the past two years, and the number of alliances in the USA has

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grown by 25 percent each year since 1987 (Farris, 1999). It has been estimated that in five years, alliances will represent $25-40 trillion in value (Kalmbach and Roussel, 1999).

However, while many organizations often rush to jump on the bandwagon of strategic alliances, few succeed (Soursac, 1996; Michelet and Remacle, 1992). Strategic alliance is attractive, but it is not simple or easy to create, develop, and support. There are many implementation problems. Strategic alliances often fail. The failure rate of strategic alliances is projected to be as high as 70 percent (Kalmbach and Roussel, 1999), and this failure rate is beginning to be discussed in leading business periodicals.

Because life in general, and in business systems in particular, is not as simple as one may think (I believe that most of us know this fact from our own daily life experience), the parties involved must recognize and realize that there are both synergies and challenges connected to any close partnership relationship. Such a relationship can easily turn into a burden which may involve many evils.

The paper describes theoretically and empirically the decision and result of strategic alliance in the form of strategic outsourcing relationship (SOUR) as a relationship between people or as a love affair and a commitment to marriage which is ideally, based on shared interest, love, mutual trustworthiness, and commitment to continue the relationship. It also identifies the basic criteria for the survival of a strategic alliance relationship, the challenges which can exist in a relationship as well as the strategic and managerial implications.

## The problem, limitation and aim of the research

The problem of achieving cooperation among human beings is hardly new. Plato and Caesar are perhaps as good analysts of cooperation as today's management scholars. Inter-organizational cooperation and strategic alliance are hardly new either. So, why today's recovery of interest?

Perhaps the theories we harbored – neoclassical economics in particular – and the leading context in which they flourished – the USA at the time when antitrust issues featured high on the public policy agenda – made researchers oblivious to the possibility, or the reality, of inter-organizational cooperation and strategic alliances. A culture of individualism and freedom in the USA also contributed to a lesser interest in cooperation. It is only the rise of game theory and with the systematic exploration of transaction cost economics beyond the market versus hierarchy dichotomy, nourished by the growing interest in the Japanese challenge in the 1980s and combined with the development of management research in Europe, that the collaboration phenomenon started to receive the scholarly attention it deserved. Scandinavian academicians in particular have been active in promoting strategic alliance and network theories of local and global enterprises.

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> Rather than thinking of the firm as "we" and the other actors as "they", the strategic alliance or network approach is inclusive. What is good for them is good for us (Johansson, 1997).

Dissatisfaction with the alliance relationship is one of the major reasons cited for the failure of many alliances (*Fortune*, 1992, 1998; Hamel *et al.*, 1989). A partner's dissatisfaction can result from outcome variables (e.g. the financial performance of the alliance) and relational variables (e.g. the degree of commitment or competence displayed by a partner to the alliance). With the exception of a few related studies including case histories in the business literature, very little systematic empirical research has been done to examine the relational determinants of satisfaction and continuity in strategic alliances (Jacobini and McCreary, 1994; Geringer and Louis, 1991).

Prior studies have added to our knowledge of why strategic alliances form the enablers for initiation success and the benefits that accrue. See for example, Ghoshal (1987), Dyer and Ouchi (1993), Geringer and Louis (1991), Cusumano and Takesihi (1991), Ellram (1990), Hendrick and Ellram (1993), Stuart and McCutcheon (1996), Soursac (1996), Harrigan (1989), Varadarajan and Rajaratnam (1986), Hamel *et al.* (1989), Selwyn and Davidson (1991), Niren *et al.* (1995), Brucellaria (1997), Zineldin (1998, 2000), Herbert and Morris (1988), Kalmbach and Roussel (1999), Zineldin and Jonsson (2000), and Wheelen and Hungar (2000).

Most of these studies suffer from some weakness. Some have failed to use formative indicators to differentiate between failed and successful alliances. These studies point to the continued need for identifying formative indicators and examining risks and problems associated with entering and maintaining successful strategic alliance. Most studies tend to focus more on the determinants of their synergistic success rather than on the challenges and problems.

Niren *et al.* (1995) argue that US business schools need to devote more resources to understanding the alliance management process, from contact negotiations to establishing effective communications. The Swedish business schools and other worldwide business schools and governments and industries have to devote more research resources and play a role in the transformations necessary for alliances to prosper. As Stuart and McCutcheon (1996) put it:

> The reasons for relationship failure over time are not well understood international strategic alliances are well known for being unstable, prone to failure, and at best, difficult to govern (Morris and Herbert, 1987; Pucik, 1987).

These statements indicate that it is the risks and problems that need to be analyzed more fully to determine the reasons why perhaps as much as 70 percent of strategic alliances fail. In other words, strategic alliances have certain drawbacks, one of which is that alliances can fail. This study explores why and how a company is forming a SOUR and examines synergies and challenges associated with such a strategic alliance.

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### Strategic alliance trends

Collaboration and strategic alliances have become a critical issue for global competitiveness. Scholars have been active in analyzing alliances even with competitors, and research into networks has logically followed (Brucellaria, 1997; Wheelen and Hungar, 2000). Strategic alliance requires cooperation and coordination between different independent parties to achieve mutual goals (Zineldin *et al.*, 1997; Zineldin, 2000; Bengtsson and Kock, 2000). Cooperation and at the same time competition is called by Zineldin (1998) Co-opetition. Hensler (2000) argues that it is a myth that competition is an inevitable part of human nature, makes people more productive, more enjoyable and builds character.

Both Kohn (1992) and Margulis (1998) provided scientific evidence that cooperation, not competition, is the core of evolution. To cooperate and at the same time to compete with the same actors, does not always promise paradise. A co-opetive relationship can easily be turned into dark sides (Zineldin *et al.*, 1997, Zineldin, 2000). Some have suggested that this collaborative approach interferes with free market economies and can block or at least temper the innovation processes (Macdonald, 1991; Kotabe and Swann, 1995). Others suggest that alliances may be a function of political interference and a characteristic of centrally planned economies, or that causation is advised because an alliance can weaken the position of one partner with respect to the other (Hamel *et al.*, 1989; O'Connell, 1985).

Strategic alliances is viewed broadly as agreements among firms to work together to attain some strategic objective. This definition accommodates the myriad arrangements that can range from handshake agreements to licensing, mergers, outsourcing and equity joint ventures. Such cooperation may take the form of equity sharing as in joint ventures and non-equity forms such as joint marketing, cross-distribution, cross-licensing agreements, joint bidding activities, and research and development partnerships (Varadarajan and Rajaratnam, 1986). Drucker (1996), who has been called the father of management theory, states:

> The greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnership.

The issue of strategic alliances, corporate mergers and acquisitions has grown rapidly in the last decade. The growth will continue into the twenty-first century and most likely will be a significant trend in the industrial corporate world (Harrigan, 1989; Varadarajan and Rajaratnam, 1986; Hamel *et al.*, 1989; Selwyn and Davidson, 1991; Quinn, 1995; Niren *et al.*, 1995; Brucellaria, 1997; Zineldin, 1998, 2000; Herbert and Morris, 1988; Kalmbach and Roussel, 1999; Zineldin and Jonsson, 2000; Wheelen and Hungar, 2000; Zineldin and Bredenlöw, 2001).

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*Arena of alliances*
The alliance partners could be from the same country as in the case of the "big three" US automotive makers: GM, Ford, and Chrysler, or they could be from different countries. An increasing number of companies are turning to the international alliance arena. For example, every member of the US big three auto makers has entered into an alliance with foreign manufacturer to sell cars in the USA.

Motivation for high-tech industries to joint forces is even more compelling – particularly in fields like electronics. The development projects are often too big for any company to finance. Also, the range of technology required is more than a single firm can hope to develop alone (Niren *et al.*, 1995). The NCR Corporation (USA) has formed an alliance with Winound Electronic Corporation, Taiwan's third largest semiconductor maker. NCR sells its chip products in the Taiwanese market and Windbound's integrated circuits to be sold in the US market (Whenmouth, 1993). In 2001, Ericsson (Sweden) used the strategic alliance strategy with Sony (Japan) to retain market presence in several product areas and expand into newly emerging market opportunities. These alliances allowed the rival manufacturers to become partners.

## Outsourcing

Outsourcing is a typical form of strategic alliance. It is about "make or buy". As Embleton and Wright (1998) put it, outsourcing concerns such questions as "The transfer of routine and repetitive tasks to an outside source," "...having an outside vendor provide service that you usually perform in-house" and "...paying other firms to perform all or parts of the work". This means that outsourcing is about the strategic use of resources outside the buying company in order to perform activities that otherwise would have been done by company personnel using internal resources. Therefore, outsourcing can be seen as a strategic choice made by companies for various reasons. As Quinn (1995) puts it:

> Companies are looking at it strategically. They are turning to outsourcing so that they can focus on what really differentiates them from their competitors, not just to save costs.

However, as mentioned above, cost savings or cost cuts can also be a relevant tactical reason for outsourcing.

The benefits of outsourcing are cost reductions, capital reductions, availability to production capacity and competence, releasing internal resources, both personnel and equipment, sharing risks with partners, quicker time to market, better strategic flexibility and so on (among others Griffiths, 2001; Embleton and Wright, 1998). One problem, however, is to know what really makes a difference. How do we know that we will save costs and how do we know that we are focusing on our main business or core activities? How do we know that the supposed benefits are "cashed in" and not turned to its opposite? Of course there are also some drawbacks with outsourcing. The

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company loses control over resources, activities, competence, personnel, day-to-day work, just to name a few. The question is how to know that the balance between what is good and what is bad is such that the buying company will benefit from the outsourcing arrangement.

The nature of the strategic alliance or SOUR usually results in achieving synergy effects. However, the creation of a strategic alliance or co-opetive relationship does not, of course, guarantee its long-term survival. A SOUR can easily be turned into dark sides (conflicts). It has been reported by O'Connell (1985) that it is estimated that more than one-half of all mergers and acquisitions fail. Multinational firm alliances are being described as a critical mechanism for competing in global markets and dealing with the increasingly rapid pace of technological development (Ghoshal, 1987; Harrigan, 1989). While the number of international alliances appears to increase dramatically (Auster, 1987; Herbert and Morris, 1988), they are well known for being unstable, prone to failure, and at best, difficult to govern (Morris and Herbert, 1987; Pucik, 1987).

### *Basic criteria for the survival of strategic alliance and a SOUR*

A well-developed ability to create and sustain fruitful strategic alliance or SOUR gives organizations significant competitive advantages. Such relationships can also entail a huge burden and problem potential for one or more of the involved partners. The main question is how the organization of the future should develop an effective process for establishing and maintaining a SOUR.

The creation of a SOUR does not, of course, guarantee its long-term survival. A long-term relationship does not always guarantee success. The simple, but possibly difficult, way to run a non-zero-sum game relationship is by trust and commitment. When there is trust, the need of pre-specifying every possible future detail or outcome is greatly diminished.

Creating and enhancing a sustainable SOUR has both a cost and a value. It takes a long time to develop a new relationship, and the time dimension impacts the parties' profitability. Thus, the parties involved in such a relationship must have a philosophy about how they should run their ongoing SOUR, recognizing the mutual interdependence of each partner. Each partner should consider that a poor SOUR can easily be turned into problems (conflicts). Indeed the best successful customer or business relationships, like the best marriages, are true partnerships that tend to meet certain criteria. Zineldin (1998) identified the following criteria:

- *Individual willingness, motivation, and strategic fit*: The business partners have a strong motivation for entering the relationship. They have something of value to contribute to a successful relationship. Each partner should have a clearly identifiable source of sustainable competitive advantage and it should develop an increasing level of

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interdependence. The business partner should have a common long-term goal and they should want to make the relationship work to achieve this goal.

- *Interdependence*: The partners should have complementary assets and skills. Neither can accomplish alone what they can achieve together. They invest in one another to demonstrate their respective stakes in the relationship. They need one another.
- *Cultural fit*: Cultural fit requires that each partner carries out its commitments and shows its trusting behavior and attitude. They are able to share the information and knowledge required to enhance and sustain the relationship. Many partnerships have failed because the partners have not shared the needed information and have not allocated their best people/knowledge to the project, or have placed it low on the priority agenda.
- *Organizational arrangements and institutionalization*: The strategic business relationship is given a formal status. The partners have defined responsibilities very clearly and designed a good dispute resolution mechanism to be agreed on by them to ensure that when the first problem emerges it will not taint the atmosphere and lead to a decline in trust.
- *Integration and integrity*: For best survival opportunities the partners develop linkages and share ways of operating so they can work together smoothly. They build an effective communication system among many people at many organizational levels. They do not abuse the information they gain, they are flexible, and they respect one another. They show a mutual integrity behavior and attitude towards one another in honorable ways that justify, enhance and sustain mutual trust and commitment.

Finally, as the development of a SOUR depends on how either partner interprets and re-interprets different acts and behaviors during the life cycle of the relationship, the problem of maintaining an atmosphere of high loyalty may, therefore, be far greater than that of creating one in the first place, and it is principally in this that the challenge lies. While a SOUR generally offers more flexibility and less cost than traditional competition, organizational marriages require a melding of frequently disparate corporate cultures. Thus, unhappy relationships, many of them leading to divorce, are an all-too-common outcome, largely because of undesirable human behavior.

## Synergies and challenges of a SOUR

*Synergies of a SOUR*

In such a relationship, the partners can create new value by reducing the transaction cost, uncertainty and the level of the financial and practical risks associated with the purchase or joint investment. In such a relationship, there is

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a great opportunity to gain access to vast amounts of information about, for example, each partner's needs, wishes, business and investment plans, which provides a substantial competitive advantage in strengthening the strategic cooperation.

> Partnership in supply chain relationships is clearly a very powerful strategy. It encourages a joint approach to problems and it can lead to reductions in costs and improvements in quality (Lamming, 1993).

However, a careful strategic business relationship development based on credibility and commitment is a critical SOUR strategic issue. A mutually beneficial and closer relationship between suppliers and distributors/retailers based on interlinked logistics, just-in-time, and information on sales allows the supplier to schedule its production and distribution process on the basis of known demand, rather than unpredictably on orders.

A sustainable SOUR offers the partners advantages and opportunities. Organizations can establish an alliance to develop collaborative programs beyond their legal boundaries in research and development, production and joint sourcing. This will lead to significant benefits and synergy effects such as: economies of scale, lower cost, skilled labor force, high R&D level, access to superior engine technology, and greater customer value-added is achieved at less total cost, hence ensuring profit for all the partners in the alliance or network.

*Challenges of a SOUR*

As mentioned above, most textbooks concentrate on the benefits of creating and enhancing a long-term business relationship. One main question is do all cooperation and long-term relationships promise heaven? The answer to this is, of course, such a close relationship involves cooperation and benefits, as well as burden, conflicts or even some evils/dark sides.

A close and tying SOUR between the involved parties has also its limitations and disadvantages. As a matter of fact, there is very little research on the burden and dark sides of the close relationships and this subject certainly deserves to be analyzed further.

> ..At the same time one cannot avoid noticing that there is a lack of studies of the problems or difficulties with close relationships....Of course, there are a large number of studies analyzing market solutions, i.e. the case with no relationships, but that is another question. We mean that business relationships entail costs and problems that warrant some attention...It is argued that the burden of relationships is the other side of the benefit potential... it is the automatic consequence of the development of a fruitful relationship. . .Close relationships can sometimes become "black-holes" as mutual expectations increase and thus demand on each other's resources increases. In these cases a relationship can be an economic burden without anyone noticing it (Håkansson and Snehota, 1995).

Long-term business relationships do not come free of problems. When IKEA's "a Swedish world-wide furniture company" sales volume was reduced, very

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recently, many of its strategic partners (subcontractors) in Sweden and Denmark went bankrupt. The KLM "Royal Dutch Airlines" and Northwest Airlines alliance did not live up to its expectations and was considered a failure, KLM invested $400 billion in Northwest Airlines and the result was large losses for both.

As mentioned above, most studies tend to focus more on successful stories of strategic alliances and ignore the fact that perhaps as much as 70 percent of strategic alliances fail. Some examples of failure stories are the collapse of GM (US) sales of its Pontiac LeMans in the US market in 1990, down 39 percent from a 1988 peak as a result of the GM strategic alliance with Deawoo group (South Korea) (Frame and Gadacz, 1991).

This failure is explained by different arguments from both sides. Some argue that the Japanese-style production management is not in GM's possession to transfer. Others say that the alliance had been plagued by quality and labor problems. GM accused Daewoo of mismanaging labor relations. Daewoo blamed the Pontiac Motor Division for not promoting the LeMans aggressively enough, probably because GM did not want it to draw sales from the other division's subcompacts.

It is obvious, however, that both parties in the alliance were responsible for the failure. The deal between Publicis Communication and Foote, Cone and Belding (FCB) was designed to fill the strategic needs of each: an alliance in Europe would finally give FCB the international reach it needed, while Publicis could use FCB's experience in North and South America to serve its multinational clients. This strategic alliance venture officially ended earlier, after bitter and expensive divorce proceedings (Melcher and Edmundson, 1997). The strategic alliance formed by Ericsson and Honeywell in 1983 shows that partner firms (or at least one partner), not surprisingly, tend to be interested more in pursing their self-interest rather than the common interest of the alliance (Bengtsson *et al.*, 1998). This alliance failed and ended in 1986 owing to lack of commitment and trust causing unsolved problems, lack of understanding and a despondent relationship.

Many strategic alliances, although entered into for all the right strategic reasons, do not work. Dissimilar objectives, inability to share risks, and lack of trust lead to early alliance demise (Johansson, 1997).

Different cultures operate in different ways:

> For example, US companies tend to evaluate performance on the basis of profit, market share, and specific financial benefits. Japanese, Swedish and most West Europe companies tend to evaluate primarily on how an operation helps build its strategic position, particularly by improving its skills (Daniels and Radebaugh, 2001).

> When Americans and Europeans come to Japan, they all want 51 percent. That's the magic number because it ensures majority position and control over personnel, brand decisions, and investment choices. But good partnerships, like good marriages, don't work on the basis of ownership or control. It takes effort and commitment and enthusiasm from both sides if either is to realize the hoped-for benefit (Ohmae, 1992).

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Elmuti and Kathawala (2001) theoretically identify the following problems facing alliances:

- clash of cultures and "incompatible personal chemistry";
- lack of coordination between management teams;
- differences in operating procedures and attitudes among partners;
- strategic alliances might create a future local or global competitor;
- lack of clear goals and objectives and lack of trust and opportunistic behavior; and
- performance risk as a result of external factors, market factors and internal factors.

Based on another theoretical study, Zineldin (2000) offers the following dark sides of alliances:

- Strategic alliance relationships can be resource-demanding and an uncertain investment. The adaptations also require resource mobilization, which could also be uncertain investment.
- Lack of experience in working together with new partners will probably put considerable demands on the management's time, efforts, and energy which may lead to neglect in running the organization's core activities. Alliance can also take flexibility away.
- Strategic alliance may cause too high coordinating and controlling costs.
- Sharing activities with others means giving up control over one's own resources, which seems to be more or less an automatic consequence of close relationships. It also means that some of one's own freedom is lost.
- Power and dependence can also be viewed as conflict sources.

According to a study conducted by the *Financial Times* (1999), the main reasons strategic alliances fail to meet expectations are:

> ...the failure to grasp and articulate their strategic intent and the lack of recognition of the close interplay between the overall strategy of the company and the role of an alliance in that strategy.

This includes the failure to investigate alternatives to an alliance. The above mentioned risks and problems are potential sources for failure of strategic alliances. These potential reasons and indicators for strategic alliance failure have to be empirically articulated, examined and tested. That is what our research intends to explore.

## A preliminary case study of a SOUR

*Research methodology and design*

The scientific work, to a large extent, aims at generating theories based on facts, which could be interpreted in different ways. It is, therefore, a question of

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research design and the design must be described so that the relevance is clarified (Von Wright, 1993; Glaser and Strauss, 1967). Traditionally in strategic studies, empirical data has been collected by means of case studies and interviews (Frankel *et al.*, 1996; Lorange and Roos, 1992; Mintzberg, 1970).

A free approach with little structure of the data collection, like case studies and interviews, could handle high flexibility and enable us to find interesting tracks along an explorative research journey. Starting from theories and known facts in literature, qualitative data generated by interviews and case studies are utilized to gain a better direction for the deep explorative study.

Our study is exploratory, thus the case study methodology (Yin, 1994) is to be conducted to generate in-depth knowledge of the research problem.

In the rest of this section we will present some preliminary findings from a Swedish case study which is still ongoing. Both authors are part of a research group at Växjö University, School of Management and Economics, called the CIC (Center of Industrial Competitiveness). Through this we have contact with 25 Swedish manufacturing companies, mainly in the business of heavy equipment production. The case chosen regards outsourcing. The data and the results can also be used for suggestive purposes for other companies and as a foundation for further studies.

*What have we found so far?*

The respondents (in two companies) where asked to describe why and how they decided to outsource. The benefits they said, among others, was that outsourcing made it possible to keep costs down, to cultivate core activities, release resources and personnel. One drawback was that from time to time internal resources were not used and therefore indoor activities had to bear a greater part of fixed costs. It was also said that outsourcing might restrain, for example, the development of production technologies and efficiency in production and quick changes in production schedules might be delayed and so on. The distance to the maker was said to produce minor difficulties owing to good and detailed production specifications.

The respondents said that it was not that difficult to define core activities. As they put it "We know what we are producing for the customer. We know what to have in-house and what to have out-door". This means that certain activities were extremely important to keep control of and have in-house owing to the image of the product and quality requirements. Furthermore they said, outsourcing core activities would, in the long run, lead to loss of competence, not incitement for research and development. Choosing suppliers not easy. Both companies rely on what is called a supplier evaluation model (SEM). The SEM tool specifies a number of criteria for the choice of suppliers that has to be met. These include, among others, management, quality, owners, financial stability, possibility to meet date of delivery, and logistics. This, they said, is especially important when doing business with east European countries. Both

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companies have a number of suppliers working with and for them in many places and in many countries.

One of the companies claims that their relations with the suppliers are "strictly business". "We specify and they manufacture and if needed we also support them with know-how", as they say. Good and detailed specifications, contracts that are valid and possible to fulfil for both parties, aims for improvements, are important tools to run the process.

## Analysis, conclusion and managerial implications

As far as we can see from the empirical evidence, outsourcing is an ongoing process changing form and substance all the time. Organizing outsourcing, that is, deciding what to outsource, picking the relevant suppliers, going into business with them, supporting them with specifications of production, correcting errors, seeing to it that environmental and other ethical standards are met is an ongoing process, requiring re-thinking and re-planning. The companies do not really know what is the best decision to make. They rely on certain procedures and rules of thumb. They also rely on some formally structured tools of analysis such as the SEM and TCO tool. TCO is designed to calculate the total costs for purchases from different suppliers. Furthermore, it is important that different organizational departments such as purchasing, logistics and quality come to the same conclusion regarding the choice of supplier – otherwise, they have to negotiate. Other tools of evaluation are indicators for time of delivery, that quality, environmental and ethical standards are met. Also, face-to-face contacts on a regular basis are important.

In the literature we can find various step-by-step models telling us, in a rational manner, how to calculate and come to an outsourcing decision (McIvor, 2000). His model contains four steps. The first is to define the core activities of the business, the second is to evaluate relevant value chain activities, the third is to make a total cost analysis of core activities and the fourth is to make a relationship analysis. As can be understood from this model and what has been said before, the difficulty for the decision makers is to know what is what and what is right to do. For that reason a different approach will be used in this paper. Our model of analysis implies that companies that outsource are supposed to regularly evaluate their relations with their partners. Our model of analysis also implies that there is no way of knowing whether we are doing the right thing or not, but that we try to keep track, through various procedures of calculation.

Despite all the precautions taken before going into business with suppliers, things do not always turn out well, therefore, re-organizing is vital. One reason for re-organizing might be that time-of-delivery and quality standards are not met. Other reasons might be that suppliers do not reach stated performance criteria, i.e. they are not efficient enough or, more rarely, suppliers violate ethical standards.

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The development of a SOUR depends on how either partner interprets and re-interprets different acts and behaviors during the relationship. The problem of maintaining an atmosphere of high quality co-operation may, therefore, be far greater than that of creating one in the first place, and it is principally in this that the challenge lies. While a SOUR generally offers more flexibility and less cost than traditional transaction relationships, organizational marriages require a melding of frequently disparate corporate cultures.

The development of a long-term SOUR requires moral, ethical standards, trust and a willingness not to exploit the new relationship at the expense of long-term cooperation. Patience-payoff often takes time. Creating such a SOUR is like a marriage. There is a courtship period, when both parties begin to get to know one another. Then there is a ceremony or contract to do business, which binds both parties to certain terms and conditions. Also, there are conflicts between the couple. If the relationship becomes unsatisfactory for either party, there is a divorce. Thus, unhappy relationships, many leading to divorce, are an all-too-common outcome, largely because of undesirable human behavior.

As a result of the challenges of strategic alliances or SOUR evils or dark sides outlined above, one natural question is should people, countries or organizations have relationships at all? The logical answer is that the question itself is an illogical one. A strategic alliance or a SOUR relationship does not always promise heaven, at the same time there is no life without relationships. People, countries, or organizations are not islands. Life without relationships that include sharing, love, passion, romance, friendship, anger, fear, interaction, conflict, and interdependencies, is meaningless.

A cornerstone is that the decision to be involved in a too close strategic relationship is not an easy issue. It is about synergies and challenges. The burden/dark sides of relationships outlined above do not imply that the need to create, develop and enhance relationships is not important, rather it is essential to be realized and considered when facing the complexity in real life, in order to have a realistic expectation of both the pros and the cons.

The major conclusion of the paper is that a SOUR needs a specific management strategy. Companies should also pay more attention to the burden embedded within a SOUR.

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