

A Study of Formation and Management of Strategic Alliances Between Indian and Foreign Firms

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Thesis Summary

In recent years, the study of strategic alliances has attracted much attention of management researchers. The role of strategic alliances has become very significant in any organization's strategy, particularly in the face of intense competition and rising trend towards globalization. A framework to study strategic alliances is developed and evaluated in this work using in-depth analysis of five alliances between Indian and foreign firms.

The extant research is characterized by differences amongst various theoretical perspectives used to study the phenomenon of strategic alliances. The literature overview identified important factors pertaining to pre-alliance considerations, formation of alliance, and implementation of alliance. Various theoretical perspectives-often conflicting with each other-were examined to highlight the debates in the study of alliances.

This thesis proposes an integrative framework to study alliances. The *phases framework* sees alliance as a process belonging to "teleological process family" (Van de Ven, 1992) where the focal organization is purposive towards its objectives and uses the alliance to achieve them. A process is seen as a sequence of events or activities describing how things change over time. The framework adopts a single-partner perspective (the focal organization's point of view), which enables examining the role of alliance in the focal organization's overall strategy. Since each partner approaches the alliance with its own set of objectives, it is argued, the alliance is successful only if the focal organization realizes its objectives, irrespective of whether the objectives of partner organizations(s) are realized or not.

An alliance is conceptualized as a process passing through three temporally overlapping phases- selection phase, formation phase, and management phase. In the selection phase, the focal organization realizes the needs for alliance, defines its objectives for the alliance and identifies potential alliance partners. In the formation phase, negotiations between the prospective partners involve agreement between the partners on- the resources to be committed by each partner of the alliance, the structure of the alliance, and various contractual terms. Bargaining, during negotiation, may entail minor modifications in the objectives of a partner. In this phase, the focal

organization may even decide against the alliance if negotiations do not result in a deal of its convenience. In the management phase, the commitments made are implemented, the activities are performed, and the payoffs realized. The outcome is evaluated by organization vis-a-vis its objective for alliance. Depending on the organization's priorities in the light of changed set of capabilities and the environment, the alliance may be continued or terminated. It is argued that activities within the alliance (managerial action) would significantly influence the development of alliance more than any other factor. The intent and capabilities of the partner-determining its objectives, and the environment-consisting of "sponsor elements" whose sustained support is vital for organization's survival, also influence the development of alliance. The outcome of alliance is seen as a continuous one which constantly modifies the organization's capabilities and hence influences the future managerial action. The framework is presented in the form of ten propositions.

The study involved an exploratory analysis of alliances between Indian and foreign firms. Case study method suited the purpose because it helped examining the process-related factors. The five cases were selected from Indian consumer goods industry, which witnessed a flurry of alliance activity following liberalization of Indian economy. The data, collected through the interviews, published sources and company records, are presented in the form of case descriptions.

The five cases were presented to fifteen judges who were asked to identify factors which influenced the development of the alliance in each case. The findings were used to ascertain whether the case data supported the framework. These findings were analyzed by comparing and contrasting the data from the cases in order to test the validity of the framework. The findings supported eight propositions and could not conclusively support one proposition. One proposition could not be tested at all. The propositions supported by the findings are retained for future research.

The study, though exploratory in nature, points out some important issues regarding strategic alliances. Firstly, the single-partner view, since it focuses on the role of alliance in the organization's overall strategy, better explains the organization's approach towards alliance.

Secondly, the study reveals that alliance is more dynamic than as envisaged by some of the earlier studies. The outcome constantly modifies the capabilities of focal organization, which in turn influence the future managerial action. Thirdly, the findings highlight the importance of the activities within the alliance (managerial action) which enable the organization to appropriate payoffs from the alliance, and to a large extent, irrespective of the alliance structure. The managerial action are particularly crucial, as found in the study, when objectives are *tacit*. Tacit objectives, like transfer of management skills, learning, exposure to various practices etc. require purposive managerial action and cannot be ensured by structure of the alliance. Fourthly, the findings point out how the intent of the organization, which guides the overall decision-making within the organization and also guides the managerial action within the alliance, significantly influence the development of the alliance.

The study has its limitations. The study examined only a few firms and hence the findings cannot be over generalized. Because of the clause of confidentiality, the cases could not be shown to the respondents. Therefore, independent judges were asked to identify important factors influencing the development of alliances. This study forms only the first phase of the research design suggested by Parkhe (1993a). The agenda for future research includes literal and theoretical replications of the cases and using complementary research strategies to raise the theoretical level of research on strategic alliances.

Related Publications

Thakur, M., Srivastava, B N & Gambhire, V (1996). The pre-alliance imperatives: An exploratory study of strategic alliance partners in the US and India. Paper presented at the Academy of Management Meeting, 1996.