УО «Алматы Менеджмент Университет»

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# Divergence of Objectives in Strategic Alliances as Reason for Subsequent Failures

This paper considers the issue of the high rate of failures in strategic alliances. Literature identifies many reasons for failures, including problems in governance, change management, and the lack of resourcing, among others. However, the discussion of the "divergence of objectives" in strategic alliances, which often become a cause of their failure, is rather limited. Yet, a decision to enter into a strategic alliance is made and all subsequent procedures are arranged by people. This means that personal motivation and attitudes of shareholders/top managers exist at every stage of the process. Therefore, the lack of attention to personal objectives and motivation is imprudent.

The divergence of partners' objectives can be a serious problem for the success of a strategic alliance. However, the literature observed does not review this question in sufficient detail. This paper provides a research into the question based on the author's explorations in the sphere of strategic alliances, statistics on international organisations, and consulting agencies. The introduction provides general information about alliances, the reasons and motives for their formation, and the causes of their failure.

***Nature of strategic alliance***

Strategic alliance is a collaboration of two or more legal entities. Thus, partners in a strategic alliance remain independent even after its establishment. It is a very attractive feature of such alliances because in a dynamic environment companies set up alliances differing by geography, industry, objectives, etc. For companies it is vital to remain mobile and independent to maintain prompt decision making, modify their strategies as necessary and adapt quickly to new realities of the environment. Partners determine the form of a strategic alliance on their own, in order to meet their needs and motivations.

In international practice, strategic alliances may be in the form of hierarchical relations, joint ventures, equity investments, cooperatives, R&D consortia, strategic cooperative agreements, cartels, franchising, licensing, subcontractor networks, industry, standards groups, action sets, or market relations [Todeva and Knoke, 2005]. There is no specific international legislation governing the legal forms, establishment and operation of international strategic alliances. However, despite having different forms, alliances have the following common features:

1. *Independence of partners*. Partners have joint operations but their own business remains independent as they do not obtain legal mechanisms for influencing the other partner through the strategic alliance. Independence lowers risks and simplifies the "divorce" procedure.
2. *Freedom in the forms and conditions of strategic alliances*. Partners have a wide range of choices and determine the conditions of collaboration since there is no strict legal regulation.
3. *Interest and sophisticated experience in one industry*. When partners form an alliance they are interested in development in a single industry. In addition, as a rule, one of the partners has some unique experience or skill.
4. *Leverage capabilities and resources*. Cooperation allows using the partners' resources for achieving mutual goals.

Therefore, strategic alliances have become a preferred way of cooperation thanks to the simple establishment and termination procedure and the attractive forms of doing business.

***Driving forces and motivation to enter strategic alliance***

Strategic alliances became rather popular in 1989-1995 when their number increased from 1,000 to 9,000 [Kang, Sakai, 2000]. This means that this form of business is promoted by significant motivation and driving forces.

***Driving forces***

Driving forces are influencing factors that induce companies to react to, and take action to overcome, external conditions or align with them. Kang and Sakai list the following driving forces: economic factors, technology factors, and governance factors [2000].

Globalisation has become a trend in economic and business environment all over the globe. Friedman published a book devoted to the world without borders with telling title "The World is Flat" [2007]. For businesses, this means increased competition and tougher conditions for doing business. For these reasons, companies have to go abroad to maintain their leadership in local markets and win international markets. According to Thompson and Strickland, strategic alliances have become one of the strategies for the companies that decide to expand beyond their national markets and enter transnational or global competition [2006].

Motivation to expand to new markets is explored by Collins who analysed the U.S. fast-growing companies in 2006 for PwC Barometer Surveys. The reasons for alliance formation in the U.S. were the following:

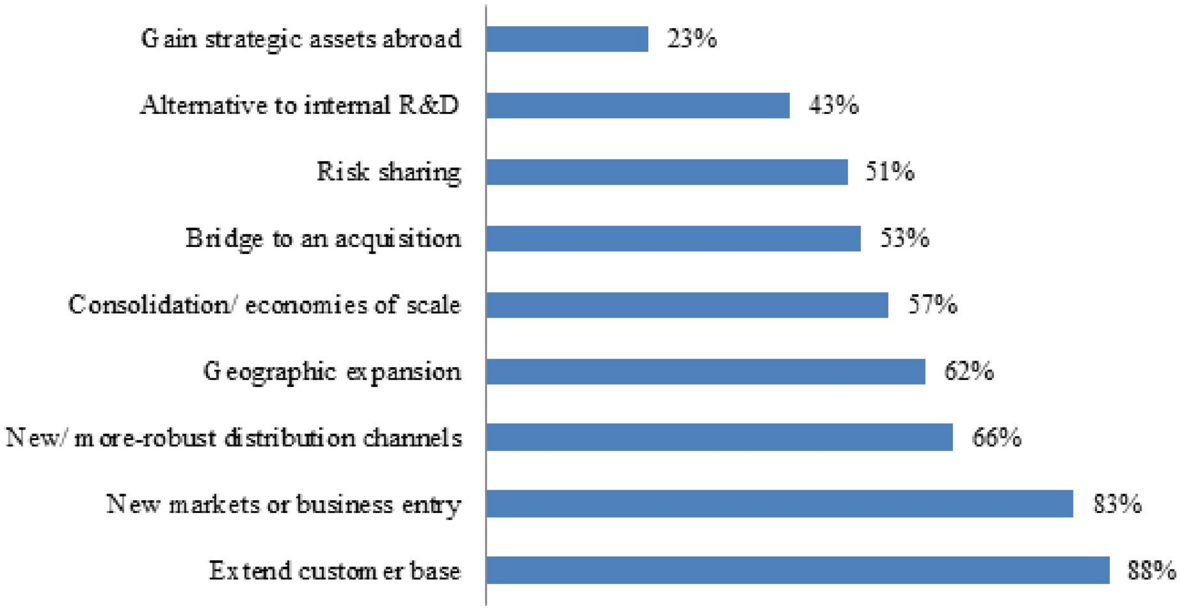


**Chart 1. The reasons for alliance formation in the U.S.**
*Resource: Collins, PwC Barometer Surveys, 2006*

In the above statistics, the "New markets or business entry" and "Geographic expansion" reasons have high percentages that confirm the importance of economic driving forces to the growing number of strategic alliances.

Globalisation is a consequence of another driving factor – technological progress. New technologies (the Internet, software and apps) allow businesses to cover large territories with their services. They also make it possible for alliances to establish regional, international, or global partnerships, which are in-touch 24 hours a day and can interact, communicate and make decisions in a very short time. The development of strategic alliances in 1989-1995 coincided naturally with the development of the Internet and computer technologies in 1989 and to date.

The efficiency and mobility of alliances would be impossible without new technologies, ensuring the real-time sharing of documents and information, visual and voice contacts via video-conferencing, and the signing of agreements with e-signatures.

These two driving forces are the main on the list. Other forces (social, political, legal, transactional) exist as well. Yet, the above two foster the advancement of strategic alliances from the very beginning, due to the nature of the alliances.

***Motivation***

Acting under driving forces, partners and management need motivation to act. Motivation is a system of internal processes inducing business leaders to act towards achieving their objectives, which are the essence of their activity.

Todeva and Knoke [2005] provide the list of motivations for the formation of alliances, including the following, *inter alia*:

- Seeking for new markets;
- Gain access to new technologies;
- Diversification into new or adjacent businesses;
- Development of technologies, products, resources;
- Diversification and reducing risks;
- Development of technical standards; and
- Achievement of competitive advantage, etc.

Motivation to form alliances varies and partners in an alliance can have different or even opposite objectives. In the end, each partner tries to attain his own goals and use other partners and their competitive advantages for his own benefit. It is like a puzzle when, for example, a company lacks a regional or international network, or financing for new technologies, or resources (tangible or intangible assets), or special expertise. It then starts to search for the missing components in other companies in the industry, which can become potential partners in a strategic alliance. Forbis and Finnegan suggested that the "competitive impact" (or mutual advantage the partners gain by allying) is one of the three main strategic parameters, which should be implemented and determined [1990].

***Reasons for failure***

Despite the increasing number of strategic alliances many of them fail. For example, Naele-May reported that 60% of strategic alliances failed [Forbes, 2014]. The reasons can be different. Holmberg and Cummings suggest that failures may occur for many interconnected reasons and could be defined in different ways. The two common causes are poor alliance management and poor partner selection [2009]. Most publications considering the reasons for strategic alliance failures are blogs and presentations by consulting agencies. Significant papers provide very scarce information on the issue. The table below summarises the reasons for failure suggested by different authors:

| | Neale-May | Hao Sheng-yue, Ren Xu | Zainab Zamir, Arooj Sahar | Park, Ungson | Rajesh Kumar |
|---|---|---|---|---|---|
| Lack of governance | + | | + | | + |
| Absence of Chief Partnership Officer | + | | + | | |
| Partners do not formalise a strategic plan | + | | | | |
| Interfirm competition | | + | | | |
| Unfair resource exchange | | + | | | |
| Unfair benefits distribution | | + | + | | |
| Strategic disagreement | | + | + | | |
| Structure instability | | + | | | |
| Culture conflict | | + | + | + | + |
| Communication obstacle | | + | + | | |
| Goal divergence | | | | + | |
| Competitive rivalry | | | | + | + |
| Operation overlap | | | | + | |
| Organisational misfit | | | | + | |
| Excessive formalisation | | | | + | |

Source: drafted by the author

Park and Ugson [2001] are the only authors who mention the divergence of objectives as a reason for failure. Conflicts of partners' interests are an underrated reason for failure. There should be a reason why partners prefer to stay independent when they choose a strategic alliance for cooperation. They may have short-term goals, or do not trust their partners, or have goals known to them only that do not correspond to the goals of the alliance and its partners.

Two strategic alliance theories exist. One is the *resource-based theory,* assuming that alliances are the value-creation potential of firms' resources that are joined together [Das, Teng 2000]. The other is the *knowledge assessing theory,* suggesting that the objective of a strategic alliance is to get legal access to the unique knowledge of other partners [Grant, Baden-Fuller, 2004]. Therefore, partners in a strategic alliance focus on achieving their own goals, i.e. the resources or knowledge they lack in their operations. The resources and knowledge they obtain help them, in the end, to achieve their objectives beyond the strategic alliance.

In practice, partners talk too much about cooperation, common goals and prospects and keep silence about their initial motives to work with one another. Sometimes, the other partner is a competitor in the past or in the present. For instance, two law firms that decide to form a strategic alliance work in the same territory (a city or a country). In the course of negotiations it is rather risky to unveil the motives for entering the alliance, especially when the motive is to make up one of the partner's weaknesses or threats.

Forbis and Finnegan, for example, distinguish three model roots for alliances:

1. strength-to-strength;
2. supplemental; and
3. weakness-to-weakness [1990].

The first model is typical of major companies, which intend to pool resources together in order to conquer a market. However, more often the allying partners have their own goals and have their own weaknesses and strengths. A strategic alliance, therefore, can be the way to neutralise their disadvantages. As it is fairly noted by Forbis and Finnegan, in most alliances one partner's weaknesses are compensated with the other partner's strengths [1990].

There was a situation in practice when a company with several offices in different countries formed a strategic alliance with a local company having only one office. They set a mutual goal to create a unique regional company with offices in different countries to consult businesses operating in these areas. However, the partners had failed to disclose their personal motives for the alliance. One partner needed an extra office in a strategic region and wanted to ally for this reason while the other partner needed to expand its customer base, consolidate its brand, and attract additional finance, without losing its independence. This misunderstanding and divergence of the partners' objectives led to a strong conflict and a dispute over the brand in a year.

Korolyov and Korolyova note that the interests and goals of companies entering into an alliance are often contradictory. The goals of each participant do not always align with the mutual goals, especially in an alliance with a direct competitor [2010].

***Conclusion***

When the participants in any union, not only a strategic alliance, fail to disclose their personal objectives, it is a ticking time bomb for the partners' relationships. The right way to build strong relationships is to disclose personal objectives when signing the contract. Moreover, the achievement of the partners' objectives should be included in the action plan and the change management policy.

Few papers consider the divergence of objectives in strategic alliances and this issue occupies an insignificant place in the lists of reasons for their failure, while deserving more thorough research. Participants should determine their own objectives when entering into a strategic alliance, align them with the goals of the alliance, and compare them with the intentions of their future partners to avoid divergence and ambiguity. Each partner should disclose its objectives to the other partner in an open dialogue to lay the foundation for the future partnership.


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