

Failure rates in strategic alliances

Key findings

There is a widely held belief that alliances across all sectors generally have a high failure rate with figures of up to 70% frequently cited. This belief is almost certainly without foundation in all but a handful of sub-sectors or market conditions.

The excessively high estimated failure rate for alliances has arisen as a result of the congruence of a number of factors. Those factors include the following:

1. The use by many researchers of the average of the failure rates reported by alliance managers as the figure for the overall failure rate without any weighting for the size of the company reporting the failure rate or the number of alliances that the company was managing. As organisations with many alliances are likely to be better managers of alliances than organisations with one or a handful of alliances, this lack of weighting will have the effect of increasing the estimated failure rate above the actual overall failure.
2. The use by some researchers of synthetic measures of the success or failure of alliances based upon multiple factors or the average of multiple factors which have little or nothing to do with the partners' perception of the success or otherwise of the alliance.
3. The classification by some researchers of alliances that terminated early because, for example, of a spin-off, an acquisition or a change of strategy as a failure irrespective of the partners attitude to the alliance.

Our analysis of our dataset of over 300 alliances shows an overall failure rate, as we define failure, was 18%. We believe that our dataset may have some skew towards organisations who are better managers of alliances than other organisations overall so we estimate that the true failure rate of alliances generally is probably in the range of 25-30%.

Background

The issue of the failure rate of alliances is one that generates a great deal of attention amongst executives responsible for alliances, consultants, journalists, bloggers and academics. As a result a number of surveys and meta-analyses have been conducted by academics, researchers and consultants that have included an analysis of the failure rate of alliances.

We have set out a selection of those surveys in the table below. For the purposes of this analysis we have ignored the largely impenetrable jungle of papers produced by academics, referring and cross-referring to each other, which take the premise that alliances have a high alliance failure rate as a convenient starting point for an analysis of the 'problem' from the perspective of culture, learning, conflict, networks and so on.

Source	Year	Failure Rate
McKinsey & Company	1993	33%
Bleeke and Ernst	1993	33%
Pekar and Allio ¹	1994	40%
Wildeman, KPMG ²	1996	70%
Coopers & Lybrand ³	1998	50%
Kalmbach and Roussel, Accenture ⁴	1999	30%
The Lared Company ⁵	2000	60%
Dyer, Kale and Singh ⁶	2001	42%
de Man and Duysters ⁷	2002	52%
de Man and Duysters ⁷	2007	51%
de Man and Duysters ⁷	2009	43%

¹ Weighted towards alliances in the investment banking sector.

² The failure rate found by Wildeman as reported in subsequent articles and papers varies.

³ We have been unable to find any information about this survey beyond the single appearance of this figure in a report produced by another company.

- ⁴ The percentage of alliances that were classified as 'essentially failed'.
- ⁵ This company appears to be defunct and no information about this survey is available beyond the single appearance of this figure in a report produced by another company.
- ⁶ Adjusted to take account of the fact that organisations with a dedicated alliance management function have twice as many alliances as other organisations.
- ⁷ Unweighted average failure rate reported by respondents.

Alliance failure

One of the issues that has bedeviled this area of research is the appropriate definition of 'failure' that should be used in the context of alliances. Is the appropriate test the subjective opinion of participants in the alliance or more objective measures such the impact on market share, product launches or profits? Is it a mixture of both subjective and objective metrics? Do you ask just one party or both parties to the alliance whether or not it has been a success? What if the alliance has been a success for one party but not the other? How many participants involved in the alliance do you poll and what, as is frequently the case, different executives in a partnering organisation disagree about the success or otherwise of the alliance? What, again as is frequently the case, the partnership has fulfilled some, but not all of the expectations of the partners; is that alliance a failure? What if none of the original objectives of the alliance have been fulfilled but the alliance has resulted in valuable learning or in the establishment of a relationship between the partners that leads to further collaborations later on?

This issue has been made more complex by the fact that consultants, researchers and academics working in this area have, for one reason or another, often constructed their own synthetic definition of 'failure'. So, for example, Dyer, Kale and Singh devised a metric based upon:

1. The extent to which the alliance met its stated objectives;
2. The extent to which the alliance enhanced the competitive position of the parent company;
3. The extent to which the alliance enabled each parent company to learn some critical skills from the alliance partner; and
4. The level of harmony the partners involved in the alliance exhibited.

Dyer, Kale and Singh were principally interested in determining the

effect that a dedicated alliance management function had on the success or otherwise of alliances so the research was focused on comparing the success rate for those companies in the survey group with an alliance management with the success rate of companies in the survey group without an alliance management function. For the purposes of their research exercise, alliances that received an above-average score on the four dimensions compared to other companies in the survey were rated successes, and those that received scores below average were rated failures. This meant that half of all the alliances in the survey group were classified as successful and half were classified as failures irrespective of whether or not the partners actually thought that the alliance had been a success. There is no evidence that when they were designing the research Dyer, Kale and Singh meant to produce an estimated failure rate for all alliances. Despite this, the survey has been to support the argument that alliances have a failure rate of around 50%.

Other researchers have simply treated alliances that have failed to go their full term as failures. This has the odd effect of classifying alliances, for example, where one party to the alliance acquired the alliance assets or acquired the partner or an alliance that has been spun-out as 'failures' and those that have limped on until the bitter end because it's easier to do so than terminate as 'successes'.

Our definition

For the purposes of this research note we have defined a 'failed alliance' as an alliance where an executive in an organisation partnering with the principal company disagreed with one or more of the following statements:

1. The alliance has been a success; or,
2. The alliance has met the expectations we had at the outset; or,
3. The alliance is on track to meet its objectives.

If the partner believes that the alliance is a success then, for our purposes, it is classified as a success. The test is subjective; this is appropriate given that 'success' is essentially subjective. In addition we believe that this test has the advantage of being clear and unambiguous.

Our findings

We found that the percentage of respondents in our database disagreeing with any of those three statements was 18%, the percentage agreeing was 65%, the remaining 17% neither agreed nor disagreed with the statement in question. This is at variance with the widely held perceptions about alliances and, at the very least,

suggests that the data supporting those perceptions needs to be re-examined.

The dataset

We used feedback from our database of partnering surveys that we have conducted on behalf of clients. So that we could be sure that the analysis is reasonably current, we used data only for surveys conducted in the last three years. The dataset consisted of 959 relevant responses by alliance partners. The dataset consists mainly of feedback on alliances in the life science and technology industries, but with a heavy weighting towards large companies in the life science sector.

Respondents

As executives in a company can have startlingly different assessments of the success or otherwise of an alliance we usually get the opinion of multiple executives in each partner when conducting research about alliances. We do, however, allow respondents to submit a response on behalf of the organisation as a whole.

When we get multiple responses from a partner we usually aggregate the data for that organisation. So that, in its simplest terms, if three respondents from one partner view the alliance a success and one respondent views it as a failure then the alliance is classified as a success. That data is then validated with our client to make sure that the feedback for each accords with their overall assessment of the alliance. Where there is significant variance we follow up the issue with the partner or redact the data.

We believe that this extended methodology gives an accurate assessment of the overall success or otherwise of individual alliances and, therefore, portfolios of alliances.

However, for the purposes of this analysis we have not aggregated the responses on the partner level so our findings represent the simple percentage of responding executives who believe that the alliance that they are involved in is a success or failure.

Discussion

As will be noticeable from the footnotes to the table of reported failure rates, much of the data used to support the argument that alliances have a high failure rate is over a decade old and all but impossible to get at. This is a cause for concern. If we don't know the survey sample size, the questions asked and the sector covered, the interpretation of the relevance and reliability of that data is a very difficult task. The data is, therefore, correspondingly unreliable.

Some of the reporting of the findings of the surveys covered by the table just seems odd. For example, the survey conducted for KPMG in 1998 by Wildeman and Kok polled 50 major organisations across industry sectors, including GE, Boeing and Airbus. Wildeman and Kok are quoted as finding that "In 70% of the cases, premature disbanding of alliances is caused by problems in the relationship". Companies like GE and Boeing are organisations which, one would have thought, place a great deal of importance on their supply chain functioning effectively. The assertion that they would tolerate a 70% casualty rate in their supply chains strikes us as something that possibly should not be taken as obviously true without further investigation.

When they made their 70% estimate, it is not clear whether Wildeman and Kok meant that:

1. 70% of all alliances entered into by these companies terminated prematurely because of problems in the relationship; or,
2. Of those alliances that were terminated early, 70% were terminated because of problems in the relationship.

Nor is it clear whether 'problems in the relationship' were the primary reason for the early termination of the alliances or one of a number of contributing factors. Whichever is the case, the finding that 70% of the underlying basis for the early termination of alliances is down to 'problems in the relationship' seems to leave little room for all the other reasons why an alliance may terminate early: change of strategy, regulatory factors, market failure, spin-off, acquisition, merger and so on.

Some the research in this area also seems to be subject to the selective reporting of data, at least in the headline reporting of failure rates.

For example, the survey that Accenture undertook in 1999 found that just 30% of respondents were willing to classify an alliance as having essentially failed. A further 5% of alliances were spun out, 9% were bought out by the partner and 17% were wound down as priorities and people changed. It is difficult to see how spinning out or buying out an alliance could be construed in itself as evidence of a failed alliance. It may be, but it may equally be evidence of a successful alliance. Nonetheless, in the reporting of the survey findings all these outcomes were bundled together to bulk out the estimated failure rate to 69%.

Likewise, two surveys undertaken in 2007 and 2009 by de Man and Duysters on behalf of the Association of Strategic Alliance

Professionals have found an average reported failure rate by respondents of, for example, 43% in 2009. But the reporting of the survey findings misses the point that nearly 50% of respondents in the 2009 survey reported a failure rate of 30% or less, in line with our estimates.

The de Man and Duysters survey data, which covered organisations with one alliance right up to organisations with more than 500 alliances, is unweighted and unsegmented. This strikes us as a missed opportunity because the experience which a company can bring to managing an alliance and the market sector of the partners is clearly going to affect the likely success of an alliance. It would have added greatly to the value of the survey if these figures had been reported.

In any event, it seems likely that large companies are typically going to be more successful at managing alliances than smaller companies for the following reasons:

1. They are likely to have been involved in alliances for longer than smaller companies and so will have greater experience of managing alliances.
2. They are involved in more alliances than smaller companies and so, again, have more experience to bring to bear on the management of each alliances.
3. They have greater resources to invest in dedicated alliance management staff and capabilities.
4. For smaller partners they would be considered more prestigious and valuable partners than smaller companies. For this reason smaller companies partnering with large companies are less likely to view an alliance negatively than would have had the partner been, for example, the same size as themselves.
5. Larger companies are less likely than smaller companies to be driven by short-term financial expediencies and more able to take a long-term view of an alliance, reorganisations and changes of strategy aside.

If it is indeed the case that companies with lots of alliances are more successful at managing them than smaller companies, then a weighting of the de Man and Duysters data by the number of alliances managed by the respondent would almost certainly result in a lower, possibly significantly lower, reported overall failure rate than the headline figure of 43%.

Concluding remarks

Having looked closely at the issue we think that much of the data in this area is patchy at best and should not be relied upon when making estimates of the typical failure rates of alliances. If this is indeed the case, then it follows that the perception, based on the headline reporting of that data, that the failure rate of alliances is somewhere between 50% and 70% needs reconsideration.

Further information

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