

## Chapter 7

# Strategic Partnerships in the U.S. Textile and Apparel Industry: Exploring Value and Fairness

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### **ABSTRACT**

*This chapter provides a comprehensive investigation of strategic partnership social value, economic value, relational distance and fairness. Application of social exchange, transactional cost analysis, and distributive justice theories provides the theoretical basis for this research. Results from qualitative interviews with U.S. textile industry executives, a national quantitative questionnaire and case study research with a successful company that engages in strategic partnerships provide a multi-faceted understanding of strategic partnerships. While social and economic value were reported to occur in strategic partnerships, the relationship between social value and fairness was the only relationship found to be statistically significant ( $r = .68$ ,  $P < .001$ ). Implications for industry and future research possibilities are discussed.*

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## INTRODUCTION

Many members of the textile complex use strategic partnerships with other textile complex members as a way of improving performance. A strategic partnership is an alliance between two or more firms in which resources, capabilities, and core competencies are combined to pursue mutual benefits (Hitt, Ireland & Hoskisson, 1997). The goals of these partnerships are for both members to become more focused, flexible, and market driven (Corey, 1999). Strategic partners can be suppliers, customers, complementors, competitors or companies outside the industry. Such arrangements have resulted in increased commonality of partners as both competitors and complementors to each other. Over 50 percent of organizations surveyed in one multi-industry study indicated they partnered with their competitors. (Parise & Henderson, 2001). A strategic partnership is more comprehensive than programs such as quick response or vendor-managed inventory; it encompasses the production and distribution functions of these programs and broadens the spectrum of shared responsibility by including joint pre-production functions such as research and development, and post-production functions such as combined sales and marketing, and shared risk on new or failed products. Strategic partnerships are also viewed by some channel members as preferable to consolidations because they provide the benefits of added industry expertise and resources to members without the financial and legal complexities involved with corporate mergers or acquisition (Gassenheimer & Houston, 1998).

If conducted correctly, strategic partnerships can be extremely beneficial to participants: companies with successful partnerships receive a 50 percent higher return on investments on those partnerships than the average ROI from the top 2,000 companies in the world; however a drawback is the high risk involved. Failure rates for strategic partnerships are in the 60-70 percent range (Ertel, 2001). If companies know what factors contribute

to successful strategic partnerships, such factors can be emphasized in the development stages, thus reducing the number of failed partnerships and increasing the benefits to all parties involved.

Research in the field of strategic partnerships has been ongoing for decades in a wide variety of industries. Mallen (1963) was one of the first theorists to describe the relationships between distribution channel members in his theory of retailer-supplier conflict, control, and cooperation. In this theory he posited that the various members of a distribution channel operated under a constantly changing set of conflicting and cooperating objectives, and if the conflicting objectives outweighed the cooperating objectives, channel effectiveness was diminished. An example of conflicting objectives is an ordinary sales transaction between members: the seller benefits from obtaining the highest sales price possible, while the buyer benefits from the lowest sales price. These conflicting objectives provide the basic source of conflict between channel members. As a means of overcoming this inherent conflict, the author advocates cooperation between a supplier and its retailers. This can be achieved by having the supplier do things for the retailers that it already does for itself, such as selling, advertising, training sales associates, planning and promoting for retailers. Another method to achieve cooperation is to avoid associations with potentially uncooperative channel members. Mallen (1963) states that by viewing the distribution channel as one vertically integrated firm and having optimum cooperation among members, channel members will experience consumer and profit satisfaction.

Strategic partnerships may vary in their degree of partner collaboration and added value. Maynard (1996) depicts the entire spectrum of business relationships on a diagonal scale, from external, tactical transactions such as traditional "arm's-length transactions" requiring low collaboration and providing low added value to partners at one extreme to internal growth relationships, such as those in corporate subsidiaries requiring high col-

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