A Study of Strategic Alliance Success Factors

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Abstract: The strategic alliance is the most important type of cooperative strategy, in which two or more firms set an agreement, work together, and share their capacities and resources to achieve a competitive advantage among their competitors. The alliance is cooperation with aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves in technology transfer of economic specialization, shared expenses, and shared risk. This study, reviewed several papers and tried to provide an overall overview of strategic alliances.

Key-words: Strategic Alliances, Types of Strategic Alliances, Strategic Alliances in International perspective, Structuring the alliance, Governance Strategic Alliances

1 Introduction

In General, a strategic alliance is a cooperative strategy in which firms combine some of their capabilities and resources to create a competitive advantage. In other words, strategic alliance is the main type of cooperative strategy which through it two or more firms make an agreement and cooperate and share their resources and capacities to achieve competitive advantage among their competitors [1]. The alliance is cooperation with aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves in technology transfer of economic specialization, shared expenses, and shared risk [2] so strategic alliances involve firms with a degree of exchange and sharing of resources and capabilities to co-develop or distribute goods or services. Strategic alliances have become an essential factor in companies' strategies. There are so many reasons for this, but the bottom line is that when firms form appropriate alliances and manage them effectively, they help to create value [3]. Even strategic alliances are important in Europe's counties such as France by using the information technology (IT) services industry as well. The industry has become highly competitive in recent years with the entry of global IT service providers like IBM and the growth of others such as Siemens [4]. In other points of view, by use of a broad analysis, strategic alliances are agreements between companies that remain independent and are often in competition. Actually, in practice, they would be all relationships between companies, with these exceptions such as transactions (acquisitions, sales, and loans) based on short-term contracts or agreements related to activities that are not important, or not strategic for the partners, According to a more uncertain interpretation, strategic alliances would be limited to long term

agreements based on the transfer of resources and participation in capital stock.

2 Significant of Strategic Alliances

- In the '70s, the significant factor was the performance of the product. Alliances aimed to gain the best raw material, the lowest costs, the most recent technology, and improved market penetration internationally, but the core was the product.
- In the '80s, the main goal became consolidation of the company's position in the sector, using alliances to make economies of scale and scope. In this period there was a true detonation of alliances. The one between Boeing and a consortium of Japanese companies to build the fuselage of the passenger [5].
- Transport version of the 767; the alliances between Eastman Kodak and Canon, which allowed Canon to produce a line of photocopiers sold under the Kodak brand; an agreement between Toshiba and Motorola to combine their respective technologies to produce microprocessors.
- In the 90', [6] believe that collapsing barriers between many geographical markets and the blurring of borders between sectors brought the development of capabilities and competencies to the core of attention. It was no longer enough to protect one's position in the market. There is some reason for strategic alliances through globalization and they are related to the type of market, whether the market is the slow cycle, fast cycle, or standard cycle.

2.1 Slow cycle:

Gain access to a restricted market, establish a franchise in a new market and Maintain market stability [7].

2.2 Standard cycle:

Gain market power (reduce industry overcapacity), Establish Economies of scale, Pool resources for very large capital Projects, Learn new business techniques and Overcome trade barriers.

2.3 Fast cycle

Speed up development of new goods or service, Speed up new market entry, Maintain market leadership, Form an industry technology standard, Share risky R&D expenses, Overcome uncertainty [8].

3 Main Goal of Strategic Alliance

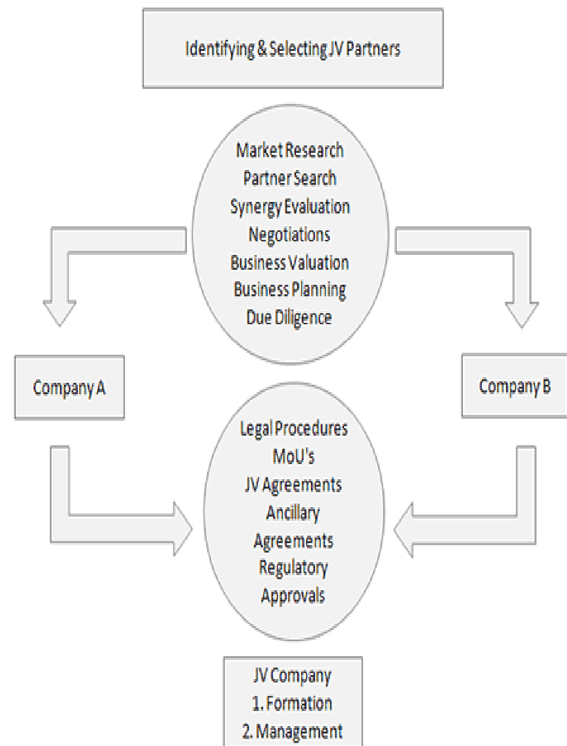
An alliance is a business-to-business collaboration. Another term that is commonly used in conjunction with alliances is establishing a business network. Alliances are created for joint marketing, joint sales or for distribution, joint production, design collaboration, technology licensing, and research and development (R&D). Relationships can be vertical between customer and vendor, or they can be horizontal between vendors, local, or global. Often alliances are established formally in a joint venture or partnership that later I will talk about them more. In the real world businesses use strategic alliances to achieve advantages of scale, scope and speed, Increase market penetration, develop competitiveness in domestic or global markets, Expand market development, Increase exports, Diversify, Create new businesses, Reduce cost [9].

4 Types of Strategic Alliances

The most important types of strategic alliances are joint venture, equity strategic alliance, and non-equity strategic alliance. I would like to explain each of these types shortly:

4.1 Joint Venture

Joint venture (JV) is an entity formed between two or more parties to undertake economic activity together. The parties agree to make a new entity by both causative capitals and they share in the revenue, expense, and control of the enterprise. The venture can be just one specific project, or it can be a continuing business relationship such as Sony Ericson joint venture. Therefore, a joint venture may be a partnership, corporation, limited liability Company, or other legal structure, depending on some considerations such as tax and tort liability. Naturally in a joint venture partners own equal percentages and contribute equally to its operations [10]. A joint venture can be appropriate if: the alliance will need an important commitment of resources by each party; the alliance will require major interaction between the parties; the alliance will require a separate management structure; or if the business of the alliance may be subject to unique regulatory issues. Moreover, a joint venture will be appropriate if the parties expect that the alliance at the end of the day may be able to function as a separate business that could be sold or taken public. Joint ventures are familiar in the gas and oil industry and are often cooperation between a local and foreign company a joint venture is often seen as a very possible business alternative in this sector, as the companies can match their skill sets while it offers the foreign company a geographic presence [11]. According to researches, the failure rate is usually 30-61%, [12] It is also known that joint ventures in low-developed countries show greater volatility and that JVs involving government partners have a higher incidence of failure Furthermore, JVs have shown to fail miserably under highly volatile demand and rapid changes in product technology. Different researches have confirmed that joint ventures are more successful when the management cultures of the partners are well-matched and when the senior management of the companies is committed to them [13].



4.2 Equity Strategic Alliance:

An equity strategic alliance is a type of alliance in which two or more firms own different percentages of the company they have formed by sharing some of their resources and capabilities to make a competitive advantage. Most of the foreign direct investments, like those made by Japanese and U.S. companies in China, are completed through equity strategic alliance. A schedule that includes components of equity investment has been highly accepted in recent years and usually produces long-term alliances. In so many cases, a new entity is formed in which the companies invest money and know-how [13]. Such as FDC, one of the largest companies in the world for money transfer services recognized a new company for the system of Internet-based payment, together with the investment bank Goldman Sachs and the venture capital fund General Atlantic, for a

total investment of over one billion dollars. The main element of FDC's investment was its share in ventures in which it had invested beforehand. This kind of transaction is general when one of the parties to the transaction is not interested in diluting a stable and profitable company but is interested in allotting shares in a new activity in which it invested, which could arouse investors' enthusiasm[14].

4.3 Non-equity Strategic Alliance

A non-equity strategic alliance is an alliance in which two or more firms grow a contractual relationship to distribute some of their unique resources and capabilities to make a competitive advantage. In a non-equity strategic alliance, firms do not establish a separate independent company and so don’t take equity positions. because of this matter, non-equity strategic alliances are less formal and demand fewer partner commitments than do joint ventures and equity strategic alliances. Or we can say that a non-equity strategic alliance is the simplest form of strategic alliance as a contractual arrangement [15]. Non-equity strategic alliances generally are short-term arrangements that are appropriate when a formal management structure is not required. Whereas the specific necessities of the contract will depend upon the business arrangement, the agreement should deal with: the responsibilities of each party; payment terms; scientific or technical milestones privacy and non-competition; ownership of the intellectual property; remedies for breach. Some Examples of contractual strategic alliances are marketing, promotion, licensing agreements, also distribution agreements, development agreements, service agreements, and supply contracts. The main reason for control the growth in types of cooperative strategies is the difficulty and uncertainty that characterized most global industries, making it difficult for firms to be successful without partnership [2]. For example, Ralph Lauran uses licensing agreements to maintain its polo brand. It also uses 29 domestic licensing agreements, includes West Point Stevens (bedding), Reebok (casual shoes), and IC Paints (Ralph Lauren Home Products).

5 Strategic Alliances in International perspective

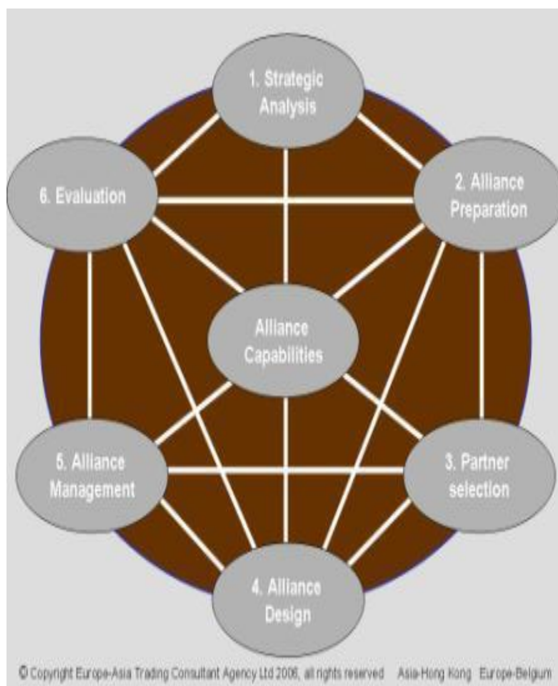
[16] Said that: Global presence has become so important to the survival of US firms. Recent statistics show that the annual sales growth of a multinational corporation was 8.8 percent compared with 5.5 percent for a domestic corporation; a multinational corporation not only grew faster but was also 50 percent more likely to survive than a domestic corporation [17] believes that the past decade has been an age of global evolution.

Most of the firms, particularly large global competitors, establish multiple strategic alliances. Corporations such as Dell and Microsoft, Cisco are examples of companies that have used strategic alliances with their partners to reach a competitive advantage. By focusing on developing advanced technologies, we can understand that Lockheed Martin has formed over 250 alliances with firms in more than 30 countries as it concentrates on its primary business of defence modernization. This example shows a lot of strategic alliances through globalization which just a firm cooperates with 30 foreign countries through sharing capabilities and resources. Integration of global markets and quick shifts in technologies, the construction of cross-border inter-firm cooperation has become a favoured strategy of international expansion [18]. Alliances with foreign partners are an important strategy that could present access to outside sources of competitive advantage in the global network [19], [20]. Through international strategic alliances, firms should think globally but act locally, this issue focuses on international

cooperation with the partnership. It is important to cooperate with an international firm which is close to your country. This could decrease the cost of production or consignment cost of resources to that country [21]. An international strategic alliance formation process engages several steps:Analyzing the partner's strengths, management styles, motives, and so on, Aligning alliance objectives with the overall strategy, Forming working groups, Contract negotiation, Expected outcomes, Goals to agree upon [22].

6 Strategic Alliance Process and Formation

The Strategic Alliance Process contains planning, implementation, and evaluation. An alliance has a five-stage "life cycle," and a structured methodology is applied to preparation and negotiations at each stage [23].



7. Alliance analyzing and setting

In creating a successful alliance the first step is to build up a well-thought-out alliance strategy. We have found that so many organizations “find” a potential partner and then either develop their strategy or “fall into it.” It is worth remembering that if you do not follow your strategy in a partnership, you will follow someone else’s. The result will be tragic. An alliance strategy stems from the business strategy. An alliance is not the answer for all businesses, but once a business does decide that a partnership is desirable, it must develop an alliance strategy. This is best accomplished through a structured, control process in an Alliance Strategy Session. An alliance strategy is most effectively developed jointly by the business team and an objective third party, whether the latter is an external professional or part of the organization. The business team comprises an executive sponsor, who is the head of that business, or, in a corporate alliance, the president and CEO. If senior executives do not support the initiative, the alliance will die. The team also includes key content specialists and decision-makers for that business [20].

8 Partners Selecting

Selecting a partner is based on the criteria recognized in the strategy session. Once the partner is selected, the means is to determine if both organizations are strategically aligned and culturally compatible. A Joint Strategy Session where both, organizations express their vision and strategy will determine if the organizations are strategically aligned. It will also become clear if all parties have like desires and are culturally compatible. This also becomes the ideal opportunity to identify any strategic gaps and previously unanticipated opportunities. Any deal-breakers for either party are articulated at this stage. Alliance governance is another aspect that is important to discuss at the very early stages. If it is a joint venture, thought needs to be given to the make-ups for management and the board [24].

9 Structuring the alliance

Structuring the alliance is the step that has usually received the greatest amount of attention; it is during this stage that the deal is economically and legally structured, and negotiated. As important, the stage is not worth going into unless the first two stages involving the strategy have been completed. It is important to keep an open mind regarding the structure of the deal until the alliance strategy has been developed. Negotiation is also an aspect that requires important attention. Some best-practice companies rehearse their negotiations before meeting the partner. It is critical to be clear about your deal-breakers, and the "floor" and "ceiling" of your negotiating points. A negotiating strategy is critical, and developing one must begin at the alliance-strategy stage. A key point to remember is that negotiations with a potential partner begin long before you first sit down at the table. It begins the first time you meet the partner. Every relation reveals information that is consciously and subconsciously stored for future reference [25]. Every agreement of alliances should include an exit strategy. This does not imply a pessimistic view of the relationship but rather identifies that all alliances have a natural life. The average lifespan of an alliance is seven years. It may be necessary to recognize that an alliance is temporary to maximize its useful life [22].

10 Alliance Management

In a well-structured alliance, a functioning plan is developed before the deal is signed. A full launch strategy needs to have been jointly developed before the deal is announced. To hit the ground running, an implementation plan with specific action plans, and the resources assigned to the alliance, must be known if it's possible, some members of the alliance team would have been involved from the very first stage. The difference in any alliance is inevitable. It is not the fact that it happens that is a problem, but rather how it is dealt with and resolved. A conflict-management process is an important aspect of alliance management [26].

Managing the alliance is another stage where the alliance can be devastated. The lack of strategic arrangement is a key cause of failure. This is not only the case at the outset but throughout the life of the alliance. Periodic checks are critical. If a shift in a partner's strategic direction is taking place, there is a risk that the alliance may no longer be a strategic priority in the case where an alliance partner has sold its notice to another organization, it will be necessary to ensure that the new partner has the same strategic vision and interest in the alliance. With conflict management, these sessions are best managed with the support of an objective third party [27].

11 Evaluation of alliance

Measuring the outcomes of an alliance is critical. You must decide if the alliance is achieving its objectives. The metrics require to be tailored to the alliance and involve both qualitative and quantitative criteria. The argument about performance standards must have taken place as early as stage one. The relationship will not succeed if both parties do not have the same expectation for success [27]. If one party is expecting results within the first year, and the other has a four-year horizon, conflict is predictable. The key is to agree on standards and metrics jointly before the final contract has been signed. In the re-evaluation stage, it is also necessary to take stock of the alliance and determine the next steps. As previously noted, alliances are impermanent; this should be taken into account when planning an alliance. This does not mean that the relationship should be finished when the alliance itself ends. In reality, towards the end of the life of the alliance, it is worth revisiting the alliance strategy. Here one wants to determine to what

extent the original goals have been achieved, and whether the partnership can be reconfigured to serve other market needs [27]. The goal is to decide as to whether the alliance should be finished as the exit strategy has prescribed, or whether it still has life and new opportunities to partner. Keeping a good relationship will usually mean that there will be opportunities to keep on working together. It is much easier to manage multiple relationships with an existing and known partner than it is to manage multiple relationships with different partners. Finally, wherever possible, deep relationships are always more desirable. It is necessary to evaluate and further develop the alliance at each stage of the life cycle. The strategy sessions create a structured, disciplined forum for recapturing "the lost art of conversation." It is essentially through this conversation that gaps are identified and opportunities discovered [27].

12 Disadvantages of Strategic Alliances

Most of the time alliances are costly, not just because of cash leaving the company's hands, but rather due to returns from which it could be denied. First o all, joint ventures engage the investment of managerial time resources in establishing the venture, managing it, and resolving possible arguments of interest between the partners over the functioning of the venture. Even when a proper set of contracts, motivation schemes, and different transfer prices from the partners to the joint venture resolve most conflicts, almost no joint venture manages to entirely avoid conflicts between its respective parties [28].

Moreover, alliances can construct indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company a mixture of financing options. For illustration, an alliance with Ericsson in the area of cellular communications could reduce the likelihood of contracts with Nokia, so putting the company at risk that if Ericsson is weakened, so will be all the companies that depend upon it. Joint ventures also rendering the company to its partners, and the unique technologies that it has are sometimes revealed to its partner company, which could later become a competitor or could utilize the fruits of the venture or the know-how better than the start-up itself. Moreover, strategic partners may often lead the company in directions that serve the partner company better than they do the company itself [29].

Also there some common pitfalls in the strategic alliance which firms who contribute partnership relationships should take care of them [30].

- Many organizations do not develop a clear joint strategy with their partners. as a result, the organization with the strong path leads the alliance, while the other partner does not realize the full benefit, or worse still, follows someone else’s strategy
- So many organizations do not have an alliance strategy that addresses the gaps in their business strategy. Therefore, and unnecessarily, they underperform.
- Often, an unequal amount of attention is paid to the financial aspects of the deal, at the expense of and sometimes neglect of the strategy and the focus on implementation. Consequently, the ability to compete successfully is compromised.
- Lack of ongoing commitment to the alliance by either party will derail it. Examples include not putting the best people in the partnership or pulling key resources from the alliance.
- Lack of practical or meaningful metrics is a common pitfall. In a try to quantify all results from the outset, employing meaningful qualitative metrics is often overlooked. Some of the most meaningful metrics which are

predictors of success include things such as the level of trust between the parties.

- Another general pitfall for large organizations is losing track of multiple relationships with a partner. This happens when a mixture of alliances with this partner exists in different parts of the organization. At times, a partner is also a supplier, and this complicates the relationship. Having a good handle on the extent of the relationship is critical.
- Finally, partnering with competitors requires particular attention. One of the common pitfalls occurs when insufficient boundaries are set around an alliance with a competitor. The risk is that their newly acquired facts of your organization make them a more formidable competitor.

13 Governance Strategic Alliances

An investigation on the choice of governance mode for ISAs has largely been based on a difference between equity and non-equity arrangements [31]. Many authors fall out that equity alliances provide partners with more organizational control than non-equity alliances by the establishment of an administrative hierarchy that allows partners to exercise a residual right of control [32]. Equity ownership is equated to greater control under the statement that more equity ownership gives a partner more voting power [33]. As well, equity sharing generates a governance structure in which the sponsoring companies can monitor the activities of the alliance as they are represented on the board of directors. Shared equity possession might also be expected to align the incentives of ISA parties, thus creating mutual interests that reduce the need for control [34]. Non-equity alliances, on the different, are contractual agreements that lack shared ownership or dedicated managerial structures, and they are, therefore, seen as more akin to arm's-length transactions [14], [12], [35].

The fundamental logic of the literature addressing governance choice is that transactions offer potential economic benefits to the parties involved in the form of what we might call "economic surplus." Also in the lack of wide-ranging and enforceable property rights assigning the distribution of the imagined economic surplus to the parties involved, individual transactions have incentives to engage in behavior and opportunism that transfers more of the surplus to them, even at the cost of reducing the total surplus. Rational participants should be willing to expend resources to put a stop to opportunism by installing mechanisms that convince incentives to act opportunistically [36]. The goal is presumably to maximize the realized economic surplus connected with a set of transactions net of all governance costs. The governance structure that gets this goal is efficient. The deduction naturally made is that managerial governance is more costly than governance through contractual or other forms of agreement, other things even. For this reason, for any set of transactions, administrative governance will be chosen only if it is commensurately more effective at mitigating opportunistic behavior. That is, parties would most likely choose administrative governance only if the expected net benefits were higher than those connected with contractual or non-contractual agreements. Given that managerial governance should be more costly to put into practice, the relevant issue is whether it will have more than appropriately large benefits in the form of effective reduction of opportunistic activities [37].

14 Conclusion

Alliances range in scope from an informal corporation's relationship based on a simple contract to a joint venture contract in which for legal and tax objectives either a corporation or partnership is set up to manage the alliance. For some small businesses, strategic alliances are a

way to work together with others towards the same goal while not losing their individuality. Booz-Allen and Hamilton believed that strategic alliances are sweeping through nearly every industry and are becoming a necessary driver of superior growth.

Fundamentally A strategic alliance is a partnership in which we mix efforts in developments ranging from getting a better price for supplies by buying in mass together to building a product together with each of us providing part of its production. The significant aim of alliances is to minimize risk whereas maximizing our leverage and profit. Alliances are most of the time confused with, acquisitions, outsourcing, and mergers. While there are similarities in the situation in which a firm might consider one of these solutions, they are far from the same. The model which I have introduced is not sufficient. We need purposively an integrative model to categorize key alliance success factors that would contribute to an understanding of what the partners need to bring to the table, why alliances make sense, what management practices and attributes might help the long-term growth and development and success of the strategic alliances. Nevertheless, not every strategic alliance succeeds. There is a need for wide-ranging research on strategic alliances which are becoming a more and more universal tool for developing the reach of our company without committing our self to expensive internal expansions beyond our core business.

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