Proceedings of GLOGIFT 07
November 15-17, 2007
UP Technical University
Noida, pp. 207-215

MOTIVES OF STRATEGIC ALLIANCES FORMATION: INDIAN PERSPECTIVE

Dinesh Likhi*

"While the strategic use of alliances in the races to the world and the future appears much different on the surface, we find that the use of alliances in both races shares a common set of underlying 'logic'" (Doz and Hamel, 1998, p. 36).

Keywords: Strategic alliance, Value chain

Introduction

The role and significance of emerging markets in global economy is increasing. However, it is equally challenging and risky for one company to go alone in the emerging market. For global giants and ambitious emerging market companies alike, strategic partnerships have become central to competitive success in fast-changing global markets. This is primarily due to the fact that more than ever, many of skills and resources essential to a company's future prosperity lie outside the firm's boundaries, and outside direct managerial control. In this New Scenario, networks, coalitions, alliances and strategic partnerships are not an option but a necessity. To fully exploit the opportunities, a company today must have an ability to conceive, share, and sustain a wide variety of strategic partnership**.** An alliance is defined broadly as an agreement between two or more partners to share knowledge or resources/capabilities, which could be beneficial to all parties involved. Alliances can take place with intra-or inter-industry players. Amongst such alliances, there are strategic alliances, which are strategic in intent; focus on long-range goals and provides major economic benefits; and posses close linkages among partners. The strategic alliances take care of interests in the allies' future, support at the highest levels of each organization, and emphasis on cooperation and collaboration. Indeed strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology, and globalization, all of which have cast many corporations in two competitive races: one for the world and another for the future. Globalization opened the race for the world as firms are entering emerging markets and pursued untapped opportunities. The race for value creation by discovering/sharing others' resources for new market opportunities, new solutions for customers, new answers for poorly met needs. Therefore, it is evident that corporate boundaries are being made more flexible to face intensified challenges both in the marketplace and within the corporate boundaries. Often the practicing managers are in dilemma of choosing either strategic alliance or acquire businesses and often land in making sub-optimal gain from such strategic actions. "Ally or Acquire" has been subject of analysis by researchers. Such studies only provide a framework to facilitate finalization of strategic options, but lacks in

* Deputy GM (Business Planning), SAIL, New Delhi

understanding and realization of motives, behind strategic alliances. More important issue lies in understanding motives of strategic alliance and their effective management.

More and more Indian companies are adopting path of strategic alliances. However, dissatisfaction and failure are also being reported due to lack of understating on rationale of such moves, across various stages of strategic alliances. Our study indicates that Economic and/or knowledge creation are two key drivers/motives of strategic alliances. The value-creation potential of firm's resources is generated by pooling together complementary resources/ capabilities within the firm. At times, economic value creation is increased by aligning whole or part of organization capabilities, with other organization/organizations. The other key rationale is creation of additional knowledge by adopting various modes of strategic alliances.

To explore such motives, an attempt has been made to detail value chain perspectives for better insights on strategic alliances, in Indian Context. A Caselet based research in Asian steel industry has been used to indicate that Value Chain perspective (both economic and knowledge) is a better predictor of such moves, and is capable of guiding rationale of most of strategic alliances, across Strategic Alliance Life Cycle (Partner's Selection, Agreements Phase and Management). Clear understanding of this perspective helps manager in better management of strategic alliances, at subsequent stages. The article firstly brings out literature concerning definition of strategic alliances, theoretical rationale for formation of strategic alliance, value chain perspective and role of capability in strategic alliances. Article also summarizes research finding that each organization needs to use Porter's value chain and Knowledge Management Value chain at the time of formulation and management of strategic alliances for targeting gains at both fronts (Economic and Knowledge). Further, a need of inter and intra capabilities within each participating firm has also been highlighted for such value creation.

Motives of Strategic Alliances

Different definitions of alliances have been published, some are explained below:

Table 1: Different Definitions of Alliances

Strategic alliances, as inter organizational governance structures that straddle markets and hierarchies.	Thorelli, 1986
Alliances by their inherent long-term partnering/ "melding-of-organizational-structures" nature provide opportunities for partners to transfer embedded knowledge between them	Kogut, 1988
Alliance creates a laboratory for learning.	Hamel 1991
Relatively enduring inter firm cooperative arrangements, involving flows and linkages that use resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm	Parkhe 1993
Structured as distinct corporate entities or as inter organizational entities, encompassing all of the functional areas or just a single function	Varadarajan and Cunningham, 1995

We may summarize that an alliance, defined broadly as an arrangement between two or more partners to share knowledge or resources or capability, could be beneficial to all parties involved. Various terms such as licensing, joint ventures etc. have also been used to describe forms of strategic partnering (Likhi, 2004). Strategic alliances are strategic in intent; focus on long-range goals and provides major economic benefits; and feature close linkages among partners. All these terms/definitions clearly highlights [a] Need of others Capability/resources [b] Alignment with other company (ies) [c] Intent to attain certain objectives, difficult to attain alone.

The reasons of formation of strategic alliances are becoming important to get better insight of alliances formation and its management. It is an accepted fact that the need of strategic alliances emerges due to need of building strategy, managing change and learning or knowledge. The rationale for strategic alliances is the value-creation potential of firm resources that are pooled together (Das and Teng, 2000). Lack of resources/knowledge is assumed to be key driver of forming of strategic alliances. Since firm resources are of various types, literature survey indicates a number of resource typologies. The different approaches, as indicated by scholars (compiled by Das,2000) are listed below:

Table 2: Resources Typology

Authors	Type of resources
Grant, 1991	Tangible and intangible resources
Barney,1991	Physical capital resources, human capital resources, and organizational capital resources
Hofer and Schendel,1978	Financial, physical, managerial, human, organizational, and technological resources
Das and Teng 1998	Financial, technological, physical, managerial
Miller and Shamsie,1996	Property-based resources and knowledge-based resources.

The firm resources are of various types, it is no surprise that scholars have proposed a number of resource typologies. The simplest approach differentiates between tangible and intangible resources (Grant, 1991). Barney (1991) classifies firm resources into physical capital resources, human capital resources, and organizational capital resources. Hofer and Schendel (1978) suggest that a firm's resource profile include the following: financial, physical, managerial, human, organizational, and technological resources. Miller and Shamsie (1996) suggest that, based on the notion of barriers to imitability, all resources may be classified into two broad categories:

- property-based resources, and
- knowledge-based resources.

Core Competencies are those capabilities of an organization, which are difficult to be copied, add value to customers and transcend various business. Such Core Competencies are better predictors for Sustainable competitive advantage, as against resources/knowledge. (Hamel,1991). Organizations tend to build core competencies for value creation in economic or knowledge terms. Such value creation is increased by aligning whole or part of organization capabilities, with other organization/organizations. Das and Teng (1998) have indicated resource and risk issues in strategic alliances, as key decision point.

Role of situation, actors and process in strategic alliance formation and management has been extensively covered in research (Likhi and Sushil, 2005)

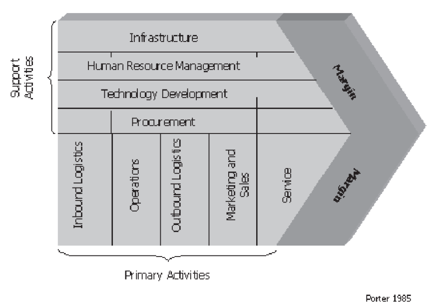
Some authors stress that six major theoretical streams (transaction cost theory, resource depending approach, network approach, the capability approach) will be able to guide managers in understanding motives of strategic alliances (Foss, 2001). Value Creation motives seems to be a better rationale.

Value Chain Perspective

Value Chain perspective may be used to avoid multiple rationales of strategic alliances. Value may be defined as any activity that increases the market form or function of the product or service and in today's business climate, one need to maximize the value of every process in business. A company's value chain is a system of independent activities, which are connected by linkages. Linkages exist in manner by which one performed activity affects the cost or effectiveness of other activities. The term 'Value Chain' was used by Michael Porter in his book "Competitive Advantage: Creating and Sustaining superior Performance" (Porter, 1985). The value chain analysis describes the activities the organization performs and links them to the organizations competitive position.

Value chain analysis describes the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization. Therefore, it evaluates which value each particular activity adds to the organizations products or services. This idea was built upon the insight that an organization is more than a random compilation of machinery, equipment, people and money. Only if these things are arranged into systems and systematic activities, it will become possible to produce something for which customers are willing to pay a price. Porter argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage.

The basic model of Porters Value Chain is as follows:



Value chain management deals with how firms obtain materials/components as input, add value to them through a range of processes, and market finished products to customers. Major activities in a value chain include inbound logistics, operations, outbound logistics, marketing and sales, as well as service, aided by supporting functions such as procurement, technology, human resource management, and infrastructure of the firms. The objective is to deliver maximum value to customers for the least possible total cost. An effective value chain is capable of efficiently managing material, information, and cash flow between suppliers and customers in order to enhance quality, minimize inventories, reduce time to market, and meet or surpass customer expectations. The term 'Margin' implies that organizations realize a profit margin that depends on their ability to manage the linkages between all activities in the value chain. In other words, the organization is able to deliver a product / service for which the customer is willing to pay more than the sum of the costs of all activities in the value chain.

The purpose of value chain analysis is to determine how and where any company adds value to its products/services so that it can maximize its profitability. The best way to start is to conduct a short brainstorming session to identify the core business activities of the company, to prioritize a list of core business activities requiring attention for Competitive Advantage. Competencies are to be benchmarked with other organizations to identify areas of collaborations. Some of such opportunities will be feasible with joint reconfiguration of value chains of involved organizations, after looking at reworked economic and/or knowledge value by forging strategic alliances.

Though Porter's Value Chain has been extensively used for continuing existing configuration of activities or reconfiguration for economic and strategic gains, but seldom used to see combined effect of value chains of participating firms, before formation of strategic alliances as well as at times of strategic alliances management.

Some authors have also coined an idea of Knowledge value chain (Lee and Yang, 2000) which consists of Knowledge Management (KM) infrastructure and the KM process's activities and knowledge performance. These infrastructure components and activities are the building blocks by which a corporation creates a product or provides service valuable to its customers. Knowledge Value Chain consist of KM process (Acquisitions, Innovations, Protections, Integrations, Disseminations) and KM infrastructure (Chief Knowledge Officer & Management, Knowledge Worker Recruitment, Knowledge Storage Capacity, Customers/suppliers relationship), as diagrammatically given below:

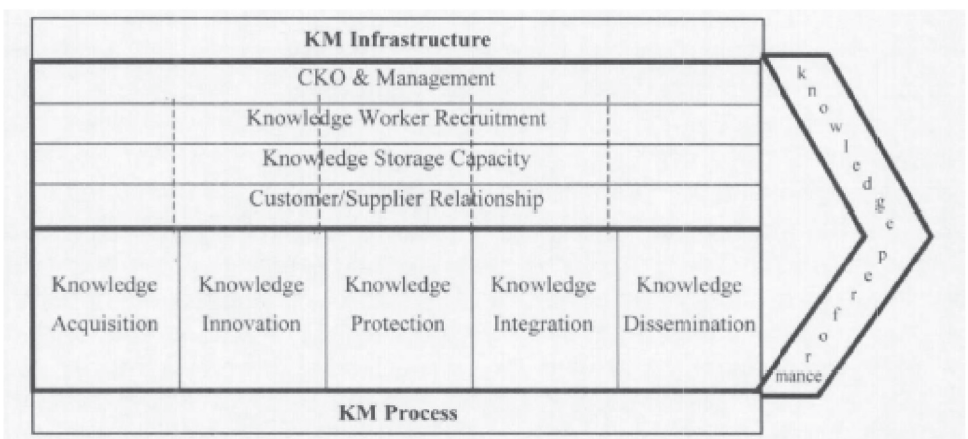


Figure 2: Knowledge Value Chain

Knowledge Value Creation is also one of key drivers of forging strategic alliances. The above KM Value chain perspective of one company be retained or reconfigured by "stand alone" activities or "joint" activities.

Areas of joint activities and their sustaining may be identified for continuous monitoring using both Value chain perspective (Porter Value Chain and KM Value Chain). In case of joint competencies development, the performance can be measured in two categories. One is financial performance. The financial assessments (Economic Value) such as ROI are particularly may be explained with Porter's Value Chain. The other is non-financial measures including operating performance outcomes and direct measures of learning. Examples of operating performance measures include lead times, customer satisfaction, and employee productivity. Learning measures include such items as the number of participants in communities of practice, employees trained, and customers affected by the use of knowledge. All the non-financial measures (Knowledge Value) can be regarded as the reflection of knowledge based competence of corporation.

Intra Capability Maturity: Most scholars deduce the existence of an alliance capability maturity from a firm's prior alliance experience or from a higher level of performance between firms that frequently re-partner or other indirect measurements (Anand and Khanna, 2000; Zollo and Reuer, 2003). Leaving some notable exceptions aside (Makija and Ganesh, 1997; Nault and Tyagi, 2001; Zahra and Nielsen, 2002), so far scholars' attempts to discern how firms develop such a capability maturity have remained scarce (Simonin, 1997; Sarkar et al., 2004) and little is known about the underlying parameters that make up such a capability maturity (Thomke and Kuemmerle, 2002). Moreover, the relationships between capability maturity and performance have also remained complex and obscure (Dosi et al., 2000b; Rugman and Verbeke, 2002).

Case Based Analysis

Based on case base research of about five Cases in Indian Manufacturing sector, we are able to classify a new orientation for guiding practicing managers on the basis of Gains (Economic and Knowledge) and Competencies. Each organization needs to use Porter's value chain and KM Value chain at the time of formulation and management of strategic alliances for maximum gains at both front (Economic and Knowledge). Strategic Alliances are expected to result in improving performance as desired or improve performance in other areas, not originally envisaged. One needs to abandon strategic alliance if competencies and gain are not evolved and emerged either at economic and knowledge level.

Some of the cases, analyzed for interpreting the above perspective are discussed below:

In case one, for Knowledge sharing, one Russian company approached Indian Steel Company (SAIL) for establishment of a Joint Venture Company for strategic alliances in emerging technology of making iron. A presentation was made by Russians before the Chief Executives of Indian Company and a Memorandum of Understanding (MOU) was signed in 1995 for Joint Venture Company in India with Limited liability. A team was deputed to Russia during same year to witness the operation of the pilot plant. In their report, the team expressed its satisfaction on the potential of the process for commercial exploitation. It recommended the formation of a Joint venture company with Russian Organizations for Development and Marketing of this process. The Board of Indian Company considered and approved the formation of the Strategic Alliance for development of new Technology in India and such other countries as may be agreed between the parties, subject to approval of the Government. Knowledge related competencies usage and knowledge gain was considered as prime motive by Indian company and economic related competencies and economic gain by Russian Company, over alliance life cycle. Re-orientation of People and Process in Joint Venture Company was not altered in areas of such gains due to lack of experience in alliances. There was lack of Knowledge, Relationship, Cultural and Revitalization Capabilities. Based on periodic review, Joint Venture Company should have focused on reorientation of people and process for competencies/ capabilities development for better outcome.

In second case, Strategic Alliance was considered by one Indian Steel Company (SAIL) for developing knowledge as well economic gains by forming strategic alliance (50:50% equity) in areas of software. One US Company has been extensively using Information Technology for effectively managing its business. Deliberations on design, development and implementation of state-of-the-art Information Technology systems has put the company in the fore-front of IT scenario thus providing attractive opportunities to diversify its business into Information

Technology. However, lack of knowledge competencies in the business and risk associated, a need of strong partner with complementary knowledge was felt, to implement Strategy. International experience of a US based subsidiary of US in the field of Information Technology related to steel business combined with referred experience was found as an ideal combination for promoting a Joint Venture Company in areas of Information Technology. The Joint Venture Company was setup at New Delhi with no initial capital investment and with core manpower coming primarily from Indian company and knowledge based manpower coming from US Company. Computer and other infra-structural facilities required for the JVC were hired/taken on lease by the Joint Venture Company (initially from Indian company on sharing basis). Top manager has been from USA for some years. Board members were from both companies. Alliance was found to be strategic, as it was a strategic move for acquiring knowledge and economic gains. Lack of capabilities in the areas of relation, culture, knowledge and revitalization created dissatisfaction amongst key actors and abandoning alliance at a later stage.

In third case, one steel company (SAIL) decided to go for strategic alliance, as part of change management and Strategy. In 2001, the company transferred 4x60 MW Power Plants to Joint Venture Company to gain knowledge based competencies for economic gains. The people and process of higher knowledge based Power Company were deployed for creating economic gains. The experience gained in alliances, which was attained over the period in each of constituent and the same is helping in economic gain to both parties.

In fourth case, to meet the challenges posed by the growing demand for power in the long-term, the role of private participation (Independent Power Producers) in generation projects became significant. Against this background, Government of India announced the Mega Power Policy in 1998, for development of large, multi-state generation projects. One option for the structure of project agreements for these projects was multiple Power Purchase Agreements (PPAs) with each buyer utility/ SEBs, involving issues like risk sharing as well as payment security mechanisms. This structure would be within the conventional, rigid framework, reducing the credit-worthiness of the projects. The alternative was to address the issue through a single credit-enhancing entity, which would intermediate by buying power from these generation projects and sell to multiple power utilities /SEBs. Such an entity could manage the risks effectively to provide adequate comfort to investors and lenders, particularly in view of poor financial health and payment records of State Electricity Boards in India. Further, in India there is a regional power surplus in the country and the complementary patterns of power deficits. The power demand-supply planning process use to be undertaken in regional basis. It was difficult to transfer power from a surplus region to a deficit one; with major problems in inter-regional connectivity and in co-ordination between different REBs / SEBs dealing with the five electricity regions of the country. PTC India Ltd. (formerly known as Power Trading Corporation of India Limited), was incorporated in 1999 to achieve the following objectives:

- Develop a full fledged, efficient and competitive market mechanism for trading in power
- Facilitate development of generation projects including through private investment

Both objectives are meant to result in reliable, economic and quality power in the long term.

Equity was 8% each from NTPC, Power Grid and PFC, 10% from Tata-Power, 6.67% from DVC and rest from Financial Institution/Public/others. While, NTPC, NHPC, DVC & Tata Power have core competency in operation & maintenance of thermal /hydel power plant, Power Grid is Central Transmission Utility (CTU) and has core competency in bulk power transfer across regions. PFC and other Financial Institutions (IDBI, IFCI, LIC, GIC, IDFC) have core competency in appraisal & financing of power & transmission projects. Strategic Alliance has helped to all participating companies in terms of creation of economic and knowledge value. Most of participating companies being in Public Sectors, there is very good structure, relationship, cultural, knowledge management and performance management capability.

In fifth case, power company (NTPC) faced a problem of coal supply to its power stations both in terms of coal quantity and quality which caused backing down of the power stations, resulting in generation loss and consequent economic loss to the Nation. Reliable coal supply both in terms of quantity & quality for all NTPC coal based power stations was essential. Long Term Non Equity alliance was organized with intervention of concerned ministry. Good relationship, cultural, knowledge and performance management capability is helping the company to attain defined objectives.

Conclusions and Future Research

Formation and management of strategic alliances need understanding motives for such alliances and Value Chain Perspective (Porter and KM) can guide managers in understanding such motives better. There is a need to have Strategic Alliance Capability Maturity, which consists of a series of Capabilities. Hieratically, we found that these are at three levels. At lower level, it is gained by Structural Capability. At middle level, it consists of Knowledge Management Capability, Relationship Capability, and Cultural Management Capability. At highest level, it consists of Revitalization Capability. (We defined Structural capability as 'bundle of resources and skill', consisting of dedicated department, past alliance experience, top Management support, alliance know-how, supportive process structure including review mechanism. Knowledge Management capability is defined as 'bundle of resources & skill' consisting of ability to transfer knowledge. Relationship Management Capability is defined as 'bundle of resources and skill' consisting of ability to commit, fair dealing, open flow of information, quality of coordination, long term focus, joint decision making. Cultural Management capability is defined as 'bundle of resources and skill' consisting of (a) ability for managing interaction with partner firm in a flexible manner as against in a stable manner. (b) Ability to focus on collectivism, defused power, certainty and accommodating style, as against individualism, centralized power, uncertainty, tough and competitive attitude. Revitalization capability is defined as 'bundle of resources and skill', consisting of continuous mutual interaction, creation of mutual innovation, entrepreneur style and flexibility) .

We concluded that Strategic Alliance Partners have to gain Capability Maturity, before embarking on higher economic and/or knowledge gains from strategic alliances. However, understanding Value Chain Perspective will be useful to managers for better understanding of motives of strategic alliances. The study was based on qualitative research methodology; using case based research and needs empirical validation, before any generalization.

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