International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 6 Issue 5, May-2017, Impact Factor: 1.544

Analysis of Strategic Alliances

Arushi Malhotra

Assistant Professor, Shri Ram College of Commerce, University of Delhi

ABSTRACT

In an era of growing competition and globalization firms are adopting various forms of collaboration with domestic and international counterparts to find a space in the global marketplace and help in strengthening their competitive advantage. strategic alliances is one of the major strategy for growth of international business firms. The present study analyses the conceptual framework of strategic alliances , various theories and motives behind formation of alliances with special reference to Indian pharmaceutical, steel and airlines industry.

Keywords: Cost advantage, Indian Industries ,risk sharing ,resource dependency theory, strategic alliances, Transaction cost theory,

1. INTRODUCTION

Strategic alliance is an agreement between two or more organizations to cooperate in a specific business activity so that each benefits from the strengths of the other and gains competitive advantage. The formation of strategic alliances has been seen as a response to globalization and increasing uncertainty and complexity in the business environment. Strategic alliances involve the sharing of knowledge and expertise between partners as well as the reduction of risk and costs in areas such as relationships with suppliers and the development of new products and technologies. Strategic alliances are a logical and timely response to intense and rapid changes in economic activity, technology, and globalization. Strategic alliances are becoming an important form of business activity in many industries particularly in view of the realization that companies are competing on a global field and have to respond and adapt to the changes driven by globalization, increased business complexity and diversified customer needs. Strategic alliances are not a panacea for every company and every situation. However, through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects.

Definitions of strategic alliance:

- Dussauge & Garrette, 1995- An alliance is a cooperative agreement or association between two or more independent enterprises, which will manage one specific project, with a determined duration, for which they will be together in order to improve their competences. It is constituted to allow its partners to pool resources and coordinate efforts in order to achieve results that neither could obtain by acting alone. The key parameters surrounding alliances are opportunism, necessity and speed.
- Gulati, 1998- Strategic alliances are voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services.
- Porter, 1990- Strategic alliances are long-term agreements between firms that go beyond normal market transactions but fall short of merger. Forms include joint ventures, licenses, long-term supply agreements, and other kinds of inter-firm relationships.
- Yoshino & Rangan, 1995- A strategic alliance is a partnership between two or more firms that unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance to contribute and to share benefits on a continuing basis in one or more key strategic areas, e.g. technology, products.

Strategic alliances are critical to organizations for a number of key reasons:

- Organic growth alone is insufficient for meeting most organizations' required rate of growth.
- Speed to market is essential, and partnership greatly improves it.
- Complexity is increasing, and no single organization has the required total expertise to best serve the customer.
- Partnerships can defray rising research and development costs.
- Alliances facilitate access to global markets.

Strategic alliances have some characteristics: (Ungson and Wong, 2008)

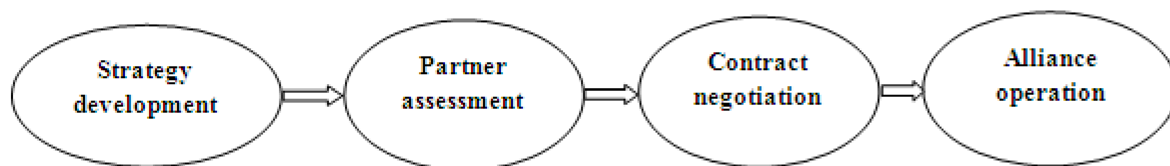
1. Two or more organizations (business units or companies) make an agreement to achieve objectives of a common interest considered important, while remaining independent with respect to the alliance.
2. The partners share both the advantages and control of the management of the alliance for its entire duration.
3. The partners contribute, using their own resources and capabilities, to the development of one or more areas of the alliance (important for them).This could be technology, marketing, production, distribution, R&D or other areas.

Benefit of the Strategic Alliances: (Isoraite, 2009)

There are four potential benefits that international business may realize from strategic alliances:-

1. **Ease of market entry**: Advances in telecommunication, computer technology and transportation have made entry into foreign markets by international firms easier. Entering foreign markets further confers benefits such as economies of scale and scope in marketing and distribution. The cost of entering an international market may be beyond the capabilities of a single firm but, by entering into a strategic alliance with an international firm, it will achieve the benefit of rapid entry while keeping the cost down. choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations.
2. **Shared risks**: Risk sharing is another common rationale for undertaking a cooperative arrangement when a market has just opened up, or when there is much uncertainty and instability in a particular market sharing risks becomes particularly important. The competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks.
3. **Shared knowledge and expertise**: Most firms are competent in some areas and lack expertise in other areas; as such, forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The information, knowledge and expertise that a firm gains can be used, not just in the joint venture project, but for other projects and purposes. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization.
4. **Synergy and competitive advantage**: Achieving synergy and a competitive advantage may be another reason why firms enter into a strategic alliance. As compared to entering a market alone, forming a strategic alliance becomes a way to decrease the risk of market entry, international expansion, research and development etc. Competition becomes more effective when partners leverage off each other's strengths, bringing synergy into the process that would be hard to achieve if attempting to enter a new market or industry.

Stages of Alliance Formation: (Pekar and Allio, 1994)



- **Strategy Development:** Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.
- **Partner Assessment:** Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.
- **Contract Negotiation:** Contract negotiations involves determining whether all parties have realistic objectives, forming high calibre negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.
- **Alliance Operation:** Alliance operation involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.

Specifically, each alliance is a repetitive sequence of the four stages, and some stages may repeatedly occur as the alliance evolves.

Types of Strategic Alliances:

Strategic alliances can be categorised into equity alliances and non equity alliance. Equity alliances are a more formal configuration for strategic alliance where partners become both stakeholders and shareholders and resultant object of cooperation is operated as a profit centre. In non equity alliances each firm to the agreement is a stakeholder, but not necessarily a shareholder in the object of cooperation (often referred to as a newly defined business).

1. **Joint Ventures**- a joint venture is an agreement by two or more parties to form a single entity to undertake a certain project. Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits.
2. **Technology Licensing**- This is a contractual arrangement whereby trademarks, intellectual property and trade secrets are licensed to an external firm. It is used mainly as a low cost way to enter foreign markets. The main downside of licensing is the loss of control over the technology – as soon as it enters other hands the possibility of exploitation arises.
3. **Product Licensing-** This is similar to technology licensing except that the license provided is only to manufacture and sell a certain product. Usually each licensee will be given an exclusive geographic area to which they can sell to. It is a lower-risk way of expanding the reach of your product compared to building your manufacturing base and distribution reach.
4. **R&D-** Strategic alliances based around R&D tend to fall into the joint venture category, where two or more businesses decide to embark on a research venture through forming a new entity.
5. **Distribution Relationships (Marketing)-**This is perhaps the most common form of alliance. Strategic alliances are usually formed because the businesses involved want more customers. The result is that cross-promotion agreements are established.

2. OBJECTIVES AND RESEARCH METHODOLOGY

Objectives:

1. To outline the theories of strategic alliance.
2. To identify the motives for a firm to enter into strategic alliance.
3. To relate these motives to various theories of strategic alliance.

Research Methodology:

This paper tries to identify various motives behind strategic alliance formation. It reviews the academic literature, relating to strategic alliance motives that can be most suitably explained by the relevant theories.

3. REVIEW OF LITERATURE

Theories of strategic alliance:

- **Transaction cost theory**: In transaction cost economics, a firm's ownership decision centres on minimizing the sum of transaction costs and production costs (Williamson, 1975).while transaction cost refers to the costs that are incurred from activities necessary for an exchange (such as writing and enforcing a contract), production costs come from coordinating activities in- house, in terms of learning, organizing, and managing production. Since internalization (e.g., mergers, acquisitions, and internal development) controls transaction cost effectively, this will be preferred when transaction cost of an exchange are high. In contrast market exchanges bear transaction costs but avoid production costs, so that they will be used when transaction costs are low and production costs are high. Strategic alliances combine the features of internalization and market exchanges, because they partially internalize an exchange (e.g., joint venture).transaction cost theory recommends choosing the organisational model that minimizes the sum of fixed and continual transaction cost and firms form alliances if this minimization is achieved through them.
- **Resource dependency theory**: This theory suggests that no organisation can survive alone. Each organisation must constantly interact with its environments either to purchase resources such as labour, supplies, or equipment, or to distribute its finished products. The primary reason organisation seek out alliance is to gain control over their environment through these alliances, which can insulate an organisation from its external environment and guarantee more stable flow of resources in times of scarcity (Wisnieski and Soni, 2004).
- **Resource based theory**: The resource-based view of the firm (RBV) has emerged in recent years as a popular theory of competitive advantage. Rather than simply evaluating environmental opportunities and threats in conducting business, competitive advantage depends on the unique resources and capabilities that a firm possesses .it further views firms as bundle of resources, and alliances arise when firms need additional resources that cannot be purchased via market transaction but are available from partners.

- **Strategic management theory (strategic positioning)**: the main objective of strategic management theory is to help firms to gain competitive advantage in the market competition. In the theory of strategic behaviour, strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. When a firm implements such strategy and other companies are unable to duplicate it or find it too costly to imitate this firm has a sustained (or sustainable) competitive advantage, which is also called competitive advantage. A cooperative strategy is one in which firms work together to achieve a shared objective. Strategic alliances, as cooperative strategies in which firms combine some of their resources and capabilities to create a competitive advantage, are the primary form of cooperative strategies. In an era of intense global competition, firms realize that the effective use of proper strategy contributes significantly to their market performance. Increasingly, successful firms use a higher level of strategic alliance to gain competitive advantage. The competitive advantage will result in more market share for the firms, which also means more market power.(Bai and O'Brien ,2008)
- **Organisational learning theory:** Organizational learning theory is regarded as the key factor in achieving sustainable competitive advantage. Organizational learning refers to the process by which the organizational knowledge base is developed and shaped. The ability of firms to acquire knowledge and to transfer it into a competitive weapon has long been a part of the research agenda. In all organizations, new knowledge is the lifeblood of experimentation, innovation, and change. Knowledge provides the capacity for organizational action and new knowledge provides the capacity for organisational renewal. Firm's ability to continually learn, adapt, and upgrade its capabilities is key to competitive success (Inkpen, 2008). The term "capability" emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment. Capability can be created and enhanced through experience, learning, investment and innovation. Alliances are viewed by partner firms as vehicles that provide opportunities to learn to enhance their strategies and operations. Often it is seen that learning from partners represents the primary motivation for firms to enter into alliance.

Strategic motives for alliance formation: (Glaister, 1996)

- **Cost advantages:** Strategic alliances helps firm to achieve cost advantage by combining their activities and assets. This makes it possible to achieve economies of scale and learning curve effects. The former one occurs when marginal cost of producing an additional unit is less than the total average cost, whereas the latter one can be ascribed to decrease of production cost due to an increased productivity by learning moreover, when partners are able to revert to the same production factors, an alliance can lead to economies of scope. Besides these effects, a cost advantage is further more realized by improved capacity utilisation.
- **Risk Sharing:** Strategic alliances are seen as an attractive mechanism for hedging risk because neither partner bears the full risk and cost of the alliance activity. alliances can reduce a partner's risk by (1) spreading the risk of a large project over more than one firm; (2) enabling product diversification and thus reducing market risks associated with being reliant on only one product; (3) enabling faster market entry and quicker establishment of a presence in the market, which in turn allows a more rapid pay back of investment; (4) cost subadditivity, i.e. the cost of the partnership is less than the cost of investment undertaken by each firm alone. A strategic alliance can lower the total investment cost of a particular project or the assets at risk, by combining expertise and slack facilities in the parent firms.
- **Product Rationalization and Economies of Scale:** Where production is characterized by economies of scale and learning by doing, firms may attempt to reduce costs by expanding output to achieve these benefits. Organic growth may however, be limited by low product demand and the costs of firm growth. Strategic alliances, in contrast, allow firms in the same industry to rationalize production, thus reducing costs through economies of scale and learning by doing, while avoiding the uncertainties and difficulties of full-scale merger. Strategic alliances also reduce costs by using the comparative advantage of each partner.
- **Transfer of Complementary Technology/ Exchange of Patents:** Alliances provide strategic benefits from the exploitation of synergies, technology or other skills transfer. Quite often technology agreements involve transfer to a large firm with the necessary manufacturing, scale and distribution outlets, and transfer by a smaller firm that does not have the necessary manufacturing and/or marketing scale, but which benefits from the alliance through the commercial exploitation of the technology by the larger firm. Alliances may be used to bring together complementary skills and talents which cover different aspects of the know-how needed in high technology industries significant innovations are likely to result from the fusing of these complementary skills, a result which is unlikely to be achieved by one firm acting alone. An advantage of exchanging patents is that faster entry into a market may be possible if the testing and certification completed by one partner are accepted by the other partner's territories. An important consideration with respect to patents is that they not only provide a right to a process, they also allow the right to a territory. Often the marketing or territorial rights are the dominant strategic issue behind the formation of an alliance.
- **Shaping Competition:** Strategic alliances have the ability to influence competing firms and their basis of competition. Joint ventures could blunt the abilities of competing firms to retaliate by binding potential enemies to the firm as allies. Through the combined internal resources of diverse firms, joint ventures could create more

effective competitors .an alliance may be used as an offensive strategy, for example by linking with a rival in order to put pressure on the profits and market share of a common competitor. Strategic alliances may, therefore, be used as a defensive ploy to reduce competition.

- **Conform to Host Government Policy**: One of the oldest rationales for strategic alliances has been building links with local companies in order to accommodate host government policy. Many governments in developing countries insist that access to the local market can occur only if the foreign company works in co-operation with a local partner. Host government pressure to form strategic alliances also applies in particular industries.
- **Facilitate International Expansion:** For small and medium sized enterprises which lack international experience, initial overseas expansion is often likely to be a strategic alliance. A firm may, for example, have the production capability but lack knowledge of foreign markets for which it depends on its partners. In general it is an expensive, difficult and time-consuming business to establish a global organization and a significant international competitive presence. In this respect a strategic alliance offers considerable time savings.
- **Vertical linkages:** Strategic alliances can create competitive strengths such as vertical linkages. Alliances can be a form of vertical quasi-integration with each partner contributing one or more different elements in the production and distribution chain.
- **Consolidates existing market position:** Strategic alliances can consolidate firm's existing market position by setting up barriers against new market entrants, developing new markets or access to new market, speeding up products from development to market etc.

Motive underlying entry of firms into strategic alliances: (Varadarajan and Cunningham, 1995)

- **Market entry and market position-related motives**
  - Gain access to new international markets
  - Circumvent barriers to entering international markets posed by legal, regulatory, and/or political factors
  - Defend market position in present markets
  - Enhance market position in present markets
- **Product-related motives**
  - Fill gaps in present product line
  - Broaden present product line
  - Differentiate or add value to the product
- **Market structure modification-related motives**
  - Reduce potential threat of future competition
  - Raise entry barriers/erect entry barriers
  - Alter the technological base of competition
- **Market entry timing-related motives**
  - Accelerate pace of entry into new product-market domains by accelerating pace of R&D, product development, and/or market entry
- **Resource use efficiency-related motives**
  - Lower manufacturing costs
  - Lower marketing costs
- **Resource extension ± and risk-reduction related motives**
  - Pool resources in light of large outlays required
  - Lower risk in the face of large resource outlays required
- **Skills enhancement-related motives**
  - Learning new skills from alliance partners
  - Enhancement of present skills by working with alliance partners

Linking motives with theoretical explanation: (Glaister and Buckley, 1996)

STRATEGIC MOTIVE	THEORETICAL EXPLANATION
1. Risk sharing	TC, RD
2. Product rationalization and economies of scale	TC
3. Transfer of technology/exchange of patents	TC,OL
4. Shaping of competition	SP,RD
5. Cost advantages	TC
6. Vertical links	TC,RD
7. Facilitates international expansion	OL,SP

TC= transaction cost; RD = resource dependency; OL = organizational learning; SP = strategic positioning.

(Glaister and Buckley, 1996) have identified the motives for alliance formation, ranked them in order of their importance and related them to its theoretical route. Set of semi-structured interviews were conducted with a senior

International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 6 Issue 5, May-2017, Impact Factor: 1.544

manager from each of eight UK partner firms. On the basis of these semi-structured interviews a postal questionnaire was devised. Two sample't' test and ANOVA were used to test the variability in strategic motivation. Factor analysis was used to identify smaller, non overlapping motives. A list of 16 motives was derived. Likert scale was used to measure the ranking of the motives in order of their importance to firms. Motives according to ranking are Gain presence in new market, faster entry in market, international expansion, compete again common competitor, maintain market position, exchange of complementary technology, economies of scale, product diversification, share R&D cost, spread risk of large project, reduce competition, produce at lower cost location. Factor analysis identified five factors: - technology development, market power, market development, resource specialisation and large project. It was concluded that first five ranked motives are in line with the strategic positioning and organizational learning perspective. By applying two sample 't' test and ANOVA it was concluded that the most important and least important set of motives do not vary with the characteristics of the sample.

(Bai and O'Brien, 2008) have examined the strategic motives for firms in Chinese aluminium industry to engage in cooperative R&D from four theoretical perspectives. Questionnaire about strategic motives that lead firm to participate in cooperative R&D were used to obtain the data .AMOS a computer software package based on confirmatory factor analysis CFA) was used to test the validity of measurement proposed for each factor (group).it was observed that Strategic motives behind R&D alliance are grouped into four categories (inducement factors) namely: **Cost sharing (CS), Risk sharing (RS), Skill sharing and Market power (MP).** It was concluded that transaction cost theory was used to explain CS, risk theory used to explain RS, organizational learning theory was used to explain skill sharing, and strategic management theory was used to explain MP.

All the theories provided rational explanations for each of the motives. Further on the basis of statistical analysis it was confirmed that grouping of motives were reliable and valid. (Dong and Glaister 2006; Saebi and Dong 2008) have compared the key drivers of Sino- foreign alliance formation from the perspective of both Chinese and Western alliance partner. Structured interview were conducted with eight Chinese alliance companies. To facilitate the Interviews, a questionnaire was designed and presented to the interviewees. The responding companies were selected from a variety of industries: 50% of companies operate in the automobile industry, while the remaining companies are in the pharmaceutical, software, telecommunication and construction industries. It was revealed that from western perspective major drivers for alliances were faster entry into the Chinese market, international expansion, Conformation to host government policies, Low cost sourcing, access to established customer, supplier and distribution network and favourable relationship with state -owned organizations. From the Chinese perspective access to international market, partner's technological, managerial capabilities as well as partner's intangible assets (relational capital) were major alliance drivers. It can be concluded that Chinese strategic alliance motives can be related to resource dependency theory, organisational learning theory and strategic positioning theory. While for western companies transaction cost theory and strategic positioning theory, institutional theory which focuses on confirmation to host government policies better explains their motivation for alliance formation.

(Wu and Callahan, 2005) have identified strategic motives of MNCs to form R&D alliances with Chinese partners and theorized relationships between motive, form and function of international R&D alliances. To carry out empirical tests, a database was constructed of 80 international R&D alliances in the information industry in China over the study period (1997-2003) based on public information (press releases, corporate websites, and similar public sources). The sample includes 80 international R&D alliances between MNCs from North America, Europe, Japan and South Korea and Chinese organizations. Chi square was used to test the relationship between motive, form and function of alliances. Six motives were identified for MNCs establishing alliance with Chinese organizations:-favourable government relationships, access to technically qualified human resources, vertical linkages in value chain ,increase in market share, achieving economies of scale, transfer of complementary technology. **Form of alliance includes** equity-based R&D joint ventures and non-equity-based R&D cooperative agreements. **Function of alliance** groups R&D activities into two categories, research-oriented and development-oriented.it was concluded that the two most frequent motives of MNCs when establishing R&D alliances with Chinese organizations are establishing vertical linkages and obtaining human resources. This indicates that transaction cost theory and resource dependence theory of strategic alliances are relevant here. For the above identified motives there was a strong preference for non-equity-based cooperative agreements, further they were more likely involved with research-oriented R&D activities.

(Bashawir and Ghani) have analysed a case study of strategic alliances in Malaysia. They found alliances in car manufacturing industries are guided by desire to acquire products, gaining market access, optimising capacity utilization. In construction companies' diversification of business, entering new markets propels joint venture. Major Oil and Gas companies are collaborating in upstream and downstream value chain activities. It was observed from theoretical perspective that resource based theory, strategic positioning theory and organisational learning theory justifies the rise of alliances in various industries.

Comparative study of resource based theory and the transaction cost theory in formation of strategic alliances:
(Yasuda, 2005) has compared the resource-based theory and the transaction-cost theory in finding their suitability to explain firms' formation of strategic alliances under high-technology business environments. Four forms of

technology-driven strategic alliances, such as (a) technology license (b) joint R&D (c) sourcing agreement and (d) joint venture, are explained based on the above two theories. For the empirical analysis, actual cases of strategic alliance which have been undertaken in the semiconductor industry were collected. The 10 firms identified including Intel, Samsung, Texas Instruments, and Toshiba. It was recognized that the motivations for alliances can be categorized as either (i) access to the partner's resources (ii) shortening of the time to market (or production) or (iii) reduction of the cost .it was concluded that the primary motivation of strategic alliances in this industry is the access to various resources owned by partners, followed by the reduction of time required for development or marketing. Because the issue of resources rephrases the issue of time, it is concluded that the resource-based theory prevails over the transaction-cost theory to explain strategic alliances in high-technology industries.

Form of alliance	Resource- based theory	Transaction-based theory
Technology license	Firms exchange technological Resources (proprietary technologies) and financial resources(monetary compensation)	Monetary compensation for license is lower than cost incurred for its own Development.
Joint R&D	Firms combine technological resources (intellectual property) and financial resources.	Cost required for joint R&D is lower than cost required for its own in-house R&D.
Sourcing agreement	Firms exchange manufacturing resources (facilities, equipments) and financial resources.	Cost for consigning manufacturing service to partner is lower than cost for its own in-house manufacturing.
Joint venture	Firms combine technological, manufacturing and financial resources.	Cost for joint venture is lower than cost for stand- alone operation.

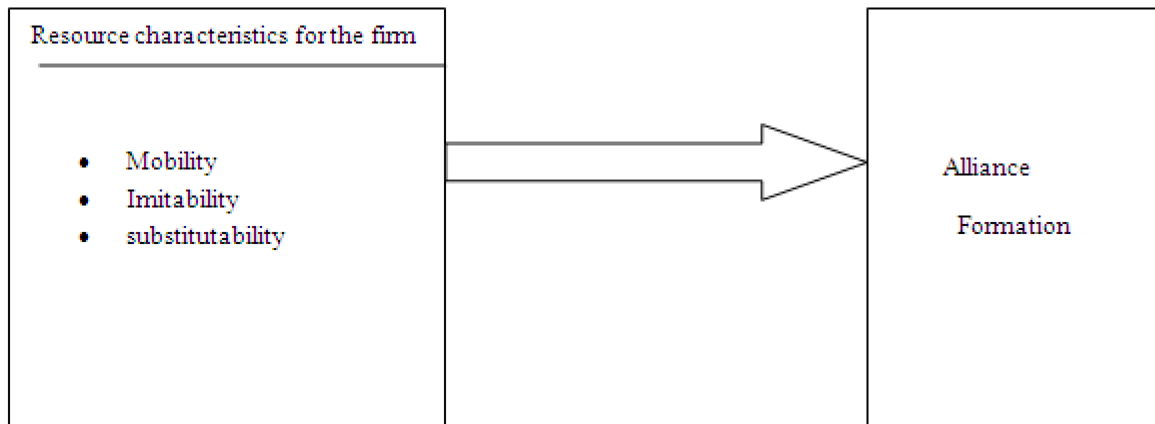
(Tsang, 1998) examined firm's strategy of forming strategic alliance by focusing attention on its resources instead of the external environment. This more inward looking approach is known as the "resource-based view". He identified five key motives for forming a strategic alliance from the resource based perspective .his paper does not argue that resource based theory is always superior to transaction cost theory or any other theories in explaining the motives for strategic alliance. According to him strength of resource based theory is that it is parsimonious, yet is able to offer rich explanations for many motives.

Brief explanation of the motives:-

- **Creation of rents**: possessing valuable scarce resources generates rent for their owners. The greater the degree of heterogeneity among firms in the market, the higher is the chance of forming alliances which could create rent.
- **Expansion of resource usage**: firm can diversify in second industry to expand usage of resources but there are constraints to diversification like shortage of managerial talent, loss of efficiency, uncertain institutional environment if expanding abroad. Forming strategic alliances is an effective way of solving these problems and helps to spread the risk of expansion.
- **Diversification of resource usage:** it helps to share the risk even though the company itself may have all the required resources to go alone. Diversification is differentiated from expansion as latter involves generating more return from the resources rather than to reduce risk.
- **Imitation of resources:** many of the valuable resources are non-tradable, so one way out to obtain them is to learn from their owners. Firm's ability to imitate other's resources depends upon its absorptive capacity which is constituted of abilities to recognize the value of new information, assimilate it, and apply it to commercial ends.
- **Disposal of resources:** Disposing of a group of resources which have been well meshed with the firm's other resources is also time consuming task. Joint venture is a way to get around these complications.

(Das and Teng, 2000) have identified that the resource-based view seems particularly appropriate for examining strategic alliances because firms essentially use alliances to gain access to other firms' valuable resources. Motives for firms to use strategic alliances over merger and acquisition are: (1) To obtain others resources; and (2) To retain and develop one's own resources by combining them with others resources. The difference between the two motives is that, while obtaining resources is more about creating competitive advantage in the immediate present, retaining resources is concerned more with securing competitive advantage later on. Imperfect mobility refers to the difficulty, as well as the nontrivial costs of moving certain resources from one firm to another. Whereas imperfect imitability is concerned with barriers to getting the resources from the owners and imperfect substitutability refer to barriers to obtaining similar resources from elsewhere. Imperfect mobility, imperfect imitability, and imperfect substitutability of firm resources are not only essential for sustained resource heterogeneity, but are also instrumental in the formation of strategic alliances.

Resource Characteristics and Alliance Formation:



Role of Learning in strategic alliance

(Iyer, 2002) has identified that apart from strategic and operational motives, in order to sustain competitive edge in the marketplace learning serves as a primary motivation for alliance formation. He has highlighted the importance of understanding the evolutionary perspective of alliance learning. Learning is strategically relevant and learning skills may provide the greatest long-term benefits to firms. Learning provides the key ability to synergistically exploit the capabilities firms bring into an alliance.

Alliance evolution and learning:

- Awareness & Partner Selection: involves recognition by a firm of another as a feasible exchange partner. Learning at this stage is by and large unilateral since typically interactions do not commence until the next phase. Companies begin to learn about strategic intentions, skills and competencies that potential partners possess and will likely bring into the alliance.
- Exploration: This phase of evolution marks the beginning of interaction between partners; it involves seeking a common ground for the alliance partners "to build social bonds and a trusting relationship." Learning in this phase is still to a large extent unilateral, but as the alliance evolves, elements of mutual learning also show up, particularly as the alliance nears the next phase. Through learning, partners understand each other's goals.
- Expansion: is a stage of increased mutual interdependence and growth in benefits accrued to the partners. Learning is partly mutual as partners share common perceptions and goals and work toward successfully sustaining the alliance by bridging expectation gaps.
- Commitment: it is the most advanced state in the alliance relationship. Common norms and values are so well established that the relationship institutionalized and a stable atmosphere prevails. Commonality of purpose, mutual learning processes, multiple levels of personal and emotional relationships are clearly evident in this phase .Learning progresses from unilateral knowledge-gathering to mutual capacity-building.

Finally it can be stated that learning opportunities create 'learning organizations' that are able to increase their absorptive capacities and their ability to assimilate new ideas. It acts as a source of competitive advantage. As alliances mature, the initial partnering conditions and motivations change, making it necessary to re-evaluate and readjust learning priorities. Exploration and Exploitation are two forms of organisational learning. Exploration involves 'pursuit of new knowledge' while Exploitation involves 'use and development of things already known. Strategic alliances based on exploration and exploitation theory can result in three different types of alliances based on their final learning goals and these include learning alliance, business alliance and hybrid alliance. Learning alliance main aim is to create new knowledge between the companies that will be relevant to their success. Business alliance creates a new position in the market for firms through which they can increase their revenue through combining resources between the companies in the alliance. Hybrid combines features of both.

(Liu and Adero) have analysed a case study of alliance between Equity bank Kenya and Safaricom ltd. they found that the bank's motivations for entering into the alliance included accessing Safaricom's technology, their network, competency in telecommunication as well as their large customer base thereby surviving competition while creating an innovative product to suit the target market. The alliance is a hybrid alliance as it consists of factors seen in a business alliance as well as a learning alliance therefore containing characteristics of both exploration and exploitation.

Marketing based perspective in Strategic Alliance formation:

(Milano and Pozza, 2005) have investigated the relationship between alliance formation motives and customer satisfaction. They tried to 1) define the conditions under which the need to enhance customer satisfaction can be a primary reason for forming alliances. 2) Demonstrate whether alliances can take place in those activities mainly responsible for the creation of customer satisfaction. The company has to define which activities create customer satisfaction. Referring to Porter's Value Chain model an assumption is made that customer satisfaction arises from the performance of different activities. Consequently, firms may look for partnerships to support those activities of the value chain mainly responsible for customer satisfaction creation. The survey research method was chosen to identify industries that may demonstrate a link between alliance formation and customer satisfaction. The data was derived from a survey of Italian business to business (B2B) and business to consumer (B2C) markets.

Companies analyzed included those found in the chemical, pharmaceutical, telecommunications, banking, clothing and accessories, transportation and automotive and food industries. In the B2C setting, the industries in which a link was found between alliance formation and customer satisfaction were mainly those related to clothing and accessories, telecommunications and automotive and the activities specifically involved in alliance formation are production and distribution. In B2B setting, customization of products and time to market pressures forces firms to ally. It can be concluded that as the dynamics of competition change, it is important to investigate competing networks of alliances and the underlying reasons for their formation. In some circumstances, customer satisfaction is emerging as a new reason for alliance formation and a new tool for alliance managers. This is consequence of the renewed role of customers in the overall strategy of most companies.

(Beverland and Bretherton, 2001) have examined factors in the environment that are driving the formation of alliances. Environment includes changes both in the immediate task environment as well as in broader market environment. They have integrated resource dependence views of alliance formation with the market process view of Austrian economics to prove that alliances are a means of reducing the uncertainty that surrounds the undertaking of new market opportunities.

Austrian view of Economics: Traditional schools of economics view strategic alliances as a means of reducing competition, gaining market power and extracting monopoly rents. This view is based upon an oligopolistic model of economic competition where firms exert significant control over their environments and may in fact reach a point where they can define or enact their own environments. However, for the Austrians, the focus of economics is on what they call the ``market process''. Search, risk taking, and discovery through interacting with other market participants characterized the market process. For the Austrians, managers fill two roles: first they plan based upon probabilities of future success an action which is noticed by other participants. Second, they create new products and processes, which by themselves create changes within the environment and spur further planning and invention. This process is a collective one, and is therefore quite consistent with the rise of strategic alliance.

In the study variety of case studies of New Zealand firms are used that were known to have formal strategic alliance. Four sectors were considered wine industry, airline industry, pharmaceutical industry and private healthcare organisations. Alliances are clearly being formed as a result of changes within the structure of an industry, desire to access new markets, to gain new skills, reduction of cost, increase current market position. It can be concluded that the formation of alliances are clearly a proactive strategy on behalf of management to reduce environmental uncertainty. As new forms emerge, this may throw the market into disequilibrium resulting in new opportunities and discoveries. The formation of the "Star Alliance" has in fact driven the formation of other alliances in global airline industry.

4. STRATEGIC ALLIANCES IN INDIAN INDUSTRIES

Post 1991, after India faced the worst economic crunch in terms of its foreign reserves it stepped into the era of liberalization. The license raj and the large number of trade barriers were intended to be done away with. Opening up the economy including the core sectors to private and foreign companies transformed India into a land of opportunities. The Industrial policy of 1991 drastically affected growth of Indian businesses by making trade boundaries more permeable. Indian companies are entering into strategic alliances to expand in foreign markets and preparing for competition at home. The study consists of alliance formation in three Indian industries namely pharmaceutical, iron and steel and airline industry.

Indian Pharmaceutical Industry

The **Indian pharmaceutical sector** has come a long way, being almost non-existent before 1970 to a prominent provider of healthcare products, meeting almost 95 percent of the country's pharmaceuticals needs. The Indian Pharmaceutical sector is highly fragmented with more than 20,000 registered units with severe price competition and government price control. It has expanded drastically in the last two decades.

The Changing Prescription:

Following the **de-licensing** of the pharmaceutical industry, industrial licensing for most of the drugs and pharmaceutical products has been done away with. Manufacturers are free to produce any drug duly approved by **the Drug Control Authority**. As per WTO, from the year 2005, India granted product patent recognition to all new chemical entities (NCEs) i.e., bulk drugs developed then onwards. This introduction of product patent regime from January 2005 is leading into long-term growth for the future which mandated patent protection on both products and processes for a period of 20 years. Under this new law, India will be forced to recognize not only new patents but also any patents, filed after January 1, 1995. Under changed environment, the industry is being forced to adapt its business model to recent changes in the operating environment. Indian companies such as Ranbaxy, Sun Pharmaceutical, and Dr. Reddy's laboratories ltd. are increasingly focusing on tapping the U.S. generic market.

Research & Development is the key to the future of pharmaceutical industry. There is considerable scope for collaborative R & D in India. The focus of the Indian pharmaceutical companies is also shifting from process improvisation to drug discovery and R&D. the Indian companies are setting up their own R&D setups and are also collaborating with the research laboratories like CDRI, IICT .Now that India is entering into the Patent protection area, many companies are spending relatively more on R & D. Historically, the low cost of domestically produced drugs together with government controlled prices, and the absence of patent regulations had made the market less attractive for foreign players. With the new patent laws in place the market scenario will change. Indian market will become attractive for foreign companies. With the new patent regulations the industry expects to see a major structural shift with the entry of foreign pharmaceutical manufacturers. Technologically strong and totally self-reliant, the pharmaceutical industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories and an increasing balance of trade which provides enough attraction to foreign entrants.

Strategic alliances in industry: Indian companies realized that adopting a long term competencies building strategy by large investment in R&D, advertising etc. is relatively more risky and costly than pursuing the route of overseas alliances. Indian pharmaceutical firms are diversifying their product and market portfolio and at the same time trying to harness the efficiencies arising from alliance synergies. (Raizada and Pall, 2006)

Some examples

1. **Nicholas Piramal India ltd**. (NPIL) signed a deal with **Merck** to discover and develop cancer drug which brought them revenue of 350 million dollars and also with **Eli Lilly** targeting drugs for metabolic disorder again generating huge revenue. Such large figures help us to understand the importance of alliances in Indian pharmaceutical sector.
2. Strategic alliance made between **orchid pharmaceuticals** and **Ranbaxy** where orchid would manufacture both finished dosage formulation and, active pharmaceutical ingredients (API) for marketing by Ranbaxy due to its global market reach.
3. Like Ranbaxy, Indian big pharmaceutical giants **Dr Reddy's lab, Nicholas piramal** are entering into alliances in R&D sector as they have realised the fact that they have to go a long way in R&D to sustain in this field.
4. The strategy of forming alliance with MNE'S have enabled **Piramal Healthcare** and **Wockhardt Ltd.** to leapfrog into advanced stages of drug discovery which seems to be a cheaper strategy requiring few R&D resources.
5. **Wockhardt Ltd.** has entered into alliance with **Sheffield bioscience of USA** for sales, marketing and distribution of recombinant insulin in cell culture markets globally.
6. **Dabur** pharmaceuticals have struck an exclusive strategic alliance with **Abbott laboratories** of USA wherein, Abbott will market Dabur's anti-cancer drug in the lucrative US market.
7. **Sun pharmaceutical** and **Merck** have formed a joint venture to develop, manufacture, market differentiated drugs across emerging markets.

Indian pharmaceutical firms are forming alliance to:

- Acquire R&D capabilities
- Regulatory skills
- Enhance Marketing and distribution network
- Improve global competitiveness
- Enlarge asset base
- Move up the value chain by acquiring specific skills and technology
- Improve their product offering
- Consolidate existing market share

Indian Steel Industry

At the time of independence India had a small Iron and Steel industry with production of about a million tonnes. Till early 1990s, when economic liberalization reforms were introduced, the steel industry continued to be under controlled regime, which largely constituted

- Regulations such as large plant capacities were reserved only for public sector under capacity control measures;
- Price regulation;
- For additional capacity creation producers had to take license from the government;
- Foreign investment was restricted; and there were restrictions on imports as well as exports.

However, **After Liberalization**—when a large number of controls were abolished, some immediately and others gradually the steel industry has been experiencing new era of development. Major developments that occurred at the time of liberalization and thereafter were:

1. Large plant capacities that were reserved for public sector were removed;
2. Export restrictions were eliminated;
3. Import tariffs were reduced from 100 percent to 5 percent;
4. Decontrol of domestic steel prices;
5. Foreign investment was encouraged, and the steel industry was part of the high priority industries for foreign investments and implying automatic approval for foreign equity participation up to 100 percent;

As a result, the domestic steel industry has since then, become market oriented and integrated with the global steel industry. This has helped private players to expand their operations and bring in new cost effective technologies to improve competitiveness not only in the domestic but also in the global market. Private sector contribution in the total output has since been increasing in India. Development of private sector has caused high growth in all aspects of steel industry that is capacity, production, export and imports.

Steel industry is receiving significant foreign investments such as POSCO—South Korean steel producer and Arcelor-Mittal Group—UK/Europe based steel producer—announcing plans for establishing production units each in India.

The Indian steel industry, with a production of about 1 million tonnes at the time of independence, has come long way to reach the production of about 57 million tonnes in 2006-07. Moreover, the steel industry is showing promising future growth as major players in the industry have announced their plans for significant investments in expanding their capacities. Impressive development of the steel industry with active participation of private sector and integration of India steel industry with the global steel industry has also induced the government to come up with **a National Steel Policy in 2005**. The National Steel Policy 2005 was drafted with the aim of establishing roadmap and framework for the development of the steel industry. The policy envisages steel production to reach at 110 million tonnes by 2019-20 with annual growth rate of 7.3 percent.

Indian steel players are forming alliances or Joint Ventures

- **With another Indian steel player:**
  - Avail benefits of economy of scale
  - Increase operational efficiency and margins
  - Expand operation and product portfolio
  - Easy access to finance
  - Value addition to the brand
  - Greenfield projects take longer time to become profitable
- **With a foreign steel player:**
  - Gain access to latest technologies and know how
  - Produce value added products which are currently being imported
  - Cater to the need of fast growing automobile segment
  - Gain location specific assets
  - Overcome certain legal constraints
  - Reduce cyclicality risk by diversifying geographically
  - Minimize exposure in risky environment
  - Value addition to the brand
- **With another non steel player:**
  - Reduce risk by diversifying in a different business
  - Increase revenue base

- Have better control over supply chain
- Have a captive outlet for products
- Greenfield projects take longer time to become profitable

Recent alliances:

1. **Arcelor-Uttam Galva**
   - Arcelor Mittal motive was to enter fast growing Indian market ,expand business and produce steel at a lower rate as compared to developed countries
   - Uttam Galva got raw material security and value addition to brand.

2. **Sail-Kobe**
3. **Sail-Posco**
   - SAIL got access to new technology, produced new value added products earlier being imported
   - POSCO and KOBE got entry in fast growing Indian market

4. **Jsw-Ispat**
   - Where both got opportunity to expand operation, get economies of scale, improved operational efficiency and margin.
   -
5. **Tata-Nippon**
   - The joint venture would source steel from Tata's Jamshedpur plant and get access to Nippon's production technology.

Indian Airline Industry

Indian civil aviation immediately responded to liberalization due to its poor financial numbers. Airline, being a service industry is facing intense competition after liberalization. As a result, the various airlines are entering into consolidation and strategic alliance with an aim of improving their competitive positions. It is virtually impossible for a single carrier to serve all the places across the World. However, what carriers can & definitely do is that they tie up with carriers of other countries by entering into alliances. An airline alliance is an agreement between two or more airlines to cooperate for the foreseeable future on a substantial level.

Scenario after Liberalisation

From the consumers perspective; choice of airlines have increased, fares have reduced significantly, and increased routes is another big advantage. From the airlines perspective; Commercial freedom is the biggest advantage along with increased foreign investment. From the airport perspective; increased number of air passengers and aircraft are contributing to revenue in form of landing charges and consumer spending at airport.

Strategic Alliance – The modern airline trend:

Strategic alliances have been one of the most visible responses of airlines to the intense competition of recent years. The main objective of these alliances is to create competitive advantage for the partners by enabling them to complement each other's services and achieve substantial economies of scale, particularly in marketing and maintenance costs. **Inter-airline alliances lead to many competitive advantages**:

- Merging of commercial activities in terms of sale and passenger service
- Pooling of intercontinental routes and linking domestic routes
- Providing high quality services
- Joint ground handling and maintenance at airports
- Capturing market share
- Joint investments and operating expenditure agreements
- Merging of reservation systems
- Joint fare policy
- Code sharing
- Advantage of global status and transcontinental distribution on partners
- Generate economies and new opportunities
- Risk sharing

Recent alliances:

- Strategic Alliance agreement signed between **Lufthansa & Air India**. The objective of the partnership is expansion of the offer of flights between Germany and India. All flights between the two countries are operated by the two airlines in code-sharing. New routes are also added.
- Alliance with low-cost carrier: **Jet airways alliance with Air Deccan** - the largest low-cost carrier in the country. The alliance would be on various fronts – sharing of engineering infrastructure, exchange of passengers when flights are cancelled, and combination offers and so on.
- The MRO (maintenance, repair, and overhaul) is the vehicle for creating self-sufficiency of maintenance infrastructure. MRO have the advantage of helping domestic airlines save about 20-40 per cent on the total cost on airframe maintenance. **Air India-Boeing** and **Indian Airlines-Airbus** ventures have took place in the MRO space. **GMR-Malaysian** airlines joint venture is most recent of them.
- **American Airlines and India's Kingfisher Airlines** entered into a code share and frequent flyer relationship.
  Note: codes hare, is an aviation business arrangement where two or more airlines share the same flight. A seat can be purchased on one airline but is actually operated by a cooperating airline under a different flight number or code. Under a code sharing agreement, the airline that actually operates the flight (the one providing the plane, the crew and the ground handling services) is called the operating carrier. The company or companies that sell tickets for that flight but do not actually operate it are called marketing carriers.

CONCLUSION

After reviewing the literature it can be concluded that there is a growth in use of strategic alliance in today's highly competitive and global environment. Major theories of strategic alliances namely transaction cost, resource dependency, resource based, strategic positioning and organisational learning can be related to the motives of strategic alliance formation. However there are some other less important theories which have not been discussed in the review are: - International trade theory which focuses on Dunning 'eclectic paradigm' to explain rise of strategic alliance. Out of the location, ownership and internalisation conditions, opportunity of strategic alliance emerges if internalisation condition weakens. The other is Institutional theory which states that institutional arrangements as reflected in government regulations, nature of property rights etc. can produce entry barriers or create opportunity of action. Relationship marketing theory which refers to tendency to form strong relationship with customers and suppliers provides a reason as to the formation of marketing alliance these days. Articles of Chinese IT, automobile &construction industries were also reviewed and it was found that Chinese companies form alliances to access partner's technological and managerial competence a well as to penetrate international markets. Strategic positioning, resource based theories supports their motivation.

But for western counterparts institutional theory in the form of confirmation to government policies may encourage them to form alliance with Chinese firms. a comparison was made between resource based theory and transaction cost theory and it was found that in certain industries like semiconductor, high tech etc. resource based theory better explains their motivation behind alliance. Few articles also revealed that Learning, innovation, tapping new market opportunities, fighting uncertainty is acting as a primary motivator for alliance formation. Taking the case of India, after liberalisation all the industries are adopting strategic alliances as a competitive weapon to fight globally. In the review I have concentrated my efforts to find out the major drivers of alliances in pharmaceutical, steel and airline sector .In the pharmaceutical sector there is a considerable scope for collaborative R & D in India.

The focus of the Indian pharmaceutical companies is also shifting from process improvisation to drug discovery and R&D. Companies are strengthening their marketing and distribution network to tap global markets. This clearly indicates resource dependency, strategic positioning and organisational learning theory justify their motivation. Airline sector is capital intensive with projects of long gestation period .low product differentiation, infrastructural bottlenecks, high operating cost, low global reach are forcing firms to adopt collaboration with other established players. Transaction cost, strategic positioning and resource based theories provides reasoning for their collaboration. In the steel sector alliances are driven by benefits of economies of scale, expansion of product portfolio, access to technology, minimising risk exposure, higher operational efficiency. This indicates transaction cost theory and resource based theory are more relevant.

REFERENCES

Journals:

[1]. Bai, Yiping., and O'brien,GC., (2008), "The strategic motives behind firm's engagement in cooperative research and development :A new explanation from four theoretical perspectives", Journal of Modelling in Management, 3(2), 162-181.
[2]. Beverland, Mike., and Bretheraton, Philip., (2001), "The uncertain search for opportunities: determinants of strategic alliances", Qualitative Market Research: an International Journal, 4(2), 88-99.
[3]. Das, T.K., and Teng, B., (2000), "A Resource-Based Theory of Strategic Alliances", Journal of Management, 26(1), 31-61.

[4]. Dussauge, P., and Garrette, B., (1995), "Determinants of success in international strategic alliances: Evidence from the global aerospace industry", Journal of International Business Studies, 26, 505-530.

[5]. Glaister, Keith W., (1996), "UK-Western Europe strategic alliances: Motives and selection criteria", Journal of Euro - Marketing, 5(4), 5-35.

[6]. Glaister, Keith .W., and Buckley, Peter J., (1996), "Strategic Motives for International Alliance Formation", European Business Review, 33(3), 576-590.

[7]. Gulati, R., (1998), "Alliance and Networks", Strategic Management Journal, 19, 293-317.

[8]. Inkpen, Andrew., (1988), "Learning, knowledge acquisition, and strategic alliances", European Management Journal, 16(2), 223-229.

[9]. Isoraite, Margarita., (2009), "Importance Of Strategic Alliances In Company's Activity", Intellectual Economics, 1(4), 39-46.

[10]. Iyer, Karthik.,(2002), "Learning in Strategic Alliances: An Evolutionary Perspective", Academy of Marketing Science Review,2002(10)

[11]. L, Dong., and Glaister, K.W., (2006), "Motives and partner selection criteria in international strategic alliances: Perspectives of Chinese firms", International Business Review, 15, 577–600.

[12]. Pozza, Dalla., and Milano, P.M., (2005), "Introducing a Marketing-based Perspective in Alliance Formation", Journal of Competitive Intelligence and Management, 3(1).

[13]. Pekar, Peter., and Allio, Robert., (1994), "Making Alliances Work: Guidelines for Success", Long Range Planning, 27(4), 54-65.

[14]. Raizada, Gaurav., and Pall, Atul.,(2006), " Strategic Value-Chain Analysis of Indian Pharmaceutical Alliances" ,Available at SSRN: http://ssrn.com/abstract=1018022 or doi:10.2139/ssrn.1018022,retrieved 5 Jan, 2012

[15]. Saebi, Tina., and Dong, Qinqin., (2008), "Strategic motivations for Sino-Western alliances: a comparative analysis of Chinese and Western alliance formation drivers", **working paper,** united nation university.

[16]. Varadarajan, P.R., and Cunningham, M.H., (1995), "Strategic alliances: a synthesis of conceptual foundations", Journal of the Academy of Marketing Science, 23(4), 282-96.

[17]. Wisnieski, Joette., and Soni, Ramesh., (2004), "Strategic Alliance Choice: Usefulness of Proposed Theories", Journal of Applied Management and Entrepreneurship, 9(3), 74.

[18]. Wu, Jian., and Callahan, John., (2005), "Motive, form and function of international R&D alliances: Evidence from the Chinese IT industry", The Journal of High Technology Management Research, 16(2), 173-191.

Books:

[1]. Porter, M.E., (1990), Competitive Advantage of Nations, The Free Press, New York

[2]. Ungson, Gerado R., and Wong, Yim-Yu., (2008), Global Strategic Management, M.E. Sharpe, New York

[3]. Williamson, O., (1975), Markets and Hierarchies, The Free Press, New York

[4]. Yoshino, M.Y., and Rangan., (1995) , U.S. Strategic Alliances: an Entrepreneurial Approach to Globalization, Harvard Business School Press, Boston