

Factors of Success and Failures of International Strategic Alliance

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Abstract— In a dynamically developing market, intensifying competition, it becomes clear that cooperation provides business structures with more strategic advantages. Top management of many enterprises is aware of the need for interfirm integration. This article is devoted to the study of the characteristic features of one of the most prospective forms of economic companies' integration. Due to its growing flexibility in terms of contradictory economic trends and conditions strategic alliances need a deep study for solving main problems of their functioning. To this end the author provides the common definition of strategic alliance and distinguishes the key factors for success and failures of strategic alliances which can be practically used by managers for planning and in all the phases of life cycle of a strategic alliance.

Keywords: *strategic alliance, synergy, 3C's model*

I. INTRODUCTION

One of the most popular organizational strategies for the business structures development is formation of the strategic alliances (SA). They became, among all possible organizational forms of companies' integration, the focus of the TNCs' attention in the 90-ies of the last century. In the XXI century, SA turned out to be the most important tool of competition. The number of SA is constantly increasing. On average, each of the world's 500 largest companies participates in 60 major strategic alliances [1]. According to the Booz-Allen&Hamilton review, within ten years (from 1987 to 1997), the number of the alliances in the world grew by an average of 25% annually (Harbison and Pekar, 1997); and these growth rates are maintained (OECD, 2002). Coopers&Lybrand marks 50% growth in the strategic alliances among those U.S. companies that show the most intensive development.

According to the review "2018 Global CEO Outlook" [2] of KPMG, which was attended by 1,300 senior executives from 11 major economies of the world, the prospect of the strategic alliances establishment proved to be the most attractive in the conditions of the increasing competition and the changes in the international business structure. The number of the alliances has exceeded predictions on mergers and acquisitions for the next three years. 33% of respondents

consider the creation of SA as a priority, while only 16% of respondents are going to participate in mergers and acquisitions for sure. Another confirmation is given by the leading managers' survey called "PwC's 22nd annual CEO survey" [3], according to which about 40% of companies plan to join a strategic alliance.

A. Strategic alliance

The Strategic Alliance is one of the most common organizational forms of inter-firm integration based on agreements of long-term cooperation of two or more independent business structures for their joint strategic goals implementation based on synergy of their combined and complementary resources.

The term "strategic alliances" means various forms of partnership of business entities, which represent a transitional form between the market and non-market transactions [4]. These forms are quite diverse and vary from fairly formal unions, in which new joint ventures are created, to informal associations formed for a project implementation. As distinctive features of the strategic alliances in comparison with other organizational forms of the companies' integration, it is possible to list as follows:

- SA are business-to-business cooperation agreements that go beyond normal business operations and yet do not lead to mergers or acquisitions. Significant differences exist between the strategic alliances based on long-term partner relationships and conventional contractual partnerships because the latter type of the relationship exists for a limited time and is used for specific short-term projects or goals. As a rule, the conventional contractual relationships do not involve any relations development in the future;
- this type of business integration is based on the conclusion of medium-or long-term, bilateral or multilateral agreements that correspond to the partners' strategic plans;
- the strategic alliances are distinguished not only by time frames but also by characteristics in terms of the content of the partners' cooperation including the sharing of the partners' key competencies and the pooling of the participants' unique resources in order to achieve the synergy effect;

- not only suppliers and customers can establish a strategic alliance but also competitors can do it as well as companies, that do not have a production similarity with a partner. Therefore, the strategic alliances can be established on the basis of the horizontal inter-firm cooperation between companies engaged in related fields of activities and possessing complementary technologies & experience as well as on the basis of their activities diversification;

- within the framework of the alliances, the joint coordination of the strategic planning and the management in a certain areas of activity is carried out, which allows the participants' long-term coordination for the benefit of each of them; along with it, the control over their joint activities is implemented;

- the strategic alliances are flexible enough, free for the participants and future-oriented. They reduce the ambiguity and uncertainty level in the partners' relations, increase the stability in the supplies of their resources and the distribution of their products and services;

- the alliances are created for a certain period of time and they are broken up when the need disappears for the all partners;

- the alliance is not a corporation and not an independent legal entity. Its members remain legally independent companies. Despite the fact that alliance partners operate in the market as one, they are generally not subject to any antimonopoly and competition laws protecting the business freedom.

B. Modern strategic alliances

A characteristic feature of the modern alliances is their international and network nature. Despite the fact that bilateral ties prevail in most part of alliances, one of the most remarkable trends at present is the establishment of alliance networks by business structures. The networks of this type combine all the interested legally independent participants (manufacturing and trading companies, research and design organizations, sales and marketing companies). They are formed based on numerous agreements aimed at the common goals achievement. The international nature of the alliances manifests itself in the fact that the efforts of the companies from several countries are combined. At the same time, as a rule, the transnational corporations enter into strategic partnership in order to increase the efficiency of their foreign economic activities.

II. INSPECTION FOR STRATEGIC ALLIANCES

A. Advantages of SA

The significance of companies' intentions to join strategic alliances establishment in the modern conditions is explained by a number of factors. First of all, the business environment becomes more dynamic and less predictable, which requires to use flexible organizational structures that are able respond to external changes quickly and adequately. The alliances represent one of the quickest and cheapest ways to implement the global strategy in the environment, where even the large corporations have become aware of the acute lack of their own resources for their globalization strategies implementation. The isolated development of a company by the way of the simple organic growth tends to be slower, less efficient and ultimately uncompetitive

because even adopted technologies require time and efforts for personnel's adaptation/training and complex linking to other specific skills being in demand at the company. Based on the distinctive features of the strategic alliance as one of the most common form of the integration, it is possible to list the alliance positive features as follows:

- the possibility of the partners' weak sides compensation; the participants' competitive advantages enhancing; the partners' support; the commitment to be complement to each other; the improvement of production efficiency through – for example – the transfer of own weaker links in the cost formation chain to the partners;

- the access to necessary resources (material, financial, technological, information, etc.), the improvement of production capacity utilization;

- the obtainment of a synergy effect including that through the large scale savings;

- the possibility of obtainment of knowledge, experience, know-how, access to human potential, to production and management experience of another company, which is especially important from the point of view of the reduction of the products life cycle;

- the partners' efforts pooling for a joint creation of new products and reducing overall costs (especially when developing new products); the significant cost reducing of expensive R & D works;

- the possibility to penetrate into new areas and new markets including the penetration facilitating into the foreign markets; the more effective use of each other's markets by partners than through the creation of their own branches or a one-time export-import transaction; the promotion of new products to the markets of another country and the local customers' service support there; the adaptation facilitation to local requirements;

- at present, the strategic alliances conclusion is still the least limited by governments way of entering into the markets with the opportunity to unite the efforts of companies without falling under antitrust legislation and to win the loyalty of the authorities;

- the risk reduction (by its redistribution); the mitigation of solution of unforeseen complex problems; the diversification;

- the acceleration of a market reaction, the sufficient freedom of partners' activities allowing them to react quickly to changes in the external environment;

- the simplicity and flexibility of an alliance establishment; the possibility of a quick transaction conclusion; the ability – if needed– to quit from the alliance by the agreement discontinuation, the ease of the termination;

- the possibility to bypass the governmental restrictions for the non-residents and to overcome institutional (trade, investment, etc.) barriers;

- the ability to resist jointly the pressure of competitors, to reflect their onslaught (an alliance can be of defensive and attacking kinds);

- the experience gaining in more rigorous integration, the identifying of true price of the partners' companies that can be purchased in the future.

B. Disadvantages of SA

The disadvantages of the strategic alliances compared to other forms of inter-firm integration include:

- The risk of a loss of superiority in technology and competitive position: members of the alliances can study operations of other partners, familiarize themselves well enough and copy the order of their actions and this way they can become successful competitors. In this regard, their increased competition is possible.
- The much greater uncertainty as compared to other forms of the inter-firm integration, both in terms of resources that are pooled within the strategic alliances and in terms of the external environment. The possibility of a stability loss.
- Being inherently less defined and less stable, the alliances are managed much harder. A coordination of opinions and decisions making in these conditions are featured with a lack of efficiency and flexibility. Partners can disagree with each other for a long time, which results in their time losses.
- The added coordination complexity: the effective activities coordination of the independent companies is a sophisticated problem (to different motivations and sometimes conflicting goals). Being largely independent, the partners are able to make decisions that are not optimal in terms of the interests of the strategic alliance as a whole.
- The possibility of failure through a fault of the partners.
- The increased risk of some interests' divergence and the risk of smaller groups' formation within the alliance itself along with increase of the partners' number.
- The high degree of risk due to the ease of the contract termination between the partners and the difficulty of their own share returning when leaving the alliance.
- The risk of the loss of the own autonomy and the personal control over the own activities.
- The challenges connected with the national authorities' attitude to the establishment of the international strategic alliances.

III. STRATEGIC ALLIANCE SUCCESS AND FAILURE

The analysis of the strategic alliances functioning results show that about half of them do not give the expected return and often their participants find themselves in a difficult situation being sometimes forced sacrificing their advantages. For example, the conducted analysis of 880 alliances of Western Europe, Japan and the United States gave the following picture: less than 40% of the strategic partnerships remained in force after more than 4 years and only 15% of them were able to overcome the ten-year mark. According to the data of McKinsey's consultants, two-thirds of the alliances feel serious difficulties in their first two years. According to the researchers from the Pennsylvania University, 30% of the alliances end up with acquisitions or mergers, 40% cease their operations after successful completion of their tasks, and the remaining 30% break up.

In the newly established alliances, success and failure in achieving their goals depend directly on a size and a time period, for which the agreement on the strategic cooperation is concluded. In particular, let us consider two key indicators for strategic alliances success, namely, the creation of an innovative product (service) and the innovations introduction in the SA management practice as a guarantee of the SA sustainability and a positive outlook for the partnership existence.

In the course of an actual quantitative study of the strategic alliances, which may be indicative of general trends in SAs' functioning, Rafal Drevniak and Robert Karaszewski came to the following conclusions [5]:

1. Based on the fact that often small SAs enter into alliances with the purpose of supplementing of missing resources of different types, it is possible to say that they are less interested in existing resources investing into a creation of an innovative product (service) than medium and large SAs. There is also the direct link between the probability of innovation creation and the time frame, for which the strategic agreement is concluded. So the longer the period, for which the tasks are planned, there are more opportunities for the innovative products development and implementation. The alliances formed by pooling resources for relatively short periods of time (especially between smaller companies) put more focus on developing a new product or a new market access. A longer partnership offers the opportunity to improve the products created through innovations and leads to stronger connections, sustainability and competitive advantages. Over time, the alliance becomes an increasingly flexible space for the new knowledge exchange & creation and demonstrates a greater degree of responsibility of the parties to preserve the "intellectual assets" of the alliance. The results of the study of scientists are given in the Table 1.

TABLE I. PROBABILITY OF AN INNOVATIVE PRODUCT INTRODUCTION DEPENDING ON ALLIANCE SIZE AND TIME PERIOD

Alliance size	Time period		
	<i>Under 1 year</i>	<i>1-3 years</i>	<i>Over 3 years</i>
Small	17%	40%	70%
Medium	40%	69%	89%
Large	69%	88%	96%

2. The innovations related to the managerial aspects are of a higher priority in larger companies. Such innovations leading inevitably to changes in a structure of a SA require a thorough analysis of the alliance' current state and forecasting of its future; so they mobilize all the members of the alliance to spend their own resources. In this case among other things, the true "depth" of the alliance is revealed and determined by an extent, to which the members of the SA "fit" to each other in the strategic sense, as well as by compatibility, complementarity of resources and the level of the trust within the SA. The increase of the compatibility between the alliance members ensures the success of the alliance in the future and is determined not least by the presence of innovations in approaches to the management issues in the SA. As for the size of the alliances or the

probability of the managerial innovations, no significant correlation was found. The stronger is the influence on this probability made by the factor of compatibility of the partners (Table 2).

TABLE II. PROBABILITY OF MANAGERIAL INNOVATIONS DEPENDING ON ALLIANCE SIZE AND TIME PERIOD

	Time period		
	<i>Under 1 year</i>	<i>1-3 years</i>	<i>Over 3 years</i>
Probability	2%	12%	41%

A. Key failure factors for SA

Many alliances are broken up or liquidated, when one of the partners takes a decision about purchasing the other. The conducted in 1990 analysis of 150 companies participating in the strategic alliances that were subsequently liquidated showed that in 75% of all the alliances, the partners were absorbed by members of the same alliance and most often by the Japanese companies. In general in comparison with European and American companies, it is noted that the Japanese firms use more actively the experience acquired, while being part of a strategic alliance. Sometimes members of a strategic alliance which know its strengths and weaknesses from inside, deliberately, put the partner in a desperate situation so that the latter is forced to sell his assets to his partner. As the practice shows, the main reasons for the failure of the alliances are as follows:

- a wrong choice of partner, incorrect ideas about his abilities and opportunities;
- the complexity of a clear definition of the association goals; the different strategic goals of the parties; their contradictions/conflicts, the change of the strategic goals of one of the partners;
 - unrealistic market expectations;
 - difficulties in management and coordination of the interests of the parties involved, changes in the corporate governance of one of the companies;
 - problems of criteria selection for the effectiveness evaluation of the alliance and its financial activities results summarizing; the complexity of control;
 - inability to deal with different management styles and corporate cultures; lack of knowledge about cultural national values, behavior and governments, which leads to inadequate inter-partner communication, reduces the effectiveness of interaction and, moreover, is the most common cause of failures of the international strategic alliances;
 - lack of trust between the participants, unwillingness of the employees of the merging company to reach mutual understanding and establish the effective interaction;
 - possibility of a partner's failure of his obligations; opportunistic mood of one or more of the partners;
 - mistakes and failures of one of the participants leading to serious damage to the image of the alliance as a whole;

- risk of leakage of information through employees of a partner firm;
- enticement (by a partner) of the company best employees being carriers of know-how; this can cause a weakening of the competitive potential.

In some cases as destructive factors affecting the effectiveness of the strategic alliances formation and operation, the following aspects can be called: differences in the legislations of different countries, which – sometimes – prevent the entry into the alliances; the complexity of use of all the synergy possibilities of the success; the duplication of joint business partners' efforts in order to reduce risk self-dependently, etc. American researchers accumulated the following data about the structure and the quantitative assessment of the reasons for the failures of the alliances with the Russian companies: unsuitable partner - 28%, financial problems - 20%, bureaucratic problems - 16%, problems related to the legislation - 10%, cross-cultural problems - 10%, errors in the assessment of the market - 5%, other reasons - 3% [6].

The wide variety of management forms and methods causes the emergence of another reason for the failure of alliances concluded between different economic entities. In strategic alliances, it is appropriate to take into consideration the complexity of combining of two management systems, in particular, at two levels of decision making and control over management, which are operational and strategic levels. At the operational level, decisions are made on the current state of the company's performance, while strategic management involves decisions relating to the long-term development of the company. As the practice shows, the majority of the strategic alliances encounter the problem of the coexistence with a partner in a single target space during the first years of their joint activity, when the partners should combine their management processes and their specific production capacities. The main reason for a failure in these cases is the difficulty of reconciliation of the companies' interests and their principles of decision making at the operational level because each company is represented by a large number of employees and has a great inertia in relation to changes. Thus, in a sense, decisions taken at the strategic level, while making their way to the operational level, where the production of products or services is carried out, lose their "momentum of changes", which leads to non-compliance with the planned timing of the merger and the joint works start.

The alignment of the management systems of the partners-participants of the alliance at the operational and strategic level is a complex and unique process for each alliance. To a large extent, it depends on the degree of the trust between the partners. In order to formalize the control of the decision making processes, the partners need to choose a management structure, which will be able to indicate the degree of control of each of them. According to research conducted by Grigore L. [7], there are five types of the administrative structures that are applicable to the strategic alliances:

- “Dominant parent”, which is the majority shareholder possessing the most part of the resources, in whose hands the most important decisions are concentrated at the both

strategic and operational levels and whose managers occupy the highest positions in the alliance;

– “General management”. An ideal situation, in which partners contribute equally to the management of the alliance;

– “Divided control”, which means the same as the previous paragraph but refers specifically to control;

– “Independent management” describes a situation, in which partners behave as if they run independent companies. This type of structure can be found in the cases of “adult alliances”, where no question of development or adjustment of the strategic plans is actual;

– “Rotating structure”, in which partners’ top management officers move from one company to another and are exchanged from year to year.

B. Key success factors for SA

For a success achievement of a strategic partnership, there are no universal recipes. An alliance is a complex form of the inter-firm integration and the content of it is determined by specific participants. Also the factors affecting the success or failure of the cooperation are individual. However, the researchers have identified a number of factors that are mandatory for any more or less successful alliance formation and operation. For example, D. Faulkner proposed the following classification of the factors determining a success of an alliance:

- complementary skills and knowledge of partners;
- minimal overlapping of partners’ markets;
- high level of autonomy, while maintaining strong leadership of the parent organization (if necessary);
- trust between partners involving cooperation not limited only with the stipulations included in the contractual arrangements;
- respect of the fact that both partners have different corporate cultures.

Practice shows that the alliances achieve better results, when the partners are companies from the related industries (or even from the same economy sector) or when the goal of the alliance is to penetrate into a new geographical region. Success is also facilitated by the fact that the partner companies are comparable in their size and contribute equal shares of their resource base to the alliance. One should not adhere strictly to his/her originally stated goals as this behavior model can have a negative impact on the result because of the changing business environment, it is often necessary to adjust the goal. Thus, there is the necessity in a constant revision of the parameters of the agreement.

Following D. Faulkner's ideas and reworking his scheme of the key success factors, K. D. Brouters, represented it in the following version. Members of an alliance should have as follows: 1) complementary skills and knowledge; 2) compatible goals; 3) interacting cultures. This model is called “3Cs-factors” because the first words denoting these factors begin with the letter “C”: complementary skills; compatible goals; co-operative cultures [8, 9].

IV. GUIDELINE FOR STRATEGIC ALLIANCE SUCCESS

In order to the positive effect of the company's entry into a strategic alliance prevail over the negative, it is necessary to consider the following points:

1. The indispensable conditions for an effective strategic partnership are long-term planning, policy coordination, trust strengthening between partners and desire for cooperation of senior and middle echelons of management of the allied companies.

2. The success of the alliance depends on the correct assessment and selection of a right partner: the strategic alliance partner must be compatible with the given business structure.

3. It is more expedient that the goods and positions in the partner's market complement the goods and positions of the own company rather than compete with them and there is a compatibility of their images from the point of view of consumers.

4. The compatibility of the partners’ strategic interests should be in the focus. The objectives of the strategic partnership should express the interests of the alliance as a whole and be consistent with the wishes of the individual participants. At the same time, the goals of the alliance may not completely coincide with the individual goals of the partners but rather reflect their interests as common, interdependent and mutually beneficial wishes. The importance of the alliance must be recognized by both parties.

5. The most important thing in a strategic alliance is to find the optimum between the competitiveness and the cooperation. This is possible if the companies have sufficient means of control of the partner’s behavior.

6. The alliance success depends on the balance of powers and authorities of the parties.

7. It is important for the international strategic alliances to take cross-cultural differences into account, especially where the partners’ cooperation relates to technology transfer or management.

8. One should not expect an immediate return from the alliance; in many respects, the result depends on the trust existing between the companies.

9. When concluding a strategic alliance, it is recommended to familiarize oneself quickly and thoroughly with the main ideas and practices of the partner in the field of technology and management and implement the most rational of these into own activities. It is not advisable to transfer information (to the partner), which can affect the competitive situation.

10. Any strategic alliance should be considered as a temporary agreement between partners and if it becomes not profitable, it is advisable to terminate it immediately.

V. CONCLUSION

It is proved that strategic alliances fit the main requirements of the unstable business background due to flexibility for the formation and functioning terms. In order to increase the rate for SA success it is necessary to assess regularly the results of the alliance’s activities, undesirable

trends and previously undeclared reserves and to see new horizons of the development. In this case, at the first alarming signs of an inappropriate behavior of the partner, this will allow to take measures to protect the positions of own company. From the very beginning, it is necessary to define strictly the boundaries of possible interference of partners' representatives in own internal affairs.

The strict prerequisites for an effective strategic alliance are long-term planning, policy coordination, strengthening the trust between the partners, and the desire for cooperation of senior and middle management layers of the allied companies.

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