UNIT 11 STRATEGIC ALLIANCES

Objectives

After reading this unit, you should be able to:

- understand the concept of strategic alliances;
- acquaint yourself with the worldwide trends in this area;
- explain the factors responsible for the rise of strategic alliances;
- develop an awareness of costs and benefits of alliance arrangements;
- explain the process of planning successful alliances; and
- discuss the issue of corporate responsibility of the alliance partners.

Structure

11.1 INTRODUCTION

Gallo, the world's largest producer of wine, does not grow a single grape and likewise, Nike, the world's largest producer of athletic foot-wear, does not manufacture a single shoe, Boeing, the giant aircraft manufacturer, makes little more than cockpits and wing bits (Quinn, 1995). "How is this possible?" These companies, like many other companies these days, have entered into strategic alliances with their suppliers to do much of their actual production and manufacturing for them.

From software to steel, aerospace to apparel, the pace of strategic alliances worldwide is accelerating. Strategic alliances, broadly defined as arrangements in which two organizations conjoin to pursue common interests, are a rapidly growing phenomenon in the contemporary business environment. Alliances represent strategic responses to the powerful forces of deregulation, globalization, technological change, and time-to-market concerns. These forces have made the business environment vastly more competitive, complex, and uncertain than ever before. Companies are turning to strategic alliances in order to manage their uncertainty and risk and specifically to access a wide range of competencies, technologies, and markets.

A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership (Wheelen and Hungar, 2000). Strategic alliances can be as simple as two companies sharing their technological and/or marketing resources. In contrast, they can be highly complex, involving several companies, located in different countries. These firms may in turn be linked with other organizations in separate alliances. The result is a maze of intertwined companies, which may be competing with each other in several product areas while collaborating in some. These alliances also range from informal "handshake" agreements to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture corporation. Much of the discussion in the literature on strategic alliances revolves around alliances between two companies, but there is an increasing trend towards multi-company alliances. For instance, a six-company strategic alliance was formed between Apple, Sony, Motorola, Philips, AT&T and Matsushita to form General Magic Corporation to develop Telescript communications software.

In essence, strategic alliance, a form of corporate partnering, is the joining of two or more companies to exchange resources, share risks, or divide rewards from a joint enterprise. It can take any number of forms such as: a strong relationship with a major customer, a partnership with a source of distribution, a relationship with a supplier of innovation or product, or an alliance in pursuit of a common goal. Sometimes partners form a new jointly owned company. In other instances a firm purchases equity in another. Most often the relationship is defined by a contract. Many features of strategic alliances are very similar to other forms of partnering. The differences relate to the greater difficulty of achieving a good partnering relationship or developing the strategic nature of an alliance. They are harder to do because of the need to match the expectations of different cultures and business practices.

11.2 STRATEGIC ALLIANCE TRENDS

Strategic alliances are becoming more and more prominent in the global economy. According to Peter F. Drucker, the management guru, the greatest change in corporate culture, and the way business is being conducted, is the accelerating growth of relationships based not on ownership, but on partnership (Drucker, 1996). He also observed that there is not just a surge in alliances but a worldwide restructuring of companies in the shape of alliances and partnerships. His views are endorsed by the fact that even a cursory search for strategic alliances in business dailies produces numerous press releases about companies forming alliances. According to a recent survey by the global consulting major, Booz, Allen and Hamilton, strategic alliances are spreading in every industry and are becoming an essential driver of superior growth. The number of alliances in the world is surging — for instance, more than 20,000 new alliances were formed in the U.S. between 1987 and 1992, compared with 5100 between 1980 and 1987 and 750 during the 1970s. The firm also predicts that within the next five years, the value of alliances is projected to range between $30 trillion to $50 trillion. The survey also reveals that more than 20% of the revenue generated from the top 2,000 U.S. and European companies now comes from alliances, with more predicted in the near future. These same companies also earned higher return on investment (ROl) and return on equity (ROE) on their alliances than from their core businesses. The report also concludes that leading edge alliance companies are creating a string of interconnected relationships, which allows them to overpower the competition (www.boozeallen.com).

Generally two or more companies collaborate to create a new product or a service in a strategic alliance. Ideally this new product or service will bring a unique value proposition to the market as agreed by the collaborating parties. The potential of strategic alliances' strategy is enormous and if implemented correctly can dramatically improve an organization's operations and competitiveness (Brucellaria, 1997). According to a survey conducted by Coopers & Lybrand, 54 percent of firms that formed alliances did so for joint marketing and promotional purposes (Coopers and Lybrand, 1997). Companies are also forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to reduce political risk and to achieve or ensure competitive advantage (Wheelen and Hungar, 2000). However, while many organizations often rush to jump on the bandwagon of strategic alliances, few succeed (Soursac, 1996). The failure rate of strategic alliances strategy is projected to be as high as 70 percent (Kalmbach and Roussel, 1999), and hence, an appreciation of the factors that contribute to strategic alliance success and failure is critically important.

The rest of the unit explores why and how companies are forming strategic alliances, examine risks and problems associated with entering and maintaining successful strategic alliance and identify factors that may impact the success of strategic alliances in an increasingly competitive marketplace. Important implications for the successful introduction and implementation of strategic alliances are also discussed.

11.3 FACTORS PROMOTING THE RISE OF STRATEGIC ALLIANCES

Since the 1980s, strategic alliances have been very popular. Alliances can be a powerful tool, particularly in today's world, due to the need to build differential capabilities in more areas than a company has resources or time to develop. The legendary Jack Welch, who headed GE in the past, echoing this sentiment once said, "If you think you can go it alone in today's global economy, you are highly mistaken." It is becoming more difficult for organizations to remain self-sufficient in an international business environment that demands both focus and flexibility. As companies are increasingly feeling the effects of global competition, they are trying to achieve a sustainable competitive advantage through strategic alliances.

Competitive boundaries are blurring as advances in communication and the trend toward global markets link formerly disparate products, markets, and geographical regions. Competition is no longer confined to a single nation's borders -making all firms vulnerable to threats posed by cooperative strategies. Both, rapid technological shifts and the need for rapid product innovation, are putting pressure on management to act faster and smarter with fewer resources. Effectively identifying, protecting, and enhancing one's core capabilities is the key challenge of our time. In this environment, successful companies need to select, build, and deploy the critical capabilities that can come from strategic alliances, which will enable them to gain competitive advantage, enhance customer value, and drive their markets.

The alliance approach better matches and responds to the uncertainties and complexities of today's globalized business environment. These partnerships allow access to skills and resources of other parties in order to strengthen the organization's competitive strategies. Alliance partnerships are initiated as effective strategies to overcome the skill and resource gaps encountered in gaining access to global markets. Establishing strategic alliance relationships provides access to new markets, accelerates the pace of entry, encourages the sharing of research and development, manufacturing, and/or marketing costs, broadening the product line/filling product; and learning new skills. Dowling *et al*, suggest "the partners pool, exchange, or integrate specified business resources for mutual gain. Yet, the partners remain separate businesses". In today's fast changing business landscape, strategic alliances enable business to gain competitive advantage through access to a partner's resources, including markets, technologies, capital and people. Teaming up with others adds complementary resources and capabilities, enabling participants to grow and expand more quickly and efficiently. Especially fast-growing companies rely heavily on alliances to extend their technical and operational resources. In the process, they save time and boost productivity by not having to develop their own, from scratch. They are thus freed to concentrate on innovation and their core business.

Many fast-growth technology companies use strategic alliances to benefit from more-established channels of distribution, marketing, or brand reputation of bigger, better-known players. However, more-traditional businesses tend to enter alliances for reasons such as geographic expansion, cost reduction, manufacturing, and other supply chain synergies. As global markets open up and competition grows, midsize companies need to be increasingly creative about how and with whom they align themselves to go to the market. All these factors have hastened and highlighted the need for strategic alliances.

To summarize, few companies have everything they need to succeed in a competitive market place alone. No matter what they need, there is someone who has it. They can, therefore, either buy what they need or partner with others. Partnering is frequently quicker and less costly. While avoiding difficult and time-consuming internal changes, partnering allows a company to:

- Rapidly move to decisively seize opportunities before they disappear.
- Respond more quickly to change with greater flexibility.
- Increase your market share.
- Gain access to a new market or beat others to that market.
- Quickly shore up internal weaknesses.
- Gain a new skill or area of competence.
- Succeed although the company lacks key resources.

11.4 TYPES OF STRATEGIC ALLIANCES

Firms can enter into a number of different types of strategic alliances. These could include comparatively simple, more "distant" arrangements in which firms work with one another on a short-term or a contractually defined basis where the two parties effectively do not combine their managers, value chains, core technologies, or other skill sets. Examples of such simpler alliance vehicles include licensing, cross-marketing deals, limited forms of outsourcing, and loosely configured customer-supply arrangements. On the other hand, companies may seek to partner more closely in their cooperative ventures, combining managers, technologies, products, processes, and other value-adding assets in varying ways to bring the companies more closely together. Examples of alliance modes in this league include technology development pacts, coproduction arrangements, and formal joint ventures in which the partners contribute a defined amount of capital to form a third party entity. Finally, in even more complex strategic alliance arrangements, partners can take significant equity-stake holdings in one another, thus approximating many organizational and strategic characteristics of an outright merger or acquisition.

In a study by Coopers and Lybrand (1997), they identified the following types of alliances, and found their clients were engaged in them as follows:

- joint marketing/promotion, 54 per cent;
- joint selling or distribution, 42 per cent;
- production, 26 per cent;

- design collaboration, 23 per cent;
- technology licensing, 22 per cent;
- research and development contracts, 19 per cent;
- other outsourcing purposes, 19 per cent.

Technology Associates and Alliances, a strategic alliance consulting company, lists the following types of alliances:

Marketing and sales alliances:

- joint marketing agreements;
- value added resellers.

Product and manufacturing alliances:

- procurement-supplier alliances;
- joint manufacturing.

Technology and know-how alliances:

- technology development;
- university/industry joint research.

Technology Associates and Alliances, suggests that alliances can be hybrids between these different types. For example, an R&D alliance may be a cross between a product and manufacturing alliance and a technology and know-how alliance, and a collaborative marketing agreement is a cross between a marketing and sales alliance and a product and manufacturing alliance. The important thing to remember is that there are various types of alliances, and they may range from simple licensing arrangement, *ad hoc* alliance, joint operations, joint venture, consortia, distribution, and value-chain partnership alliances to more complex hybrid alliances.

The simplest form of strategic alliance is a **contractual arrangement**. Contractual-based strategic alliances generally are short-term arrangements that are appropriate when a formal management structure is not required. While the specific provisions of the contract will depend upon the business arrangement, the contract should address: (i) the duties and responsibilities of each party; (ii) confidentiality and non-competition; (iii) payment terms; (iv) scientific or technical milestones; (v) ownership of intellectual property; (vi) remedies for breach; and (vii) termination. Examples of contractual strategic alliances are license agreements, marketing, promotion, and distribution agreements, development agreements, and service agreements.

The most complex form of strategic alliance is a **joint venture**. A joint venture involves creating a separate legal entity (generally a corporation, limited liability company, or partnership) through which the business of the alliance is conducted. A joint venture may be appropriate if: (i) the parties intend a long-term alliance; (ii) the alliance will require a significant commitment of resources by each party; (iii) the alliance will require significant interaction between the parties; (iv) the alliance will require a separate management structure; or (v) if the business of the alliance may be subject to unique regulatory issues. In addition, a joint venture will be appropriate if the parties expect that the alliance ultimately may be able to function as a separate business that could be sold or taken public.

Historically, information technology and life sciences companies have sought minority equity investments from strategic commercial partners. This form of strategic alliance has gained increased popularity in the current economic climate. In many cases, the equity investment will also be accompanied by a contractual arrangement between the parties such as a license agreement or a distribution agreement. From the company's perspective, an equity investment from a strategic commercial partner may be structured on more favorable terms than those obtained from venture capitalists, and it may increase the company's valuation and enhance the company's ability to secure future rounds of funding. Venture capitalists and underwriters generally view these types of strategic alliances as validating an early stage company's technology and business model. In some cases, they have even become a condition to an underwriter taking a life science company public. The strategic commercial partner may desire this form of alliance to gain a competitive advantage through access to new technologies and to share in the upside of the other party's business through equity ownership.

The following section will focus on three broad types of strategic alliances: licensing arrangements, joint ventures, and cross-holding arrangements that include equity stakes and consortia among firms. Each broad type of strategic alliance is implemented differently and imposes its own set of managerial skills, constraints, and coordination requirements needed to build competitive advantage.

Licensing Arrangements

In most manufacturing industries, licensing represents a sale of technology or product based knowledge in exchange for market entry. In service-based firms, licensing is the right to enter a market in exchange for a fee or royalty. Licensing arrangements have become more pronounced across both categories. In many ways they represent the least sophisticated and simplest form of strategic alliance. Licensing arrangements are simple alliances because they allow the participants greater access to either a technology or market in exchange for royalties or future technology sharing than either partner could do on its own. Within the pharmaceutical industry, for example, many of the technology sharing arrangements that allow a licensee to produce and sell products developed by the licensor. The relationship between the companies does not go beyond this level. Unlike joint ventures or more complex cross-holding/equity stake consortia, licensing arrangements provide no joint equity ownership in a new entity. Companies enter into licensing agreements for several reasons. The primary reasons are (1) a need for help in commercializing a new technology, and (2) global expansion of a brand franchise or marketing image.

Nicholas Piramal India Ltd (NPIL), for instance, has recently entered into a 5-year in-licensing agreement with Genzyme Corp, USA, for synvisc viscose supplementation in the Indian market. Synvisc, which is used for the treatment of osteoarthritis of the knee, has sales of $250 million in international market. It expects the market size in India to be about Rs.200 Million. Johnson & Johnson, is expanding involvement in and commitment to biotechnology through new partnerships, licensing agreements, equity investments and acquisitions. Through its excellence centres such as Centocor and Ortho Biotech, and its global research, development and marketing operations to form an integrated enterprise that is well positioned to deliver biotechnology's extraordinary promise to patients and physicians around the world.

Joint Ventures

Joint ventures are more complex and formal than licensing arrangements. Unlike licensing, joint ventures involve partners' creation of a third entity representing the interests and capital of the two partners. Both partners contribute capital, distinctive skills, managers, reporting systems, and technologies to the venture in certain proportions. Joint ventures often entail complex coordination between partners in carrying out value chain activities. Firms enter into joint ventures for four reasons: (1) seeking vertical integration, (2) needing to learn a partner's skills, (3) upgrading and improving skills, and (4) shaping future industry evolution.

Vertical integration is a critical reason why many firms enter joint ventures. Vertical integration is designed to help firms enlarge the scope of their operations within a single industry. Yet, for many firms, expanding their set of activities within the value chain can be an expensive and time-consuming proposition. Joint ventures can help firms achieve the benefits of vertical integration without saddling them with higher fixed costs. This benefit is especially appealing when the core technology used in the industry is changing quickly. Joint ventures can also help firms retain some degree of control over crucial supplies at a time when investment funds are scarce and cannot be allocated to backward integration or when the company has difficulty in accessing the raw material. By partnering with the suppliers to form a strategic alliance the firm can increase the stability of its supplies. The organizations forming the alliance will have a common goal and be better integrated. This will ensure that they all have a shared interest in making certain that the alliance is successful, including ensuring the supplies of materials, information, advice or any other necessary input to the alliance is met in a timely, efficient and consistent manner. A case in point is the Jindal Stainless Steel Ltd (JSSL), which plans to source raw materials from abroad. The company is planning strategic alliances with companies in South Africa, South East Asia and Europe for long- term supplies of ferro chrome, chrome ore and nickel. The whole objective of the alliance is to ensure that supplies are managed efficiently with resultant improvements in profitability. A strategic alliance can also rationalize supply chains. By selecting integrated suppliers, the number of links in a supply chain can be significantly reduced.

Joint ventures are quite common in India. In the highly capital-intensive industries such as automobiles, chemicals, pharmaceuticals and petroleum industries, joint ventures are becoming more widespread as firms seek to overcome the high fixed costs required for managing ever more scale-intensive production processes. In all these industries, production is highly committed in nature, which means that it is difficult for firms on their own to build sufficient scale and profitability in products that often face highly volatile pricing and deep cyclical downturns when markets collapse.

For instance, Telco (now rechristened as Tata Motors) is the leader in the commercial vehicle segment with a 54% market share in Light Commercial Vehicle (LCV) and 63% market share in Medium & Heavy Commercial Vehicle (M&HCV) (2003 figures). It garnered a market share of 21% in the utility vehicle (UV) segment and a 9% market share in the passenger car industry in a short span of three years. The company is open to alliances, but is not willing to enter into any alliance without a strong underlying reason. The view of the top management is that a strategic alliance should bring complementary strengths together. Around 85% of the Indian market consists of small cars and this trend is expected to continue for the next 10-15 years. Tata Indica, which is one of the best and technologically contemporary value propositions available, caters to this segment. Hence the company is primarily interested in an alliance with a global major who can offer a better proposition in the small car market than the Indica and who already has a presence in India. Second, the company is looking for a strategic alliance to enhance their product portfolio in the more premium or niche segments and to open the overseas markets for them.

Firms often enter into joint ventures to learn another firm’s distinctive skills or capabilities. In many high-technology industries, many years of development are required before a company possesses the proprietary technologies and specialized processes needed to compete effectively on its own. These skills may already be available in a potential partner. A joint venture can help firms learn these new skills without retracing the steps of innovation at great cost. For example, Voltas plans on leveraging its technology-sharing alliances with overseas collaborators, and in seeking fresh ones, for serving the domestic market. In the Air Conditioning and Refrigeration business, Voltas a new generation of clientele, such as multiplexes, shopping malls, entertainment centres, and establishments in the private telecom industry and hospitality. More than mere cooling, these clients seek solutions encompassing controlled environments, with clean and pure air, and energy-efficient systems. The company is well placed to deliver these solutions by leveraging the competencies of its range of partners – for example, the success of the Vertis brand of room and split air conditioners is yet another example of the success of alliances. The Vertis brand features advanced technology from Fedders International Inc. USA, one of the world's largest manufacturers of air conditioners, with whom the company has a "manufacturing-only" joint venture. This alliance has resulted in a brand, which has moved from fifth place to second place in the Indian market in the space of two years.

Joint ventures are instrumental in helping firms with similar skills improve and build upon each other's distinctive competences. Even though some of these joint ventures are likely to involve rivals competing within the same industry, companies may still benefit from close cooperation in developing an underlying cutting-edge technology that could transform the industry. In anticipation of WTO, MNCs are strengthening their ranks in India (either setting up new 100% subsidiaries or marketing tie-ups with major domestic players. Large local players are consolidating through brand acquisitions, co-marketing/ contract manufacturing tie-ups with MNCs etc) and to counter this threat, Cadilla Healthcare Limited (CHL), for instance, has formed joint ventures in some of the high growth areas with CHL bringing to table its strength in manufacturing and marketing and JV partners bringing in the technology. Firms can cooperate in a joint venture to develop and commercialize new technologies that may significantly influence an industry's future direction. The need to maintain industry dynamism and momentum in research is a motivating force that drives drug companies to engage in joint ventures, even when they compete in existing product lines.

Cross-Holdings, Equity Stakes, and Consortia

The third category of strategic alliance includes some of the more complex forms of alliance arrangements. These alliances bring together companies more closely than licensing and joint venture mechanism. Broadly amalgamated together as consortia, these alliances represent highly complex and intricate linkages among groups of companies. The term consortia is used to focus on two types of complex alliance evolution: (1) multipartner alliances designed to share an underlying technology and (2) formal groups of companies that own large equity stakes in one another. In either case, consortia represent the most sophisticated form of strategic alliance and involve complex coordination mechanisms that often go beyond the boundaries of individual firms (*Refer to case study in Appendix-3*).

Activity 1

Scan the various business dailies and magazines and identify the various types of alliances Indian companies have adopted in the recent past. Also list out the various reasons, which the companies have stated for forming these alliances.What benefits do these companies expect from these partnership arrangements.

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11.5 BENEFITS OF STRATEGIC ALLIANCES

In the new economy, strategic alliances enable business to gain competitive advantage through access to a partner's resources, including markets, technologies, capital and people. Teaming up with others adds complementary resources and capabilities, enabling participants to grow and expand more quickly and efficiently. Strategic alliances also benefit companies by reducing manufacturing costs, and developing and diffusing new technologies rapidly. Alliances are also used to accelerate product introduction and overcome legal and trade barriers expeditiously. In this era of rapid tecnological changes and global markets forming alliances is often the fastest, most effective method of achieving growth objectives. However, companies must ensure that the objectives of the alliance are compatible and in tune with their existing businesses so their expertise is transferable to the alliance.

Many fast-growth technology companies use strategic alliances to benefit from more-established channels of distribution, marketing, or brand reputation of bigger, better-known players. However, more-traditional businesses tend to enter alliances for reasons such as geographic expansion, cost reduction, manufacturing, and other supply-chain synergies. As global market opens up and competition grows, midsize companies need to be increasingly creative about how and with whom they align themselves to go to the market.

Firms often enter into alliances based on opportunity rather than linkage with their overall goals. This risk is greatest when a company has a surplus of cash. In recent years, Mercedes-Benz and Toyota Motor Corporation have been investing surplus funds into seemingly unrelated businesses, with Benz already facing difficulties as a result.Especially fast-growing companies rely heavily on alliances to extend their technical and operational resources. In the process, they save time and boost productivity by not having to develop their own, from scratch. They are thus freed to concentrate on innovation and their core business.

Entering New Markets

The Coopers & Lybrand study rates growth strategies and entering new markets among the top reasons for forming strategic alliances (Coopers and Lybrand, 1997). As Ohmae (1992) points out, (companies) simply do not have the time to establish new markets one-by one. In today's fast-paced world economy, this is increasingly true. Therefore, forming an alliance with an existing company already in that marketplace is a very appealing alternative. Partnering with an international company can make the expansion into unfamiliar territory a lot easier and less stressful for a company. According to the Coopers & Lybrand (1997) study, 50 percent of firms involved in alliances market their goods and services internationally versus 30 percent of nonallied participants. For instance, Tata Motors has short listed Brilliance Automotive Holdings of China to set up a joint venture for producing cars. Tata Motors, which recently acquired the commercial truck facility of Daewoo Motors in South Korea for Rs.465 crore, is also reported to be scouting for another joint venture in Northern China in order to have a full-fledged presence in China.

Often a company that has a successful product or service has a desire to introduce it into a new market. Yet perhaps the company recognizes that it lacks the necessary marketing expertise because it does not fully understand customer needs, does not know how to promote the product or service effectively, or does not understand or have access to the proper distribution channels. Rather than painstakingly trying to develop this expertise internally, the company may identify another organization that possesses those desired marketing skills. Then, by capitalizing on the product development skills of one company and the marketing skills of the other, the resulting alliance can serve the market quickly and effectively. Alliances may be particularly helpful when entering a foreign market for the first time because of the extensive cultural differences that may abound. They may also be effective domestically when entering regional or ethnic markets. Asian Paints, the largest paint-maker in India, acquired a strategic stake in Singapore-based Berger International in 2002. Asian

Paints now appears to be trying to gain control over the Berger brand in some key regional markets like Pakistan. Berger International, which is now a subsidiary of Asian Paints, has entered into a strategic alliance with Karachi-based Berger Paints Pakistan, which is owned by the Mahmood family. Berger International will provide technical consultancy and strategic advice to Berger Pakistan, which is the second-largest paints company in Pakistan. Berger Pakistan will also have the right to import products from Asian Paints.

Reducing Manufacturing Costs

Strategic alliances may allow companies to pool capital or existing facilities to gain economies of scale or increase the use of facilities, thereby reducing manufacturing costs. In the increasingly competitive European automobile market, when the Japanese are seeking to gain market share as they did in the U.S. during the 1980s, many European companies have formed joint ventures to reduce manufacturing costs. Ford and Volkswagan are jointly planning to make four-wheel-drive vehicles in Portugal, and Nissan and Ford intent to build a plant in Spain to produce vans. These companies will benefit from cost sharing and will reduce expenses by building and operating facilties in relatively low-cost countries, at least by West European standards. Companies may also reduce costs throug strategic alliances with suppliers or customer reaching agreements to supply products or services for longer periods and working together, meet customers' needs, each partner may apply its expertise, and benefits may be shared in the form of lower costs or new products.

Developing and Diffusing Technology

Alliances may also be used to build jointly on the technical expertise of two or more companies in developing products technologically beyond the capability of the companies acting independently. Not all companies can provide the technology that they need to effectively compete in their markets on their own. Therefore, they are teaming up with other companies who do have the resources to provide the technology or who can pool their resources so that together they can provide the needed technology. Both sides receive benefit from the partnership. Technology transfer is not only viewed as being significant to the success of a strategic alliance, according to Hsieh (1997): "host countries now demand more in the way of technology transfer". As evidence of this growing trend, Hsieh cites China as a prime example.

For example, Tata Consultancy Services (TCS) and ANSYS Inc, a global innovator of simulation software and product development technology, have entered into an alliance that will help their clients accelerate product development dramatically and simultaneously enhance the quality and reliability of their designs through integrated digital prototyping. The industries that will benefit include automotive, power, heavy machinery, consumer products and electronics. Customers will derive increased productivity in the design and production processes by 70-90 percent. By pooling resources to develop software products built upon the expertise of each company, TCS and ANSYS Inc intend to create a new market and reap the associated benefits.

Reduce Financial Risk and Share Costs of Research and Development

Some companies may find that the financial risk that is involved in pursuing a new product or production method is too great for a single company to undertake. In such cases, two or more companies come together and agree to spread the risk among all of them. One example of this is found in strategic alliance between the Rs.235-crore Elder Pharma, which has 25 international partners for strategic alliances, has entered into a tie-up with Reliance Life Sciences. The company is focusing on dermatology and the tie-up with Reliance is to obtain aloe vera extracts for cosmetics. Elder has launched a dedicated skincare division with products under El-Dermis brand and plans to launch a number of over the counter products in the skincare segment.

Achieve or Ensure Competitive Advantage

Alliances are particularly alluring to small businesses because they provide the tools businesses need to be competitive. For many small companies the only way they can stay competitive and even survive in today's technologically advanced, ever-changing business world is to form an alliance with another company. Small companies can realize the mutual benefits they can derive from strategic alliances in areas such as marketing, distribution, production, research and development, and outsourcing. By forming alliances with other companies, small businesses are able to accomplish bigger projects more quickly and profitably, than if they tried to do it on their own. According to Booz, Allen and Hamilton the world has entered a new age - an age of collaboration - and that only through allying can companies obtain the capabilities and resources necessary to win in the changing global marketplace. Self-reliance is an option few companies will be able to afford (Booz, Allen and Hamilton, 1997).

11.6 COSTS AND RISKS OF STRATEGIC ALLIANCES

Any firm opting for strategic alliance incurs certain costs as well as gains benefits, compared to a firm that goes on its own. Strategic alliances have their risks, particularly if the parties are not financial equals. These risks include the loss of operational control and confidentiality of proprietary information and technology. Some alliances can involve a clash of corporate cultures or the perceived diminution of independence. In addition, the parties may deprive themselves of future business opportunities with competitors of their strategic partner.

The parties must carefully consider a number of factors in the decision of whether to enter into a strategic alliance, and how best to govern the relationship once the alliance is formed. In addition to the parties' business objectives, the parties should consider a variety of accounting, tax, antitrust and intellectual property issues when structuring a strategic alliance. A properly structured strategic alliance can bring many new opportunities and enhance the parties' growth potential. In addition, it can provide an alternative source of capital during difficult economic times. The various costs/risks of entering into alliances include:

Cultural and Language Barriers

Cultural clash is probably one of the biggest problems that corporations in alliances face today. These cultural problems consist of language, egos, chauvinism, and different attitudes to business can all make the going rough. The first thing that can cause problems is the language barrier that they might face. It is important for the companies that are working together to be able to communicate and understand each other well or they are doomed before they even start. The importance of communication becomes even more paramount when operating across the participants to a strategic alliance. Language barriers at times can be a source for delays and frustrations. However, English is becoming a common international language. Communication problems may also arise because job definitions are much more specific in Western companies than in Asian companies.

Cultural differences often create problems in making strategic alliances work - especially between Asian and Western companies. For example, Japanese companies put employee interests ahead of the shareholders' interests. Western companies, on the other hand, are managed to benefit their shareholders. Such a difference can cause serious conflict over investment and dividend policies. The decision process in Asian companies often takes longer as compared to those in their Western counterparts. Patience rather than pushing for a decision becomes a helpful strategy. Not only do the cultural differences exist among international firms seeking alliances, but also corporate cultures may be different among firms from the same country. In the final analysis, flexibility and management learning are the greatest tools in overcoming this barrier.

Lack of Trust

Risk sharing is the primary bonding tool in a partnership. A sense of commitment must be generated throughout the partnership. In many alliance cases one company will point the failure finger at the partnering company. Shifting the blame does not solve the problem, but increases the tension between the partnering companies and often leads to alliance ruin Building trust is the most important and yet most difficult aspect of a successful alliance. Only people can trust each other, not the company. Therefore, alliances need to be formed to enhance trust between individuals. The companies must form the three forms of trust, which include responsibility, equality, and reliability. Many alliances have failed due to the lack of trust causing unsolved problems, lack of understanding, and despondent relationships.

Loss of Autonomy

The firm gets committed not only to a goal of its own but that of its alliance partner. This involves cost in terms of goal displacement. The firm also loses the autonomy and hence its ability to unilaterally control the outcomes. All the partners in an alliance have control over the performance of the assigned tasks. No partner, hence, can unilaterally control the outcome of an alliance activity. Similarly, all the partners in an alliance have to depend on each other. As against these, the firm benefits in terms of gain of influence over domain and improvement in competitive positioning. This is because the firm's strengths are supplemented by the strengths of its alliance partner as well as by the synergy additionally created. This improves the value chain of the firm. The firm may also use its improved competitive position to penetrate new markets in the same country. The increase in capacities may also support the firm's presence in new markets. The firm may also gain access to the foreign markets by choosing an alliance partner based in or having operations in such countries.

The firm may not be able to use its own time-tested technology, if the alliance partner does not subscribe to it. It may have to use the dominant partner's technology, which could be different, or the combination of its own technology and its partner's. This is likely to have its impact on the stability of the firm as it gets exposed to the uncertainty of using unfamiliar technology. On the other hand, the firm develops its ability to manage uncertainty under real or perceived protective support of its experienced alliance partner. This helps the firm solve invisible and complex problems with the help of increased confidence and or support from the alliance partner. The firm may be able to specialize in its field if its alliance partner contributes to fill the missing gaps in the value chain of the firm. The firm may also diversify into other unrelated fields with the support of its alliance partner. Thus, the firm will be in a better position to ward off its competitors, who are likely to get immobilized at least for the time being as they would have to revise their strategies keeping in view the changed competitive positioning of the firm. This situation could be used by the firm to push its advantage further.

Lack of Clear Goals and Objectives

Many strategic alliances are formed for the wrong reasons. This will surely lead to disaster in the future. Many companies enter into alliances to combat industry competitors. Corporate management feels this type of action will deter competitors from focusing on their company. On the contrary, this action will raise flags that problems exist within the joining companies. The alliance may put the companies in the spotlight causing more competition. Alliances are also formed to correct internal company problems. Once again, management feels that an increase in numbers signifies a quick fix. In this case, the company is probably already doomed and is just taking another along for the ride. Many strategic alliances, although entered into for all the right reasons, do not work. Dissimilar objectives, inability to share risks, and lack of trust lead to an early alliance demise. Cooperation on all issues is the key to a successful alliance. Many managers enter into an alliance without properly researching the steps necessary to ensure the basic principles of cooperation.

Lack of Coordination between Management Teams

Action taken by subordinates that are not congruent with top-level management can prove particularly disruptive, especially in instances where companies remain competitors in spite of their strategic alliance. If it were to happen that one company would go off on its own and do its own marketing and sell its own product while in alliance with another company it would for sure be grounds for the two to break up, and they would most likely end up in a legal battle which could take years to solve if it were settled at all.

Differences in Management Styles

Failure to understand and adapt to "new style" of management is a barrier to success in an alliance. Changes are required in management style to run successful alliances. The adaptation of a new style of management requires a change in corporate culture, which must be initiated and nurtured from the top. Companies need to devote more resources to understanding the alliance management process, from contract negotiations to establishing effective communications. They need to develop managers with a new set of competences, including foreign languages, and other communicating and team-building skills. Other problems that can occur between companies in trade alliances are different attitudes among the companies; one company may deliver its good or service behind schedule, or do a bad job producing their goods or service, which may lead to distrust between the two companies. This could upset the partner and may sometimes lead to a takeover.

Lack of Commitment

The possibility that partner firms lack ironclad commitment to the alliance could undermine the prospects of an alliance. Partner firms tend to be interested more in pursuing their self-interest than the common interest of the alliance. Such opportunistic behavior include shirking, appropriating the partner's resources, distorting information, harboring hidden agendas, and delivering unsatisfactory products and services. Because these activities seriously jeopardize the viability of an alliance, lack of commitment to the alliance is an important component of the overall risk in strategic alliances. Commitment also gets diluted because the individuals who negotiated or implemented the initial alliance agreement may have changed due to promotions, transfers, retirement, or terminations. Continuity of total commitment for the alliance is needed at all levels in the organization without which the alliance will fail to reach its full potential.

There is a probability that an alliance may fail even when partner firms commit themselves fully to the alliance. The sources of such a risk includes environmental factors, such as government policy changes, war, and economic recession; market factors, such as fierce competition and demand fluctuations; and internal factors, such as a lack of competence in critical areas, or sheer bad luck.

Creating a Potential Competitor

One partner, for example, might be using the alliance to test a market and prepare the launch of a wholly owned subsidiary. By declining to cooperate with others in the area of its core competency, a company can reduce the likelihood of creating a competitor that would threaten its main area of business; likewise, a company can insist on contractual clauses that constrain partners from competing against it in certain products or geographic regions.

Problems of Coordination and Loss of Agility

Alliance firms, however, are likely to suffer from delays in solutions due to problems of coordination and an alert competitor may exploit this weakness in-built in any alliance to its great advantage. The competitor could use a combination of strategies which exploit the weakness of all the alliance partners timing it in such a way that the weakness of one alliance partner is exploited quickly before another alliance partner comes to its rescue to defend the alliance. This is how a competitor may induce the synergy to work in reverse in such strategic alliances. This would improve the competitor's competitive position manifold. On the other hand, the firm under strategic alliance may benefit from the rapidity of the response to the changing market demands when its new alliance partner readily supplies technologies. The delay in the use of new technology is reduced which benefits the firm in creating a competitive edge over its competitors.

Potential for Conflicts

The understanding reached among the alliance partners is crystallized into an agreement of alliance. However, no agreement can capture all the details of an understanding. The complexity increases when a situation arises which is unforeseen or not provided for in the agreement. These may create conflict over goals, domain, and methods to be followed in the alliance activity among the alliance partners and might result in setbacks to the alliance. On the other hand, the group synergy may be beneficial to the alliance partners in such a way that they support each other mutually and amicably resolve whatever differences may arise. This leads to a harmonious working relationship intra and inter alliance firms, which in turn further increases the synergic benefits and the cycle goes on. The competitor, deprived of the benefits of group synergy, would lose his competitiveness and, in turn, cohesiveness and harmony and the cycle goes on.

Difficulty in Managing Alliances

Strategic alliance is a relatively new concept in management. It is also more difficult to manage, and hence may lead to failure of strategic alliances formed even by excellent firms. A failure would mean loss of time, money, material, information, reputation, status, technological superiority, competitive position, and financial position. The benefits of success are in terms of gain of resources like time, money, information, and raw material. The firm also gains legitimacy and status and benefits through utilization of unused plant capacity. Above all, the firm has opportunities to learn, to adapt, develop competencies, or jointly develop new products as well as share the cost of product development and associated risks.

Other Issues

Experience is the best teacher in alliances but it comes at a very heavy cost. This blunts the inquisitiveness of any firm to learn through the failure of an experiment. Strategic alliance provides some security to an inexperienced firm that even if the experiment goes haywire it can look forward to rescue by .the other experienced alliance partner. When the assigned tasks are to be carried out by the firm's partner in alliance, the firm still benefits by the firm being a witness to the process of implementation of such tasks. Perhaps, the most important benefit strategic alliance offers to a firm is the opportunities to learn.

Often, a firm aiming to expand its operations abroad benefits by going in for an alliance as it helps gain acceptance from the government of the foreign country. This is so because the government of the foreign country may desire involvement and development of the local firms. On the other hand, the firm may suffer restrictions from governmental regulations if the government feels that such strategic alliances would be detrimental to furtherance of the public interest. However, it would still be desirable to have strategic alliance with a foreign firm because it would be knowledgeable about the complexity of the local conditions as well as be more sensitive to the changing environmental conditions and so it may raise timely alarm for the firm to respond appropriately.

Other reasons for under performance and failure of strategic alliances include a breakdown in trust, a change in strategy, the champions moved on, the value did not materialize, the cultures did not mesh, and the systems were not integrated. Another main reason strategic alliances fail to meet expectations is the failure to grasp and articulate their strategic intent, which includes the failure to investigate alternatives to an alliance. Lack of recognition of the close interplay between the overall strategy of the company and the role of an alliance in that strategy can also lead to failure of alliance.

Activity 2

A large number of strategic alliances have failed in India. Identify five such cases from various sources and identify the reasons for their failure.

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11.7 FACTORS CONTRIBUTING TO SUCCESSFUL STRATEGIC ALLIANCES

Senior Management Commitment

The commitment of the senior management of all companies involved in a strategic alliance is a key factor in the alliance's ultimate success. For alliances to be truly strategic they must have a significant impact on the companies' overall strategic plans; and must therefore be formulated, implemented, managed, and monitored with the full commitment of senior management. Without senior management's commitment, alliances will not receive the resources they need. If senior management is not committed to alliances, adequate managerial resources, in addition to capital, production, marketing and labor resources, may not be assigned in order for alliances to accomplish their objectives. Senior management's commitment to alliances is important not only to ensure the alliances receive the necessary resources, but also to convince others throughout the organization of the importance of the alliance. By demonstrating a commitment to alliance and a strong leadership role, management can minimize this viewpoint. The biggest hurdle senior management has to overcome in committing itself to strategic alliances is management's own fear of a loss of control. But good partnerships, like good marriages are not built on the basis of ownership or control. It takes effort and commitment and enthusiasm from both sides if either is to realize the benefits.

Similarity of Management Philosophies

Successful partnerships are forged between those companies whose management philosophies, strategies and ideas are most similar to their own. Indeed, differences in corporate partners' personalities can often lead to tragic results. The philosophical differences of unsuccessful alliances are, in part due to cultural differences, so there is significant potential for cross-border alliances to include such widespread differences in managerial philosophies as well. Therefore, in order to ensure the best chance of success, companies should either seek partners who do have similar management philosophies, or draft an alliance agreement that adequately addresses the differences, and provides for their resolution.

The best strategy to grow via alliances may be to move slowly, and start with simple alliances and the move towards more complex ones as alliance experience and talent is acquired. Managers of strategic alliances must create and maintain an environment of trust. This is perhaps easier said than done. It requires the surrender of at least some managerial control, and it also takes time to build a high degree of trust in a business partnership

Frequent Performance Feedback

In order for strategic alliances to succeed, their performance must be continually assessed and evaluated against the short and long-term goals and objectives for the alliance. The results of these reviews must be summarized in briefing reports, which should be distributed to management and also keyed into a strategic alliance tracking data base.

In order for the feedback monitoring system to be successful, it is important that the goals of the alliance be well defined and measurable. In addition, benchmarks for alliance performance should be set to assist management in evaluating alliance results. In general, an alliance is successful if both partners achieve their objectives. Strategic alliances are very tough to measure and evaluate, but can be done with the help of understanding the form used and understanding the goals of the companies involved.

Clearly Defined, Shared Goals and Objectives

Some alliances are highly integrated with one or more of the parent organizations and share such resources as manufacturing facilities, management staff, and support functions like payroll, purchasing, and research and development while, others may be autonomous and independent from their parent organizations. Whatever the relationship between the partners, it is extremely important that alliances are aligned with the company strategy. Top management must articulate a clear link between where it expects the industry's future profit pools will be, how to capture a larger share of those, and where, if at all, alliances fit in that plan.

Thorough Planning

Planning, commitment, and agreement are essential to the success of any relationship. The overall strategy for the alliance must be mutually developed. Key managing individuals and areas of focus for the alliance must be identified. The first step is to gain a clear understanding of the vision and values of each company. The next step is to gain agreement on the market conditions in the region of the world that the joint venture will be operating in. The next step is to clearly state the issues, strengths, and concerns of each organization. These steps allow the participants to bridge preliminary gaps of understanding at the onset of the process. During this initial fact finding meetings the partners can learn a great deal about their potential partner.

The next step is to identify areas of common ground. Here, the commonality in the strategic direction among the partners can be identified. Next the partners need to define the internal and external value of the alliance. They will also need to agree on the strategic opportunities to mutually pursue. The final step in this planning process is to create a tactical plan to address the strategic targets. Thorough planning is one of the key ingredients to the successful formation of strategic alliances.

Clearly Understood Roles

In forming strategic alliances the partners must have clearly understood roles. It is crucial that the question of control is resolved before the alliance is formed. A strategic alliance by definition falls short of a merger or a full partnership. For this reason, control is not dependent on majority ownership. The degree to which each partner is in control of operations and can offer influential input for decision making must be determined before the alliance is formed. Some firms view strategic alliances as a second-best option that they would prefer to do without. This attitude towards an alliance is problematic at best. Because of uncertainty and discomfort, the feeling is that these alliances must be closely managed and controlled so as not to get out of hand. This is a counterproductive attitude that often leads to an unsatisfactory outcome for at least one partner. If the partners in an alliance decide upfront exactly what each partner's role is in the newly formed business, then there is no misunderstanding or uncertainty as to how decisions will be made.

Global Vision

In order to succeed in an international strategic alliance, managers of firms must incorporate a global strategic vision into their enterprise. the most effective alliances are not forged simply as a means to complete one deal. Smart companies spin a web of relationships that open a series of potential projects, add value to them, and improve risk management. In order to compete in the growing international market, it will be increasingly necessary for firms to cooperate on a global level and continually build international relationships, which will facilitate the process of global competition.

Partner Selection

Partnership selection is perhaps the most important step in creating a successful alliance. A successful alliance requires the joining of two competent firms, seeking a similar goal and both intent on its success. A strategic alliance must be structured so that it is the intent of both parties that it will actually succeed - through the need for speed, adaptation, and facilitated evolution. The foundation of a successful strategic alliance is laid during the formation process. This process includes partner selection and the initial agreement between parties. Selecting an appropriate partner and deciding the agenda of the alliance are the most difficult process in the formation of an alliance. Yet done correctly, they help ensure a higher quality, longer lasting relationship. Having selected a partner, the alliance should be structured so that the firm's risks of giving too much away to the partner are reduced to an acceptable level. The safeguards are blocking off critical technology, establishing contractual safeguards, agreeing to swap valuable skills and technologies, and seeking credible commitments.

Communication between Partners: Maintaining Relationships

Communication is an essential attribute for the alliance to be successful. Without effective communication between partners, the alliance will inevitably dissolve as a result of doubt and mistrust. Ohmae best sums up the necessity for good communications in building and maintaining a strong strategic alliance relationship. An alliance is a lot like a marriage. There may be no formal contract. There is no buying and selling of equity. There are few, if any, rigidly binding provisions. It is a loose evolving kind of relationship. Sure, there are guidelines and expectations, but no one expects a precise, measured return on the initial commitment. Both partners bring to an alliance a faith that they will be stronger together than they would be separately. Both believe that each has unique skills and functional abilities the other likes. And both have to work diligently over time to make the union successful.

Activity 3

Hero Cycles of India and Honda Motor Company of Japan have successfully operated their Joint Venture and so did Wipro and GE. List out the reasons for their success.

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11.8 PLANNING FOR A SUCCESSFUL ALLIANCE

Alliance building is now fundamental to the way large companies conduct business—from technology and product development to manufacturing and marketing. The world has never been as interdependent as it is now, and all trends point to cooperation as a fundamental growing force in business. Businesses are moving from the classic "closed" system which depends on its internal capabilities and resources to an "open" system in which reliance on external capabilities and the development of complex relationships with external entities are becoming commonplace (Steele, 1989).

Strategic Alliance Model

The essence of a strategic alliance is the quest for mutual benefit - the belief that by working together to address a market need the combined offering will be more potent / valuable / successful than the contributors could deliver by themselves or through a lesser partnering relationship. It is commonplace for the boundaries between the operations of strategic alliance partners to become blurred as activities are integrated into a focused delivery capability. All effective partnering relationships have a heavy reliance on trust – for a strategic alliance to succeed this trust is absolutely fundamental.

It is important to identify the steps and variables involved in the workings of a typical strategic alliance. Barriers to the success of the alliance should also be identified. Scanning the environment for opportunities is the first step in developing strategic alliances. It includes the firm's analysis of its own strengths, weaknesses, opportunities and threats (SWOT). Clear understanding of strengths and opportunities allows the firm to set the short-term and long-term goals and objectives, while the analysis of weaknesses and threats provides direction to look for alliances. These may include competitors, suppliers, or other firms, which could provide the needed strengths. These firms constitute the group with alliance potential. The firm should perform similar analyses (SWOT) for the potential alliance partner. This not only complements the investigation as to the compatibility of the organization; but, more importantly, enables a firm to assess the capacity, both financial and physical, to form an integral and harmonious member of the alliance. The following checklist identifies the key issues to consider when contemplating entering into a strategic alliance:

1) **Choosing the partner carefully** – As ever vital to any partnering relationship – absolutely critical if two companies decide to go deeper into a Strategic Alliance and integrate each other's business process. Synergy among partners is the major reason for and the advantage of the alliance. The partnership is efficient, effective and, as a result, much more competitive compared to each alliance partner performing the similar tasks individually.

2) **Clarity of purpose** – Both parties need to understand what they are expecting to get out of the relationship, how they will measure and recognize success which may not be conventional profit and revenue measures. Goal compatibility is essential among alliance partners. If they are striving for the same ends then they are more likely to achieve their objectives. Without such compatibility, the alliance partners may pull in different directions. All relationships require sharing. The foundation of strategic alliance is sharing benefits according to the agreed expectations, which may differ. A key component of each alliance that needs to be agreed up front is the expectations of all the partners in the alliance. They need to be identified and agreed so that any gaps do not become blockers to progress in the future. By forming a strategic alliance a firm seeks to change the nature and the scope of what it does. By upsizing it may to be entering a more intensive and competitive market where the competition will be more intense. The firm needs to be aware of this likely situation and plan accordingly. This will influence its choice of partnering organization. In addition, if the partnering organizations share common attitudes then this is an additional factor likely to lead to successful partnering. If the alliance partners think in a similar way then they are more likely to agree on how to proceed and disputes are less likely.

3) **Select a project** – product or market area that could benefit from the increased strength and flexibility provided by Strategic Alliances. This should normally relate to an existing operation although it could be a means of breaking new ground. Select suitable partnering organizations as set out in detail in this guide. Partnering arrangements frequently focus on innovative approaches to products and process reflecting the strategic nature of the relationship as the parties strives to ensure that they are able to fully meet the objectives of the partnering agreement. They can then overcome any potential sources of difficulty in meeting those objectives.

4) **Understand** each other's business processes and realizing the full benefits from a strategic alliance normally require the integration of business processes in order to optimize the operations and eliminate duplication – another area for some tough decisions. Clear understanding of what value each partner will bring to the alliance is the foundation on which trust and relationships are built for future success.

5) An alliance plan needs to be **formulated**, such that it becomes a living document. It needs to embody both the revenue and the non-revenue (e.g. market activities, relationship building and levels of satisfaction) aspects of the alliance, with a set of supporting actions identified against members of all the partners involved. The arrangements can often be less formal than in a more normal contractual situation. This is deliberate, so that the partnering organizations can have complete flexibility and to avoid the situations of confrontation and claims arising. Flexibility in establishing and operating any partnering arrangement is of paramount importance. Again a spirit of mutual understanding and co-operation that allows for the accommodation of variations in the operation of the agreement will enhance the benefits derived and the whole outcome of the partnering arrangement.

6) **Balancing contributions of partners** in the areas of product development, manufacturing, and marketing are necessary so that no one partner dominates the alliance. Absence of such a balance may result in the takeover of the weaker partner by the dominant firm or a short-term relationship, usually resulting in breaking the alliance without achieving its full potential. A strategic alliance requires an equal standing in the relationship between the respective partners even though the strategic alliance partners may be of different sizes. This is not a buyer-seller relationship. Understand each other's strengths – combining each other's strengths and building on these is a key aspect of gaining the maximum benefit from a strategic alliance. This often requires tough decisions to be made regarding roles and responsibilities. Careful consideration must also be given to the most appropriate formal structure for the strategic alliance to flourish.

7) **Complete trust** between the partnering organizations is an essential ingredient. This enables the resolution of confrontations and disputes, which can arise. The partnering organizations need to be able to rely implicitly on each other to act in full accord with the aims and objectives of the partnering arrangement. They need to act in a manner that will support the totality of the agreement, not their individual interests at the expense of the overall project. Above all they need to be able to discuss issues as they arise in an open and positive way to prevent minor differences becoming major crises. The risks and rewards of a partnering arrangement should be shared and allocated in the most appropriate way, in accordance with the key business drivers of each particular instance.

8) **Participation at the top** – All partnering relationships require the commitment from the top to be successful. An essential ingredient is the commitment and support of senior management of all the alliance partners. Without that commitment alliances can get into difficulty or fail. High-level support is needed at the outset to ensure that potential problems that can arise can be adequately dealt with. The commitments needed to make the alliance successful needs to permeate throughout the participating companies for it to succeed. Before a firm hopes to operate the alliance successfully it needs to gain full support from within its own organization at every level. In other words, the management must sell the idea internally. This is especially the case when contemplating a strategic alliance where the effects on the existing business will be more marked and unpredictable. This is going to be more important and challenging if it is the first time the firm has ever undertaken a partnering arrangement. The management must be prepared to seek external as well as internal support and guidance to build up the case for approval. This must include an assessment of which markets and products will be suitable for such a new venture and why the firm has selected a particular partner or partners.

9) **Freedom to innovate** – Often the motivation to establish a strategic alliance is to stimulate innovative thinking in the joint activity. Getting the correct balance between necessary regulation and control and creative freedom is a key consideration.

10) **Have an exit strategy** – Given that a strategic alliance is a very deep relationship, then exit is likely to be a complex and potentially costly affair. Nevertheless it needs considering at the time of entry.

Recognizing these issues, taking expert advice where appropriate, and encouraging the chosen strategic alliance partner to do likewise ought to help secure a firm foundation on which to build the strategic alliance. A key feature of all successful partnering arrangements is the ability to refine and develop the processes involved continually so that they can be improved, enhanced and applied in new or enlarged situations. They are essential so that progress can be monitored, difficulties addressed and the partnering arrangement is made to work. Again the more usual requirements of national partnering apply. Examples of this are agreeing the style of the relationship, tangible objectives and continuous improvement as well as an exit strategy. Also important are such features as agreed key measures, regular joint review and audit, extension of the programme and developing new partners for the future.

11.9 CORPORATE SOCIAL RESPONSIBILITY

This is an area of increasing importance in every market and supply chain. Factors addressed here include cultural differences, differences in perceptions and beliefs and the effect of a fragile ecology. In a domestic strategic alliance, as opposed to an international situation, it is expected that there would be a shared culture; where such issues as say child labor are probably not an issue at all, because they do not arise. However, there could be just as fundamental differences between organizations on what at first might not seem such important issues. Different organizations have different attitudes and criteria that they apply to such issues as waste disposal. One may have a very strict and environmentally friendly approach to the disposal of waste products, especially hazardous ones; while the alliance partner may not. In such a case, in an alliance, one could become tarnished by the alliance partner's lesser concern with such issues. Such differences need to be ascertained, their treatment explored and a common agreed policy developed. This is a matter that needs to be addressed at the outset and embodied in any alliance plan. There will be other issues such as differences in the way human resources are treated, which will similarly need addressing. They will be more or less important as circumstances and attitudes dictate. Even more sensitive can be the effects of large-scale operations, particularly mineral extraction or even more the oil industry on not only fragile or vulnerable ecologies but also local populations or economies.

Corporate social responsibility can extend to activities not necessarily seen as being mainstream or core to your business. This could extend to supporting programmes that, while they may not directly or immediately affect a company's current business, could raise its profile in an area that could be of future benefit or even bring goodwill for future projects.

11.10 SUMMARY

From software to steel, aerospace to apparel, the pace of strategic alliances worldwide is accelerating. A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership. Strategic alliances can be as simple as two companies sharing their technological and/or marketing resources. In contrast, they can be highly complex, involving several companies, located in different countries. Strategic alliances are becoming more and more prominent in the global economy.

Strategic alliances enable business to gain competitive advantage through access to a partner's resources, including markets, technologies, capital and people. Teaming up with others adds complementary resources and capabilities, enabling participants to grow and expand more quickly and efficiently. Strategic alliances also benefit companies by reducing manufacturing costs, and developing and diffusing new technologies rapidly. Any firm opting for strategic alliance incurs certain costs and risks compared to a firm going alone. These risks include the loss of operational control and confidentiality of proprietary information and technology. In addition, the parties may deprive themselves of future business opportunities with competitors of their strategic partner. Alliances also raise the specter of potential conflicts, loss of autonomy, difficulties in coordination and management, mismatch of cultures, etc.

11.11 KEY WORDS

Cross-Holdings, Equity Stakes, and Consortia: These alliances bring together companies more closely than licensing and joint venture mechanism. Broadly amalgamated together as consortia, these alliances represent highly complex and intricate linkages among groups of companies.

Joint Ventures: This arrangement involves partners' creation of a third entity representing the interests and capital of the two partners. Both partners contribute capital, distinctive skills, managers, reporting systems, and technologies to the venture in certain proportions.

Licensing Arrangements: Licensing represents a sale of technology or product based knowledge in exchange for market entry in a manufacturing industry. In service-based firms, licensing is the right to enter a market in exchange for a fee or royalty.

Strategic Alliance: A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership.

11.12 SELF-ASSESSMENT QUESTIONS

1) What do you understand from the term strategic alliances? Explain the different types of strategic alliances that companies follow? Give examples of Indian companies for each type of strategic alliance.
2) Why do companies form strategic alliances?
3) What are the risks and costs associated with strategic alliances?
4) What are the features of a successful alliance? What are the barriers to a successful alliance?

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Appendix-3

Case Study

Ambalal Sarabhai Enterprises Ltd-Profiting through Strategic Alliances

The US$300 billion global pharmaceutical industry is research driven. New drug R&D cost being prohibitive, it is limited to pharmaceutical MNCs in developed nations where product patents are enforced. High prices of under-patent drugs are causing a shift to generics, especially in USA and European markets. So, to spread their R&D costs over a larger base, pharma MNCs are consolidating through mergers/ alliances. Historically, India has recognized only process patents. Under WTO, as per TRIPs agreement India too has to enforce product patents latest by year 2005 AD.

In the Rs130 billion Indian pharma sector, prices of over 60% of the drugs/ formulations are Government controlled (through DPCO). In the domestic bulk drugs market, low entry barriers have resulted in overcapacity and price wars. So, major players are focusing on formulations, where brand image and distribution network act as entry barriers. Most players are increasing their overseas marketing/-manufacturing network in order to enhance exports (under patent drugs to third world countries and generics to developed nations). In anticipation of WTO, MNCs are strengthening their ranks in India - either setting up new 100% subsidiaries or marketing tie-ups with major domestic players. Large local players are consolidating through brand acquisitions, co-marketing/ contract manufacturing tie-ups with MNCs etc.

In this scenario, Ambalal Sarabhai Enterprises Ltd (ASMA) has aggressively formed alliances in the last couple of years to leverage upon the technical expertise and strong brands. ASMA has major presence in anti-infectives, anti-epileptic and NSAIDs. The company is the largest manufacturer of Vitamin C in India. ASMA is the market leader in Veterinary healthcare sector. On domestic front the company has formed 50:50 JV to market the brands. The company has tied up with BV Chiron, Netherlands for marketing anti-cancer products in India, Grunenthal of Germany to manufacture and market Tramadol (an analgesic), with Biobrass of Brazil for the marketing of procine and insulin and with Abic of Israel for the marketing of poultry vaccines in India.

ASMA is pursuing major restructuring program and to further strategic alliances and collaborations.. With commitment of the management to turnaround the company through alliances, restructuring of operations and cutting down the high cost debt, ASMA is expected to improve profitability in the next two years.