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STRATEGIC ALLIANCES: A CASE STUDY OF YEREVAN WINE DAYS

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Firma dello student

I want to thank my family for believing in me and always supporting me. I would have never been able to achieve my goals without them. In particular, I want to thank my mother for being so strong and for her determination in pushing me forward in the difficult times. I also want to thank Professor Belussi Fiorenza, the supervisor of the thesis, for guiding me in the writing of the work.

Abstract

Strategic alliances are becoming more and more common among companies as a form of growth strategy. Considering the importance of effective formation, implementation and management of alliances, within the thesis we aim to examine the main factors that the Armenian wine companies have taken into consideration when forming the strategic alliance, and what challenges they have faced during the alliance lifecycle. In particular, our research focus was to analyze "What factors do companies find essential when forming an alliance?"; "What challenges do Armenian companies face within an alliance?"; "What steps are implemented to overcome such challenges?".

The analysis is based on a qualitative approach to explore and understand the main problem of the research. The goals and objectives are defined, qualitative data is collected through interviews and questionnaires, analysis is implemented based on the collected data, and finally, the results are summarized, and limitations and suggestions are provided. As a result, we found that having clear goals, partner compatibility, and trust are the top three factors essential for Armenian wine companies when forming an alliance.

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INTRODUCTION

An important aspect of any dynamic economy is growth. The changing business environment due to globalization, competition, new technologies, economic difficulties, and strategic uncertainties require companies to look for ways to grow, which often results in forming alliances between enterprises. Most of the time, companies lack the necessary skills and resources to maintain their positions or grow internally while staying competitive in the market. That is when external growth strategies become even more essential. Strategic alliances are one of the external growth strategies that are becoming more and more common. As the economy is drastically affected by the recent pandemic, the importance of strategic alliances has become even more apparent.

Based on the international business literature, actively engaging in strategic alliances provides better positive results compared to mergers and acquisitions. The positive results include higher return on equity, better return on investment, and higher success rates (O'Farrell and Wood, 1999). Additionally, the alliances facilitate the process of acquiring certain resources, gaining a competitive advantage, and taking advantage of learning possibilities.

Considering the changing and dynamic business environment we aim to research the factors that have been essential in forming strategic alliances specifically for Armenian wine companies. This thesis has three parts. The first part aims to describe certain different strategies that companies choose to grow. Particularly, the focus is on strategic alliances, which is defined as voluntary agreement such as a partnership among enterprises that includes an exchange of products and the development of technologies or services (Gulati, 1998). The main value creation theories will be analyzed. The overall process of strategic alliance operations is described as their successful implementation is considered. We will also talk about the common challenges faced by the alliance partners during the whole lifecycle of the alliance including the planning, forming, and implementation processes.

The second part of the thesis explores the wine industry, focusing mainly on the Armenian wine market with its history and market trends. The focus is also on Yerevan wine days which is our main research topic. It is an important event for the growth of the Armenian wine industry. During the event, a strategic alliance is formed between local wine companies and one of the well-known banks in Armenia called ACBA Bank.

The third chapter of the paper includes the methodology and the analysis of the main alliance factors considered by the Armenian wine companies when forming an alliance together and what challenges they have faced during the whole process. The analysis is based on interviews and questionnaires conducted with participating wine companies.

Chapter 1: Theoretical Framework

1.1 Growth Strategies

One of the main goals of companies remains to create sustainable value not only for shareholders but also for other stakeholders with a focus on growth. Growth is an essential part of strategic decisions as companies want to have a better position in the market while being profitable. Being an integral approach, the growth of an organization has a huge effect on the overall success of a company in changing economic conditions. It is a way to overcome resource deficiencies and survive in a competitive market (Chang et al., 2008).

Growth is essential for the survival of a company. Due to the changes in customer preferences, and legal and economic aspects, your product can easily be in a position of low demand leading to losses. As studies show, bigger companies are more likely to survive in a changing environment, while smaller companies rely mostly on external growth strategies. Hence, companies should focus on creating value by implementing an analysis of the financial and corporate structure of the entity and making a decision in regard to the growth strategy in order to put their strategies in line with their expected results (Kumar, 2016).

Studies show that growth strategies are especially important in newly emerging economies and for entering foreign markets and taking a good market position both on domestic and international levels. It is mainly due to the relaxation of entry restrictions of the economic sectors (Rammal and Rose, 2014) and the focus on providing better living conditions for citizens with developed health services and technologies through growth.

Two basic forms of growth are identified according to Lockett, Wiklund, Davidsson, and Girma (2011):

- Internal growth or organic growth
- External growth, such as acquisitions, mergers, and partnerships

1.2 The Decision of Growth Strategy

The decision on growth strategies depends on the firm's objectives, capabilities, resources, skills, knowledge, size, and so on. McCan (1991) claims that internal growth is more prevalent within inexperienced and small firms due to a lack of skills and resources, while large firms mainly focus on acquisition. Before making a decision, companies implement a detailed analysis of the costs and benefits of possible strategies in order to choose the most efficient one considering the circumstances, which is quite a complex process due to the need for consideration of a number of variables. Different growth strategies need different resources and can lead to totally different performance results (Kor, Mahoney, and Michael, 2007). On the other hand, the choice of a growth strategy depends on certain factors that each company needs to consider, which we will discuss later on.

The complexity of the business environment puts entities in a position where having the necessary capabilities is essential for growth and survival. The overall performance of companies depends on the availability of accessibility of such capabilities (Huang et al., 2020). As a matter of fact, growth leads to a higher probability of survival. The likelihood of survival is directly correlated to the size of a firm (Audretsch, 1995).

One such capability that is important when making a choice of growth strategy is the technological capability of the company as the ones with technological strengths are more likely to easily enter markets with low costs (Chen et al., 2008). Nevertheless, technological capability is not enough for the successful implementation of strategies as technologies should be combined with other additional resources and/or capabilities (Danneels, 2007; Shelton, 2005).

According to Weerawardena and Mavondo (2011), innovation capability is one of the factors defining the market position of the company through competitive advantage and its performance. Additionally, it is not so easy to imitate it, which gives the company in charge the opportunity to use it for its benefit by lowing the manufacturing costs and making their product more profitable

and accessible (Hooley et al., 2004). It is part of the strategic decision process as those not pursuing the necessary innovation capability will have to either get access through acquisition, partnership, or through internal development, which can be more costly in comparison to getting access to them through a strategic alliance.

Bontis (1998) identifies human, relationship, and structural intellectual capital as another essential aspect when making a decision on what growth strategy to pursue. For the company to decide which growth strategy would be more relevant, the management should verify whether the entity has the necessary skills, knowledge, and experiences. The structural capital shows efficiency, while the relationship focuses on whether the company has any links to external parties. This is where networking capital comes into play. It is essential to establish and maintain relationships with other participants in the market even if they are competitors. It is a route to external resources through partnerships (Chen et al., 2009). Cooperation between organizations has existed for decades, where the main goal has been to obtain tangible and/or intangible benefits from such a relationship. Quite often you can see alliances being formed within competitors, where both parties have their own benefits.

Nevertheless, regardless of whether you have the necessary skills, knowledge or technologies, financial capital is still essential as it helps companies to overcome any resource deficiencies and implement strategies that require more resources and can be more complex. In other words, it is a tool used to have access to other essential resources. All in all, studies implemented by Chen (2009) show that companies that lack technological capabilities are less likely to implement any growth strategies when they are also lacking financial and networking capacities as without networking entities usually fail to acquire the necessary resources. However, they are more inclined towards acquisition strategy when they have the necessary financial capacity. It allows them to find the company that has the necessary resources and wants to be acquired and start the acquisition process. In case they lack financial and technological capacities, it is more efficient for firms to take the advantage of having a high degree of networking capability and grow through partnerships by forming alliances with the right partner.

On the other hand, companies with a high degree of technological capacity can focus on both internal and external growth opportunities. They can take advantage of any advanced technologies

that can be used for growth purposes. The availability of valuable technology sources and patents gives rise to organic growth opportunities. Additionally, having the necessary technological capacity allows one to simply upgrade the product or enter a market with a new or already existing product to meet the demands of customers while maintaining internal growth prospects (Zahra et al., 2006). If the company is lacking both technological and networking capabilities but has sufficient financial capital, the management can choose to grow either internally or through external growth strategies. The choice depends on the overall capabilities of the entity and its willingness to pursue growth strategies.

1.3 Internal Growth

Throughout the existence of a firm, it goes through stages that are aligned with growth, maturity, and decline. At some point, the company's growth rate slows down. In other words, firms "hit the wall," which leads to flat or declining revenues. As a result, companies heavily rely on internally generated or in other ways called organic growth (Kazanjian et al.,2006). Organic strategies or internal growth strategies focus on expansion through internal resources and activities, which includes asset replication, exploitation of technology, better customer relationship, and innovation of new technology and products to fill gaps in the marketplace (Bruner, 2004). However, organic growth requires detailed planning, the use of managerial skills and efficient allocation of resources for expansion so that the management does not pass on the growth opportunities. Over time, the management accumulates quite a lot of experience due to such activities that can be used later on if the company successfully keeps growing (Penrose, 1959).

Internal growth has its benefits. One of the benefits is flexibility as the management team makes most of the decisions regarding the operations of the company and resource allocation. Another benefit is better coordination and management as there is less risk of uncertainty in coordination due to less communicational and cultural misunderstanding (Ansoff, 1957). Nevertheless, it also has its disadvantages.

The main cost of internal growth is limited growth opportunities. While it should be the main form of a growth strategy for firms, most of them lack the necessary skills, experience, and resources. Hence, companies fail to use their whole potential due to such aspects. On the other hand, the environment brings a lot of barriers for the company, such as economic difficulties, competition, demand changes, culture, geo-political issues, and so on (Kazanjian and Hess, 2006).

Due to a lack of technologies, skills and experiences, new ventures are less likely to choose internal growth strategies as they do not have the potential for organic growth. It makes them heavily rely on finding the necessary resources for growth through external growth strategies, such as acquisition, partnership, and alliance. Otherwise, a lack of technological and financial capabilities will most likely make the ventures remain in the same competitive position without pursuing any growth strategies unless they choose to take some risks (Shelton, 2005).

1.4 External Growth

As we saw, the opportunity for internal growth is limited unless the firm has the necessary resources and capabilities to take some risks. It makes the overall process quite unpredictable, and it can take years to achieve your expected results. That is why many firms choose to pursue an external growth strategy which provides higher growth opportunities and is more predictable in regard to your potential while helping you reach the desired results faster. Being a form of growth model, external growth relies on external resources and capabilities that are not acquired internally, where there is a need for a company to collaborate with other firms to obtain external tangible or/and non-tangible resources to achieve its objectives.

Quite usually external growth strategies have a stronger influence on product differentiation compared to organic growth. Meanwhile, organic growth has a more constant impact but takes longer to grow compared to external growth strategies (Gilbert et al., 2006). However, many entities fail to regularly assess the linkage between growth and performance.

For companies to be able to keep up with the changing environment and intense competition, inorganic growth strategies are implemented by new or already existing companies. It is a form of tool to enter new domestic or foreign markets, expand the customer base through increasing visibility, cut competition and achieve a better market position, consolidate, and grow quickly, and employ new technologies with respect to products, people, and processes (Chari, 2006). The overall process of acquiring the required resources and entering new markets does not take much time.

Nevertheless, external growth strategies have some drawbacks. One of the main disadvantages of growing inorganically is that once you get into a contract, it becomes binding and quite irreversible as the exit costs are very high. Such a strategy is less flexible compared to an organic growth strategy since the management does not have much power to make decisions solo or intervene in any circumstances. On the other hand, the entity can face organizational issues within the integration process with another company (Conca, 2010).

External growth strategies include:

- Takeover/Acquisition,
- Strategic Alliance,
- Joint Venture.

The acquisition or takeover takes the form of the acquiring of new shares, assets, mergers and so on (Damodaran, 2002). Mergers occur between already existing entities to form a new company. Hence, both companies lose their legal identity and combine under a totally new identity.

According to Chari (2006), mergers can further be classified into:

- a horizontal merger, where a merger occurs within two firms in the same industry and stage of production,
- a vertical merger, which occurs within firms that are in the same industry, but in different stages of production,
- a conglomerate merger that is between companies that belong to unrelated lines of business

Acquisition occurs when one company absorbs the other to expand and reach new markets by claiming the assets and liabilities of the acquired firm. However, the acquiring company remains

its identity, while the acquired company no longer exists as a separate entity. It is a form of arm's length transaction (Sudarsanam, 2010).

Another form of inorganic growth model that has become more popular in recent decades is a joint venture. It is a form of agreement where companies that have specific strategic objectives, join their existing resources in order to achieve their goals. In contrast to strategic alliances, in joint ventures, companies have shared ownership and governance. Consequently, they not only share the returns, but also the risks (Harrigan, 1988). Through a joint venture, firms can combine their strengths and benefit from such cooperation while improving productivity. Productivity increases as firms start allocating their resources more efficiently, adjust to the use of new technologies and gain access to new markets. However, the choice of partner is essential in such a growth strategy. If there is an asymmetry within parties such as resources, experiences, skills and technologies, it affects the whole process. While the proceeds might be split proportionally based on equity shares, the decision-making is not shared as one partner might be better compared to the others (Harrigan, 1986).

Strategic alliances are another form of external growth strategies that we will focus on within the thesis. It is an agreement between separate entities that have compatible objectives and the necessary skills to achieve them by sharing specific resources. Both entities remain separate, and they are less involved in the management and administration of the other firm. Therefore, it is less binding compared to joint ventures. Alliance is an important element in the business strategies for SMEs and large companies. Cooperation between companies has existed for decades and the number of alliances has been growing rapidly in recent years (Gomes-Casseres, 2008).

1.5 Strategic Alliance

As mentioned by Gomes-Casseres (2008), a strategic alliance provides a newly created structure with the capability of gaining a competitive advantage. Additionally, such a structure enables the enterprise to retain and obtain its own valuable resources. There has been a lot of scientific research

implemented for explaining the overall concept of what a strategic alliance is, which is still used in scientific literature. It has become an important research topic over the last three decades. While some research conducted by Gulati (1998) and Barringer and Harrison (2000) focus on the overall alliance agreement and exchange relations, Pellicelli (2003), Gomes-Casseres (2008) and others focus on the benefits of cooperation, partnership, and competitive advantage.

Strategic alliances are different from partnerships in the way that in partnerships companies join to reach a specific goal, while in strategic alliances, companies have separate goals, and they exchange resources for each to reach their own objectives.

To better understand the concept of strategic alliance, we need to consider the definition of the term. In the literature, a strategic alliance is described as a formal agreement between two or more entities each of which has its own individual objectives to conquer. By cooperating with each other, the parties benefit from each other's strengths, which increases efficiency and gives a competitive advantage (Išoraitė, 2009). In other words, they get the necessary resources for growth opportunities.

Many companies, especially the ones that face uncertainties, heavily rely on alliances to create, and maintain sustainable value and to acquire a competitive advantage over companies in the same market, which includes learning as a primary motivation for cooperation. However, within the alliance, the competencies can change as companies evolve and goals may be redefined to meet the changes while improving the learning potential (Iyer, 2002).

Such a relationship includes at least two parties where:

- Both organizations remain legally independent before and after the alliance is formed.
- They share all the benefits from the cooperation while both having managerial control over the assigned tasks.
- They must continue providing their contribution throughout the agreement whether it will be in one or more strategic areas, such as technology or products (Yoshino and Rangan, 1995).

Strategic alliances are quite common in network-oriented industries such as airline, telecommunications, shipping, and logistics industries (Zhang, 2005)

1.6 Motives for Creating Strategic Alliances

Alliances are becoming increasingly more popular over go-it-alone strategies as studies show that cooperation between independent organizations increases efficiency and benefits for all parties. On the other hand, they improve the competitiveness of the firm by giving an opportunity to take advantage of possible synergies that help to reduce costs or increase revenues, and by giving access to more resources (Werner H. Hoffman and Roman Schlosser, 2001).

Depending on the market type, firms can form a strategic alliance for different reasons. If the company is in a slow cycle market, which is a market where the resources are actually shielded, and it is hard for newcomers to enter the market due to existing monopoly and highly competitive pressure, it can take the opportunity of strategic alliance and gain entry opportunity to restricted market. The firm can also gain access to a totally new market through franchises. Strategic alliances are also a way to establish standards in order to maintain stability (Hitt et al, 1997).

Another market cycle identified by Hitt (1997) is a standard cycle market, where the competitive advantages of the entity are shielded as there are other companies in the market making it harder to build a sustainable competitive advantage unless the company has the necessary skills and resources to upgrade the quality of capabilities and stay ahead of its existing and new entering competitors. Within this cycle, firms can use strategic alliances as a form of gaining market power by reducing industry overcapacity. It also makes overcoming trade barriers easier and the company is capable of facing competitive challenges from other firms and overcoming them. On the other hand, the entity can get the necessary resources for projects that require a large amount of capital and learn new techniques for the business through the alliance.

It is a little different when it comes to the fast cycle market as competition is high and strategic alliances are encouraged to be formed in order to speed up the entry of new services and goods into

the market to meet the high competition challenges. It is also essential for entering new markets as entry barriers are tougher and makes entering the market almost impossible unless you have a well-defined strategy and the necessary resources. Even if you want to maintain your leadership in the market, forming alliances is a huge contribution to the process as it helps to overcome any uncertainties that you can face and share risky research and development costs that are necessary to maintain a competitive advantage while forming an industry standard of technologies (1997).

Overall, the formation of strategic alliances contributes to the successful implementation of strategic plans of each entity, which defines the strategic nature of the alliance. On the other hand, the whole process of the alliance should be entirely supported by the executive leadership to make sure that it leads to the desired results, while the management team takes the responsibility of implementing the alliance (Išoraitė, 2009).

Strategic alliances are especially important for companies that are facing strategic uncertainty not knowing which growth direction to choose. They have shown to be even more essential for SMEs as those have limited access to resources, which also limits their growth strategic opportunities. However, the empirical analysis conducted by Hoffman and Schlosser shows that quite often small and medium size companies fail to use the potential of an alliance due to a lack of knowledge about the existing success factors. Hence, even though it is more essential for them, they are less likely to build an alliance compared to large companies (Werner H. Hoffman and Roman Schlosser, 2001).

As studies show, strategic alliances are essential for companies for the following key reasons.

- Organic growth provides limited growth opportunities as most companies usually do not have all the necessary resources to reach their strategic goals. Therefore, it alone is not sufficient for reaching the required return of a company,
- An alliance between companies decreases costs related to reaching the objectives defined by firms as there is no need for huge investments in research and development, and/or they find ways to cut down other costs related to their operations,
- The market is a changing environment, where companies that adapt to such changes quickly and efficiently are the ones that are the most profitable. It is especially difficult for small and

medium-sized companies that do not have the necessary skills and capabilities to respond to changes quickly enough. Therefore, alliances are necessary to drastically improve the speed of entering a new market, keeping up with the competition in the market, and so on,

- It gives access to new markets and the possibility of internationalization,
- As the complexity of the market is increasing, it is becoming even harder for single entities to meet the needs of their customers only with their internal resources and skills. That is when the importance of external help is apparent (Išoraitė,2009).

Overall, we can say that strategic alliances, even though not the best strategic option for all companies, can still be used for the development of certain projects through:

- the opportunity of accessing certain new markets,
- acquiring new distribution channels to reduce costs,
- controlling and maintaining a healthy level of operational risks and
- reaching more customers,
- obtaining new tangible and intangible assets, such as new technologies,
- leveraging on economies of scale and scope,
- enhancing new product development capabilities,
- exchanging knowledge and experiences for business expansion.

1.7 Theoretical Perspective

As we already talked about the importance of strategic alliances, it is also necessary to talk about the theoretical perspective on the formation of alliances. In their research, Werner H. Hoffman and Roman Schlosser (2001) bring theories to highlight the importance of collaboration between firms. Due to the unique characteristics of strategic alliances, the use of extant management theories for explanatory purposes becomes challenging. Hence, we need to consider the importance of the theoretical perspective. Borys and Jemison (1989) identify alliances as "theoretical orphans" as analysis shows that their behaviours cannot be adequately identified by the major theories.

1.7.1 Resource-based view theory

Within the modern management discipline, it is quite common for the management to base their strategies on resources rather than considering the external environment. This view is known as the "resource-based view". The resource-based theory is an effective way to explain the formation of strategic alliances. However, most of the studies have based their analysis on transaction cost theory not paying enough attention to the resource-based view (Tsang, 1998).

The relevance of this theory is that it shows that at some point a company will face the need for additional resources whether it will be physical, human, or organizational resources that are hard to acquire from the market or they are too expensive to acquire internally (Eisenhardt and Schoonhoven 1996). That is when alliances come for help. Companies' strategic decisions are made considering resource endowments (Chandler and Hanks, 1994).

Resources of firms are classified into 3 categories, which are:

- Physical resources that are tangible and include assets such as equipment, land and plants, and semi-finished goods. We also identify intangible assets such as brand names, patents, and copyright.
- Human resources, such as experience, knowledge, skills, relationships, education, and intelligence of the staff.
- Organizational resources that include the firm's culture, management information systems, organizational structure, and so on (Barney 1991).

As defined by Penrose (1959), each of the resources is like a bundle of potential services that are the inputs in the production process. However, quite often each resource can perform one productive service at a time. As stated in the resource-based theory, a company is able to maintain or gain a competitive advantage when its competitors do not have the skills and experience to acquire or imitate the firm's capabilities and resources that give an advantage to it (Amit and Shoemaker, 1993).

The resource-based theory identifies 5 motives for creating strategic alliances:

1. Creation of rents

2. Expansion of resource usage
3. Diversification of resource usage
4. Imitation of resources
5. Disposal of resources

Rent earned is defined as the return that is more than the firm's opportunity cost, which is close to zero in a highly competitive market (Tollison, 1982). Ricardian rents are one of the forms of rent, which are generated as a result of possessing scarce resources that are valuable, which include copyrights, patents, trade secrets, and so on. Such resources provide superior services or produce products with lower costs and better quality. Consequently, they generate rent. We can reach scarcity even by combining resources that are not scarce separately. It can be reached through alliances. Unfortunately, most of the literature is focused on the capability of an individual resource, instead of considering the potential of the combination of certain resources that can generate rent. Such combinations of resources can become scarce regardless of whether they are scarce separately or not (Tsang, 1998).

The resource portfolios are heterogeneous within companies and the higher the level of heterogeneity of firms, the higher the chances of generating rents (Barney, 1991). However, it is more apparent within firms located in different countries due to the differences in the economy, culture, and other aspects, which leads to a high degree of heterogeneity. Therefore, an assumption is made that the alliance between a domestic and an international firm generates more rent than a corporation within companies located in the same country. As stated by Bleeke and Ernst (1995), it is more common to see alliances within complementary companies for the purpose of creating rent. Nevertheless, such rents should also be sustainable, which can be achieved when the combination of these resources is imperfectly mobile, and result in ex-ante and ex-post limits to the competition (Peteraf, 1993).

As the study conducted by Penrose (1959) shows, one of the main goals of a firm is to establish a long-term sustainable profit, which can be achieved through the usage of the existence of opportunities. It also considers using all the capabilities of firms, including idle ones. However, most of the time, firms have limited opportunities if they are going-alone companies as they do not have sufficient resources. On the other hand, as already mentioned, while some resources taken

alone are not scarce, they can be scarce in a combination with other resources. Strategic alliances help to resolve such issues by providing expansion of resource usage and reducing relevant risks associated with expansion. Strategic alliances being flexible allows the company to expand their resource usage through a joint venture, co-production, licensing, joint, and so on. Within those options, one side always has the necessary resources for the other side to grow. The amount and type of resources necessary for commitment depend on the type of alliance and the goals of the firms.

One of the main rules that are mentioned a lot is that in order to reduce portfolio risk, we need to implement diversification. On the other hand, it is every entrepreneur's goal to manage and allocate the resources of a firm in the most effective way and get the most profit from the investment of those resources. Strategic alliances are used to involve more than one company in the implementation of a project, that shares the associated risks. It is done even when the essential firm has all the necessary resources. Even though there can be issues concerning the culture of the firms, their structures and procedures, strategic alliances provide an access to new perspectives. All in all, strategic alliances give the opportunity to diversify resource usage and reduce the risks associated with the operations of the companies.

It is worth mentioning that diversification of resource usage is especially essential in case the company has certain goals to reach, but the outcomes are uncertain. It makes cooperation with other firms more relevant, and the companies can share the risks regardless of whether the firm has all the necessary resources or not for the project. However, we should not mix up the difference between diversification implemented within the same market and industries that are totally new for the company. If the firm chooses diversification of resource usage in a new market, it is implemented for expansion, which leads to higher returns. Such a strategy does not necessarily reduce the associated risks for the firm.

In a strategic alliance, the resources are transferred from one firm to the other one, which is the participant in their alliance agreement. However, we can also see the opposite, where the firm tries to obtain certain resources from the alliance, which is known as the imitation of resources. Usually, it refers to valuable resources that can be non-tradable and the firm wants to learn from the owners

by forming an alliance. Studies show that if alliances are formed for the mere goal of imitation, such partnership is usually not stable (Tsang, 1998).

Within an alliance, it is common to share certain knowledge, which can be essential for its success (Hutt et al., 2000). It can lead to imitation. In other words, strategic alliances create the circumstances for the ‘‘boundary paradox’’ (Quintas, et al., 1997). It is defined as a situation where knowledge flows should be open to others from external sources, but there should be a mechanism to protect knowledge that is specific to the firm because that is essential for gaining a competitive advantage and having a good position in the market (Norman, 2002).

We identify two types of imitation that are not exclusive and can exist at the same time, which are the following:

- Open imitation, where the other partner knows about the motive of imitation and agrees to it, such as licensing,
- Secret imitation, where the partner does not know about the motive of imitation. However, the firm must have the required capabilities to learn from the owner of the resource and be able to imitate (Cohen and Levinthal, 1990).

The risk of imitation affects the structure of the alliance. It can be formed to decrease any risks related to opportunistic behavior while maintaining the knowledge loss level at its lowest. However, it can be reached at the expense of learning.

Within its operations, companies can face the issue of getting rid of non-core business units, which is usually done through a sale. It is recommended to convert the unit into a joint venture that is within a parent company and a potential buyer. A joint venture lasts for years. During the process, the resources are integrated with the resources of the buyer, while segregated from the seller at the same time. Eventually, the buyer purchases the shares owned by the partner. Such a relationship allows for avoiding the complications that are so common during the sale process (Nanda and Williamson, 1995). It is more complex if you choose to sell the business unit as you will need to determine the price, which can be hard to implement due to a lack of information. On the other hand, it is a natural reaction for a potential buyer to request a price discount. Due to the lack of management and trust from consumers, the value of the business unit will decline further. Hence, it will not be as profitable.

Unfortunately, the formation of a joint venture does not completely eliminate the issues related to price determination that we can have during the sale process. Even in this case, the parties have to do a valuation of their business.

1.7.2 Transaction-Cost Theory

The transaction-cost theory is one of the most widely used theories to explain the need for strategic alliance formation and it is an effective tool used to understand the outcomes of strategic alliances. Compared to studies implemented regarding the resource-based theory, there are more studies implemented using the transaction-cost theory (Tsang, 1998).

The importance of analyzing this theory relies on the principle that all economic activities are based on transactions. It provides the basis for analyzing how firms implement their transactions with other companies and how it affects their governance structure (Meyer and Wang, 2015). Additionally, transaction-cost economics explains how the transactions within firms are organized and where the organizational boundaries are set. It provides a theoretical base for analyzing the governance structure of companies. Transaction costs are defined as unobservable costs that are generated as a result of using price mechanisms and internal mechanisms for business transactions (2015).

Transaction costs can be in different forms, such as costs of negotiating and concluding a separate contract for each transaction and costs of discovering what the relevant prices are, which are referred to as direct costs. On the other hand, transaction costs can also be in the form of indirect costs that include opportunity costs of a suboptimal factor allocation (Coase, 1937).

Later in 1985, Oliver Williamson claimed in his studies that transaction cost is generated because of bounded rationality and opportunistic behaviors that can be observed within the participants of the market. Based on the claim, since we have expectations regarding the opportunistic behavior of partners, there is a need for preventive actions that can include comprehensive contracts.

Bounded rationality prevents writing complete contracts. They also affect the overall efficiency of the market.

Williamson (1985) mainly focuses on transactions that are associated with the following aspects of the company.

- Asset specificity- investments fitted for specific transactions and are lost costs whenever parties change.
- Uncertainty- arises as a result of unpredictable contingencies and the performance of the partner. It can be external or internal.
- Low frequency- refers to how often transactions occur within the same parties.

Overall, such transaction costs are higher for companies that are located in different geographic areas and have different cultures and administrative structures making transaction cost theory even more relevant (Meyer and Wang, 2015). The higher costs are mainly due to distance and lack of experience. However, high transaction costs can be identified even when we have internal coordination due to a lack of experience and skills.

A Comparison of Transaction Cost and Resource-Based Theories

In order to identify the most efficient theory for explaining the importance of the formation of strategic alliances, it is necessary to implement a comparison between transaction cost and resource-based theories. As stated by Tsang (1998), both theories focus their analysis on the firm's level. While the subject of analysis of transaction cost theory is a transaction, for the resource-based theory it is the resource. Transaction cost theory aims to explain the availability of distinct government structures, where such government structures are capable of handling different types of transactions. The main objective of resource-based theory is to explain competitive advantage sources considering the aspect of entities being heterogeneous in relation to resource endowments.

According to transaction cost theory, it is possible to maintain healthy levels of transaction costs by having an efficient governance structure through strategic alliances, while resource-based theory claims that strategic alliances are the way to increase profits in the long run by developing and/or using the company's resources (1998). However, both have their risks associated with strategic

alliances. Opportunistic behavior is a common issue in such alliances according to transaction cost theory, while the imitation of the firm's resources is the main risk of strategic alliance according to resource-based theory.

1.7.3 Social Exchange Theory

As mentioned in the knowledge-based view, sharing knowledge also has certain negative aspects that firms need to consider avoiding losing their competencies. In the studies, Blau (1964) offers to develop "relational capital" within the parties of the alliance in order to eliminate such risks as it is used as a safeguard and protects partners from opportunistic behavior. It is known as social exchange theory which focuses on "relational-based governance." Blau (1964) defines social exchange as voluntary activities of the parties that get their motivation through getting their benefits from others. It aims to explain interpersonal exchanges rather than focusing purely on the economic aspects (Bignoux, 2006). Muthusamy and White (2005) in their study present certain relational factors as safeguards, such as mutual trust and commitment. They create loyalty and make the cooperation process easier through efficient communication. By developing social capital, firms improve the alliance relationship with their partners, where partners are open and accessible by sharing the necessary information (Kale and Singh, 2009).

All in all, social exchange theory studies the social relations and ties that lead to an exchange of resources. It combines both economic and non-economic exchanges to understand the link between those. In this case, the exchange is voluntary taking place in a social system.

1.7.4 Knowledge-Based View Theory

Knowledge-based view claims that one of the reasons why companies engage in alliances is the motive of learning (Grant,1996). Throughout the partnership, parties of the alliance can improve their knowledge and skills. Quite often learning is the actual motive why some firms choose to

cooperate with other compatible companies. In other words, according to knowledge-based view theory, companies form a strategic alliance with other companies with the main goal of exchanging knowledge (acquiring knowledge and having access to sources of knowledge within a strategic alliance).

It considers firms as generators of knowledge that is used in order to achieve a competitive advantage in the market (Grant, 1996). Knowledge can be developed internally or externally (Grant and Baden-Fuller, 2004). In case the entity chooses to get access to the knowledge through external means, a strategic alliance can be formed where the partner's knowledge is transferred to the entity. Its success depends on the capabilities of the parties to absorb the knowledge and effectively interact with each other (Pollitte et al., 2015).

Strategic alliances are more productive according to knowledge-based theory compared to acquisition in a sense of knowledge accession (Grant and Baden-Fuller, 2004). It helps to avoid acquiring similar or duplicated knowledge. Instead, the firms can focus on obtaining knowledge that they have never possessed before, which will help in the process of further growth and in gaining a competitive advantage. Knowledge-based view theory claims that the success of a formed strategic alliance depends on alliance know-how that companies have as a result of previous experiences (Russo and Cesarani, 2017)..

Moreover, by engaging in an alliance companies gain experience in managing an alliance for future opportunities of partnerships (Kale and Singh, 2007). This is true as long as the circumstances of the other alliances are not much different, as in the case of huge differences it would negatively affect future learning because of the barriers that will arise between the partners (Faulkner et al., 2005). Such barriers include:

- Different corporate culture
- Competition
- Social identities

While an alliance helps the parties share their knowledge and skills it also imposes certain risks, such as leakage of knowledge that can lead to imitation (Jiang et al., 2016). Through an effective governance structure and limitations, it is possible to reduce the risk of imitation and protect the competitive advantage of the company.

1.7.5 Dynamic Capability View Theory

The dynamic Capabilities view is used in the literature to present the conditions that lead to success within an alliance (Teece et al., 1997). It is an addition to resource-based theory, which states that whenever we have an unpredictable market, the heterogeneity in the firms cannot be explained just by the endowment of resources (Saebi et al., 2011). Under the dynamic capabilities view, such resources require reconfiguration (Helfat and Peteraf, 2003). It is necessary for firms to have an effective mechanism to capture the need of renewing and reconfiguring resources as soon as they arise.

Eisenhardt and Martin (2000) define dynamic capabilities as organizational procedures that have an effective change in the resource base of a firm. It has an essential role in analyzing alliances and has been used in many studies. The main difference from other theories is that instead of considering relational factors that are more relevant for individual alliance relationships, it focuses on the managerial capabilities of a firm. Hence, the overall success of the alliance depends on the management capabilities of a firm to keep up with the dynamic environment (Duyster et al., 2011).

The dynamic market requires entities to integrate, renew, reconfigure and recreate their resources, whether it will be internal and/or external resources, in order to maintain their position in the market and/or gain a competitive advantage to withstand the challenges (Teece et al., 1997). The configuration of an alliance is meant to give an opportunity to the entity to get access to more resources and skills (Hoffmann, 2007). Dynamic capability view theory has been used a lot in the literature to explain the success of an alliance and why strategic alliances are so essential for the growth of entities (Mamédio et al., 2019).

1.7.6 Alliance Management Capability View

The alliance management capability view is usually associated with the dynamic capabilities view theory, which is defined as companies' capabilities in regard to the management of an alliance (Heimeriks and Schreiner, 2010). As stated by Lambe (2002), in order for alliances to be successful, parties should have or develop an efficient management system. It is also an essential aspect to build and maintain a competitive advantage (Rothaermel and Deeds, 2006).

Studies show that companies have different management capabilities, and such differences are known to be a source of competitive advantage at the firm level (Ireland et al., 2002). The type of alliance determines the demand for alliance management capability.
According to the dynamic capability view and alliance management capability view, the strategic alliance is formed between companies for the main purpose of reconfiguration of their already existing resources and the identification of the most beneficial way to renew, integrate, and reconfigure their resources. They also claim that the success of the strategic alliance depends on partner firms' managerial and organizational capabilities. Developing alliance management capabilities is crucial in the effective management of the relationships within the strategic alliance (Russo and Cesarani, 2017).

1.8 Classification of Strategic Alliances

Classification of strategic alliances is essential for understanding which form of alliance would be more beneficial for different types of entities. There are many types of strategic alliances and each of those is capable of adapting to a certain situation of the entity. Different types of strategic alliances require different types of management styles and different levels of commitment by the companies. Hence, the decision of what type of alliance to form depends on the expectations of the entity.

When making a choice of which form of alliance to establish, we need to consider whether we want a formal agreement or a simple arrangement. We also need to determine the degree of involvement of each partner within the alliance should be, the commitment and management of resources and the risks associated with sharing knowledge and information, such as imitation (Pellicelli, 2003). In the literature, two types of strategic alliances are identified which are contract-based alliances and capital ownership-based alliances that we will discuss in the following subchapters of the thesis.

1.8.1 Contract-Based and Capital Ownership-Based Alliances

According to Mockler (1999), a strategic alliance can be classified as an alliance based on a contract and an alliance based on capital ownership. Contract-based forms of strategic alliances include contracts of partnership (Research and development, distribution, marketing, production, and product development). These are also known as non-equity strategic alliances. Capital-based strategic alliances or equity-based alliances include capital investments in an already existing joint venture and cross participation in the capital, and the creation of a new entity, such as a joint venture with different ownership percentages and consortia.

In other words, strategic alliances can take the form of formal arrangements that includes sharing managerial control in a joint venture and equity ownership, or non-equity simple arrangements. In a non-equity strategic alliance, the partners do not share any equity control and do not create a joint venture. Within such an alliance they agree to combine their resources and share skills and experiences in order to reach their strategic goals (Chan et al., 1997). Overall, strategic alliances are comprised of equity and non-equity arrangements that are formed between independent companies and where the resources are pooled together to achieve the strategic goals of each entity and for leveraging competitive advantage (Arino, 2003).

All in all, based on the configurations of an alliance the strategic alliances can be classified into joint ventures, consortia, contracts of partnership in specific functions, franchising, licensing, and so on.

In equity strategic alliances two or more entities possess shares in a newly established firm. Their percentage of investment in the strategic alliance is not necessarily equal, instead, it depends on their commitment to resources and their contribution to the overall reaching of the final goal through the development of competitive advantage (Uddin and Akhter, 2011).

Equity-based strategic alliances usually take longer to plan, negotiate, and implement. While such alliances maintain strong control systems, they are less flexible. The exit costs are high, but the transfer of information or knowledge is quite easy (Arino, 2003).

A joint venture is one of the most common forms of equity strategic alliances. It presents an agreement between parties to form a legally independent entity in order to reach their goals through the exchange of resources. Each one has an equity stake in the new entity, where revenues, profits, expenses, and risks are shared and both participate in the decision-making processes (Chathoth and Olsen, 2003). However, in the case of joint ventures, the market structure is not affected as both remain independent. It is an effective way of establishing a long-term relationship (Berman et al, 2002). Due to the necessary high level of commitment and costs, it is less common among small companies However not all joint ventures can be classified as a strategic alliance. In order for a joint venture to be considered a strategic alliance, it must be essential for the participating companies and actually be used to reach strategic goals and not just a tool for any form of update (Pellicelli, 2003).

Through a joint venture, companies combine their strength to improve the overall productivity of their operations as the resources are being allocated more efficiently, it gives access to new markets, firms adjust to technological changes more easily, and so on. The owners have their own objectives, which can be achieved if the new venture provides the necessary resources (Tiessen and Linton, 2000). In other words, it provides more strategic flexibility to firms than they would have if they chose to go alone.

For the success of the venture capital, it is required continuous involvement throughout the agreement. Additionally, it is much more important to consider who governs and manages the venture than the ownership percentage. Whenever forming a joint venture, firms clearly identify

the motives and objectives that they want to reach through a joint venture. However, their interests can change during the agreement, which is inevitable. Before choosing to engage in a joint venture agreement, partners should consider the possibility of interest altering and their analysis should be based on different scenarios. Joint ventures are usually unstable as at some point the owners buy out the interests of the other. However, joint ventures can still be beneficial for all sides since they can acquire the necessary resources or meet their objectives within the lifecycle of the agreement (Pellicelli, 2003).

In comparison with joint ventures, nonequity strategic alliances are considered to be less formal. To reach their strategic goals and gain a competitive advantage in the market, quite often companies choose to establish an alliance on a contract basis without the need to own any equity shares in a newly established firm. The partners share their capabilities and resources within the alliance. As a result, the relationship is not that formal and requires less commitment while making the overall process quite simple (Das et al, 1998).

The formation and implementation of non-equity strategic alliances are actually under-researched. Nevertheless, non-equity strategic alliances are becoming more and more common among entities in the form of licensing, distribution agreements, R&D and marketing, franchising, and supply contracts (Folta and Miller, 2002).

Fosfuri (2006) considers licensing to be a market-based option for an entity to turn innovations into profits. Licensing is defined as an agreement in which one entity gives permission to another entity (exclusive licensing) or more than one entity (non-exclusive licensing) the right to use the benefits of its technologies, and distribution channels or produce its products. It is usually implemented for a certain period of time within which the entity that got the right (licensee) pays a lump-sum payment or royalty fee to the entity that sold the right (licenser), with a commitment to act based on the contract (Hill et al., 1990). Such an alliance is especially essential for companies that have limited resources and capabilities through which the entity can have access to certain markets.

The main risk of the alliance is the transfer of the company’s know-how to other firms that can potentially become competitors. Such a risk can be managed by having a control system over the exchange of resources and creating collaboration in the field of technology or expertise.

Franchising is another form of a contractual agreement which is essential for the growth of entities considering the benefits that it offers. It is mainly used in markets where competition is high and customer preferences change quickly (Martin, 1988). It is defined as a relationship where one entity, which is the franchiser, gives permission to the other entity, which is the franchisee to sell the entity's products and/or services. It can be exclusive where permission is given to only one company and a non-exclusive franchise where there are a few partners. It is usually implemented for a certain period of time during which the franchiser gets a royalty for selling the right to sell. Both sides have their benefits from such an alliance as the franchiser gets the opportunity to increase its sales, which requires no huge investments, while the franchisee has entrepreneurial motives as they acquire different types of equipment, marketing services and techniques, assistance and so on (1988).

Kotabe and Helsen (2009) identify five main strategies of franchising, which are:

- Sole venture, where the franchisor promotes aggressively the trademark, does market research, updates products,
- Multi-unit franchising strategy, which is different from the sole venture in the sense that the franchisee can own many franchise outlets (Kaumann and Dant, 1996). It can be further classified into incremental franchising, where the successful franchisee is allowed to manage additional units, and master franchising, where the franchisee can have several franchisees in a certain geographic area (Frazer and Winzar, 2005).
- Conversion franchising, which is the expansion of the franchise through conversion. Within the strategy, independent company owners or even competitors are being employed (Hoffman and Preble, 2003),
- Product and trade name, where the franchisee uses the business operations of the franchisor to produce and sell goods (Kotabe and Helsen, 2009),
- Business format franchising, in which besides giving the franchisee trademark, product and services, they are also given the overall concept of the entity's business (Tracey and Jarvis, 2007).

Nonequity strategic alliances can be in the form of a distribution agreement to optimize their distribution. It is a contract-based alliance with a specific function, which does not require investment in a new entity. The partners of the alliance can form an arrangement within themselves while remaining totally independent. Quite often such relationships are formed with competitors in order to have access to new markets and improve the entity's competitive advantage and they can be used with other forms of alliances (Pellicelli, 2009). As stated by Pellicelli (2009), while distribution agreements are one of the oldest and most commonly used forms of alliances, they give the opportunity to the entities to enter more markets with their products and services. It is more effective for compatible products and complementary products.

Research and development are an essential part of any company's growth strategy considering the changing global competition. It is a contract of alliance with a specific function. Overall, it is quite risky and requires a lot of capital investment. However, there is no need to invest in a joint venture in such a form of alliance. It is managed through a contract in order to avoid opportunistic behavior. Within the alliance, the partners remain independent. This is especially important for small and medium-sized firms that lack the necessary resources (capital, tools and personnel), which makes alliances essential for them to get the resources necessary for R&D.

Pellicelli (2009) defines an R&D alliance as cooperation between entities for the development of a certain product and/or technology, which is an essential strategy when the costs associated with research are too high. The alliance is formed for research purposes usually limited to a certain project or market area and technology, while the development of a product is implemented separately. Within the process, the entities avoid cost duplications while improving the production processes.

Such an alliance is also relevant for entities that want to work with professionals with skills and experience. However, choosing the right R&D strategic partner can be quite challenging. Besides focusing on the financial aspect, one should consider the technological, managerial, and marketing capabilities. On the other hand, cultural aspects need to be analyzed to make sure that the future partners are comparable in the formation of the alliance (Chen et al., 2010).

A marketing agreement is one of the essential forms of strategic alliance for companies to grow. Such an alliance is usually formed to decrease marketing costs, increase sales volumes, and diversify product lines (Fulton, 1996). It also leads to economic efficiency and increases the customer base.

Spats (1994) identifies the following factors affecting the overall efficiency of marketing agreements:

- The ability to hirs marketing and sales staff that is experienced and has the necessary skills,
- Whether the decision-makers are given the right to make decisions without having to discuss them with the collaborating partner,
- The capability of pooling together the expenses to reach economic efficiency.

An alliance is formed among partners to collaborate for reciprocal advantages without any formal arrangements. Networks have an essential role in gaining a competitive advantage. It allows to increase productivity and market position without engaging in a merger. It is a flexible alliance. It is an agreement between partners to cooperate with each other without any formal arrangement and through a special mechanism gain the benefits of the alliance (Pellicelli, 2009).

1.8.2 Classification of Alliances Based on Exploration and Exploitation

According to Koza and Lewin (2000), three types of strategic alliances can be identified based on exploration and/or exploitation logic, which are:

1. Learning alliances
2. Business alliances
3. Hybrid alliances

Learning alliances include a high level of exploration, but a low level of exploitation intention. It provides some new information about the competition, regulations, customer preferences, and marketing aspects of relevant markets. Through such an alliance parties can learn more about new

technological trends existing in the market, core competencies, and so on. What makes this alliance successful is the ability of partners to create, supervise and adapt certain organizational processes throughout the alliance while maintaining informal linkages to keep the alliance on track. It aims to reduce any asymmetries in the information available (Koza and Lewin, 2000). Therefore, most companies initially engage in a learning alliance to get as much information about the market as possible before they actually fully choose the commitment to that market. The success of such an alliance also depends on the capabilities of entities to continuously adapt their organizational processes throughout the alliance in order to keep it on track and manage effectively (Hamel, 1991).

In a business alliance, we identify a high level of exploitation but a low or limited level of exploration. This type of alliance is focused mostly on entering new geographic areas or product markets in order to secure revenues through the use of specific assets from the alliance partners or through a combination of those. The success of the business alliance is the accomplishment of a strong and independent corporate identity, which helps in the process of getting recognition in the market and reaching and maintaining loyalty among managers (Koza and Lewin, 2000).

A hybrid alliance combines entities with high levels of exploration and exploitation intentions. Such companies aim to maximize their opportunities of generating value using the already existing capabilities, while simultaneously focusing on creating new value through learning activities that they obtain as a result of the alliance. In other words, it is the combination of the previous two types of alliances.

According to Koza (2000), the three types of alliances can be analyzed based on five aspects, which are:

- Loyalty, which is an essential part of an alliance and depending on the type of alliance it can be within one of the partners. In the case of a learning alliance, the loyalty resides within the parent company and the transfer of it can be quite difficult and problematic. However, in a business alliance, loyalty remains with the child to avoid tribal warfare in case of any issues. Hybrid alliances require loyalty to be maintained by the parent in a more improved form.
- Ability to absorb knowledge is essential in a learning alliance and hybrid alliance in order to reduce information asymmetry.

- Control, which in the case of a business alliance requires a clearly defined output control system. While learning and hybrid alliances focus on behavior and process control.
- Success criteria require the learning alliance to keep track of their learning processes, while it requires the business alliance to recheck the plan. The hybrid alliance in terms of success criteria includes keeping track of the learning processes and reverifying the plan while measuring the performance of the entities.
- Time horizon, which is limited in learning alliances, where it is necessary for entities to know when to stop the alliance. The hybrid alliance includes many time horizons, while for a business alliance there is no specific time horizon, and it is ended when partners decide to terminate it.

Yasuda and Iijima (2005) identify two types of alliances based on the direction of the resources:

- Symmetric alliances where the partners of the alliance exchange resources that similar characteristics and types,
- Asymmetric alliances where different types of resources are being exchanged within the alliance.

Yasuda and Iijima (2005) also provide another classification of alliances based on whether the partners belong to the same industry or not (industry scope), which are:

- Horizontal alliances
- Vertical alliances.

Horizontal strategic alliances describe a relationship between partners that belong to the same industry and are doing their activities in the same business area to improve their market position and power while gaining a competitive advantage (Yu et al., 2019). Vertical strategic alliances are formed between companies belonging to different industries. In a vertical alliance, collaboration can be formed between an entity and upstream and downstream partners, such as a partnership with distributors and/or suppliers (Swaminathan and Moorman, 2009).

Horizontal and vertical strategic alliances have some similarities:

- In both cases, partners of the alliance are sure that the formation of a strategic alliance will help in reducing uncertainties and transactional costs related to the business,

- Horizontal and vertical alliances are formed to improve knowledge and production by sharing the necessary information with partners,
- In both cases the entities work together to solve any problems that can occur instead of having an exit-or-stay response (Rindfleisch, 2000).

The main differences between horizontal and vertical alliances are:

- While in vertical alliances the key partners can be customers and/or suppliers, in horizontal strategic alliances the main focus is on competitors of the entity,
- The key activities of a vertical strategic alliance include cooperation between partners with an aim to maximize profits by sharing production, distribution and raw material. On the other hand, the main activities of horizontal alliances are creating synergies within competitors to reduce competition and use the potential of the market to gain benefits,
- The perspective of a vertical strategic alliance is the access to complementary information, skills, and knowledge to achieve and maintain successful organizational cooperation. In the case of horizontal strategic alliances, the information in the industry is almost the same, but there are many companies who still choose to form an alliance with a competitor if they are in a knowledge-intensive environment. In such an alliance the partners have similar interests (Yu et al., 2019).

Based on the size, Kalaignanam, Shankar, and Varadarajan (2007) identify asymmetric and symmetric alliances. They define asymmetric alliances as the ones where the ratio of a large entity's assets to the assets of the small one is higher than five. Consequently, if that ratio is equal to or small than 5, we have a symmetric strategic alliance. As argued by Williams and Lilley (1993), a strategic alliance is more successful when all the partners in the alliance are capable to commit a comparable size of assets and being comparable means that the entities would consider the alliance equally important while having quite a similar bargaining power in the alliance. The companies that choose to go through an asymmetric alliance, do so in order to gain access to complementary resources (Stuart, 2000).

1.9 Phases of Strategic Alliance

In general, strategic alliances are quite risky. To reduce the risks associated with alliances and reach strategic goals, companies should have a detailed plan or method of forming and implementing the growth strategy.

Russo and Cesarani (2017) identify the following main phases of the alliance:

- Alliance Formation Phase
- Alliance Operational Phase
- Alliance Evaluation Phase

1.9.1 Alliance Formation Phase

The alliance formation phase is the first and essential step, where an entity considers forming an alliance. One of the important aspects of companies is the development of a strategy that would be acceptable to stakeholders and would help to implement the entity's main strategic objectives and strategic goals. The process of forming an alliance requires analysis of possible types of alliances that the firm can form, how compatible the objectives will be, the rationale of the cooperation, the existing and possible issues, and challenges that the firm is and might be facing, technologies owned and access to innovative technologies, people, and other capabilities (2017). Before starting the alliance agreement, the company needs to implement a detailed analysis to identify the existing gaps within its strategic position and the possibilities for improvement. That is when the possibility of cooperating with other entities is considered, and a decision is made. During this phase, it is identified that partnering is essential for a better strategic position, but the situation of each entity is different, which results in an alliance with different objectives and partners' needs (Mendleson and Polonsky, 1995).

Within the formation phase, the entity should:

- Put the alliance plan into its long-term strategic goals,

- Define the main goals to be achieved through the alliance,
- Select the right partner,
- Assess the capabilities of the parties to know what each can offer and receive from cooperation,
- Clearly define the benefits and opportunities,
- Evaluate the effects of the alliance on stakeholders,
- Identify and assess negotiation capabilities,
- Plan the process of integration (Russo and Cesarani, 2017).

Any strategic alliance that is being formed is linked to the long-term strategic goals of the entity, the success of which depends on what type of alliance, governance structure and partner are chosen. While it is necessary to place the project within those goals, it is not always successfully implemented due to changes in the market, organizational culture, the perception of partners, and so on. Clearly defined goals are another essential step that entities need to take as a basis for success (Pellicelli, 2003). It helps not only in effectively managing the processes but also in choosing the right partner and making sure that partners are compatible with their skills, resources, goals, and so on. Hence, the entity's objectives must be set based on its resources and capabilities and based on what can be received through the alliance. An alliance is successful when it is capable to bridge any resource gaps. Harbison and Pekar (1998) claim that the objectives that the entity aims to reach through the alliance should be based on a clear analysis of the advantages of the alliance and the limitations and challenges that do not allow the entity to grow independently without any external resources.

Evans (2001) offers five aspects to consider when choosing which strategic alliance option to use for the entity:

1. Analyze internal and external drivers of the entity,
2. Evaluation of all strategic options and selecting a strategic alliance type (joint venture, equity alliances and non-equity alliances).
3. Choice of the alliance's structure, partner, and scope,
4. Assessment of the strategic alliance based on the criteria for the measurement of the overall success,

5. Measurement of the alliance based on the analytical phase to incorporate any changes upon the experience.

The choice of an alliance depends on the drivers and motives of its formation. As mentioned, these drivers are classified into internal organizational and external environmental drivers (Faulkner, 1995). The internal driver concept is based on the claim that the organization is not capable of implementing its goals alone due to a lack of resources and skills, which is further supported by the resource-based theory that defines an organization as a bulk of heterogeneous resources (Howarth et al., 1995). Internal drivers lead to the formation of an alliance that aims to get access to resources, reduce uncertainty, create economies of scale, and share the risks (Colombo, 2003). The external drivers are based on the claim that for an entity to implement its goals and objectives, it has to submit to the external forces that include government regulations, technological capabilities, challenges of globalization, market entry barriers and opportunities, and so on (Beverland and Bretherton, 2001).

To make a decision, a questionnaire is used to evaluate the opportunity, which includes questions, such as.

- Will the alliance be compatible with the mission and vision of the company?
- Will it give a competitive advantage?
- How will it mitigate the risks, and will there be an opportunity to access new markets?
- Will it increase the efficiency of accomplishing objectives?
- What skills and resources are required for the partnering company to have?

Once you have clear goals and a plan, the next step is to find and select the right partner. As already mentioned, a strategic alliance is defined as a relationship between partners that bring certain complementary skills and resources with an aim to profit from each other's experiences (Jeannet and Hennessey, 1992). Das and Teng (2003) claim in their study that selecting the right partner means forming an alliance between entities whose goals, objectives, resources, and strategies match giving grounds for the successful implementation of the alliance and getting the expected results.

Choosing a partner is essential for the success of the alliance as the research shows the failure of an alliance can be easily traced to the selected partner making the selection process of a partner an essential stage of the formation of a strategic alliance (Faulkner, 1995). However, it is quite a complex process as there should be a certain level of fit within the firms. Nevertheless, different strategic options require different characteristics and abilities that the partner must possess. If the entity wants to enter a new market by offering a new product, it is necessary for the partner to have experience and skills in that field. If the goal is to get publicity, the partner should have a good reputation. (Mendleson and Polonsky, 1995). Therefore, companies spend a considerable amount of time looking for the right partner who has the necessary resources and knowledge to create the capabilities for new opportunities, which should be available within the whole lifecycle of the strategic alliance, otherwise, the results would be different from what was expected. Hence, there is a direct link between the level of fit among partners and the success of the alliance (Russo and Cesarani, 2017).

In other words, finding a partner with complementary skills and experiences must start with a search for another entity that possesses the necessary technology and knowledge skills. However, it is necessary to avoid companies that have poor management styles, and the focus should also be on the size and working environment (Brouthers et al., 1995). When choosing a partner, a goal assessment should be implemented to make sure that companies have compatible goals. As stated by Mendleson and Polonsky (1995), the strategic alliance is the most efficient when strategic goals converge during the alliance, while competitive goals diverge. Additionally, the partners within the alliance must have the potential to decrease financial and competitive risks and the entities should have a clear understanding from the start of how they will distribute the risks.

For risk minimization purposes, Mendleson and Polonsky (1995) provide the main four Cs that identify when the strategic alliance should be implemented, which are the following:

- Compatibility, which identifies the main common values, experiences, principles, expectations (Kanter, 1994) and more importantly compatible goals. The alliance tends to fail if the partners do not achieve their strategic objectives, which means that it is essential to assess the general goals that need to be reached through the alliance. It is also called congruence, which refers to the alignment of goals and objectives of partners (Russo and Cesarani, 2017).

- Capability which claims that companies need to have complementary skills offered to each other for an alliance to be successful. Partner complementarity considers the strategic fit between partners. It depends on the availability of complementary resources that are necessary to fill the strategic gaps of partners. Usually, entities spent not enough time finding the right partner and focus mainly on the financial contribution, which makes the alliance too risky. The selection process should identify the availability of the necessary skills and technologies. It is due to the experiences and capabilities of the partners that a real and efficient contribution can be implemented. Any alliance before undertaking a certain project should consider the capabilities of all partners to make sure it is not too overwhelming for one of the entities if the capabilities of one are less than the other (Randall, 1989). Hence, alliances, where both partners have almost equal capabilities, tend to be successful.
- Cooperative cultures are created through the concept of symmetry. It is no less important to talk about the comparability of the working environment and management. It can be challenging to maintain a cooperative culture within an international alliance. Compatibility should be maintained also in regard to the cultural and organizational fit between the alliance partners. Cultural fit is defined as the sensuality of the partner to distinct cultures, who are aiming to find integration (Child et al., 2005). A high level of resistance will negatively affect alliance success. Organizational fit refers to the management principles, organizational structure, culture of the parties, and so on (Park and Ungson, 1997).
- Commensurate and control levels of risk the importance of which is based on the claims that by forming an alliance it is possible to reduce the risks by sharing those and take the necessary measures to maintain them at adequate levels.

All in all, in order to successfully identify the possible partner, implement assessment of partners by analyzing their strengths and weaknesses, their objectives and goals, the reason for engaging in an alliance, management and organizational procedures, motives, capabilities and so on. According to the study implemented by Pansiri (2005), the choice of the strategic alliance option and its structure is directly affected by the perceptions and characteristics of the management of an entity. It is based on the fact that the formation of an alliance is the result of the decisions achieved by the managers of entities. On the other hand, strategic alliances are essential to firms as an expansion opportunity (Hitt et al., 1997).

Another step of the strategic alliance formation phase includes assessing the negotiation capabilities of the entity, which should be based on:

- Clarifying the capabilities and resources of each firm that the alliance depends on,
- Protection of exclusive ownership of certain essential resources,
- Examination of the negotiation capabilities of the potential partner in regard to its previous experiences,
- Identifying the goals of the partner, and the level of commitment of each partner (Russo and Cesarani, 2017).

During the negotiations, partners define clear goals, objectives, contributions, and rewards for each partner. It should also include information regarding the termination of the agreement, and penalties in case one party does not meet its obligations. The formation of an alliance requires planning of integration processes, which focuses on the current management capabilities and the top management. Firms should clearly design the governance structure for alliance management considering the fact that external conditions can change affecting the expected benefits and contributions of partners. Choosing an appropriate governance structure helps to reduce any opportunistic behavior and risks (2017).

There are three forms of governance, such as:

1. Equity ownership, which is mostly used when the risk of environmental uncertainty and opportunistic behavior is high,
2. Contractual provisions, used primarily for defining mutual rights, obligations, contributions, and resolving conflicts,
3. Self-enforcing governance, which is called “relational-based governance” focuses on developing relational factors in order to reach positive results through strategic alliances (Kale and Singh, 2009).

Pellicelli (2003) suggests forming an alliance for less than five years in order to maintain some level of stability within the alliance. Additionally, a clear and detailed agreement should be formed to make sure that each one is committed to their responsibilities.

1.9.2 Alliance Operational Phase

Once we have a clear alliance project with defined goals, capabilities, and commitment levels, it is time to actually create and implement the strategic alliance aligned with the management. Within the alliance operation phase, the interaction between partners and the possibility of disagreements increases drastically. This is the phase where firms turn their ideas into economic results, which is also known as the crossroads, during which the interactions between partners increase drastically, which also increases the risk of disagreements that can lead to different types of conflicts. Within the operation phase, the entities work together on a daily basis making important decisions, coordinating the activities, managing the processes and participants, controlling the learning processes, providing efficient communication, and evaluating the results achieved during the alliance regularly. The alliance operation includes activities such as addressing senior management's commitment, acquiring the necessary resources, and creating a link within the budget of companies and resources with the objectives. All in all, in the implementation phase, the alliance's vision and goals are turned into economic results. While working on each necessary activity, partners always have the need to coordinate all the processes and monitor the performance and the success of which is based on good communication principles. Additionally, an alliance is considered to be successful, when the parties have the necessary capabilities to learn throughout the lifecycle of the alliance (Das and Teng, 2003).

Success factors associated with the implementation of the alliance are.

- Coordination- It is defined as a set of tasks that each party needs to accomplish (Mohr and Spekman, 1994). Coordination is essential to maintain stability throughout the alliance. It helps to avoid unclear responsibilities, roles, and other uncertainties that can arise during the alliance.
- Trust and commitment, which are essential for the success of the strategic alliance. Due to it, companies provide the effectiveness of day-to-day operations, while increasing productivity and lowering costs (Varma et al., 2015). The risk of optimistic behaviour is higher when there is a lack of trust and commitment.

- Control, which aims to provide mechanisms to avoid unpredictable behaviour and make sure that all the activities implemented by partners are for the sole purpose of reaching the already set goals and objectives. A lack of control would make it harder to make sure that the resources are allocated efficiently. However, it is also important to consider that excessive control within the alliance can destroy goodwill and intentions and good relationships among partners (Child et al., 2005). Sklavounos (2015) recommends focusing on appropriate levels of control that would include protocols and periodic checks to avoid conflicts and more productively accomplish the tasks.
- Communication. There is no doubt that communication is key to success. Through communication, it is possible to collect essential information such as how trustworthy each partner is, help to avoid conflicts or resolve them, and maintain coordination between different levels of the hierarchy. However, there should be an easy flow of information in order for it to be timely and open for each party. Hence, the success of the alliance also depends on the efficient management of the information flow system. Effective communication systems facilitate the coordination process, enhance commitment levels, encourage better mutual understanding among partners, and so on (Spralls et al., 2011).
- Conflicts, which are in most cases not avoidable and can be quite common due to high levels of interdependence. Partners find mechanisms to resolve conflicts as they directly affect the overall success of the alliance. Conflicts can arise due to existing differences in organization and managerial procedures, and cultural differences. Additionally, conflicts can arise because of asymmetric contributions and returns (Khanna, 1998). As mentioned before, partners of the alliance define each part's contribution and returns throughout the lifecycle of the alliance. On one hand, if one side does not meet all their obligations or when they do not get an already determined return, it can lead to disagreement between partners and lead to conflicts. On the other hand, different expectations and objectives can cause conflicts, unless they are compatible.

The start of the collaboration and its early processes are essential for the success of an alliance (Doz and Hamel, 1998). It also depends on effective management. The management of an alliance throughout all the stages to make sure that all the objectives are implemented, and results are achieved. Through accumulated experience companies tend to learn to manage an alliance more effectively (Anand and Khanna, 2000). Once the alliance is formed firms enter into a strategic

alliance, and the responsibilities of the manager change as they also need to manage the new relationships formed with the partner to make sure that the cooperation is effective. The success of an alliance mostly depends on the skills of partners to manage the cooperation.

According to Dralans, deMan and Volberda (2003), the ability of entities to create an effective alliance focusing on learning about the management of the alliance and leveraging the knowledge inside the entity is known as alliance skill. In order to increase alliance success rates, the entities need to invest in training, evaluate the alliance and have specialists.

1.9.3 Alliance Evaluation Phase

Measurement of the performance of a formed strategic alliance is essential for clarifying whether the entity's current objectives and final goals are or will be achieved and whether both sides are committed to implementing their responsibilities. Alliance performance has been studied a lot in the literature (Rothaermel and Deeds, 2004). This phase focuses on the maturity of the alliance when the entities actually realize the potential benefits. Within this phase, two main aspects are considered, which are performance assessment and possible further alliance development, where the partners can negotiate and based on the results choose to continue the alliance (Tjemkes et al., 2013).

What makes the assessment of the performance of an alliance so essential is that the entities should be able to monitor their progress and evaluate the benefits. It allows the firms to decide whether the cooperation requires adaptation or due to inefficiency there is a need to terminate the agreement (Tjemkes et al., 2013). The performance of strategic alliances must be assessed based on objective and subjective measures. Objective measures aim to evaluate profitability, efficiency, market share, liquidity, sales growth and the opportunity for new product development. While subjective measures focus on the achievement of the entity's goals and the overall satisfaction in regard to the result achieved through the formation of the alliance (Glaister and Buckley, 1998).

According to Park and Ungson (2001), adverse results often seen in strategic alliances are the result of an uncompensated exchange or transfer of technology, operational difficulties, problems, and loss of essential proprietary information. Instability is common within an alliance which can lead to early termination or restructuring of the alliance (Inkpen and Beamish, 1997).

Arin˜o (2003) provides some measures based on which an assessment of a performance of an alliance should be conducted. Each measure depicts a different level of alliance performance (Venkatraman and Ramanujam, 1986). which are:

- Financial measure to assess profitability, cost position and growth levels,
- Operational measure to evaluate the overall stability, longevity and survival (Yan and Zeng, 1999),
- Organizational effectiveness measure, which identifies the satisfaction of the partners with the performance and result of the alliance (Lin and Germain, 1998).

The alliance performance greatly depends on the type of alliance the company chooses to engage in. In the case of an equity-based alliance, the negotiation and organization processes take longer time than in the case of a contractual alliance. They provide a higher level of control, but they are less flexible making the exit costs too expensive (Gulati, 1995).

Although according to Yan and Zeng (1999) there is no definite definition for strategic alliance performance, Arin˜o (2003) offers three performance levels that are based on the goals of the partners, which are:

- Financial performance, which is considered when within the strategic alliance the entities have financial goals that are explicit,
- Operational performance, which focuses on the success factors that can bring financial results and show effectiveness,
- Organizational effectiveness, which aims to implement the goals of the entity

According to Russo and Cesarani (2017), the following main performances are identified:

- Economic performance which shows the economic values generated as a result of the formed alliance, which also helps the entities to evaluate whether the structure and type of the alliance are efficient in creating value,

- Strategic performance, which focuses on the efficiency of the management in providing the necessary information to the stakeholders of the entities, to the management and gives some idea of how to improve it,
- Operational performance, which identifies the effectiveness of the processes,
- Learning performance that assesses the learning processes and the success of each partner in their learning capabilities,
- Relational performance measures the effective communication and establishment of relationships among the partners of the alliance, which is crucial in the successful implementation of the alliance and further development.

Companies, focusing on the above-mentioned measure, can develop an evaluation approach to assess all the aspects of the alliance's performance using metrics. Each of the performances indicated gives us essential information about the overall alliance development (Tjemkes et al., 2013). Such performances also provide an understanding of the alliance position and help the partners to evaluate the possibility and effectiveness of further development.

Based on the evolvement of the cooperation, several outcomes are possible, such as:

- Termination of the agreement,
- Restructuring and re-establishment of the relationship.

1.9.4 Termination of the partnership

According to Tjemkes (2013), the alliance can come to its natural end, which means that the partners have achieved their strategic goals within the alliance, or it can be extended, where all parties agree to collaborate even further and implement other objectives through an alliance. Due to the evaluation of the strategic alliance, partners may choose to change the alliance structure and its governance style by taking an equity share in the partner's company or taking over the other entity (Russo and Cesarani, 2017). The alliance can also be terminated before its maturity, where the partners do not actually reach their goals or objectives due to the alliance not generating the expected values or results. However, the termination of an alliance is not necessarily undesirable

and quite often even successful alliances are terminated before maturity as they are predestined to be terminated by the entities, while some unsuccessful alliances are not always terminated before maturity (Gulati, 1998). It means that some of the early terminated alliances are completed alliances.

Termination of an alliance usually reflects the failure of the cooperation between entities and/or conflicts and disagreements between partners, which are not likely to be solved, because termination of successful alliances is not common (Kogut, 1989). According to Lane and Beamish (1990), the companies that have been engaged in an alliance that got early termination are viewed with suspicion.

While in many markets strategic alliances are essential as a form of strategic growth option due to their rationale and common use, they are known for their high levels of instability and failure rates. Less than 50% of entities engaging in an alliance successfully reach their goals and objectives (Das and Teng, 2000). Whenever managers are asked about the reasons that strategic alliances fail in general, they quite often bring forward the lack of cooperation and trust within parties, who fail to adequately plan the overall process and effectively provide communication and management within them. Additionally, they focus too much on details during the negotiations, but lack in the implementation of the alliance. Parties usually do not own the necessary organizational capabilities and resources for a successful alliance and relationship. Such a mismatch in regard to the size, culture and resources leads to failure in most cases. However, the list does not end here (Koza and Lewin, 2000).

Task complexity has a direct link to the termination of an alliance, which identifies the difficulty of achieving the strategic objectives defined. It is affected by environmental factors, firm structure and characteristics of the alliance, which include objectives, business functions, market, product, and duration (Killing, 1988). Having a long-term alliance with a focus on many markets usually tends to be riskier than having a short-term alliance with a focus on just one specific market. Therefore, the chances of a long-term alliance failing are higher (Park and Ungson, 2001).

To better understand the relationship between complexity and failure two aspects should be taken into consideration, which are:

- Control,
- Conflict

A complex alliance usually has many objectives, focuses on several markets with different products, and involves multiple functions, which makes controlling such a relationship quite complex. In order for the control to be efficient, there should be a clear understanding of the objectives and established relationships (Ouchi, 1979). In case, the expectations and main objectives of entities change, the control of the alliance can become inefficient (Fryxell et al., 2002). Complexity can also cause conflict within the partner. The conflicts are mainly the result of incompatible objectives and capabilities (Mohr and Spekman, 1994). According to the study implemented by Yan and Gray (1994), complex alliances are usually for long-term purposes during which certain aspects of the alliance can change, such as their bargaining power because of their strategies, transfer of resources, and so on, which will lead to disagreements.

International alliances are different from domestic alliances in the sense that they are formed within partners that are located in different geographic areas, and the failure of such alliances is mainly due to cultural differences (Yan and Zeng, 1999).

Cultural differences can cause:

- High potential for misunderstandings within the entities (Lane and Beamish, 1990),
- Communication issues
- Lack of mutual trust (Doney et al., 1998),
- Different economic and political uncertainties (exchange rates, laws and regulations (Kogut and Singh, 1988).

Considering the risks associated with the formation of an international alliance, it is easy to think that it would be less efficient, and the failure rate would be higher. The studies show that international strategic alliances usually have better performance than domestic alliances even though the termination rate is higher in the case of international alliances (Park and Ungson, 1997). Chung (2000) explains in the study that international alliances include more complementary resources as in this case partners tend to have different technologies, connections, capabilities,

distribution channels and know-how. On the other hand, forming an international alliance can be more costly which encourages the entities to have stricter criteria when choosing a partner.

As studies show it is quite common to see companies remaining in an alliance even when the expected results are not achieved, which can lead to wasted resources, nonproductive management, conflicts, and failures in meeting the interests of strategic partners. While firms can be persistent in remaining in the alliance, not terminating the agreement can be more costly than starting a new alliance with a better partner. However, a few factors are identified that make the partners remain in an underperforming alliance, which are:

- The difficulty of forming an alliance due to a long time that it takes and how expensive negotiations can be,
- Persistence turns into peer pressure because of competition, as firms believe that terminating an alliance will be considered a negative indicator by third parties, Additionally, quite often companies engage in an alliance just because their competitors choose to cooperate with other organizations. As a consequence, not having the necessary skills and experiences to effectively manage an alliance quite often the formed alliance results in a failure,
- Due to a lack of experience, firms may fail to identify an underperforming alliance. As a result, they fail to terminate the agreement when it is the most beneficial for them. When they do identify the underperformance of the cooperation, it becomes too costly for them to leave due to the resources committed by them,
- On the other hand, due to the high degree of involvement of the senior management and their ego, the underperforming alliance is not terminated as they do not want to lose their reputation with a fear that they will be judged,
- Firms are usually persistent when it comes to accepting their lack of skills and experience to assess the capabilities of the strategic partner. It makes them believe that somehow their partner will fix it and that the underperformance is temporary. (Inkpen and Ross, 2001).

Termination of an alliance is identified as closing the agreement within strategic alliance partners. It is in the best interest of a firm to know when it should leave the alliance in order to avoid wasting more time and resources. In order to do so, parties should regularly assess the performance of the other to make sure that all set objectives are met in a timely manner. In global markets, quite many

few alliances fail. Despite the high number of failed alliances, firms still choose to make alliances as part of their strategy to acquire a competitive advantage and enter new markets, new resources and skills.

In order to reduce the number of early terminated alliances with unsuccessful results, entities need to have experience in alliances. Tsang (2002) claims that trial-and-error helps companies in improving partner selection, negotiation, formation, operation and control processes, and acquisition of knowledge.

1.10 Success Factors

While the aim of the strategic alliance is for partners to achieve their strategic goals, there should be more focus on how to actually achieve that success and what factors should be considered when analyzing whether the alliance will bring the expected outcomes or not. There have been many studies conducted in an attempt to realize the success factors and causes of failures in alliances focusing on the cause-effect relationship (Werner H. Hoffmann and Roman Schlosser, 2001). However, valuing the success of strategic alliances is quite a complex and long process.

Strategic alliances are believed to be one of the effective ways that companies can grow due to the benefits that it offers in this global environment. As mentioned before, most companies do not have the necessary resources, such as skills, experiences, technologies, and capital, to gain a competitive advantage relying only on their internal resources. Despite all the potential of strategic alliances, the success rate of the strategy is quite low. It is mainly due to the fact that companies know that forming an alliance can help them grow and they recognize its importance. However, after implementing the alliance, they fail to successfully manage the whole process due to a lack of skills and experience (Smith and Barclay 1997). It can bring high pressure on the management team.

While some studies focus on the longevity of the alliance when measuring its success, others consider the overall contribution of the alliance in regard to strategic position and competitiveness

(W. Mitchell and K. Singh, 1996). As emphasized in R. Gulati's and J. Sydow's studies, the success of the alliances depends on interpersonal and inter-organizational trust.

However, having trust and control is not enough, as there should also be:

- A clear and common vision,
- Shared objectives,
- Mutual needs,
- Strategic complementary strength,
- Senior management involvement,
- Shared risk and reward,
- Appropriate scope,
- Shared control,
- Team problem-solving,
- Shared decision-making,
- Cultural compatibility,
- Mutual trust,
- Measurable goals,
- Partner accountability (Išoraitė, 2009).

We achieve better results through strategic alliances when the partners identify the importance of having access to external resources and competencies that are not available internally, Additionally, it is successful when the gradual approach is preferable regarding the access to resources, capabilities, and competencies, and when an alliance is a better option than acquisition. The chances of success further increase when there is high symmetry in the partners' intentions regarding strategic exploitation from the start and is maintained over time (Koza and Lewin, 2000).

The studies implemented by Whipple and Frankel (2000) present certain factors that define the success of an alliance. Trust is an essential aspect of an alliance due to the nature of an alliance where parties are dependent on each other to achieve their strategic goals while sharing essential information with each other to successfully manage the process (Moore, 1998). While it is not that easy to measure trust, the management usually knows whether there is trust or not.

Two types of trust are identified in this case:

- Character-based trust, which focuses on the qualitative aspects of a partner's behavior in regard to strategic philosophies and cultures,
- Competence-based trust focuses on the operating behaviors and daily performance of the partners (Gabarro 1987).

Gabarro (1987) provides five sources of character-based trust.

1. Integrity- principles of partners engaging in an alliance,
2. Identification of motives- strategic intentions,
3. Consistency of behavior- patterns of behavior which makes the alliance predictable and reliable,
4. Openness- level of honesty between partners,
5. Discreteness- confidentiality of the alliance's main goals and important information.

There are four sources in regard to competence-based trust (Whipple, 2000).

1. Specific competence- the existence of essential knowledge and skills,
2. Interpersonal competence- partner's effectivity in implementing their responsibilities and cooperation with others,
3. Competence in a business sense- skills and experiences of the partner in other areas of expertise,
4. Judgment- whether the partner has a decision-making ability

Senior management support is another factor of success focusing on the source of resources and encouragement within the alliance, which includes strategic and operational aspects of the alliance, where strategy is concerned with the activities and decision-making processes that can influence the partner's strategic goals. On the other hand, operational focuses on the actions and decisions that can affect more short-term objectives and the overall daily operations of the company (Whipple, 2000).

It is essential for entities to have clear goals and a common vision for the alliance to be successful (Spekman et al. 1998). In order to reach the goals, the parties should also have a well-defined plan that must be clearly communicated. On the other hand, once the alliance is formed, the parties must

be capable to use their potential and reach the expected results. The result of the alliance directly depends on performance expectations, alliance goals and the separate partner's goals. The main rationale for forming an alliance is to put the company in a better competitive position in order to withstand any market challenges. What we need to focus on is whether the performance meets the expectations and its evaluation. According to Whipple (2000), partner compatibility is another success factor necessary to analyze. It shows whether the partners of the alliance are capable of thoroughly planning and effectively working together to reach their strategic goals in a manner focused on finding the best solutions.

It focuses on two aspects.

- Analyzing the overall operation manners of all parties to understand if they can effectively work together and manage the alliance,
- Their ability in solving different types of problems while having the will to cooperate with the partners in the alliance.

Werner H. Hoffmann and Roman Schlosser (2001) in their "Success Factors of Strategic Alliances in Small and Medium-sized Enterprises—An Empirical Survey" study, sum up 24 main variables as factors that can influence the overall success of the alliance procedure during each phase, which are:

Phase 1: Strategic analysis and decision to cooperate

- Collaboration especially when there is a high need for strategic flexibility. This is recommended when the company is facing strategic uncertainty regardless of whether there is medium or high asset specificity (W. H. Hoffmann and W. Schaper-Rinkel, 2001)
- Strength contribution and access to external complementary resources, which provides an opportunity for synergies. Whenever firms engage in an alliance, they need to be able to offer something to each other, such as excess resources and/or the creation of synergies through complementary or similar resources (Ahuja, 2000).
- Deriving alliance objectives from the business strategy of each entity to improve the strategic position of the organizations,

- Realization of time requirements for alliance development. Before engaging in an alliance, it is essential to understand how long it will take to finalize the agreement to make sure that all the terms of the agreement are acceptable to all the parties.

Phase 2: Search for a partner and partner selection

- Building an alliance on trust-based relationships, which is one of the essential aspects of building alliances. If there is no trust, parties must spend a lot of time and money on making sure that the terms of the agreement are met. Therefore, a trust-based relationship drastically reduces the need for control,
- Partner is successful in the cooperation. We engage in an alliance for the main goal of getting access to new additional resources and knowledge. Hence, one of the success factors is choosing the right partner that has the necessary knowledge and resources to improve the firm's strategic position.
- Complementary contributions, which means having complementary resources to create synergies and maintain compatibility,
- Agreement on fundamental values in order to maintain cultural fit within the alliance and reach the expected results,

Phase 3: Designing the partnership

- Precise definition and separation of rights and duties of each entity in order to eliminate or at least reduce any uncertainties.
- Equal contributions and commitment readiness from all partners. If there is an unequal distribution of contribution, it could lead to conflicts and would have a huge impact on the success of the alliance,
- Emphasizing the possibility of the creation of a joint value,
- Protecting core competencies, which aim to protect each partner of the alliance from losing its strategic position while exchanging certain resources and knowledge with the other party.
- Building trust through the formation of unilateral commitments in order to avoid opportunistic behavior among entities,

- Agreement on alliance realistic objectives that the partners are capable to reach by the use of complementary resources of the partners,
- Conducting the set plan with certain fixed milestones, which is determined within the design phase to define clearly what objectives must be implemented in each period and how they will be managed.

Phase 4: Implementation and management of the partnership

- Establishing an efficient information and coordination system, that would greatly reduce transaction costs and increase coordination,
- Commitment of resources. Once the objectives are set and terms agreed upon, the partners need to provide the resources to each other based on what they have been committed to providing, whether it is tangible.
- Top management support, as the success also depends on the commitment level of management teams in order to work towards reaching the goals of the companies.
- Avoiding the transfer of crucial knowledge is essential. There should be a monitoring system to continually supervise the exchange of knowledge (Teece, 1996),
- Capability to absorb knowledge from partners. One of the aims of forming an alliance is to learn from each other as much as possible. Success in this phase depends on the availability of complementary knowledge,
- Quick steps must be taken to reach measurable and fast results to encourage further development of the alliance and strengthen the dynamics of management,
- Constant assessment of alliance performance to keep the alliance under control and make sure that we do not have a working alliance that is unsuccessful.

Phase 5: Termination of the partnership

- Termination of an alliance only upon confirmation by all partners as the process is quite complex and requires certain skills. By doing so, the partners are informed entirely about the termination and do not allow to destroy future potential cooperation,
- Preparation for termination of an alliance should be discussed and implemented already in the design phase to avoid any disagreements as all alliances are terminated eventually.

1.11 Challenges

Strategic alliances can be analyzed from different theoretical views, including organization theory, strategic management, industrial analysis, network theory, and so on. It makes the study of strategic alliances quite challenging for researchers as they need to expand the theories to provide a better understanding of strategic alliances. While being attractive, strategic alliances are hard to implement as the overall process includes a number of problems and challenges (Soursac, 1996). As stated by Fortune (1998), dissatisfaction with the outcome variables, such as financial results, is one of the main causes of alliance failure.

Through a strategic alliance, partners aim to create value by creating synergies that would reduce transaction costs, associated financial and other types of risks, and uncertainties. Nevertheless, it is not as easy as it seems. There are many studies about the benefits and opportunities of an alliance, but not enough studies have been conducted to understand the challenges and limitations of forming an alliance. Such relationships come with many costs and issues becoming like a “black hole” as the expectations of partners change causing an economic burden (Ha˚kansson and Snehota, 1995).

Elmuti and Kathawala (2001) identify some challenges that are common within alliance partners, which are:

- At some point the partners face the issue of incompatible organizational culture, which might not have been apparent initially,
- Any differences in regard to operating procedures among partners can lead to disagreements,
- Regardless of whether there is a clear and well-defined plan or not, partners quite often also face the issue of bad coordination within the management of entities, which makes the management process even harder,
- The potential of the creation of global and/or local competitors as a result of strategic alliances presents a huge challenge for entities as competition can become tougher and the firms will have to find ways to keep up with such trends,

- Setting clear goals and objectives is one of the essential success factors of an alliance. However, they can change throughout the alliance causing huge challenges for the partners. Therefore, it is recommended to form an alliance only for a short-term period, and if everything goas as planned, the entities can re-negotiate and extend their relationships based on the same type of alliance or different,
- The challenge that is out of the control of the entities is the change of performance of the alliance due to external factors, and market factors.

Zineldin and Jonsson (2000) in their study provide other challenges of strategic alliances, which are the following:

- Based on the type of the relationship, the strategic alliance can be based on a huge commitment of resources. In other words, it can be resource-demanding and require huge investments with uncertain outcomes. As a result, resources can be mobilized without certain expected results,
- Lack of previous experience of working together with the new partner or with other entities, will most likely put huge pressure on the management team, who will have to put a lot of effort to learn about the partner and managing the overall process. Due to such challenges, the management might start neglecting the main operations of the company. Additionally, due to the contractual agreements set by the alliance partners, the firms become less flexible.
- Since the alliance is between two or more entities, coordination and control is essential to achieve the strategic goals, but at the same time it can be too costly for the companies, which is an essential challenge,
- Within the alliance, the partners agree to share certain activities, which means they give up control over their own resources. Inn that case, firm somewhat lose their freedom and cannot use their resources as they want,
- Lastly, having power over the other and being dependent on each other can lead to different conflicts and disagreements.

Such challenges if not managed adequately and efficiently will eventually lead to conflicts and failure of the alliance. As claimed by the studies implemented by Bleeke and Ernst (1995), even

successful alliances face issues during the alliance. Around 66% of international alliances have managerial issues within the first two years of the alliance.

According to Kelly, Schaan and Joncas (2002), the main challenge for the management of an alliance is the transfer of the agreement made as a result of negotiations into effective and high-productivity relationships. In theory, during the negotiation process, it is easier to make decisions and set some plan for how the alliance will be conducted to reach the expected results. However, in practice, it is not as simple as it seems from the agreement due to the changing conditions. Paying huge attention to the human resources within the alliance is essential for productivity. The main challenges in regard to people aspects are in the planning, initiating and maintaining the collaboration.

Relational issues are quite often neglected, underestimating their importance in the alliance. The early stages are even more crucial as that is the stage where the foundation is created for effective relationship formation. On the other hand, uncertainties, tensions, and conflicts even further can complicate relational issues. In order to avoid any complications, it is suggested to consider the early stages of the alliance as a phase of discovering each other and building trust (Kelly et al., 2002). Buchel et al. (1998) also claim that sensemaking is necessary for the early stages, defining it as a process of finding and forming patterns of interpretations and creating an identity for the alliance to reduce ambiguity, making the process easier. It is also a learning process creating the basis for a cognitive structure. As a result, we can achieve a trust-based relationship with the partners.

According to Kelly et al. (2002), in most cases the partners focus too much on the formation of the alliance, undervaluing the importance of the sustainability of the alliance. Hence, while the contractual aspects are planned with great detail, the relationship aspect and the management are not given the necessary attention. Most of the time, the entities devote most of their time in analyzing the financial aspects of the potential partner rather than screening them on human terms (Kanter, 1994).

CHAPTER 2: CASE STUDY

The research of the thesis focuses on the case study of Yerevan Wine Days that we will discuss further in the following subchapters.

2.1 Yerevan Wine Days

The history of wine goes back to ancient times (Li et al., 2018). For thousands of years, wine has been cultivated and produced, with growing consumption levels. There have always been debates regarding the origin of wine. The archaeological evidence does not necessarily provide enough evidence. Although archaeological evidence regarding the origins of wine has been hard to come by, scholars have widely believed that the presence of domesticated stock and grape processing can give some idea as to how wine was invented. According to Batello and others (2010), the Southern Caucasus has always been considered to be the cradle of winemaking. Nevertheless, the production of wine has been essential in the development of agriculture (Standage, 2005). While there is a high demand for wine, it is quite a compressed process to make wine as it contains more than 500 chemical constituents (Buja, 2022).

Wine is an alcoholic beverage, which is made by fermentation of the juice of freshly gathered grapes, the diversity of which is the main determining factor of the final product (Robinson, 2015). Additionally, the soil and climate conditions also affect the production and quality of the wine. However, those are not regular grapes that we usually eat as fruits. They are sweeter, smaller in size and usually contain a huge number of seeds. Being diverse beverages, wines can be classified based on different aspects. Based on color, they can be red, white, or rosé. Considering the alcohol content, they can be from 9 to 15 per cent for table wines. Most of the time, the older the wine is the more expensive it is. They also differ based on the sweetness level. It has also become popular to use both sparkling and still wine (Buja, 2022). However, such a classification is too simple.

Simpson J. (2011) provides a better classification in regard to different characteristics, such as freshness, color, body, tannin content, bouquet, and aroma.

The wine market is known for being heterogeneous. The production, and consumption trends and the market structure have gone through huge changes turning from a product-centric to a consumer-centric approach (Mora, 2006). In 2021, the global market comprised USD 430.99 billion, with an estimation to reach to USD 680.99 billion in 2028 with a cumulative average growth rate of over 6% within 2020-2026 (Zion Market Research, 2021). In comparison to 2020, the global wine market size was estimated to be USD 339.53 billion according to Market Insider (2021). While the Covid-19 pandemic is known to have had a huge impact on the global wine industry due to the imposed limitations and restrictions by different countries, the current trends and environmental factors give the necessary incentives to cover that gap and implement strategies for further growth.

As studies show, the wine market has gone through a huge increase year on year basis as the demand for wines keeps growing. It has been even more prevalent during the Covid-19 pandemic as people could not go out to bars or restaurants because of the restrictions and they only could buy bottles of wine at the markets.

The growth of the global wine market is linked to the increasing number of bars, and restaurants, and the growing preference for alcoholic beverages that is low in calories. On the other hand, more and more millennials choose wine over beer, which leads to further growth of the wine market. According to the report from Market insight (2022), investments in the expansion of wine production are drastically increasing year to year. Additionally, the fortified wine industry is believed to undergo the most growth due to premiumization bringing totally new opportunities for the winemakers.

The wine market is subject to classification based on different aspects. Based on the type of the product, Market insight (2022) identifies the following types of wine:

- Still rose wine
- Still red wine
- Still white wine

Based on the distribution channels, the wine market is segmented into:

- Supermarket
- Hypermarket
- Online store
- Specialty store
- others

In order to make the market for wine successful, it is essential to have a good strategy focused on the wine consumer, where the differences between the consumers are identified to build a consumer-centric approach. The competition in the wine market is high as there are many domestic and global wine firms operating in the industry implementing strategies to have a competitive advantage over other companies. Hence, it is essential to be informed about the market trends and forecast the expected changes.

Some of the well-known wine companies include Constellation Brands Inc., E. & J. Gallo Winery, and The Wine Group LLC. In order to keep up with the high competition and trends, they not only offer different types of wines but also wines with different ranges of prices making them affordable and accessible for any consumer. In order to do so, an analysis of consumer behavior, characteristics and preferences is conducted through surveys or through monitoring their choices. At the beginning of 2021, E. & J. Gallo Winery completed its acquisition of over 30 wine brands from Constellation Brands Inc. On the other hand, the company collaborated with Randall Grahm for the release of a collection of wines known as "The Language of Yes". Such strategic steps were taken for the main purpose of increasing sales, getting more recognition and exposure, acquiring new distributional channels, and entering new markets. It proved to be quite successful (Mordor Intelligence, 2021).

Armenia is known for its viticulture as it is one of the traditional agricultural sectors that are well-developed, and its production is the highest among others. It is essential not only from an economical perspective but also from a cultural perspective. The production of wine is essential for economic growth. Nevertheless, the studies and research regarding the Armenian wine market are quite limited. The Armenian wine market has gone through huge changes starting from the production processes, cultivation, and consumption trends.

Since grape cultivation is done at an altitude of 1000-1500 meters, the amount of land used for grape growing is limited in Armenia. The climate conditions can go from dry desert and semi-desert to dry-sub-tropic and Mediterranean (Sannell et al., 2022). Armenia is distinguished by different climatic conditions, accessibility to water and types of fertility soils (Marquardt and Hanf, 2012). The temperature varies drastically between the summer and winter seasons (Harutyunyan, 2010). Armenia has five regions where wine is produced according to Harutyunyan (2010).

The winemaking regions are:

- Ararat Valley, where most of the Armenian wine is produced, which comprises about 73.4% of the total production,
- Foothills of Ararat Valley with 11.6% of the total wine production,
- North-East of Armenia has 8.3% of the total wine production,
- Vayots dzor region with 5.6%,
- Syunik region, which is the area that produces the least amount of wine in comparison to other regions (1.1% of the total wine production).

The president of the Union of Winemakers in Armenia Avag Harutyunyam has stated that in 2020 Armenian wine industry has been affected by the pandemic in the sense that domestic sales of wine decreased drastically by over 60% and also affected prices by experiencing a decrease of 10-15%. On the other hand, the profitability of the wine industry has decreased by 30% in foreign markets. Most of the exports of wine go to Russia (80-90%). The Armenian wine market is greatly affected by external factors. Foreign investments, new and more modern ideas, techniques and imports from foreign companies to the Armenian wine market have a drastic effect on the developing Armenian market.

Additionally, the area suitable for cultivation is limited as Armenia is mountainous with only 28% of the land below the altitude of 1500 meters. As a result, the fertility of the soil, irrigation water and climate conditions affect grape yields (FAO, 2000). Despite the changing conditions and environmental factors, about 40 types of grapes grow throughout Armenia of which 40% are used for making wine. Hence, viticulture and winemaking are developed leading to high-quality wine production (Elitar, 2001). The largest consumption of wine in Armenia includes semi-sweet and sweet wines. Vayots Dzor remains to be one of the most essential and oldest areas in Armenia for

good quality winemaking, which has a potential for further growth and expansion of exports. It can be done by creating the means for farmers and winemakers to have access to long-term financial resources at low-interest rates and an acceptable redemption schedule. The focus should be on small and medium-sized entities to have the opportunity to modernize the equipment and techniques, for example, through leasing. The companies should also be informed thoroughly about any development taking place in the wine industry and get help in marketing (Harutyunyan, 2009).

The SWOT analysis implemented by Harutyunyan (2009), indicates the following about the Armenian wine industry:

- Strengths, which are the recognized wine called "Areni", availability of raw materials and different types of grapes for winemaking, the traditions and history of cultivation in Armenia, many regions specialized in producing grapes for wine,
- Weaknesses, which include not efficient business management due to lack of skills, technologies that are long obsolete, low level of production that limits the opportunity to gain a better position in foreign markets, not enough financial resources, high mortality rate compared to the replanting, poor protection system, lack of knowledge about more modern techniques,
- Opportunities for an increase in demand, diversification, exports, wine tourism, organic wine production, and making the sector more modernized,
- Threats, which include natural disasters affecting the production processes.

Wine is an essential part of Armenian history and culture, and it has always been. If we go back to the 1st millennium BC, we can see that wine was an important attribute of the ancient Armenian kingdom of Van, which was the most known wine-producing region of the era. Due to such great importance of wine in Armenia, there have been many festivals and events being held in every region of Armenia to increase the exposure of Armenian wines. Hence, I chose to focus my analysis on the Armenian wine industry and wine-producing Armenian companies.

Yerevan Wine Days (YWD) is one of the biggest and most popular annual street festivals taking place in certain main streets of Yerevan, Armenia, mainly on Tumanyan, Moskovyan, and Saryan streets. Wine has always had a huge role in Armenian culture and history. In other words, it is the

celebration of winemaking in Armenia. In order to inform others about Armenian wine and give people the chance to taste it, the festival has been held since the summer of 2017 (every first week of June). In 2022, Yerevan Wine Days took place from the 3rd of June to the 5th of June. It usually lasts for three days and for each day there is a special program. The overall main goal of the event is to increase wine tourism in Armenia and increase the recognition of the Armenian wine market. It has led to an increase in the number of vineyards and wine production in the country.

The entrance to the festival is free, but to participate in the tasting of wines, a package should be purchased. The visitors have the option to purchase a tasting package, which includes a wine glass and a brochure explaining the purpose of the event, the history of Armenian wine, and details about each wine. About 200 types of wines are being displayed by Armenian winemaking companies during the event. Those who buy the package are also given some coupons with information about winemakers. The package can be purchased individually or for corporate purposes. The individual package costs 9000 AMD and includes the wine enjoyment, the option of receiving the delivery in advance and a 5-10% discount with its promo code. The corporate purchase costs 7380 AMD and includes an opportunity to give gifts to employees, receive large orders in advance and promo codes or gift cards. The event is accompanied by Armenian brands and even a local famous DJ. The restaurants are welcome to participate by presenting their dishes and desserts, which can be Armenian, Mexican, Italian, French, and Japanese.

The number of visitors has been drastically increasing since the start. There were over 25000 visitors in 2017, while 30000 in 2018 and over 30000 in 2019. During the festival, visitors can find wine bars lining the street. Visitors dance and socialize together while enjoying the wine and food. Hence, it is a perfect place for winemakers and wine lovers to meet to have a good time.

Over 130 winemakers have already participated in the event since the start of the festival with over 200 types of wines, which include:

1. Kenats Group winemaker
2. Ginevan
3. Matevosyan Wine
4. Martiros

5. Maran Winery
6. Ararat cognac factory
7. ArmAs
8. Tushpa Wine Cellar
9. Sarafyan
10. Karas Wines
11. Ijevan Wine-Brandy Factory
12. Barev Wine
13. Good Mood
14. Armenia Wine
15. Proshyan Brand Factory
16. Khaluli Wine
17. Areni Wine Factory
18. Nor Areni
19. Gregorian Group Winery
20. Aniyard
21. Azaria Winery
22. Yerevan Champagne Wines Factory
23. Hin Areni
24. LA' MERON
25. *Z*′art
26. YACOUBIAN-HOBBS, and so on.

By forming a horizontal contract-based alliance, wine-producing companies aim to increase their wine visibility as stated by Ara Mihranian, the marketing director of Hin Areni Wine. As a result, firms pool their resources together to achieve their goals by exchanging information. Public recognition of wine companies is one of the main goals of the alliance. Since the parties have different market positions, it is easier for small companies to achieve brand awareness by partnering with somewhat more known companies.

Within Yerevan Wine Days holders of ACBA bank cards have the chance to make speedy cashless payments. One of the main goals of ACBA bank has always been supporting the local agriculture and wine industry. ACBA bank from the beginning (all the way back in 1996) has been the first to

support farmers. They support small and medium-sized businesses, which are essential for the growth of the Armenian economy. On the other hand, the bank's marketing and communication goal of the alliance was to increase brand awareness, associate the bank with wine, as well as the festival industry and maintain the image of being one of the most socially responsible banks in Armenia. Additionally, the management of the bank aims to have their contributions to the sustainable development of society believing that such an alliance not only contributes to the local wineries and their growth but also is educational and helps to develop good taste, at least in wines.

Although their goal was not necessarily financial, they have a pavilion, and the main goal has been onboarding new customers and the result has been positive so far. By having a contribution to the development of the wine industry, the bank indirectly supports the development of agriculture that, eventually, will increase its services, such as agriculture loans.

CHAPTER 3: ANALYSIS

Cooperative strategies are becoming more essential for the companies' growth considering the changing environmental aspects and the challenging and competitive emergence of different markets. Armenian companies are no exception. The benefits of using cooperative strategies such as strategic alliances are huge and most of them are quite profitable. As mentioned before, alliances are used for different purposes, but there are essential factors that influence the overall success of the implementation of the cooperation.

Our analysis chapter aims to show the aspects that Armenian companies take into consideration when forming a strategic alliance through a case study of Yerevan Wine Days. The methodology and rationale of the analysis are described below.

3.1 Rationale and Methodology

The objective of the thesis is to analyze the main factors affecting the strategic alliance formation within Armenian wine companies and the challenges that they usually face in today's environmental conditions. Our research focus was to analyze "What factors do companies find essential when forming an alliance?"; "What challenges do Armenian companies face within an alliance?"; "What steps are implemented to overcome such challenges?".

In consideration of this purpose, a qualitative approach has been adopted for the purpose of researching and understanding the problem. Such a methodology is more appropriate considering the purpose of the analysis involves around exploring and understanding the main problem of the thesis. While qualitative methodologies do somewhat reflect reality, quite sometimes they can overlook the results of theoretical research. It is based on subjective judgement focusing on analyzing non-quantifiable or so-called "soft" information.

The research aims to examine the strategic alliance formation in the Armenian wine industry to identify how firms form, implement, and manage the alliance for reaching the expected positive and long-term results. The Armenian wine industry has been chosen based on the importance of wine in not only the Armenian economy but also history and culture. Hence, the focus has been on the alliance between Armenian wine companies. The research design is effective in the sense that most of the parties have been analyzed.

Since the companies analyzed within my research did not agree to provide financial information, considering it to be confidential information, our research will be based on qualitative aspects. It requires a detailed analysis and time to collect the necessary information since it is intangible and cannot be gathered through financial statements inputs, profit margins, or financial ratios. The success of gathering qualitative data depends on the willingness of the entities to provide them. In this case, the Armenian wine companies were willing to do so. The choice of qualitative analysis is due to the need to deeply understand certain aspects being researched in the thesis by collecting the essential information through interviews and textual analysis instead of making measurements.

The challenges of alliances are identified through the research conducted within the literature and are included in the previous chapter with all the necessary details. The factors leading to an alliance and the challenges according to theoretical views have been included in the first chapter. Each view has been essential in identifying the success factors and limitations of strategic alliances. By analyzing the management of the companies, workplace cultural differences and capabilities, we get a better understanding of the challenges faced by the companies within the formation and implementation of the alliance.

The overall analysis is implemented based on a case study of Armenian wine companies, after having described the possible growth strategies, types, definitions, strategic alliance processes, benefits, and challenges in the previous chapter. The collected data is grouped into categories and themes based on the answers of the participants and the questions asked to them during the questionnaire.

The qualitative analysis steps in our research are the following:

- The main goals and objectives are defined,

- The qualitative data is collected through interviews, questionnaires,
- The analysis is implemented,
- Findings of the analysis is summed are and limitations and recommendations are lastly provided.

The decision of the Yerevan Wine Days case study is primarily due to the fact that monopoly still remains at a high level in Armenia due to economic policy practices that do not secure healthy competition in the Armenian markets. Hence, we wanted to focus on small and medium size companies that implement different growth strategies to keep up with the market trends and overcome challenges. Our sample will be based on 24 Armenian wine companies that have formed a contractual based alliance for marketing development purposes since the summer of 2017.

To collect the necessary data with the primary purpose of conducting analysis and making conclusions, questionnaires, interviews, and secondary data have been used. Written questionnaires and interviews were conducted with the marketing directors of the companies to understand the key elements that they focused on before forming an alliance and the challenges faced before and within the alliance due to the difference in the organizational culture and objectives. The written questionnaires have been conducted with the marketing specialists of 24 wine companies, where an extensive questionnaire has been completed with a focus on the factors throughout all lifecycles of the alliance and the challenges that they have faced. The marketing specialist of Armenia Wine Nazeli Hayrapetyan and the marketing specialist of Hin Areni wine company Ara Mihranyan agreed to have interviews to further discuss their strategic collaboration within the Yerevan Wine Days event.

Additionally, secondary data was collected and used from online journals, articles, websites, video interviews and case studies. It has been one of the essential elements of the research conducted. The focus has been on collecting information already available from scholarly verified articles, which includes information that has already gone through the necessary analysis.

For the analysis of the thesis research question, data has been collected through questionnaires and the answers have been recorded throughout the process. The purpose of the questionnaires was to identify the main factors essential for Armenian wine companies in the formation of an alliance

and the challenges faced within the overall process. For that matter, 24 Armenian wine companies, who have formed an alliance together, have filled in questionnaires after being contacted through email. The answers given by the companies have been used as data and analyzed in order to describe the overall phenomena and draw certain conclusions. Such a sample is relatively large enough to derive results that will be valid to present the overall image of alliance formation in Armenia.

Regarding the response rate, 24 companies out of 30 agreed to fill in the questionnaire, which is 80%. With such a high response rate, all the questions have been answered by the participants. To make the process more appealing and easier to fill in, the structure of the questionnaires was very simple and most of it was just choosing an option.

The structure of the questionnaire was comprised of two parts. In the first part, participants were asked questions about the overall alliance with options to choose from, such as:

- What was the reason to form an alliance?
- Was the alliance in compliance with its strategic goals?
- What was the main goal?
- Does it benefit the public? How?
- What financial results the company achieved?
- What challenges they faced during the alliance throughout the alliance lifecycle including the negotiation, formation, and implementation processes?
- What has been done to better manage the challenges and overcome them?

Participants of the questionnaire have been asked to assess the listed factors on a scale of 1 to 10, where 1 means not important and 10 means very important. The factors listed were 18 taken from the extensive analysis of the literature that is essential during the negotiation, formation, implementation, management, and termination of the strategic alliance formed within Armenian wine companies. During the questionnaire, the participants have also been asked to list the top three factors that they find to be the most important.

Below is the list of factors provided to the participants to assess on a scale of 1 to 10.

Table 1: Factors Considered in the Strategic Alliance Formation	
1. Compatible Goals	12. Trust
2. Learning Opportunities	13. Leadership
3. Effective Information Exchange Process	14. Flexibility
4. Access to Innovative Technology	15. Partner Compatibility
5. Organizational Culture	16. Clear Goals
6. Senior Management Support	17. Competitive Threat
7. Agreement or Contracts	18. Risk Mitigation
8. Level of Commitment	
9. Ability to Meet Expectations	
10. Economy of Scale	
11. Core Competencies	

Considering the large number of companies being included in the research and their busy schedules only Armenia Wine, and Hin Areni wine companies agreed to have an interview for the research. Interviews are essential to have closer look at the phenomena being analyzed, which have been an essential source for the research. The personal interviews have been conducted via Zoom video call with the marketing specialist of the companies.

During the interview, the participants were asked about:

- Market forecasts,
- Why they chose to form an alliance?
- The factors considered when making a decision about growth strategy,
- Why did the company not choose acquisition?
- What challenges they have faced throughout the alliance?
- Which phase has been the most challenging?
- Why did they choose to work with competitors?
- What can be done to improve the strategic alliance formation in Armenia and increase exposure to its benefits?

3.2 Factors Essential in the Formation of an Alliance

As we learn from interviews and questionnaires, the main goals of the Armenians wine companies of forming the strategic alliance have been gaining more exposure, increasing sales, improving their reputation, and learning from their competitors, and the choice of an alliance is due to the willingness to stay independent and implement their growth strategy without too many costs. Almost all of them stated that the alliance has been in compliance with their strategic goals and that working with competitors helped them get more recognition and learn how to get a better marketing position.

Companies choosing strategic alliances as a form of growth should take into consideration some essential aspects for the success of the alliance during all lifecycles of the corporation including the negotiation, formation, implementation, and termination processes throughout the strategic alliance. As already mentioned in the methodology part, the study is based on a qualitative approach to explore, analyze, and understand our research problem, which is the factors essential for Armenian wine companies during an alliance formation. The issue is investigated through data collection of the parties through questionnaires and interviews.

Wine being an essential part of Armenian history and culture has always been at the center of discussion and analysis. The focus has always been to further develop the winemaking process in Armenia and solve wine grape cultivation issues. Considering the high level of importance of the wine industry, Armenian wine companies have chosen the formation of strategic alliances to grow and improve their market positions not only in the domestic market but also get access to foreign markets. Overall, strategic alliances help companies to combine their strengths and reduce non-value-adding activities that can negatively affect the results.

Given the importance of strategic alliances in the growth of Armenian wine companies, the following questions are aimed to be analyzed in the following part of the thesis:

- What factors do the participants of the strategic alliance formed within Armenian wine companies feel are essential for a successful and long-term alliance formation?

- Are those factors maintained within the participating companies throughout the formed alliance?

As mentioned, a questionnaire has been filled in by 24 participants, where the participants have been asked to analyze the list of 19 factors provided to them and list the 3 most important factors taken into consideration when making a decision about forming an alliance.

Table 2: Top 3 Factors

Factors
Clear Goals
Partner Compatibility
Trust

All 24 participants have agreed to provide their top three essential factors that they considered for the whole lifecycle of the alliance. Most of them provided almost the same answers but in different orders. Clear goals factor has been included in the list of top three by all participating companies, while compatibility has been included by 20 participants. The ones that did not include compatibility in their list instead included management and level of commitment.

Having a clear and well-defined goal has been one of the top 3 factors essential for the participating wine companies in the formation of the alliance claiming that the overall success of the cooperation depends on whether the partners have defined their goals clearly and whether their intentions might change during the alliance. Hence, the goals must be clearly defined and communicated to the management. When asked how important it has been for them to have clearly defined goals and scale it from 1 to 10, having clear goals got 9.9 average points, which indicates that well-defined goals are essential in the formation of the strategic alliance. Additionally, they have been asked if they have any mechanism to make sure that the partners are being consistent in their initially defined goals and whether they got the results that they were expecting to get when forming the alliance. As participants stated, they have had meetings to verify that all the short-term and long-term objectives are being met. They are somewhat satisfied by the meetings that aimed to regularly verify the strategic goals, their achievement, and operational performance, and to keep the goals consistent with each other. They believe that those meeting should have been more regular and

more effective by increasing the communication and openness among the partners of the alliance. The need for improvements still remains relevant. Considering the business conditions that usually limit the amount of time the partners can commit to the meeting; regular meetings are essential to make sure that all the participants are following the already agreed terms and provide a high level of commitment to the alliance in order to achieve the alliance goals. Well-defined goals give directions to the alliance.

Table 3: Goal Assessment

Question	Score
Partners meet regularly to verify strategic goals	7.2
Achievement of strategic goals is regularly being reviewed	7.3
Operational Performance is regularly assessed	7.1

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

The participating companies have been asked if they are satisfied with the results achieved and whether their expectations have been met and they have been only somewhat satisfied with the results giving an assessment of only a 6.2 average score. However, the companies do not terminate the alliance because even though the alliance have not fully met their expectation, it is still beneficial for the reputation of the companies and has provided some positive financial results.

Partner compatibility was in second place due to the results of the questionnaire, where the participants found it essential in the formation of the alliance and paid a lot of attention to it when making a decision. It affects the overall planning, working, and communicating processes. To understand how essential, it has been for the participants to assess their operational culture and the capability to solve problems. It got 9.8 points on average, which indicates that it has been essential for the participants to have partner compatibility. Participants have also been asked how compatible they have been regarding the operating culture, and management style, if they had difficulty in cooperating, whether the partners provided any new solutions to issues and whether partners were capable to solve issues quickly.

Table 4: Partner Compatibility

Question	Score
Similar operating culture	7.2
Similar management style	6.9
Effective Cooperation and Communication	7.8
Effective problem-solving	8.0
Provision of new solutions	7.1
Quick actions are taken to solve the issues	7.5

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

The partners have somewhat similar operating cultures and management styles. Although there are some differences, those are quite small. The partners are capable to solve the issues that can arise and quite quickly.

Trust has been included in the list by 22 participating companies claiming that trust must exist in any type of alliance in order to accomplish the strategic goals of each entity in the alliance. Measuring the existence of trust in an alliance is a complex process and the results are mostly subjective because it depends on how executives and managers perceive its existence in the formed relationship. However, when asked to scale the factors from 1 to 10 of how important trust has been for them to form an alliance, it got 9.7 points on average.

As mentioned in the first chapter, we identify two types of trust, which are character-based trust which focuses on the qualitative characteristics of the partner, and competence-based trust which takes into consideration the performance and overall operating behaviors of the partner. Participants were asked to scale trust from the range of 1 to 10 in the formed alliance, where 1 is equal to untrustworthy and 10 equals trustworthy. The average response that we got was 7.64. The results can be seen in Table 5. In the table, we have the number of companies and their responses about their assessment of the trust level within their formed strategic alliance.

Table 5: Trust

Number of Companies	Score
10	9
7	8
4	7
2	6
1	5

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

In regard to the source of character-based trust in the formed strategic alliance, the participants were asked to scale from 1 to 10 whether they agree that the source of trust of their formed strategic alliance comes from integrity, identification of motives, consistency of behavior, openness, and discreteness. All sources of the character-based trust got over 9 points (the average of the scores given by the participants) meaning that they strongly agree that their trust towards the alliance partners comes from the mentioned sources, and they considered it essential when forming the alliance.

Table 6: Sources of Character-Based Trust

Source	Score
Integrity	9.8
Identifications of Motives	9.1
Consistency of Behavior	9.5
Openness	9.5
Discreteness	9.3

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

Participating companies have also been asked to assess whether they have considered competence-based trust essential in the formation of the strategic alliance such as specific competence, interpersonal competence, competence in a business sense, and judgement. The explanation and definition of each have been provided in the first chapter. The responses have been recorded and an average has been calculated based on the data received from the participants. As a result, we learned that each aspect got an over 9 score, meaning that the participants highly agree with the

importance of having competence-based trust and they took it into consideration before forming an alliance. And they did not limit the existence of the trust to only one cycle of the alliance. Instead, competence-based trust should be essential in all lifecycles of the strategic alliance, including during the decision-making of growing through an alliance, negotiation of all aspects of the agreement or contract, planning, implementation, and termination of the alliance. All in all, the participants consider trust essential when forming an alliance and they made sure that they can form trust with alliance partners and maintain it within the whole lifecycle of the strategic alliance.

Table 7: Sources of Competence-Based Trust

Source	Score
Specific Competence	7.7
Interpersonal Competence	8.6
Competence in a Business Sense	8.1
Judgement	8.4

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

Participating entities have been asked to assess how important senior management support has been when forming the strategic alliance on a scale of 1 to 10. Based on the average response given by the companies, it got 9.2 points out of 10 meaning it has been quite essential for the successful implementation of the alliance. In the research, we consider senior management support from strategic and operational perspectives to take into consideration both strategic goals and operating performance. The participants assessed whether within the alliance they had a proper level of management in regard to strategic development both in their firms and partner companies (7.8 points out of 10) and they were asked to scale whether the senior management has had an effective impact on the operating performance through their decision-making capabilities within the alliance (7.0 points out of 10). Based on the results obtained through the questionnaire we concluded that there has been a proper level of management from all partners within the alliance to properly plan and implement the allocation of responsibilities.

Table 8: Factors Considered When Forming the Alliance

Factor	Score
Compatible Goals	9.8
Learning Opportunities	9.5
Effective Communication and Information Exchange	9.1
Access to Innovative Technology	9.8
Organizational Culture	9.4
Senior Management Support	9.2
Agreement or Contracts	9.5
Level of Commitment of Partners	9.6
Ability to Meet Expectations	9.4
Economy of Scale	9.2
Core Competencies	9.3
Trust	9.7
Risk Mitigation	9.5
Clear Goals	9.9
Partner Compatibility	9.8
Leadership	9.0
Flexibility	9.1
Competitive Threat	9.6

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

The ability to meet performance expectations is essential for the successful implementation of an alliance, which focuses on the execution of strategic alliance goals and objectives. In order to understand if the expectations of the partners are met, we need to first have clear goals formed and communicated to the managers based on which we can evaluate the progress of the alliance. As we see from the tables, the ability to meet the performance expectation has been essential in the formation of the alliance (it got 9.4). The participants have been asked whether the alliance's performance meets their expectations and how they assess the performance. Meeting the performance expectation depends on whether the participating companies implement all their responsibilities.

Table 9: Performance Expectations

Question	Score
The partner firms have implemented their responsibilities thoroughly and effectively	8.8
The firm has implemented its responsibilities thoroughly and effectively	9.1
The performance measurement system has been created jointly	8.5
The performance is regularly assessed	7.9
Performance evaluation is effectively shared with all partners	9.1
(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)	

To the question of whether the partner firms and the firm being questioned have implemented their responsibilities, most of them agreed to it. On the other hand, to measure the performance, the partners must have an assessing mechanism, which includes regular meetings, and a balanced scorecard, which measures strategic, operational, financial, and relationships aspects of the alliance. The strategic aspect of the balanced scorecard relates to the key performance indicators, the operations aspect focuses on the key processes in the alliance, the financial aspect is concerned with the financial contribution of each partner, and the relationship aspect focuses on the partner's loyalty and satisfaction.

In regard to the balanced scorecard, questions have been asked of the participating companies to confirm whether the assessment mechanism is satisfactory for the firms.

Table 10: Balanced Scorecard

Question	Score
It effectively communicates companies' strategies and operational management	9.1
It visualizes the strategies	8.9
Measures alliance performance	9.2
Reveals weaknesses and strengths	8.7

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

The balanced scorecard is one of the most effective ways to measure alliance performance, and as we see from the data obtained as a result of the questionnaire it has been effective in communicating the strategies, measuring the performance and identifying any weaknesses and strengths of the

formed alliance. Within the scorecard, KPI has been successfully created, measured, and analyzed, conclusions made, and actions are taken. The KPIs used by the participating companies in the assessment of the alliance performance include team effectiveness, revenue growth, number of meetings, capacity utilization, customer satisfaction, and so on.

From the questionnaire, we also learned that the learning opportunities given to partners as a result of the alliance are essential for the companies (9.5 points out of 10). Many companies heavily rely on strategic alliances for gaining and maintaining a sustainable competitive advantage over other companies and creating value. Learning has an essential part in it, which can be used in the future for the more effective formation and management of new strategic alliances and for better exploitation of opportunities. In the research, we focus on alliance learning capability from three perspectives, which include knowledge creation, knowledge assimilation (absorption), and knowledge internalization. Within knowledge creation, we have to understand the alliance experience of companies, and whether they had all the possible opportunities to acquire knowledge and share knowledge with other partners.

Participants were asked to assess their knowledge assimilation processes to understand if they were capable of effectively absorbing the knowledge by successfully combining and codifying the information that they are able to obtain within the alliance. Additionally, the participating companies were asked to assess their capability to convert the newly created knowledge into actual tactic knowledge for the firm, which is known as knowledge internalization.

Table 11: Learning Opportunity

Question	Score
Knowledge is accessible within the alliance	7.2
Effective knowledge acquisition from alliance partners	8.4
Effective knowledge sharing with alliance partners	8.2
Effective knowledge assimilation capability of the firm	8.7
Effective knowledge internalization capability	8.5
High level of relatedness of knowledge within the alliance	7.6

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

From the results collected, we concluded that the knowledge has been quite accessible within the alliance, meaning the alliance partners had the opportunity to learn marketing and management tactics of the partners which has been one of the essential goals of the formed alliance within the wine companies. However, the availability alone is not enough as the entities must have the capabilities to absorb and use in their operations the available knowledge. We see that knowledge acquisition has been quite effectively implemented by the companies, which has been scored 8.4 out of 10 (the average of all the given scores). Sharing the knowledge with other participating entities has also been assessed to be quite successful as it got 8.2 points, which can be further improved by improving the communication within companies and setting more effective management mechanisms.

Knowledge assimilation (absorption) capabilities of the firms is assessed to be effective, which means they have been capable to identify the necessary knowledge and take what they needed, which will help the firms to get a better position in the market. However, before the companies can improve their competitive advantage and increase sales, they must have an effective mechanism to convert the knowledge obtained through the alliance into practical and tactic knowledge, which we see has been also quite effective as the participants agreed that they were capable to effectively use the absorbed knowledge in the operations (8.5 points).

In order for the firms to negotiate, plan, form, implement and manage the alliance, effective information exchange processes are essential. Since strategic alliances are formed between two or more companies that collaborate to achieve their strategic goals, communication is also crucial. The participating companies gave a score of 9.1 for effective communication and information exchange, which shows that it was important for them to create and maintain good communication mechanisms and to be able to exchange the necessary information without any difficulties. By forming effective communication, the partners can better understand the strategic alliance goals and the responsibilities of each entity. Participating companies have been asked whether they have had effective communication and whether they have been able to exchange the necessary information successfully in order to better manage the strategic alliance and reach the goals. As we see from the responses given, the communication was only somewhat effective due to a lack of cooperation and regular meetings. Over 50% of the respondents claim that they have had misunderstandings and conflicts within the alliance. During the interviews, we learned that the

issues were in the beginning when the responsibilities were not allocated clearly and there was not one common communication mechanism set within the alliance.

Table 12: Effective Communication and Information Exchange

Question	Score
Effective communication mechanisms within the alliance	6.8
Effective exchange of information within the alliance	7.0
The firms have had misunderstandings and conflicts	5.8
(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)	

Another factor that the companies claim that has been essential for them when forming an alliance has been organizational culture (it got 9.4 out of 10). It focuses on the assumptions, values, norms, and beliefs of the company. The reason why organizational culture is so crucial for every company is that by having a strong culture, the companies can improve overall performance and better coordinate the behaviors that help the entities reach their goals. The strategic alliance partners can also benefit from the partnering firm's organizational culture by learning from each other about which organizational culture is more effective and/or by having effective means to plan, form, implement, and manage the strategic alliance. To understand whether the alliance partners had similar organizational cultures we asked them to assess whether they have similar values, beliefs, communication mechanisms, management systems, and so on.

Table 13: Organizational Culture

Question	Score
The partners have similar values	8.2
The partners have similar norms	8.0
The partners have similar beliefs	8.3
The partners have similar practices and procedures	7.6
The partners have similar priorities	7.3
The partners have similar expectations	8.1
The partners have similar engagement and satisfaction levels in the workforce	7.1
The partners have similar cohesion and harmony among employees	7.5
The partners have similar leadership styles	6.8

The partners have a similar working style	7.0
The partners have a similar working environment	6.9
The partners have similar employee turnover	5.3
The partners have similar competitiveness	8.1
The partners are open to changes	8.5
The partners have effective communication in their firms	8.7

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

From the data obtained from the participating companies, we can see that the cultural organization of the companies are somewhat similar. Although organizational culture cannot be entirely similar as each firm has its unique organizational culture, some aspects can be similar but not entirely the same. Having well-developed and strong organizational culture helps in the stability of the entity and it is essential for the successful implementation of a strategic alliance. Otherwise, the goals and objectives of the alliance partners can change after the alliance has been planned and formed, which can further cause issues that will either lead to the termination of the cooperation or renegotiations that are quite costly and time-consuming to implement for the companies. Hence, the participating Armenian wine companies put a lot of attention into analyzing the possible partners and partnering with the ones that have some degree of similarity in regard to organizational culture.

Another factor that has been essential for the Armenian wine companies when forming the strategic alliance is the level of commitment, which is known to be the soft side of the formed strategic alliance within firms. The success of any alliance depends on the management of both the hard side of the alliance, which includes the financial and operational aspects and the soft side, which focuses on the relationship capital. As we already know, companies spend a considerable amount of time assessing the risks and benefits of an alliance in regard to the hard side of the cooperation. However, the soft side is equally important which is why we aimed to understand how the wine companies manage the soft side of the alliance. Within the soft aspect of an alliance, we have commitment and trust. The participating companies have been asked to assess how important it was for them to have a high level of partner commitment within the alliance. As a result, it got 9.6 points out of 10 on average. The participating companies have also been asked whether they have a high level of intention to continue the formed alliance and whether their expectations have changed after the

alliance formation. The reason why we asked them those questions is that the level of commitment depends on whether the partners are willing to continue the alliance and meet all their responsibilities. On the other hand, the change in the firm's expectations during the alliance can also have a negative impact on the successful implementation of the alliance. Based on the answers that we see in the table, we can conclude that the partners have a high level of intention in continuing the alliance and that their expectations remain the same.

The commitment level also depends on the benefits that the alliance partners get and can get. The participating companies agree that the strategic alliance formed remains to be beneficial for them and they meet most of their expectations. Additionally, the partners show a high level of commitment and implement their responsibilities quite successfully.

Table 14: Level of Commitment

Question	***Score***
Intention to continue the alliance	9.3
The expectations and objectives of the firm have changed within the alliance	1.9
The alliance remains to be beneficial	9.1
The partner firms have implemented their responsibilities thoroughly and effectively	8.8
The firm has implemented its responsibilities thoroughly and effectively	9.1
The partners have a high level of commitment	8.7
The firm has a high level of commitment	9.2

(Scaled from 1 to 10, where 1=Strongly Disagree and 10=Strongly Agree)

3.3 Challenges

The research of the thesis also aims to present the challenges that the Armenian wine companies have faced during the whole lifecycle of the strategic alliance and the actions taken to overcome them and keep growing. Although strategic alliances are a good way for the company to grow, increase its resources, access new markets, expand its customer base, and have greater brand

awareness, it comes with several challenges that we talked about in the first chapter. The capability to overcome such challenges and manage them is essential for the alliance's success.

Within the questionnaires and interviews, the participating companies have been asked to list the challenges that they have faced during the planning, formation, and implementation of the strategic alliance and what they have done to overcome them. One of the main challenges that the participating companies faced has been the lack of clear goals for the partners. An alliance is a process that requires a detailed analysis to make sure that the alliance is formed between compatible companies, that have similar values, vision, organizational culture, and readiness to fully commit to the implementation of the strategic alliance. As stated by the respondents due to a lack of well-defined goals and objectives they have had communication and management issues. In order to fix the issue, the participating companies had a meeting and agreed to create a list of the companies' goals and objectives that will depict what they aim to achieve and how they aim to get there. Through goals, the objectives of the companies have been translated into quantitative descriptions and timeframes have been created to better define the responsibilities of each firm.

Another major challenge of the formed alliance has been the lack of coordination between the companies' management. Such an issue is especially common among companies that are competitors regardless of the formed strategic alliance. It has a negative impact on the overall operations of the companies within the alliance. To overcome such issues the companies built a roadmap, where the goals are defined, communication is clearly set, and individual roles of the management teams are depicted. To improve communication within the management teams regular meetings have been set, where openness is encouraged.

In order to avoid relational risk concerned with the possibility that the partner firms might not meet their responsibilities and lack commitment to the alliance a healthy environment has been built, where participating companies will have a high level of trust and be able to engage in conflicts in a healthy way that would be beneficial instead of harming the performance of the participating companies within the strategic alliance. Such a healthy environment helps in providing a high level of commitment to reaching the defined objectives and goals. Additionally, goals and objectives have been clearly defined that would encourage the partners to fully commit to the implementation of the alliance throughout the whole lifecycle of it.

Conclusion

Growth is an essential aspect for any company in such a dynamic and changing environment that arises due to globalization, high competition, innovative technologies, and uncertainties. Hence, choosing the right growth strategy is crucial, especially for companies that lack the necessary resources and capabilities to take opportunities and grow internally. Strategic alliances are one of the growth strategies implemented by companies to acquire certain resources, gain competitive advantage, and learn from other companies.

A strategic alliance is defined as an agreement between separate independent entities that have compatible goals and objectives and the necessary capabilities to achieve their strategic goals through an exchange of specific resources. According to the resource-based view theory, strategic alliance formation is based on the resources rather than the external environment. At some point in the company's lifecycle, the entity faces the need for additional resources for further growth that can be quite hard to acquire and/or too expensive to acquire internally. Strategic alliances help to solve the issue while remaining an independent company. Within the resource-based view theory, 5 main motives are identified for alliance strategies, which are the creation of rents, expansion of resource usage, diversification of resource usage, imitation of resources, and disposal of resources.

According to transaction-cost theory, all economic activities implemented are actually based on transactions, and it focuses on how companies implement the transactions with other companies and the effect it has on their governance structure. It is even more relevant for companies located in different geographic areas. In comparison to the resource-based view theory, the transaction-cost theory explains the distinct governance structures that are capable to handle distinct types of transactions. On the other hand, the knowledge-based view theory claims that companies choose to engage in an alliance with the main purpose of learning and having access to the necessary knowledge.

The strategic alliance starts with the alliance formation phase, during which the company chooses what type of alliance to form to reach its objectives and goals. A detailed analysis is implemented to identify any gaps within the strategic position and the opportunities for improvements. Within the formation phase, the company also chooses the partner or partners to work with. Once the goals, capabilities, and commitment levels are clearly defined, the next step is the implementation of the alliance, during which the alliance partners work together to make essential decisions, coordinate their activities, manage the processes, and reach their goals. Within the evaluation phase, the alliance's performance is assessed, and a decision is made either to terminate the alliance or re-establish the relationship.

Nevertheless, the success of any alliance depends on certain factors. In order to further analyze what factors should be taken into consideration when forming an alliance, we focus on a case study of Yerevan wine days. A qualitative analysis approach has been adopted where data has been collected through interviews with two marketing specialists of Armenian wine companies and questionnaires filled in by 24 Armenian wine companies (24 out of 30, which is 80% response rate). The top 3 main factors that the Armenian wine companies consider essential when forming the alliance have been clear goals, partner compatibility, and trust. Having clear goals got 9.9 out of 10 scales, which shows that the success of the alliance is directly linked to well-defined goals, and regular meetings have been taken place to always keep track and verify the short-term and long-term objectives and goals. Nevertheless, the participating companies have only been somewhat satisfied with the results, but they remain in the alliance for the benefits it gives in regard to their reputation and increase sales.

Partner compatibility has also been essential in the sense that it affects the overall planning, formation and implementation processes. Additionally, the companies focused on the partners that had the necessary capabilities that would help them reach their strategic goals. For partner compatibility having similar operating culture, management style, effective communication and problem-solving have been crucial. The partners have somewhat similar cultures and management styles.

Another essential factor has been the trust. Measuring trust is quite complex and the results are usually subjective. However, 10 companies have given a score of 9 when asked if they believe trust has been present throughout the alliance.

While alliances can be beneficial for companies, they come with challenges. One of the challenges that Armenian wine companies have faced has been the lack of clear goals, which as already mentioned is essential for the alliance's success. Regular meetings have taken place to fix the issue and better define the goals and objectives that later have been translated into quantitative descriptions and timeframes. The lack of coordination has also been a challenge that the companies have faced during the implementation phase within the first year of the alliance. As a result, a roadmap has been built to better define each partner's responsibilities and to improve communication. Additionally, avoiding relational risk has been crucial for the Armenian wine companies when forming an alliance. It could have led to a lack of commitment and failure to meet the responsibilities. A healthy environment has been built, where the participating companies could communicate effectively and have a high level of trust.

Suggestions and Limitations

One of the main limitations of our research is the focus on a specific industry. In our case, we base the analysis on Armenian wine companies. Another limitation that we believe should be considered is that the results achieved can be quite subjective as different companies provided different answers, where human factors could have had a huge impact. Nevertheless, the results do somewhat represent the actual picture that we have regarding strategic alliance formation in Armenia.

What we would like to suggest is to do an analysis of strategic alliance formation, implementation, and management between companies belonging to different industry sectors in Armenia. By considering a larger number of companies, it would be possible to do a comparison with our obtained results and see how different it is.

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