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PROBLEMS IN STRATEGIC ALLIANCES – SHOULD WE TERMINATE THE COLLABORATION? EMPIRICAL EVIDENCE FROM NORTH-WEST REGION ROMANIA

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Abstract:

This paper examines the problems facing the firms in their strategic alliances and the decision “alliance termination” for the problematic relationships. The study is based on qualitative data resulting from interviews with top level managers and executives in ten Romanian firms. We observed that the main problems facing the firms in our sample were: the insolvency, the less seriousness of some partners and the own rules imposed in the collaboration by the large firms. Moreover, the managers in our study argued that one collaboration should end when: the objectives were not met (or are on the way to not be accomplished), the partner becomes more unserious, and when there is a drop in the relational attributes (e.g. trust, honesty). The paper contributes to the literature on strategic alliances, specifically to the alliance problems and alliance termination topics. It has also managerial utility for latter stages in managing strategic alliances.

Keywords: joint ventures, strategic alliances, alliance problems, alliance termination

1. Introduction

In the last two, three decades, strategic alliances have become an ubiquitous phenomenon in the business environment worldwide (Gulati, 1998; Vyas *et al.*, 1995; Dyer and Singh, 1998). Despite the growing importance devoted to this strategic option they continue to be problematic and to face many problems. For example, in 2001, Dyer and collaborators argued that almost half of the alliances fail. More recently, in 2010 Choi *et al.* revealed that failure rates of 40-70% are not uncommon.

Within the alliance literature there are several studies trying to solve problems such as: the partner opportunism (Das and Rahman, 2010; Parkhe, 1993; Phelan *et al.*, 2005), the protection of firm's core competencies (Kale *et al.*, 2000), or structural versus behavioral factors as antecedents of alliance success (Kausser and Shawn, 2004; Taylor, 2005) or sources of problems. There are only few studies bringing empirical evidence regarding problems at the implementation level (examining specifically the problems that occur in firm's strategic alliances). Some exceptions exist. For instance, Jagersma (2005), Kirby and Kaiser (2003), Taylor (2005).

Even if there exist some studies examining the problems the firms face in their strategic alliances and some studies examining the alliance termination, up to now, there is no evidence on how these variables (alliance problems and alliance termination) interact. Are the problems encountered dangerous/strong enough to lead one collaboration to end? On the other hand, in our paper we do not look through the lenses of only one problem (such as partner opportunism) as were doing previous scholars (Parkhe, 1993; Phelan *et al.*, 2005) to see if it is appropriately to end the collaboration in the case of the opportunistic behavior. Instead, we try first to examine what problems face the firms in their collaborative strategies (all kind of problems) and then observe if these problems often drive the problematic collaborations to end. This is the contribution of our paper. In our paper, we look specifically to the problems the firms face in their collaborations and if these problems often drive to end the problematic relationships.

Our study is important for the strategic alliances and international strategic alliances literature. As important as for the theory our study is for the managerial practice. On the one hand, many times the companies participating in strategic alliances face many problems. Being aware of the problems the firms often encounter in their strategic alliances help the management to anticipate the alliance evolution over time and manage the relationship more effectively.

On the other hand, there is a big dilemma within the alliance theory and in the business practice also, with knowing when to terminate one collaboration. The same is true for deciding if it is appropriate to terminate one collaboration. For example, many times the managers face decisions such as: Should our company follow the relationship despite the problems we face or would be better to finish the relationship? Should we finish now or would be better to wait to see if the problems remedies? For one partner behaving opportunistically: Should we give him a second chance, or should we terminate the collaboration now? In this sense, there are two research questions our paper tries to find answers: *(RQ1) What problems face the firms in their strategic alliances and (RQ2) When should the managers terminate one collaboration facing problems?*

Our paper supports and extends the existent literature on alliance problems and alliance termination bringing empirical evidence from other regions (our case, Romania) and markets (construction, engineering etc.). For the topic alliance termination, it is also bringing some contradicting evidence regarding the existent findings.

The reminder of the paper is organized as it follows. First, we begin with a discussion regarding the previous contributions on the topic of our study. Next, we present the methodology we used for this study. On the subsequent subchapter, we present and interpret how are looking our variables in the economic reality in the North-West Region, Romania (of course, only resulting after discussions with some executives). We end through realizing a comparison of our findings with the extant literature, discussing the limits and the implications for the companies' management.

2. Literature Review

2.1 Background

In the last decades, the collaborative strategies (or strategic alliances as they are called in the strategic management literature) became the new way for the development and growing of the companies worldwide. This type of corporate

strategy (David, 2008) became more and more suitable for the companies competing in the global economy since as they start to understand that no company is big enough or strong enough to do everything on its own (Vyas *et al.*, 1995). Diversified companies such as Siemens or Philips are embedded in a dense network of collaborators, overcoming 1 000 major collaborations. Siemens for example, in 1990 decided to use alliances to implement growth strategies, a fundamental shift in alliance policy. In 1990, the strategic importance of alliances was still minimal but in 1999 the company had formed more than 1000 equity and non-equity alliances, and the importance of these alliances for Siemen's performance was rated very high (Hoffmann, 2005).

Strategic alliances are formed mainly to take advantage of other firm's valuable resources and competencies and to obtain common mutually benefits (Das and Teng, 2000). Despite the many advantages the collaborative strategies may offer, the companies pursuing them face many risks (Das and Teng, 1999; 2001). Actually, many alliances worldwide are termed failures or the initial expectations at the time the alliance was formed are not met (Choi *et al.*, 2010; Dyer *et al.*, 2001). Some authors argue that failure rates of 40-70 percent are not uncommon (Choi *et al.*, 2010; Taylor, 2005). Others, argue that almost half of the alliances fail (Dyer *et al.*, 2001). In this sense, an important topic in the alliance literature is understanding the alliance evolution over time and devoting more attention to the implementation issues in order to try to avoid, or at least decrease the failure rate (Reuer *et al.*, 2002; Taylor, 2005).

There are several types of forms of alliance evolution over time. According to Dussauge and Garrette (1998) an alliance may evolve over time on the following directions: (1) the alliance arrives to a natural end, (2) the alliance is extended, (3) the relationship is terminated premature, (4) one partner – or the partners – leave the alliance and in consequence the alliance is continued by one partner, (5) the alliance – or the partner – is took over by one partner. Generally speaking, the relationship can be weakened or strengthened. As a simple example, this year the Spanish energy giant REPSOL and the Russian oil company GAZPROM had strengthened their collaboration in western Siberia and had formed a Joint Venture, with the latter buying 25% interest in Repsol's Evrotek-Yugra project (Yahoo Finance, 2017). In this case, the partners decided to follow and strengthen their relationship, contrary to other strategic options they had, for example, to buy the partner's entire business and terminate the relationship.

This paper examines the problems that may arise during the alliance evolution over time and the antecedents that may lead an alliance to terminate, before it accomplishes its goals. Hatfield and collaborators (1998) suggest that in these circumstances the alliance can be termed a failure. However, according to Jagersma (2005) the termination of an alliance is not always a sign of failure even if its duration is very short. Moreover, the alliance can be termed a failure but can had a positive influence on the partners, despite its failure to accomplish the common goals (Dussauge and Garrette, 1998). For example, in situations when the company's employees learn new skills or abilities from the partner. In this line of thinking, the company had improved the company's innovative capabilities (Bouncken *et al.*, 2014, 2016; de Leeuw *et al.*, 2014; Inkpen, 1998, 2005; Kale *et al.*, 2002). This topic is the subject of constantly debates and there are many discussions between alliance scholars regarding the topic "alliance performance measurement". In our

paper, we do not entry in the subject, here and now, and we focus on the accomplishment of the alliance goals as a measure of alliance success or failure.

2.2 Strategic alliances types

Within the strategic management literature, the collaborative strategies are broadly termed “strategic alliances” or simple “alliances”. There is a consensus that there are three main types of strategic alliances: (1) The Joint Ventures, (2) The Minority Equity Alliances and (3) The Non-Equity Strategic Alliances (Gulati and Singh, 1998; Gulati, 1998; Hitt *et al.*, 2007; Majocchi *et al.*, 2013; Rahman and Korn, 2010). The last type is also termed contractual alliances (Comino *et al.*, 2007; Das and Teng, 2000) or Strategic Partnerships (Lehene and Borza, 2016). However, there are many typologies, many authors bringing more evidence, with many variations of each type, but the general view is the typology presented above. This typology, we think, tend to be also the most representative to describe the economic reality, being one of the most important criteria, the final test, of any proposed theory (Raboaca and Ciucur, 1999). For these reasons, we adopt in our paper the term “alliance/-s” as a generic term for all the collaborative strategies a firm participate in.

The Joint Venture (JV) is a cooperative strategy between two or more organizations formed to accomplish common goal or to obtain competitive advantage. Within the collaboration the member companies decided to form a new legal organization. The distinctive characteristic of the Joint Venture strategy is the creation of a new legal organization. In the Minority Equity Alliances (MEA) the partners take equities positions in the partner/-s firm or there exist an exchange of equities between the partners without the creation of a new organization. The third type, the Non-Equity Strategic Alliances (NEA) or the Strategic Partnership is a contractual based collaboration without the creation of a new organization or an acquisition/exchange of equities between the partners. The easiest observable Strategic Partnerships in the economic reality are the distributions or supplying agreements [Barnes *et al.*, 2012; Das and Teng, 2000; Hitt *et al.*, 2007; Gulati and Singh, 1998].

2.3 Problems in strategic alliances

Collaborative strategies are risky strategies (Das and Teng, 1999; Dyer *et al.*, 2001) and many times they come with many problems. These problems may arise for two main reasons. First, at the point the alliance formation there cannot be a real need for collaboration. For example, after realizing a SWOT analysis the top management can decide to participate into a collaborative strategy when an acquisition would have been a better choice (Hoffmann and Schaper-Rinkel, 2001/2). Or, the managers can decide to enter into a collaboration when developing internally the business would have been bringing more benefits. On the other hand, even if the decision to collaborate, let's say is a good decision, the partners can choose an improperly structure to implement and manage the relationship. For example, they can form a Joint Venture when a Strategic Partnership would have been sufficient (Comino *et al.*, 2007; Majocchi *et al.*, 2013; Reuer and Ariño, 2002; Teng and Das, 2008).

Second, there are problems that can arise because of the poor implementation and management of the relationship. Up to now, there is some empirical evidence that in many relationships the implementation factors (e.g. the human resource management within the collaboration, effective communication, trust, adaptation etc.) are the factors that primarily determine the accomplishment of the alliance's goals and the alliance's success [Choi *et al.*, 2010; Kauser and Shawn, 2004; Taylor,

2005] or contrary, hamper the performance. For both reasons – prior alliance formation or post alliance formation – the strategic alliances can come with serious problems that can finally drive the collaboration to not accomplish its goals. Or even to result in negative performances. For example, one partner in one collaboration can behave opportunistically and expropriate the critical core competencies of the parent firm, which finally will result in a competitive disadvantage for the parent firm (Das and Rahman, 2010; Kale *et al.*, 2002; Parkhe, 1993).

There are many problems that can occur in one relationship. According to Jagersma (2005) the most common problems that occur in collaborative strategies are: (1) the partner's failing to agree with the common objectives and vision of the collaboration, (2) an incomplete business plan, or (3) an organizational structure put in place to manage the relationship overcomplex. For a top ten problems found by the author see the Table 1. All these problems may occur in any international or domestic collaboration and may drive a collaboration to end before it accomplishes its initial goals¹.

Table 1
Top ten problems ranked by Jagersma's study respondents

No.	The main problems in strategic alliances
1.	The partners fail to agree on common objectives and vision.
2.	The elaboration of an unrealistic or incomplete business plan.
3.	Overlay complex alliance management and organizational structure.
4.	Unclear division of responsibilities between partners.
5.	Poor communication between partners embedded in cultural incompatibility.
6.	Inflexibility of the alliance agreement (e.g. no capability to evolve).
7.	Failing to develop the right amount of trust between partners.
8.	Overestimating the possibility to build synergies and underestimating the investments to be done.
9.	Insufficient resource allocation to alliance management.
10.	Emphasis on contract clauses rather than on cooperation.

Source: Jagersma, 2005: 48

A more detailed approach of alliance problems pertains to Kirby and Kaiser (2003). The authors through examining International Joint Ventures of German and British firms in China had found that the collaborations in China were successful but were also accompanied by problems. For instance, the respondents pertaining to the British firms argued that the concept of quality, staffing problems, and repatriation of profits were the problems more important. On the other hand, the German managers outlined also that the repatriation of profits and the concept of quality were the most important problems in China, but the corruption and technology transfers were also important problems in their collaborations.

¹ The findings in this table pertain to Dutch professor's Kevin Jagersma. In *Cross-border alliances: advice from the executive suite* (2005), the author interviewed 192 CEOs and other executives of 89 global companies (e.g. Unilever, Siemens, Toyota, United Airlines, General Motors, Ford etc.). We refer to Jagersma's findings as a more generalist framework for problems in strategic alliances since as the time of editing the present article is the more comprehensive at an international level and regarding the problems at the firm level of analysis.

Simple because of the improperly planning in the alliance planning stage or because of the poor management in the post-formation stage, as we can see, the collaborative strategies come with many problems, despite the good intentions of partnering companies. However, many times the occurring problems are not considered dangerous by the partner firms and in consequence the partners continue the relationship despite the negative results (Delios *et al.*, 2004). The continuation can occur also, simple because the managers are more tolerated and give the partners a second chance (Phelan *et al.*, 2005).

2.4 The decision "alliance termination"

The discussion in the alliance literature regarding when a collaboration should terminate is the subject of a constantly debate. For example, on the one hand, Delios and collaborators (2004) through examining 406 International Joint Ventures of Japanese companies in United States and Canada had found that some companies often persist with the alliance investments even though the alliance produces little or no benefits. The authors proposed an escalation framework showing that some factors may determine the companies to follow in the relationship despite the negative results obtained. For example, the authors had found that the companies remained in the relationship when the probability of achieving long-term benefits was high. In other words, even if the results now are negative they can turn out in the future and boost the performance.

On the same time, Phelan *et al.*, (2005) had found that the forgiving, nicer, tolerated strategies in response to an opportunistic behavior were the most successful strategies. Basically, the authors argue that the companies in one relationship should give the partners a second chance and then, if the opportunistic behavior follow up, they should considerate to exit the relationship. This line of thinking discussed up here represents a more tolerated approach. Within this approach (the nicer and tolerated one) there is an allocation of resources to a negative alliance evolution and the partners do not have the guaranty that the performance will improve from now on.

These findings are in pure contrast with the tit-for-tat strategy developed by Parke (1993). The tit-for-tat strategy, based on the Prisoner's Dilemma (PD) game, suggests that the parent firm in one relationship should behave according to partner's behavior. It means, the parent firm is not indicated to keep working for the common goals if the partner behaves opportunistically (Parkhe, 1993). Despite the usefulness of the tit-for-tat strategy, Parkhe's strategy falls short because do not take into consideration that the partners have the option to quit the relationship if they consider this option to be appropriate (Phelan *et al.*, 2005). In correlation with our study, if the alliance faces serious problems, the partners should considerate terminating the relationship rather that advancing over and over. From all discussed up here, we can say that the partners should terminate the relationship if it is appropriate, but not immediately, they should be tolerating and give the partners a second chance.

On the other hand, there is other stream of theorists suggesting that the partners should terminate the relationship earlier and reorient toward more suitable partners. In this view, the partners would obtain better benefits because terminating earlier help the partners to focus their effort and allocate the resources more appropriate and, in this way avoiding the waste (Jap and Anderson, 2007). There are also other pros for terminating earlier the relationship. For example, in situations where the products of the partners are not more profitable or there are other better