Business Strategic

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Question 1

Strategic alliance is where companies agree do share resources when undertaking a particular project for mutual benefit while still remaining independent (Išoraitė, 2009). On the other hand, mergers and involves dividing, combining, selling and buying of different entities to experience a rapid growth in the original industry, original location, new industry or new location without subsidiary creation. However, DePamphilis (2008) distinguishes mergers from acquisition by stating that merger involves consolidation of two entities into one organization through legal means, while acquisition is entails one company taking over the control of another company by establishing itself as a new owner.

First, strategic alliance enables the two companies to gain capabilities for mutual benefit. This is because enterprises at time enquire some resources like knowledge, expertise as well as technologies which they lacks. As a result, entering into strategic alliance will enable companies to jointly benefit from specific ability from the partner. This scenario usually leads to mutual benefits between smaller entities that might poses knowledge and expertise, and larger companies that may have technology and other resources that can be used in transforming such knowledge into profitable global sale for the two entities. This is also evident where companies under strategic alliance enable the company to cite its partner's patent in alliance while applying for its own patent. Such citations are used as measures of knowledge and resource transfer (Yoshino & Srinivasa, 1995). This has been especially in the area of research and development as companies like Hewlett-Packed and NTT DocoMo joint their expertise and technology to carry out research on fourth-generation mobile phone technology.

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Secondly, strategic alliance is more flexible as compared to mergers and acquisitions. This is because parties under strategic alliances do not in any way create a new legal entity, and one partner does not take control over the other partner, the partnership can be dissolved at any time. This implies that the partnership is not permanent and can come to an end depending on the nature of resources needed, or at the end of the project that led to the formation of the alliance. As a result, it is more adaptive to the changing global business conditions.

Strategic alliance enhances risk sharing, implying in case of failure, it will not mean a loss of full cost. This is because during partnership formation, every partner provides equal contribution. In addition, strategic alliance offers a better opportunity than mergers and acquisition when entering new market or segments globally. This is because some markets have higher barriers to entry like regulatory constrains, volatile markets and established competitors that will not justify acquisition or merging. In such circumstances, strategic alliances allow business entities to leverage existing knowledge as well as available resources through collaboration.

However, Strategic Alliances has disadvantages over Mergers and Acquisitions. First, strategic alliances cannot be used in either cutting costs or increasing economies of scale. This is because under strategic alliance, every company continues being independent, as compared to merger and acquisition where companies combine to reduce fixed costs by eliminating duplicated departments or operations.

In addition, in case the alliance is between companies in the same industry, then it is a possibility of creating a competitor. This according to Yoshino and Srinivasa (1995) has made many companies to shy away from strategic alliance as one partner might become a

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competitor especially when the alliance benefited the smaller partner by enabling it to grow to an extent of starting to operate on the same market segment on its own. This is not the case with other external strategies like merger and acquisition that either creates one company, or one company takes control over the other company, resulting to a reduced competition (Cartwright & Schoenberg, 2006).

The number of obstacles on successful alliances as compared to merger and acquisition are increasing as knowledge and information continue being the most important asset in the current business world (Cartwright & Schoenberg, 2006). For instance, the issue of culture class and different management styles and practices are likely to negatively impact on the success of the relationship. This is one reason that instead of forming strategic alliances, Eon Company is going for merging and acquisition. In addition, there is a tendency of bigger companies to dominate smaller companies in a strategic alliance, leading to unexpected alteration of strategies in smaller companies.

However, the advantages and disadvantages of strategic alliance over mergers and acquisition can be summarized in the SWOT analysis in table 1.

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Table 1: SWOT Analysis of Strategic Alliance

Strengths	**Weaknesses**
Gaining capabilities in terms of knowledge, resources and technologies. Is more flexible, as the company can pull out after achieving its objective like market penetration.	Unexpected changes in the company's strategic objectives. Difficulties in aligning management style and structures in the two companies. Not a cost cutting measure, neither does it ensure economies of scale
Opportunities	**Threads**

Breaking barriers like legal frameworks and social barriers to enter into restricted new markets. Enhanced risk sharing between partners.	Creation of a competitor on the market, hence increasing competition and rivalry in the industry. Smaller company risk being dominated bigger companies in an alliance. Risk of sharing company's crucial information and knowledge.

Question 2

Knowledge refers to the understanding, awareness or familiarity of a subject through education and/or experience. Knowledge can be in terms of practical skills or expert also called implicit or explicit that involves theoretical understanding. In addition, explicit and implicit knowledge can be categorized into explicit and tacit knowledge. Explicit is characterized as being formal, systematic and recorded in words, numbers and mathematical forms among others. Such information is not only easy to communicate, but also store and distribute. Tacit information on the other hand refers to highly personal and difficult convey to audience. It is challenging, to identify and capture, implying that the only way to convey and capture is connecting the knowledge possessor and knowledge seekers (Civi, 2000).

The SECI model of knowledge creation developed by Nonaka and Takeuchi (1995), there are four means of sharing tacit and explicit knowledge. First, organizations create and share knowledge through socialization, where knowledge is conversed from tacit to tacit and shared through guidance, practice, observation and imitation. The second method of sharing knowledge is through externalization, where tacit knowledge is codified in manuals and documents among other forms so that it can be spread to other organizations of interest easily in explicit form. Based on the fact that codifying tacit information is virtually impossible, the extent of this knowledge sharing strategy is mainly through database mechanisms. The most

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resent externalization mechanism cited in a number of literatures including Chen and Huang (2007) is the use of metaphor. The third mechanism of sharing explicit knowledge is through combination. This is where organizations combine different documents and manuals developed by other organizations to create new knowledge.

According to Smith (2001), organizations share knowledge because it is the effective way of ensuring sustained competitive advantage in the organization. This is based on the fact that effective knowledge management through sharing is an ultimate power of propelling unprecedented growth in the current global knowledge-based economies (Civi, 2000). Generally, knowledge sharing provide the best way of attain organization's objective is sharing knowledge in a manner that will enhance creation and application of new knowledge. As a result, effective use of shared knowledge in the current global energy industry is a valuable asset that builds competitive advantage on the global market.

In dealing with the difficulty of identifying and capturing tacit knowledge, organizations have realized sharing it can help in building core competencies in the organization. This is supported by Smith (2001) that sharing tacit knowledge through imitation is not easy, implying that organizations are required to capture it before transferring it internally. This can only be achieved when organizations provide situations where employees will observe or even participate through guidance as explained in SECI model to capture such knowledge. For instance, experts in the energy industry including EDF are using communities of practice to transfer tacit knowledge on the issues of safety in the nuclear generation plants. This is the best means of tacit knowledge sharing as employees conceive some best solutions that can help them develop their own tacit knowledge in the absence of experts. According to Lubit, (2001), transferring tacit knowledge fully in the organization is

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important in helping organizations realize the significance of this type of knowledge; hence allocating necessary resources.

In addition, sharing knowledge is motivated by the fact that is an effective way of using knowledge to enhance innovation. This is based on the fact that knowledge sharing is the best approach of knowledge management that will foster incessant innovation in the organization. Basically, knowledge management through sharing can positively impact processes, products and critical structures that will create competitive advantage in organization. For instance, in coming up with new and cheap energy extraction methods and infrastructures, Schlumberger, one of the leading gas exploration are encouraging knowledge sharing within and without the organization. In addition, companies like Tallow oil are fostering innovation by creating a culture that enhances knowledge sharing. This implies that allowing open communication amongst employees is a very important method of seeking knowledge through its organization structures and encouraging full use of information systems to transfer and store explicit knowledge. Lubi (2001) concludes that organizations that have put effectively used knowledge created through sharing have developed an enduring sustainable competitive advantage in their systems.

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Question 3

Corporate social responsibility is a principle that was adopted by companies to enhance their positive contributions towards the society. It entails managing social, environmental as well as economic effects to internal and external stakeholders that are affected by the company's operations, and producing more values that not codified in law. CSR refers to the behaviors of mega business entities other than ethical pioneers. According to Rosamaria & Padgett (2011), a number of reasons including reputation and customer loyalty make

companies to engage in CSR as they increase their profit margins. For example, BP has been interested in environmental issues like climate change to position itself as a socially responsible company.

The origin of CSR is anti-corporate activism over human right and environmental issues that were to make companies more responsive on social and environmentally responsive. Major development in CSR happened in 1970s and 1980s as the number of international boycotts of business entities that were investing in South Africa to exploit the environment and people. In addition, the 1992 Rio Earth Summit played an important role in CSR evolution as depletion of irreplaceable natural resources together with pollution on the planet were to come to an end. Another boost was in 1995 with shell that lost confidence and reputation to the public as not being socially responsible (Rosamaria & Padgett, 2011).

Carroll (2004) argues that companies have moral and ethical obligations to the society. Stakeholder theorists argue that there is a distinction between stakeholder's responsibility of business in creating value and businesses' obligation to CSR. As a result, theoretical debates on the differences and similarities between CSR and stakeholder theory have watered down the practical application such a relationship between the two. According to Smith theory, the relationship between CRS and stakeholder theory is based on the principles of justice and perfect rights that lead to a belief that companies have to engage in activities that are fair and just (Smith, 1759).

According to Carroll's CSR pyramid, CSR are important strategy of enhancing economic profitability, social and ethical support and abiding to the law. From this list, making profit and obeying the law are conditions used in describing the company's ethics (Carroll, 1979). This is supported by Elkington's theory that assessing social responsible of a

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company based on three principle pillars namely people, plane and profit is adequate because it bridges the gap between non-economic benefits and economic benefits.

Currently, debate on the legitimacy of CSR is on whether a company can be socially responsible. This is because the major problem is that, though companies are practicing CSR, the corporate structure lacks the ability of being socially responsible. This is because the term responsibility implies an obligation, authority, taking control or having a duty to care. However, in CSR, companies are engaging with stakeholders without being obligated to respond. As a result, the company is left to self-define its responsibility, instead of being defined by social structures (Smith, 2003). In addition, it cannot be measured to ensure that a particular value arbitrary assigned. The fact is that company managers are bound to protect stakeholder's interests of making profits, but they will not support an environmental or social problem that does not improve economic growth. Some companies in the energy sector including BP and shell are thought to be leaders of CSR but are yet to be socially responsible. In addition, companies like Eon are claiming to have invested large amounts on renewable energy, but they care less on their impacts on the environment. As a result, CSR is just used to obtain customer loyalty and developing personal connections with clients. But in real sense, it is helping companies to green wash companies' negative reputations saturated in media.

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