

# KOREAN FIRMS FOLLOW TREND OF STRATEGIC ALLIANCE

Soon-Gwon Choi  
(sgchoi@hri.co.kr)

## Are Korean firms included in global competition structure?

Korean firms have to compete with both domestic and foreign rivals in the local market. Increasing competition due to the development of information technology and transportation has turned the local market into an international battlefield. This global competition encourages firms to make strategic alliances to reduce cost and risk, develop new products and services, and strengthen competitive advantage.

*Global competition encourages firms to make strategic alliances to reduce cost and risk.*

This environmental change also forces Korean firms to make strategic alliances with various domestic and foreign firms. The purpose of this article is to investigate how Korean firms are accepting this trend and how they have reacted to recent changes.

## Current patterns of international strategic alliance

In the global economic system firms can not survive and compete alone. They need to develop their own competitive advantage and cooperate with other firms on the basis of this competency. Late-starters or small and medium sized firms in particular can develop their competence rapidly through strategic alliances.

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Recently, the types and patterns of strategic alliance have become very diverse. In the past firms just introduced technology or capital from their partners. Currently however, firms often share brand names, logistics, and financial networks, and cooperate in establishing technological global standards. Moreover, the scope and size of strategic alliances has expanded.

## Analysis of Korean strategic alliance patterns

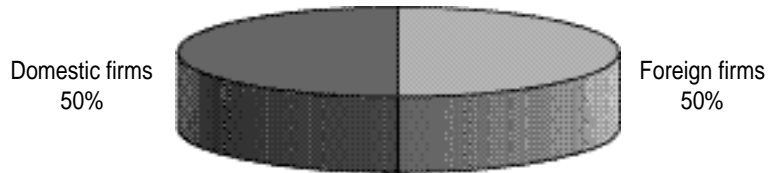
In order to analyze strategic alliance patterns of Korean firms, this article used a database in the Korea Economic Daily. A keyword search for “strategic alliance” in the database between January 1, 2000 and September 5, 2001 yielded 64 results.

### Alliance partners

The result shows that Korean companies had an equal tendency to choose domestic and foreign companies as partners in strategic alliances. This shows that

*Korean companies had an equal tendency to choose domestic and foreign companies as partners.*

Figure 1. Partner Firms for Korean Strategic Alliances



Korean firms are open to foreign firms and their subsidiaries as business partners.

Among the 32 foreign firms, several key actors in the global market such as Intel, AOL, Dell, Microsoft, and BASF, were included. This probably means that Korean firms are included in the global competition structure. It is very important for firms to survive and expand in the era of global competition.

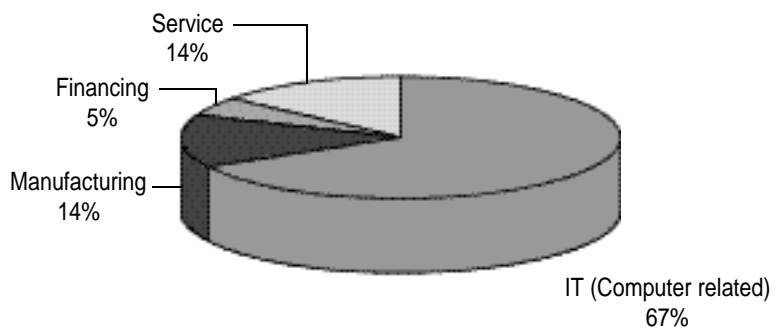
#### Aliance frequency by industry

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Strategic alliance in the IT industry, which includes computer-related industries, is the most active field in Korea. They accounted for 67% of all the alliances that were made this year in Korea. This probably means that the industry is a growing field and competition is severe. In addition, it seems that Korean firms in this industry have a comparative advantage in global standards.

In most cases, major global firms such as Samsung, Intel, Microsoft, and AT&T,

Figure 2. Alliance Frequency by Industry

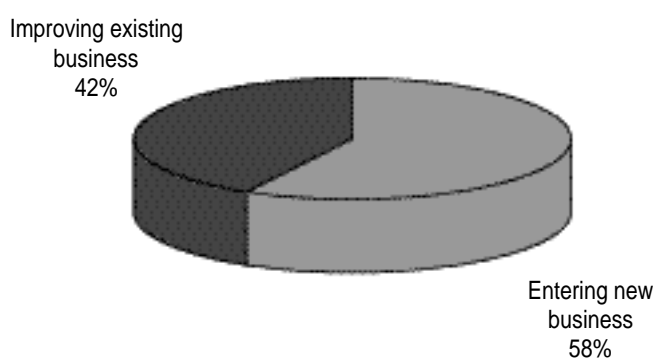


made strategic alliances with each other or with small and medium sized domestic firms. Cases of strategic alliances in other industries are also increasing, especially in the service industry. For example, alliances are arising between venture-capital firms and assessment companies for analysis of the Korean market, and between domestic and foreign consulting firms to share knowledge about the Korean business environment and consulting business know-how.

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Purpose of strategic alliance

**Figure 3. Purpose of Strategic Alliance**



Strategic alliances to enter into new business or to develop new products or services outnumbered alliances made to improve existing business or products and services. To develop new products and services, firms try to forge strategic alliances with high-tech companies (In this analysis most alliances were between big multinational firms and small high-tech firms). Alliances between small and medium sized firms were aimed at cost and risk reduction in the entry process of new markets or new products and services.

*Alliances between small and medium sized firms were aimed at cost and risk reduction.*

In addition to such traditional alliances, new trends of strategic alliances have also emerged in Korea. For example, LG Electronics had a joint campaign for sales promotion with the Coca Cola Company. Although they are not the same type of company, they cooperate with each other to increase sales. Similarly, the Korea Export Insurance Company cooperated with KOTRA to collect debentures from foreign firms.

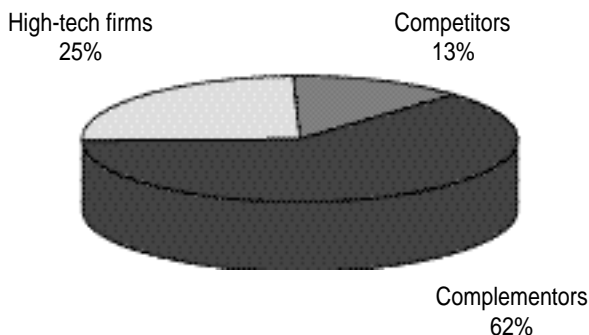
Relationship between allied firms

Most alliances were the “traditional” type (reciprocal to develop comparative advantage). That is, firms selected partners that could help compensate for their disadvantages. Through this cooperation, firms could develop new products and services, and increase the effectiveness of their existing businesses.

*Most alliances were the “traditional” type (reciprocal to develop comparative advantage).*

This analysis divided the reciprocal relationships into two groups: those that

Figure 4. Relationship between Partner Firms



involve high-tech firms, and others, because strategic alliances with high-tech firms usually involve significant size differences. Usually small and medium sized high tech firms cooperate with big companies that have extensive financial and marketing resources. It is probably different when both firms are of similar size and invest all their resources. Limited strategic alliance are more flexible and frangible.

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Recently, strategic alliances between major competitors have become popular internationally. Companies want to stabilize their competition structure without extra investment and strengthen their market power by cooperating with their main competitors. This kind of alliance between competitors occupied 13% of all alliances. This shows that strategic alliances in Korea also follow international trends.

### Prospects and implications

*Strategic alliances will rapidly increase in Korea in the future.*

Strategic alliances will rapidly increase in Korea in the future. Most firms recognize their importance and that it is difficult to compete or survive without alliances. The types of strategic alliances will be diverse. As well as traditional type of strategic alliance, other varieties such as using common brand names and logistics channels will increase and other types of alliances will be created.

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In this era of global competition, firms have to develop a comparative advantage that other firms cannot imitate easily. On the basis of this comparative advantage firms have to establish their position in the global competition structure. That is, firms have to think about their target position and niche in the global market. Moreover, when they consider alliances with certain firms, they will have to check the prospective firm's alliance network.

Firms have to pay attention to changes in the global competition structure and respond to market changes. They should be careful not to be excluded from their main strategic alliance network and react flexibly as a main actor in the network. **VIP**