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Advantages and Disadvantages of Strategic Alliances in International Business

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Abstract: *The paper studies strategic alliances and their role in international business. The importance of strategic alliances in the global economy has increased. Strategic drivers for interfirm co-operation between alliance partners are market growth, cost reduction, reducing risk, and access to knowledge. The author focuses on the advantages and disadvantages of strategic alliances. The challenges of managing international strategic alliances are also discussed. Ensuring the success of strategic alliances between international firms is more difficult due to alliance partners' differences in national, organizational and professional culture. International strategic alliances are critically important to a firm success and coping with globalization, deregulation, and developments in information and transportation technology.*

1. INTRODUCTION

Alliances are a sophisticated phenomenon in organizations. Alliances are used in a wide range of situations and can entail many different partner arrangements, the pursuit of many different objectives, and varying degrees of commitment and involvement from partners. In recent years, strategic alliances have become prevalent and significant structural tools for business growth (Albers et al., 2016).

Strategic alliances can be categorized according to the number of parties engaged as either dyadic partnerships, in which only two parties are involved, or multiple relationships, in which three or more parties are involved. From the perspective of resource commitment, businesses can commit either some or no equity, but they still contribute some of their resources to the alliance and collaborate with some of their partners (Culpan, 2009). According to Contractor and Reuer (2014), there are four main sorts of motivations that influence interfirm collaboration strategically:

1. market expansion or increased revenue as a result of the collaboration;
2. efficiency or cost reduction;
3. risk sharing or reduction;
4. access to know-how or learning.

An alliance is an inter-organizational co-operation between two or more organizations that are still separate from one another but work together on a particular project - each partner's strategic objectives are to:

1. maximize the joint net value or net benefits emerging from the co-operation (Zajac & Olsen, 1993; Colombo, 2003);
2. appropriate a sizeable portion of the net benefits generated (Gulati & Singh, 1998);
3. reduce each partner's expenses and risk.

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Several methods can be used to take advantage of an alliance's advantages. It may feature monetary gains like revenue and equity growth on equity-based joint venture shares or royalties from technological licenses (Contractor et al., 2011). Earning profit markups on outsourced components or goods traded between the allies via supply chain partnerships could potentially benefit the alliance (Wathne & Heide, 2004; Kaufman et al., 2000; Jeffries & Reed, 2000). A non-financial, but no less significant, gain from an alliance could be that each party picks up useful process practices or other expertise from the alliance partner.

2. ADVANTAGES AND DISADVANTAGES OF STRATEGIC ALLIANCES

Businesses need resources that can be leveraged to produce unique and rare value for customers in order to generate and exploit a competitive edge. It is challenging for businesses to have all the resources required to compete successfully across numerous markets due to the growing complexity of markets as a result of accelerated and rapid globalization (Ariño & de la Torre, 1998). Independent businesses rarely have the resources necessary to compete on an equal footing, let alone to gain an advantage. Access to information, resources, technology, and markets is made possible by alliances. Resources include things like knowledge, access to technology, and advantages in a market. The aspirations to increase production efficiency and the resulting decrease in costs; to hasten access to technology, markets, and customers; to improve organizational learning; to expand strategic skills; and to maintain the competitiveness are the main drivers of strategic alliance formation. The positive aspects of alliances can be seen in these and other motivations.

A company's management must be aware of the following factors to improve its chances of forming a successful international strategic alliance (Brouthers et al., 1995):

1. Complementary Skills: Only companies that can strengthen the venture should be partnered with in an alliance. The knowledge, experience, and abilities must be relevant to the goods or services being supplied and must be specific to them. Alliances should only be formed by managers with companies that meet a specific purpose. There is little need for enterprises to collaborate if no new capabilities are added.
2. Co-operative Cultures: Management needs to understand how crucial collaboration is to building effective global strategic partnerships. The management of one company shouldn't assume the lead position and impart all of their knowledge to the other alliance partners while receiving no education. Management must look for opportunities to learn from alliance partners because co-operation is a two-way street. Employees that are a part of the alliance must be mindful of any existing cultural divides, and management must take care to ensure this.
3. Compatible Aims: Management must ensure that their involvement in the partnership is based on the goals of their individual company and is not merely a convenient, impromptu choice. The alliance's management must have objectives, as well as company-wide objectives. The alliance should achieve strategic goals that would not have been possible without the global strategic alliance. Conflicting objectives among the participating companies could make the alliance underperform or limit its outcomes so that only one alliance partner benefits.
4. Appropriate Levels of Risk: Management needs to take into account the hazards. Management should avoid joining alliances where they would be expected to give more money than the company can reasonably afford, both up front and down the road. Management must also exercise caution because not all knowledge, expertise, and know-how is housed within the alliance, and partner companies must prevent alliance partners from accessing

non-alliance information. In many cases, alliances are created to lower risks, yet in doing so, alliances also increase other dangers, such as political vulnerability. Two significant risk factors include giving up business expertise or discovering that financial pressures rise as a result of partner issues.

Numerous studies on alliances show significant failure rates (Kale et al., 2002), substantial transaction costs associated with drafting and overseeing alliance agreements (Argyres & Mayer, 2007), and severe uncertainty surrounding the appropriation of alliance benefits (Park & Ungson, 2001). According to studies, between 30 and 70 percent of alliances fail, failing to achieve the objectives of their parent companies or giving the operational or strategic benefits they promised (Bamford et al., 2004). Over 50% of alliances are reportedly terminated (Lunnan & Haugland, 2008).

This leads to a conundrum for businesses. On the one hand, businesses struggle to form alliances that are successful enough. On the other hand, they must now build more partnerships than ever before and rely more heavily on them in order to increase their competitiveness and growth. If this is the case, managers need to have a better awareness of what factors truly contribute to successful alliances. Failure can come at a high price. Alliance failure is caused by a variety of elements, such as partner opportunism, cultural incompatibilities, and the inherent friction brought on by aim divergence (Doz, 1996; Kale et al., 2000).

3. STRATEGIC ALLIANCES IN INTERNATIONAL BUSINESS

Due to factors such as globalization, deregulation, advancements in communication and transportation technologies, and the emergence of new market economies, strategic alliances are becoming more and more widespread. In a global context with a wide range of variable environmental elements at play, difficult strategic decision-making processes that precede partnerships become much more complex. Finding the type of value creation that is ingrained in different places is a crucial question in the formation of strategies. However, locales are infused with values, institutions, and practices that build the infrastructure in which assembly decisions are entrenched, so it's not only geography that matters (Dacin, 2011).

When companies wish to expand internationally, they may opt to have complete management control, acquire an existing company, or create a new wholly-owned subsidiary. Alternatively, they may choose to co-operate with other companies to varying degrees (Kogut and Singh, 1988). In general, businesses engage in inter-organizational connections abroad to reduce costs, establish selective alignment between host country risks and company control, and gain knowledge from their partners (Aguilera, 2011). The global market to multinational hierarchy spectrum encompasses a wide range of inter-organizational linkages, from supplier ties (Dyer & Chu, 2000) to multinational corporate groups (Colpan et al., 2010).

Global strategic alliances are described as relatively long-lasting inter-organizational co-operative agreements involving cross-border flows and linkages that make use of the resources and governance structures from autonomous organizations with headquarters in two or more countries for the joint accomplishment of individual goals connected to the corporate mission of each sponsoring firm (Parkhe, 1991). Contractual partnerships are increasingly preferred over the equity joint venture option in the changing global corporate environment. Globally speaking, the enforcement of intellectual property rules is improving yearly. Over the past 20 years, expropriation risks have dramatically decreased, and arbitration provisions better safeguard the value of foreign assets (Contractor & Reuer, 2014). The rising codification of unregistered corporate capability is another subtle trend that tangentially supports the transferability of information in contractual alliances that are increasingly organizationally remote (Contractor & Lorange, 2002). Due to improved operations research methodology, global supply chain coalitions that previously would have been deemed too hazardous or unmanageable due to foreign exchange, political, and international logistics hazards are now feasible (Ding et al., 2007).

International partnerships give businesses the chance to access expertise and resources that aren't currently regulated or accessible in their native country (OECD, 2000). International alliances, however, can provide difficulties not present in local coalitions. According to research, alliance partners' teamwork and learning can be hampered by variations in national cultures (Lane & Beamish, 1990; Parkhe, 1991; Lyles & Salk, 1996; Hennart & Zeng, 2002).

Country distinctions still exist and have a significant impact on strategic choices and outcomes notwithstanding globalization (Tong et al., 2008). Researchers have recently been encouraged to include country-specific data and use disparities between the nations of alliance partners as explanatory factors as a result of the greater availability of country data. These could contain institutional and cultural data banks as well as assessments of each country's level of intellectual property protection (Ginarte & Park, 1997; Berry et al., 2010).

Three potential drivers of partner differences are suggested by Sirmon and Lane (2004): national, organizational, and professional. Deeply ingrained ideals shared by all citizens of a country are referred to as national culture (Hofstede, 1991; Hill, 2021). A people's "design for living" is made up of a set of common conventions, values, and priorities (Hill, 2021). National culture has a significant and enduring impact. Organizational culture is defined in terms of common group meaning (Hofstede et al., 1990; Golden, 1992; Ostroff et al., 2002). According to O'Reilly and Chatman (1996), organizational culture establishes a particular sort of social control that designates the proper attitudes and actions that organization members should exhibit. Similar organizational cultures between partners enhance learning, enjoyment, and interaction effectiveness, but cultural disparities between partners reduce these favorable consequences. The corporate procedures used to share, integrate, and exploit resources including knowledge, connections, and physical assets are projected to be hindered by decreased learning, satisfaction, and efficacy of interactions (Sirmon & Lane, 2004). Another significant culture that may have an impact on international alliances is the professional culture. When a group of people working in a functionally comparable profession has a set of norms, values, and beliefs specific to that profession, then that profession is said to have a professional culture. Through the socialization that people acquire during their occupational education and training, professional cultures are created (Jordan, 1990). The outcomes are anticipated to be disappointing when multinational alliance partners demand that individuals from various professional cultures interact during the alliance's principal value-creating activity.

4. CONCLUSION

Alliances are a sophisticated phenomenon in organizations. Alliances are used in a wide range of situations and can entail many different partner arrangements, the pursuit of many different objectives, and varying degrees of commitment and involvement from partners. The four basic kinds of motivations for interfirm collaboration's strategic drivers include: market expansion or revenue enhancement as a result of co-operation; efficiency or cost reduction; risk sharing or reduction; and access to knowledge or learning.

In order to reduce their expenses, build a discriminating alignment between host country risks and firm control, and learn from their partners, businesses engage in interorganizational interactions abroad. Through international alliances, businesses can access information and resources that aren't currently controlled or accessible in their own nation. It is more challenging to integrate knowledge-intensive activities between foreign enterprises since partners have different national, organizational, and professional cultures. These discrepancies may prevent alliance partners from collaborating and learning from one another. However, in cross-national endeavors, cultural differences aren't always a source of conflict or unpredictability. Because conflict is likely to necessitate more engagement and communication between the partners, which will ultimately result in more effective knowledge acquisition, conflict may occasionally be a useful process mechanism for organizational learning.

In order to have the resources to be genuinely internationally competitive, multinational corporations will increasingly need to create alliances. However, making the wrong alliance partner choice could end up being much more expensive and hazardous than going it alone. Understanding the ideal methods for managing a single alliance between two or more businesses is useful. Future alliance strategies should, however, use a portfolio strategy, as most businesses participate in multiple alliances. Each unique alliance is significant, and a company should follow the proper best practices at each step of the alliance's life cycle and have a solid strategic justification for the partnership. However, by treating each of its separate alliances as a portfolio and managing it as such, a company can benefit further.

Strategic alliances are notoriously dangerous. Strategic collaborations should be avoided unless there is a genuine lack of resources, such expertise, technology, or money. If there are gaps, the business should search for complementary capabilities, collaborative cultures, compatible goals, and proportionate risk levels. Numerous research on alliances point to high rates of failure, high transaction costs associated with drafting and overseeing alliance agreements, and serious uncertainty surrounding the appropriation of alliance benefits. In response, they frequently make recommendations for the choice of partners and legal frameworks in order to lower the risks of failure, transaction costs, and misappropriation.

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