CHAPTER - 8

STRATEGIC ALLIANCES

Background

Strategic alliance was identified as a management fad by Byrne (1986). He had, however, stated that fads can become techniques, if they are integrated into a comprehensive system of management with a real commitment to managerial excellence. As quoted by Byrne (1986) Peter F. Drucker had stated that the fads change about every 2 1/2 years. By the test of these parameters strategic alliance now cannot be called a fad.

Strategic alliance is emerging as and proving to be a powerful management tool/technique in business management, especially in the era of globalization of business. But unlike other management tools or techniques strategic alliance may harm the interest of business or even make the managers of the business loose their business altogether. Hence, strategic alliance may well be called a double-edged sword that helps business conquer new areas of business if handled properly and if not damages the business interest to an extent that perhaps no other tools or techniques can.

Now is the right time for the managers of Indian business firms to add this tool in their armory and use it for protection and growth of their business which is threatened by the onslaught of the globalization of business.
Business organizations worldover have been encashing on the concept of "cognitive dissonance" of consumers. Cognitive dissonance is that uneasy feeling suffered by the consumers contributed by the merits of unchosen alternatives (goods/services) and demerits of chosen alternatives. Alert consumers of to-day want their cognitive dissonance to be nil, almost. This has triggered pressure for the businesses to enter into strategic alliances with others including their rival competitors in order to quickly offer to consumers the alternatives (goods/services), which tend to have all merits and nil demerits.

Definition

Merriam-Webster's Collegiate Dictionary, third edition, defines alliance as "an association or union formed for the furtherance of the common interests and aims of the members".

A strategic alliance associates two or more firms each desiring to gain manifestedly as well as unmanifestedly by linking specific aspects of their businesses.

It is difficult to find a definition of strategic alliance as most writers remain flexible and imply strategic alliance to be any kind of interfirm links including mergers and licensing. The most comprehensive definition has been provided by Yoshino and Pangan (1995) in "Strategic Alliances: An Entrepreneurial Approach to Globalization", the first and perhaps the only book to treat the new alliances comprehensively as
instruments of long-term competitive advantage rather than as short-term
defensive maneuvers.

They define strategic alliance as possessing simultaneously the follow­
ing three necessary and sufficient characteristics.

* The two or more firms that unite to pursue a set of agreed upon
goals remain independent subsequent to the formation of the
alliance.

* The partner firms share the benefits of the alliance and control
over the performance of assigned tasks—perhaps the most distinc­
tive characteristic of alliances and the one that makes them so
difficult to manage.

* The partner firms contribute on a continuing basis in one or
more key strategic areas, for example technology, product, and so
forth.

By this definition Yoshino and Rangan (1995) exclude from the term
strategic alliance—mergers, takeovers, and acquisitions, joint ventures
of overseas subsidiaries of multinational corporations undertaken for
the purpose of entering new geographic markets, licensing and cross­
licensing agreements and franchising deals and include interfirm links
established through contractual agreements like joint R&D, joint product
development, long-term sourcing agreements, joint manufacturing/marketing,
and shared distribution/service; equity arrangements without crea-
tion of any new entity like minority equity investments, and equity swaps; and with creation of new entity of nonsubsidiary joint ventures with or without equal equity holding.

In brief, alliance may be defined as cooperation between two or more independent firms involving shared control and continuing contributions by all partners for mutual benefit.

Types of Strategic Alliances

According to Yoshino and Rangan (1995) corporate strategic objectives are multidimensional and often contradictory. Actions dictated by one strategic objective frequently impede another, equally important objective, requiring managers to prioritize, often with limited success. An alliance-seeking firm may take into account two managerial dimensions cooperation and competition/conflict. The task of managing alliances is to optimize along these two dimensions.

The strategic goals of partner firms fall into four broad categories. Two are positive and relate to enhancing firm effectiveness, two defensive, aimed at preventing loss of effectiveness. The first strategic goal is to add value to an activity. The second goal of a partner is to augment its strategic competencies through learning from its opposite. On the defensive side, a partnering firm may maintain strategic flexibility by keeping the options open and creating new options when feasible. Finally, a firm may guard against its core competencies or strategic advantages being appropriated by a partner.
In any joint work, firms are likely to be concerned with sharing the pie, but another, more serious aspect to conflict is that the firms may be, or anticipate being, rivals in the marketplace. The extent of organizational interaction in the cooperative approach to a joint activity is not merely the frequency of interaction between the collaborating firms but a proxy for a number of related issues.

Taking the extreme values, high and low of conflict potential and cooperative interaction Yoshino and Rangan have classified strategic alliances into four distinct types, procompetitive, non-competitive, competitive, and precompetitive as follows:

Typology of Alliance

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<th>High Conflict Potential</th>
<th>Precompetitive Alliances</th>
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<td>Procompetitive Alliances</td>
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Extent of Organizational Interaction

The extent of organizational interactions is high among competitive and noncompetitive alliances, and is low among precompetitive and procompetitive alliances. The conflict potential among partners is high among precompetitive and competitive alliances, and is low among procompetitive and noncompetitive alliances.
Procompetitive alliances are generally interindustry, vertical value-chain relationships, as between manufacturers and their suppliers or distributors. Once managed at arm's-length, they are now accorded much more attention as the strategic nature of these links is widely recognized. General Motors' and Hitachi's working together to develop electronic car is representative of procompetitive alliances. In such links, although firms work closely to develop or improve products and processes, this type of cooperation requires low levels of organizational interaction. Moreover, the firms tend not to be rivals. Indeed, some firms, such as Toyota, rely on a federation of procompetitive alliances to compete against their market rivals at low levels, the strategic objectives of protecting core competencies and learning take a back seat to those of maintaining strategic flexibility and adding value. Hence firms like General Motors tend to maintain more than one link for the same activity.

Cases of strategic alliances in Indian industry as discussed in detail later include a representative of procompetitive alliance between Telco Ltd. and Cummins Engine Company Incorporated where the joint venture is set to manufacture diesel engines for Telco vehicles in Jamshedpur.

Noncompetitive alliances tend to be intraindustry links among noncompetitive firms, for example General Motors and Isuzu, which are jointly developing a small car that both will sell. The level of interaction in this cooperative effort is high; joint development of a new car calls for close contacts at different levels and in multiple functions (e.g.,
design, engineering, manufacturing, and marketing, to name a few). The firms' competitive universes meet, but only occasionally, and neither view the other as a major rival. Given the partners' significant commitments of time and effort, neither is likely to seek to duplicate its efforts in another alliance. The firms are therefore unlikely to rank flexibility maintenance and protecting core competencies as high priorities. Learning, on the other hand, is likely to be high on the agendas of the partner firms' managers. Although in the same industry, the partners are sufficiently dissimilar to render an alliance worth considering.

Cases of strategic alliances in Indian industry as discussed in detail later include a representative of noncompetitive alliance between Ranbaxy Laboratories Limited and M/S Eli Lilly of the US, where the joint venture is to manufacture and market Lilly brands in Indian market.

Competitive alliances are similar to noncompetitive alliances in terms of the joint activity (and hence in the level of organizational interaction) but differ in that the partners are apt to be direct competitors in the final product market. Examples include the ties between General Motors and Toyota, which are jointly manufacturing cars in Fremont, California, between Siemens and Philips, which are jointly developing a one-megabyte chip, between Motorola and Toshiba, which jointly plan to manufacture microprocessors in Japan, and between Ford and Nissan, which are jointly to manufacture vans in the United States. Such cooperation calls for intense interaction between the paired firms, even though they are direct rivals, with an implicit high potential for conflict. Here,
as in the case of noncompetitive alliances, maintaining strategic flexibility is unlikely to be uppermost in the minds of managers. Adding value is likely to be important, but not the highest strategic priority. In the face of competitive rivalry, leakage of information is apt to be detrimental; hence, protection of core strategic competencies is critical. Learning, given the opportunity for it, is also apt to be ranked high by managers.

Cases of strategic alliances in Indian industry as discussed in detail later include representatives of competitive alliance between Tata Tea Ltd. and Hitachi of Japan where the joint venture will largely function as a marketing and trading company with an aim to market Tata Tea Ltd.'s products in Japan and international market, between Videocon and Sansui where the Videocon shall use for five years the technology as well as the brand name of Sansui to enter European market, between Doordarshan and CNN of the US for CNN to telecast for two years on Doordarshan network, between Ansal Group and Daewoo Corporation of South Korea and other such joint ventures to develop roads and expressways, between Raymond Industries and Clarity Denim Industries of Italy and other such joint ventures to manufacture denim fabric.

Precompetitive alliances typically bring together firms from different, often unrelated industries to work on well-defined activities such as new technology development. DuPont and Sony's cooperative development of optical memory-storage products is an example. Working together, the two firms, neither of which possesses the technological or market know-how to succeed alone, expect to develop a product they will subsequently
manufacture and market independently. The joint activity is well defined, involving only limited interaction between the firms, largely confined to researchers from the respective companies.

But being potential rivals in the memory-storage market adds another dimension to the relationship. Because a technology explored by partners in a precompetitive alliance is liable to be just one of many possibilities, the cooperating firms tend to maintain strategic flexibility by not confining themselves to one relationship. That is, flexibility is a key management concern. Moreover, as product development proceeds and commercialization nears, the competitive element may begin to color the relationship, with each firm trying to gain insight into the core competencies of the other, rendering protection of core strengths another critical strategic management objective in precompetitive alliances.

An important characteristic of these types of alliances is their capacity to transform an interfirm relationship from one type to another.

Cases of strategic alliances in Indian industry as discussed in detail later include a representative of precompetitive alliance between Tata Industries Limited and IBM World Trade Corporation of the US in the field of electronics to make the joint venture India’s top information and technology company.

The managers involved in strategic alliances may attend to all the four objectives—maintaining flexibility, protecting core competencies, enhancing learning, and maximizing value—recognizing that their rela-
tive priority or order of importance tends to vary among the different types of alliances. The relative priority or descending order of importance generally for managers of precompetitive strategic alliances would be flexibility, core protection, learning, and value adding. The same for competitive strategic alliances would be core protection, learning, value adding, and flexibility. For noncompetitive strategic alliances they would be learning, value adding, flexibility, and core protection. And for procompetitive strategic alliances they would be value adding, flexibility, core protection and learning.

Difference Between Cartel and Strategic Alliance

Cartel is a federal or loose form of business combination of majority of the firms engaged in manufacturing/selling goods/services normally in the same business/industry generally operating in same geographic market having objective of unjust enrichment of the member firms at the cost of customers/consumers by restricting competition among the member firms by means of restricting production/supply by the member firms below the full capacity levels and hence create artificial shortage or by holding the selling price-line above the level what mechanism of demand and supply would determine naturally.

Strategic alliance is a form of business combination consolidating interfirm links between two or more (generally a few) firms engaged in R&D, product development, sourcing, manufacturing, marketing, distribution, service and standard setting belonging to the same or different businesses/industries with or without having operations in the same
geographic market having objective of enrichment of the alliance partners through just means by upgrading value chains and thus improving competitive positioning of the alliance partners by offering better or more value for money to the customers/consumers.

The impact of the cartel generally transcends business or industry in a geographic market. Which is not the case in strategic alliance where the impact would initially be limited to certain pockets in the business/industry to which the alliance partners belong to. Usually cartels are formed by horizontally related firms. Strategic alliances are formed by horizontally as well as vertically related firms.

Cartel has no consideration for upgradation of value chain and hence firms do not aim to improve their competitive positioning compared to the competitors. Rather freezing of the competitive positioning of the member firms is one of the important underlying conditions. Also there is no learning involved. Strategic alliance is formed with basic objective to improve the competitive positioning of the alliance partners compared to the competitors, and to learn as much as possible from the other alliance partners.

All the members in cartel may not be fully committed as they might have joined cartel under some compulsion or fear of being isolated from the mainstream group. All the alliance partners on the other hand are normally fully committed and willing to form alliance. Cartel has the nature of association-members relationship with provisions for penalties for violation of production/supply or price level maintenance agreement.
Strategic alliance has the nature of partnership relationship generally without penalty clause. Other alliance partners may end the alliance in case a partner violates the agreement or fails to perform the assigned tasks.

In cartel all the member firms are expected to comply with the agreed observance of production/supply or price level maintenance otherwise each firm carries on its own business affairs independently. There is neither any control nor interference by the other member firms nor there is any contribution upgrading it. In strategic alliance firms exercise control, interfere in the business as well as contribute technology, products, equity, or expertise significantly on a continuing basis by performing the assigned tasks.

Cartels generally are short-term relationships. The dissolution of cartel is simple and quick as to do so only the imposed restrictions/constraints on holding the production/price levels are to be withdrawn. Strategic alliances generally are long-term relationships. The dissolution of strategic alliance is complex and time consuming process as assets/liabilities are required to be split among the partners which often is the subject of long-drawn disputes.

Cartels were popular in the early stage of industrialization and are generally possible under controlled economy with demand normally surpassing supply. Cartels tend to cause corruption in the system, bureaucracy or government. Strategic alliances are popular in advance stage of industrialization and are generally possible under uncontrolled or
liberalized economy with supply normally surpassing the demand. Strategic alliances do not tend to cause corruption in the system, bureaucracy or government. Less efficient firms survive under cartel at the cost of efficient ones. Due to strategic alliances less efficient firms are wiped out in the industry sooner or later and efficient firms only survive.

Cross border cartels are rare whereas cross border strategic alliances are normal. Cartels generally are not publicized/advertised and often are clandestine affairs. Strategic alliances generally are publicized/advertised to get maximum mileage outs of strategic alliances. They are not clandestine. Often government's intervention is required to break manifested or unmanifested cartels. Government generally do not interfere to break strategic alliances. Cartels often attract penal criminal action by the government whereas strategic alliances generally do not.

Cartels were popular in Germany and are nowhere popular now. Strategic alliances were popular in Japan and are popular in Japan, the US, Europe as well as are gaining popularity all over the globe. Cartels on the other hand have become illegal almost from all over the world.

2 Difference Between Merger and Strategic Alliance

Merger is absorption of weaker firms by a stronger firm. A strong company empowered by its memorandum may take over the business of other weaker companies. Such merger is called complete consolidation of busi-
nesses. The merging firms lose their individuality and identity and hence goodwill once merger takes place. This is not the case in case of strategic alliance between firms. A new business entity may be created in strategic alliance on the other hand. Goodwill of the firms involved in strategic alliance tend to enhance.

The interest of firms involved in merger is consolidated on permanent or irrevocable basis, hence, question of dissolution of merger does not arise. Interest of firms involved in strategic alliances are not combined on permanent or irrevocable basis hence the question of dissolution of strategic alliance remains ever important.

Merger resembles successful end of obstacles race. Merger often fails to materialize due to resistance of agencies external to the concerned firms. Strategic alliance resembles start of a long distance race. Strategic alliance does not fail to materialize due to agencies external to firms.

A firm through merger of firms aims at quick growth in assets and turnover and improving its competitive position by increasing control over production and other facilities and dominance in market at one go through increased market share and often through benefits of economies of scale of operations through volumes. Firms entering strategic alliance aim at reliable growth in turnover and profitability by improving competitive position through strengthening their value chains. Economies of scale of operations is of minor consideration whereas division of labor/expertise is of major consideration.
In merger the management of acquired firm totally loses control over the firm except in case of a merger of the firms under the same management and the management of the acquiring firm assumes the total control of the acquired firm. In strategic alliance all the alliance partners share the control over strategic alliance activity or new entity so created. Management of none of the firms loses total control over the affairs of their firms or new entity so created.

Sale of assets/equity of a firm is involved in merger. In strategic alliance sale of assets/equity may not be involved. Merger may take place following hostile takeover. No such hostility is involved in strategic alliance whether or not sale of equity is involved.

Interest of shareholders, creditors, and labor gets directly and significantly affected in merger as takeover of total business of a firm is involved. Each merging company has to obtain approval of the shareholders by special resolution. No such approval is necessary for firms entering strategic alliance as interest of shareholders, creditors and labor does not get affected directly or significantly, at least in the short run.

Certain basic terms and conditions of merger, whether or not through hostile takeover have to be disclosed as per the legal requirement. No such legal requirement exist for forging a strategic alliance without equity arrangement. Public at large does not get affected even when equity arrangement is involved.
Merger tend to monopolize and restrict competition in an industry which are anti-consumers and hence has to pass through the legal scrutiny that it is not aimed at or likely to cause monopoly or restrict competition under anti-trust laws. In India it is necessary to obtain clearance of the merger from the High Court. Before the MRTP Act was restructured in 1991 it was also necessary to obtain clearance of the Central Government. No such clearance is necessary for strategic alliance as basically strategic alliances tend to increase competition.

Merger of failing (loss making) firms with another excellent firm is normal which is not the case with strategic alliance. Cash-on-hand plays an important role in merger. At times this factor alone plays pivotal role in triggering a merger. Shortage of it motivates the management of a company to dispose of the company and management of a company with surplus is motivated to acquire another company. This is not the case with strategic alliance.

Before acquiring a firm for merger the acquirer focuses all the strengths and weaknesses of the target firm. Under strategic alliance firms consider mainly the strengths of the other firms and the extent to which such strengths could complement weaknesses in its value chain.

Global Scenario

The emergence of business coalitions dates back to the formation of maritime enterprises. They were one of the oldest ways of transacting
business and were originally used as a commercial device by the mer­chants of ancient Egypt, Babylonia, Phoenicia, and Syria to conduct sizable commercial and trading operations, often overseas. "Industriali­zation during the fifteenth and the sixteenth centuries Europe organized the adventures of the leisure class to carry on trade and to exploit the resources of various far corners of the world, such as America and India" (Nicholas, 1950).

Early in the twentieth century, joint ventures were formed in the US to pool risks in shipping, gold exploration and other undertakings. One of the largest projects ever to be conducted as a joint venture involved the apportionment and development of crude oil reserves in the Middle East by four American Oil companies through ARAMCO (Bergman, 1962). With the growing complexities in the business environment, joint ventures have also become complex. Hence, various methods were adopted by competing firms to foster cooperation to remain globally competitive. These methods are manifested in the form of joint ventures, partnerships, licensing, supply and marketing agreements. These coalition modes became important means of supplementing strengths and covering weaknesses (Syeda and Ganesh, 1992).

In Japan, however, strategic alliance is not a novel concept. Rather strategic alliances were encouraged in the Japanese industries as a matter of rule rather than an exception, especially after the second world war when Japanese industries were in shambles. For example, in Japanese automobile industry, rather than manufacture the whole cars themselves and practice extensive vertical integration, Japanese car
manufacturers purchase many parts from suppliers. Suppliers, who provide a particular component, also have suppliers who, in turn also have suppliers. What makes these first, second, and third source suppliers a network, as distinct from a production chain, is that they engage in joint design and problem solving. The Japanese call these vertical Keiretsu, or system line. The car assembler targets a total price, a price that allows a reasonable profit for both the assembler and the suppliers. To achieve this profit, the assembler and supplier work together to lower the cost of each part. For this system to be effective, both the primary supplier and the assembler must share a great deal of information about production costs and profits, participate together in designing the component parts, and work with the engineers of the secondary suppliers (Alter and Hage, 1993).

In a detailed study, Clark (as reported in Womack et al., 1990, p.111- in Alter and Hage, 1993) found it took the Japanese an average of 1.7 million hours of engineering and 46 months to deliver a new model of car. The Americans and Europeans, by contrast, took 3 million hours of engineering and 60 months. Networks allow the Japanese to shorten the production process and reduce costs, which enable them to create more innovative designs (contributing to their competitive advantage).

Coalitions are formal long-term alliances between firms that link aspects of their businesses but fall short of a merger (Syeda and Ganesh, 1992). According to Porter (1985) coalitions are becoming more strategic, through linking major competitors together to compete world wide.
General Motors (GM) traditionally avoided joint ventures in which it did not have majority control (Yashina and Rangan, 1995); a 1966 policy statement on the issue of control of foreign operations declared that "unified ownership for coordinated policy control of all operations throughout the world is essential for [GM's] effective performance as a worldwide cooperation." When it sought to gain control over Japanese car-maker Isuzu in 1969, GM accepted a minority shareholding only after Japanese investment laws thwarted its efforts to secure a greater share. GM subsequently relaxed its insistence on majority control of interfirm links. In 1978 it accepted a minority stake in Suzuki of Japan, and since 1983 has formed fifty-fifty joint ventures with Daewoo of Korea, Toyota (in the United States), and Suzuki (in Canada), entered into a joint venture agreement with Japan's Fanue (a leader in factory automation), and begun cooperative research and development with Hitachi in the field of automotive electronics.

In the United States antitrust laws generally do not permit close links between domestic firms in the same industry. Early in the 1980s controversy arose when senior managers of big three auto firms had a casual meeting to discuss the implications of the federal government's Clean Air Act proposals. Whereas legislation relating to research and development collaboration (National Cooperative Research Act of 1984) by domestic firms and the relaxed view of Clinton administration towards domestic alliances, especially when the federal government is a member of the alliance as in the case of developing an energy efficient car, has altered this situation (Yoshino and Rangan, 1995).
Antitrust Laws and Strategic Alliance

Basic federal antitrust and trade regulation law policy in the US is set forth in four laws—the Sherman Act, 1890, the Federal Trade Commission Act, 1914, the Clayton Act, 1914, and the Robinson-Patman Act, 1936. The Sherman Act condemns contracts, combinations, and conspiracies in restraint of trade, and monopolizing, attempts to monopolize, and combinations and conspiracies to monopolize. In 1914, Federal Trade Commission Act was enacted with its creation of an administrative body for policy development and its broad prohibition against unfair methods of competition. Also, this year the Clayton Act was enacted with its specific prohibitions against price discrimination, exclusive dealing arrangements, corporate acquisitions of stock, and interlocking directorates. These acts were subsequently amended and expanded to include unfair or deceptive acts or practices (false advertising etc.), and prohibition against acquisitions of assets.

Basic federal antitrust and trade regulation policy contain no affirmative regulation to bring business activities and practices within the concepts of the antitrust and trade regulation policy. Rather, the approach is negative, that is, prohibiting agreements, activities, or practices which conflict with a policy which is grounded in the laws and developed day-by-day by the courts and by the Federal Trade Commission (Trade Regulation Reports, 1989). This imply that strategic alliances would also be covered under the purview of antitrust laws.

At present antitrust probe is on in the US against Microsoft of Bill
Gates of the US. The Justice Department has been raising question about Microsoft's alleged anti-competitive behavior and recently has sought information from on-line service providers, including CompuServe Inc. and Netcom On-line on whether or not Microsoft intentionally built into its Windows 95, code that prevents rival software programs from linking a PC to on-line services and Internet. Microsoft denies such accusations (Cortese, Rebello, Hof, and Yang, 1995). When the antitrust probe is complete, judgment delivered, and findings are made public, we may come to know what implications the strategic alliances Microsoft had with other firms had anything to do with the antitrust probe. However, so far no other case of well-known strategic alliance has reportedly come under the preview of the antitrust laws.

In the US, the antitrust laws started losing their edge with the Ronald Reagan and Republican party coming to power in 1980s. The government was favorable to the business and business and industry had their ways with the management of them. The grip of antitrust laws started loosening. Almost all kinds of strategic alliances as well mergers were allowed to take place. Even after Bill Clinton and Democratic party coming to power the things have not been changed significantly, though the Democrats are known for having bias for regulations especially concerning business. Now the general approach of the government in the US reflects the mentality of the government that the regulations are harmful. This is not surprising considering the beating American business had from Japanese business and strong competition looming from EU. It is widely believed that the competitive advantage Japanese business built is based on their strategic alliances. This prompted many American
businesses to go in for strategic alliances with even Japanese rivals and the government did little to discourage them. This has also laid the foundation of globalization of business. At present there are many strategic alliances being formed among the telecommunication companies and entertainment companies and studios without any hindrance from the antitrust laws in the US.

Unlike in the US, the government in India had made it mandatory by The Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 for business groups (inter-connected undertakings) commanding assets of Rs.20 crore or more (Rs.100 crore or more from 1985 and 1991) to obtain prior approval of the Central Government for expansion, establishment of new undertakings, merger, amalgamation, take over and appointment of Directors. The MRTP Act was restructured in 1991 and above requirement of prior approval was eliminated. This has made it easy for the business to go in for strategic alliances. It has resulted into formation of number of strategic alliances since then. This has made the study of strategic alliances much relevant, even in India.

Arguments in Favor of and Against Strategic Alliances

An extensive study of interfirm links led Taucher (1980), a business school professor in Europe, a region that has seen an explosive growth in the business alliances in the last decade, to conclude that "strategic alliances are doomed". Harvard Business School professor Michael E. Porter (1990) has pushed the logic of inevitable doom further, arguing that alliances are mere "transitional devices rather than stable ar-
rangements" and hence "destined to fail." Porter contends that "Al­
liances are rarely a solution [to the problems of seeking the home-based
advantages of another nation]" because "they always involve significant
costs in terms of coordination, reconciling goals with an independent
entity, creating a competitor, and giving up profits." Porter concludes
that "alliances tend to ensure mediocrity, not create world
leadership...and deter [a] firm's own efforts at upgrading" and that
"ultimately, the alliance partner may have to be acquired [or acquire
its partner] to yield a sustainable international position." So critical
of strategic alliances is Porter that he stated "Slowly and almost
imperceptibly, over more than a decade, America has been retreating from
one of the most fundamental principles that has distinguished our nation
(America) from others: our faith in competition...What is needed today
in America is not less competition, but more. Instead of relaxing anti­
trust enforcement, we should be tightening it. Mergers and alliances
between leading competitors should be prohibited— they are good neither
for companies nor for America."

On the other hand, in US, F&D consortia and other forms of alliances
among businesses, government, and academia have become increasingly
common during 1980s (there were more than 2000 alliances in Europe alone
and 12,000 worldwide in 1980s) and the early 1990s. Public and private
leaders in the US contend that the "go it alone" strategy will be the
downfall of the US business. In response to global competitive chal­
enges, alliances are argued to be important for maintaining scientific
preeminence; to leapfrog foreign technology advances; to establish new
technology-based, fast-growth entrepreneurial firms; to create high­
value jobs: and to enhance US industrial competitiveness (Gibson and Rogers, 1994). The most dramatic development of international joint ventures has been in the US automobile industry, where former bitter rivals now have strategic alliances. For example, Ford currently builds minivans with Nissan at a Ford plant in Ohio, assembles Mazda's Mercury Tracers in Mexico, has a working agreement with Mazda to build Ford Probes in Michigan, and merged their operation in Brazil and Argentina with Volkswagen (Kraar, 1989— in Alter and Hage, 1993).

Yoshino and Rangan (1995) also counter the stand of Porter and state that alliances are neither mere "transitional devices... destined to fail" nor do they "deter" an alliance-seeking firm's "own efforts at upgrading" its core competencies, but that, to the contrary, alliances enable firms to focus on and invest in a few selected core competencies, leverage the competencies of other firms, and thereby grow into formidable global competitors.

Richardson (1972) an academic economist, was perhaps one of the earliest observers of the phenomenon of interfirm alliances. His research in the area of industrial economics suggested that a network of relationships with other firms is a sine qua non for success in the competitive market.

For Perlmutter and Heenan (1986), who have argued that cooperation strategies are the wave of the future, the essence of the alliances' managerial task is to work towards harmonious relationships and thereby enhance the value of cooperative activity. They have little to say about
the rivalrous aspects of such relationship. Ohmae (1989), too deems strategic alliances essential to effective global strategy, particularly in Japan.

Hamel, Prahalad and Doz (1989), in prescribing a Machiavellian approach to alliance management, contradict Perlmutter more sharply. They view management's key task to be to learn- openly if possible, surreptitiously if necessary- from alliance partners and to use that learning to win in the marketplace, presumably at the expense of erstwhile allies. Reich and Mankins' (1986) alliance manager is alert to Trojan horses endorsed by Hamel et al. They view alliances as "giving away the future" of the firm (usually American) to foreigners (usually the perfidious Japanese or Koreans). Their implied prescription? Avoid alliances like the plague.

Costs v/s Benefits

Any firm opting for strategic alliance incurs certain costs as well as gains benefits compared to the one that goes on its own. Alter and Hage (1993) listed major costs and benefits to firms involved in strategic alliances.

The firm gets committed not only to goal of its own but that of its alliance partner. This involve cost in terms of goal displacement. The firm also loses the autonomy and hence its ability to unilaterally control the outcomes. All the alliance partners control over the performance of the assigned tasks. No partner, hence, can unilaterally
control the outcome of the alliance activity. All the alliance partners have to depend on every one else. As against these the firm benefits in terms of gain of influence over domain and improvement in competitive positioning. This is so because the firm’s strengths are supplemented by the strengths of its alliance partner as well as by what synergy may additionally create. 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 alliance partner based in or having operations in such countries.

The firm may not be able to use its own time tested technology, if other alliance partner does not subscribe to it. Other dominant alliance partner may have different technology to use or combination of technologies of the firm and its alliance partner is used. This costs stability to the firm. It gets exposed to the uncertainty as it has to use unfamiliar technology. On the other hand the firm develops its ability to manage uncertainty. The firm learns from the new experience of dealing with the 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. These help the firm fend off its competitors. Competitors of the firm are likely to
get immobilized at least for the time being as they would have to revise their strategy keeping in view the changed competitive positioning of the firm. This break could be used by the firm to its immense advantage by keeping on pushing further its already unsettled competitors.

The delays in solutions due to the problems of coordination may perhaps be the worst cost alliance firms may suffer. A smart competitor of the firms engaged in strategic alliance 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 by the time other alliance partner comes to the rescue of the firm to defend the alliance venture, the competitor quickly starts exploiting the weakness of the other alliance partner and so on. 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 new technologies are readily supplied by its alliance partner. The delay in the use of new technology is reduced which benefits the firm in creating a competitive edge over its competitors.

The understanding reached among the alliance partners is crystallized into an agreement of alliance. No agreement can capture all the details of an understanding. The complexity increases with a situation arising 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. This would result in the setbacks to the alliance. On the other hand the group synergy may benefit the alliance partners to such an extent that they support each other mutually and amicably resolve whatever differences that may arise. This leads to harmonious working relationship intra and inter alliance firms, which in turn further increases the synergic benefits and the cycle goes on. The competitor on the other hand deprived of the benefits of group synergy would lose its competitiveness and in-turn cohesiveness and harmony and the cycle goes on.

Strategic alliance relatively is a new concept in management. It is also more difficult to manage. These often lead to failure of strategic alliances formed even by the excellent firms. The failure of strategic alliance may affect the alliance partners negatively in ways more than one. There could be loss of time, money, material, information, reputation, status, technological superiority, competitive position and financial position. On the other hand the firm by entering strategic alliance benefits 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. Strategic alliance provides the firm opportunities to learn, to adapt, develop competencies, or jointly develop new products as well as share the cost of product development and associated risks.

Experience is the best teacher but it charges high fees. Very high fees in practical business. This blunts the inquisitiveness of any firm to learn through experiments in practical business due to the prohibitively
high costs involved with the failures. The strategic alliance provides the security to inexperienced firm that even if the experiment goes haywire it can look forward to rescue by the other experienced alliance partner. In case it is the alliance partner who is to carry-out the assigned tasks, the firm still benefits being the witness to process of implementation of such tasks. Perhaps the most important benefit strategic alliance offers is the opportunities to learn. Ignore this benefit and the firm gains precious little from strategic alliance.

Often the firm aiming to expand its operations to foreign countries benefits by going in for alliance instead of go it alone strategy. This helps it 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 obstructions from government and regulations if the government finds such strategic alliance would be detrimental to furtherance of the public interest. Often if for no such compulsion, it still becomes desirable to have strategic alliance with foreign firm because such firm is knowledgeable about the complexity of the local conditions as well as is more sensitive to the changing environmental conditions and so it may atleast raise alarm in time for the firm to respond appropriately.

Relative Bargaining Power Under Strategic Alliances

Bleeke and Ernst (1995) based on experience with more than 200 alliances in various phases from initial negotiation through termination, oe-
developed a way for managers to diagnose an alliance. According to them, senior executives consider strategic alliances to expand company's product, geographic, or customer reach. In the last five years, the number of domestic and cross-border alliances has grown by more than 25 per cent annually.

The median life span of alliances is only about seven years, and nearly 80 per cent of joint ventures— one of the most common alliance structures— ultimately end in a sale by one of the partners. If the endgame is not anticipated (by CEO), what begins as a strategic partnership can lead to an unplanned sale that erodes shareholder value. Key to understanding whether an alliance is likely to lead to a sale— and which company is the likely buyer— is to project how the relative bargaining power of the partners will evolve.

Relative bargaining power depends on three factors: the initial strengths and weaknesses of the partners, how they change over time, and the potential for competitive conflict. Generally strategic alliances require more capital than planned for and so the partner with more resources prevails. Alternatively a partner with greater learning power prevails.

A company may opt for partnering with instead of competing against other company in its core business. This often leads to unplanned divestiture. Alliances between direct competitors (rather than complementary allies) with similar core business, geographic markets, and functional skills tend to fail. Tension between the partners is the major cause. The
The success rate of such strategic alliances is only 1/3. Strategic alliances between two second-tier companies may fail to become strong and lead to complicated sale. Strategic alliances between a strong partner and a weak partner too tend to fail as weak partner tends to get out of the arrangement as soon as it improves skills it intended to improve. The strategic alliance between two partners to raise capital for one without its losing the management control is successful only if the other partner is largely a passive investor. Two strong and compatible partners of strategic alliances develop competitive tensions and if there is a shift of bargaining power, one would sell to another. Such strategic alliances may succeed only if they meet the initial objectives which are not competitive.

Strategic alliances of the complementary equal partners usually remain strong as they generally contribute to the mutually beneficial relationship and last much longer than seven years. Considering above it is advisable to create and maintain distinct boundaries of the strategic alliance entity so that when the time comes there are fewer entanglements to departure.

Why Strategic Alliance?

To understand a firm's competitive strategy it is necessary to understand the value chain of its business (Porter, 1985). Every firm performs a set of discrete tasks related to designing, producing, marketing, delivering, and supporting its products. Value activities are normally physically and technologically distinct. In essence, a value
chain disaggregates a firm into its component activities. While firms in the same industry tend to have similar value chains, the value chains of competitors often differ in emphasis. Identifying these differences is the first step toward understanding companies' competitive strategies. A firm's value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves.

Herein lies the strategic logic of alliances—advantages traditionally gained through internal development may now be secured through external networks. Multinational and national firms alike can strive to compete globally through coalitions or strategic alliances with other independent firms. Coalitions or alliances are, according to Porter (1990), a "way of broadening scope without broadening the firm by contracting with an independent firm to share [value] activities." Firms usually enter into alliances in an ad hoc fashion, driven by immediate, tactical reasons.

Strategic Alliance in Indian Industry

The emerging globalization due to liberalization is opening up yet another major dimension in the field of strategic management, the strategic alliance. The concept of strategic alliance is causing far more impact than that of a mere business management practice. Apart from creating transnational corporations it is fading the boundaries of identity of not only corporations but even that of nations. Some cases of strategic alliances of Indian companies are discussed below:
According to Ratan Tata, Tata chief, very few Indian businessmen have the capability of competing on their own under globalization. The businessmen are concerned about their individual sovereignty, whereas they should be looking at alliances and aggregation of companies as it so often happens abroad (Karmali Naazneen and Ravi A.B., 1995). In the Tata–IBM joint venture in the field of electronics, Tata has accepted 5 IBM members in the 8 member Management Committee. Ratan Tata says that his group has no fetish about control.

IBM World Trade Corporation and Tata Industries Limited have entered into a joint venture to form Tata Information Systems Limited (TISL) to make it a country’s top information and technology company by 2000 in terms of market share, customer satisfaction and in being viewed as a national asset.

Tata Tea Ltd. (TTL), the world’s largest integrated tea company, will control a 51 per cent majority equity stake in its Japanese joint venture with Hitachi, one of the largest conglomerates in Japan. Hitachi will have a 49 per cent stake. The TTL–Hitachi joint venture will largely function as a marketing and trading company with an aim to market Tata Tea Ltd.’s products in a growing Japanese market and also enter the field of international business including commodities trading. Once the tea and coffee exports get underway in a major scale the joint venture will target the arena of international business including spices and other commodities and third country trading. A Japanese base will give Tata Tea Ltd. a competitive advantage not only in servicing other coun-
tries but also assessing one of the world's most demanding markets: Japan.

Cummins Engine Company Incorporated (CECI), the US $5 billion company of US, and pioneers in the manufacture of diesel engines, is all set to make a big sway in Indian diesel engine market with its joint venture with Telco Ltd. to manufacture Telco engines. CECI is setting up a new line of smaller engines for Telco vehicles in Jamshedpur. Significantly this plant would have 20 to 30 per cent of CECI's current worldwide capacity. CECI has also tied up with Tatas to expand its turbocharger capacity in India.

The telecom sector which has just opened for the private sector firms to enter has seen a series of strategic alliances between the Indian partners with foreign companies. There is a condition imposed by the Indian government that no foreign company can enter the Indian telecom sector without its having a joint venture with an Indian company. The series of joint ventures thus ventured into overnight are: Reliance Industries Ltd. and Nyne Corporation; Aditya Birla Group and AT&T; Tata Industries and Bell Canada; Essar Group and Bell Atlantic; Ashok Laylands (Hindujas)- HCL and Singapore Telecom; BPL Systems and US West; RPG Telecom (Basic) and NTT Corporation; RPG Telecom (GSM) and Air Touch; SPIC Group and Telstra; B.K. Modi Group (Basic) and Telecom Asia (Thailand); B.K. Modi Group (GSM) and Vanguard; Max (GSM) and British Telecom; Arvind Mills Ltd. and France Telecom; Crompton Greaves and Millicom; Y.K. Modi Group (Basic) and Korea Telecom, Qualcomm; Bharti Telecom and Stet; Ispat Group (Mittals) and British Columbia, Hughes Network; Indchem and
Jasmine/Telia, and Usha Martin and Telekom Malaysia.

Videocon has also got into a technology transfer arrangement with Sansui with latter's range of audio systems. The products will be sold under the brand name 'Sansui by Videocon' as Videocon would like to enter European market in a big way but it will be difficult for it to enter with Videocon brand name. So initially it will use Sansui's brand for five years to introduce its products in Europe and later sell them under the Videocon brand name.

Doordarshan went for a strategic alliance with CNN for 24 hours news channel accepting US $1.5 million (Rs.4.65 crore) a year as the minimum charge and share of 50 per cent in the revenue from the advertisements. Doordarshan thus could avoid competition with global competitors initially and after two years when the agreement expires if CNN is not agreeable to renew the contract, Doordarshan will be in a better position to face the global competitors.

Ranbaxy Laboratories Limited (Ranbaxy), a leading pharmaceutical company in India, is driven by a mission "to become a research-based international pharmaceutical company". Its strengths lie in research and development and world-class manufacturing facilities. Its commitment to brand building and internationalization is spearheaded through strategic alliances and creation of subsidiaries and affiliates in major pharmaceutical markets of the world. Ranbaxy has a strong distribution network in India, being able to reach customers through more than 1,400 stockists. Its aggressive marketing strategies have enabled it to carve out a
unique niche and leadership position in the Indian market for antibiotics and antibacterials and more recently in select overseas markets. In 1993, the company formed a joint venture with M/s Eli Lilly—one of the largest pharmaceutical companies in the US, to manufacture and market Lilly brands in the Indian market. Ranbaxy Genpharm, was incorporated in 1993. This joint venture has acquired an existing manufacturing facility for oral Cephalosporins dosage forms, which is approved by the Health Protection Branch, Canada. Its expansion and upgradation is now being planned to meet the standards of the FDA, of the US. The process of internationalization has been based on the twin pillars of world-class manufacturing and the company’s applied research capability. Accordingly, the thrust is on forming, strategic alliances for entry into the developed countries, and subsidiaries and joint ventures in the emerging markets and continued efforts to export world-wide. The company is also reportedly negotiating with several international pharmaceutical companies to forge strategic alliances in the UK, the US, Germany and South Africa. Ranbaxy has taken the view that a big market exists for generic drugs in the US as well as in Europe and it plans to enter the market with drugs carrying a distinct brand identity.

Ansal Group of Delhi and the US $34 billion Daewoo Corporation of South Korea have tied up for a 50:50 equity joint venture to develop roads and expressways. They have been already prequalified by the government for these ADB and World Bank funded projects. Some of the other joint ventures for the five projects each estimated to cost between Rs.250-300 crore, are Hyundai Engineering & Construction in tie-up with Unitech, Trafalgar House International together with THC India, Samsung & Tarmat,
CCI China, Orient Structural, Walter Bau Aktiengesellschaft, Germany, and Simplex Concretes Piles, L&T and Colas, France, Gruppo Dipenta Construction of Italy who have jointly bid with Lanco Construction and Graham of the UK who would be the main engineering partner of Satyam & Sankaranarayana.

Arvind Mills Limited has entered a marketing and technology transfer agreement with Alamac Knit Fabrics, the wholly owned $425 million subsidiary of West Point Stevens, America's leading knitwear fabric manufacturer. Under the marketing and technology transfer agreement, the US company will transfer its marketing and technical know-how to manufacture the high quality cotton knitwear to Arvind Mills Ltd. Alamac will also assist Arvind Mills Ltd. in construction of a knitting plant in India which will commence production in mid-1996. While Alamac will continue to concentrate its efforts in the Western hemisphere, Arvind Mills Ltd. will market its quality cotton knitwear, under the 'Arvind Alamac' brand name, in the Indian sub-continent, Asia and Africa. This strategic alliance is expected to enhance the potential of both the partners to participate in the widening world market.

The other recent moves of Arvind Mills Ltd., world's fifth largest denim producer with capacity to produce 70 million meters, include the acquisition of 'Big Lauffenmuhle in Germany and a technical and marketing alliance with Spinnerei and Weberei Dietfurt AG, which is a part of the Swiss conglomerate Oerlikon Buhrle, for Swiss voiles. The international brandnames 'Arrow' and 'Lee', too, have been brought to India by Arvind Mills Ltd. Arvind Fashions, a 100 per cent subsidiary of Arvind Mills
Arvind Mills Ltd. and F. M. Hammerle Verm Ogensverwaltungs, GesmbH, (F. M. Hammerle), Europe's preeminent shirting fabric producer have forged a strategic cooperation pact to become an "unbeatable combination" for manufacturing and marketing high quality shirting fabric for global market, as it takes Arvind Mills Ltd.'s advantages and combines these with F M Hammerle's brand name, design and collection of innovativeness and extremely high standards of quality. The manufacturing facility of alliance is expected to go on stream in 1996. This strategic alliance will further reinforce Arvind Mills Ltd.'s ambition to become a member of world's big league of players in the international market for textile products.

The strategic alliance envisages three significant steps: 1) F M Hammerle will make an investment of $60 million (about Rs. 190 crore) to assist Arvind Mills Ltd. in setting up modern manufacturing facility for the manufacture of fabric. 2) The partners will float a joint venture marketing company for exporting to the NAFTA countries of United States, Canada and Mexico. 3) The product manufactured will be sold under the brand name "Arvind Hammerle".

In manufacturing, the assistance of the European partner will range from product-mix and technology selection to access to designs, collections and new product development. In marketing, F M Hammerle will continue to
focus its efforts in Europe while Arvind Mills Ltd. will concentrate on selling in the Indian subcontinent, certain parts of Asia and Africa.

In Denim fabric segment, there have been many strategic alliances. Mafatlal Industries Ltd. has tied up this year with Burlington Industries of the UK in a 50:50 joint venture, to manufacture 10 million meters to denim fabric per annum. Seventy-five per cent of its product will be brought back by Burlington’s. Raymond Industries has also entered into a collaboration with Italy’s Clarity Denim Industries to manufacture 15 million meters of denim fabric per annum. Seventy-five per cent of the production is earmarked for exports. Modern, has tied up with the Ireland-based Atlantic Mills, owned by the Tencate group of Holland, said to be one of the best denim plant in Europe. This tie-up has strengthened Modern’s rope dyeing technology for heavy-weight denims.

**Strategic Alliance- A Powerful Tool of Strategic Management**

The Indian industries and hence companies were being protected by the government so far and resultantlly had lost touch and hence sensitivity to deal with global competition. They can become competitive globally. The most attractive and time saving route appears to be the option of strategic alliances with the leading foreign firms. Through strategic alliances they could acquire and build the necessary competence to catapult themselves to a position of capability to offer world-class goods and services. Careful selection of partners and shrewd negotiation with the partners on the terms of the alliances would not only help
Indian companies adding to their competitive advantage vis-a-vis other competitive forces at home but would also help them expand at exponential growth rate, which normally Indian companies cannot (Jhaveri, 1994). On the other hand inaction on the part of Indian companies unlike in the past now can prove to be suicidal. At the same time the management of the companies may bear in mind that strategic alliance is not an unmixed blessing.

What Indian companies lack and cannot have overnight except through the route of strategic alliances are global quality consciousness and standards, global market information, advance technology, initial loss bearing capacity, professional management of international repute, funds, and last but not the least—confidence. What Indian companies have and foreign companies do not have are that they are lean and hungry—perhaps the most important factor for success, experience of working in complex and relatively less transparent Indian environment, knowledge of socio-political factors influencing the success of business, set up painstakingly built up over a long period, and risk taking ability.

What the foreign companies would be looking for in strategic alliances are the size and attractiveness of the Indian market, expected growth, cost efficiencies, management control, competitiveness of the Indian company desiring strategic alliances, anticipated competitiveness of the proposed strategic alliances, and cost verses benefit analysis of the proposed strategic alliances.

Managers of each and every business firm in India need to take a stock
of their firm’s position in the emerging scenario of globalization which has started in India due to the liberalization since 1991. The government will not be able to and cannot protect the Indian industries forever. The industries will have to be on their own sooner or later. Sooner the better. Firms’ survival would be in doubt if they are found not among or aspiring to be among the best and the largest in the world. Alternatively, they may link up with such firms complimentarily. Or may carve out sustainable niche. Managers of any firm not falling under any of the above categories may find out the most opportune time to sell their business to optimize the return. Failing which, they ought to suffer.

The emerging global integration has globalized demand, supply, competition, and hence strategy of business firms. Most of the Indian firms would have to align with others, domestic or foreign, in order to successfully deal with the challenges posed under globalization. Most of the Indian industries and hence firms are uncompetitive by global standards. There is a need to learn and to improve. What is necessary for them to understand is that it is possible for Indian firms to become world class. German firms did it in the past. Japanese did it too. Indians too can do it. All they need is to work harder and smarter.

Managers of Indian business firms need to analyze their own business and find out what their strengths and weaknesses are. They may evaluate their value chain and that of their competitors. They may then shortlist probable and suitable partners. Strategic alliance with such partners may strengthen their value chain. Strategic alliances with the best
partner may or may not be possible as like in marriages consent of the other partner is also essential in strategic alliances. In that case one may consider the best available interested partner.

The structure of strategic alliances may be an agreement with or without equity participation for joint R&D, joint product development, long-term sourcing agreements, joint manufacturing, joint marketing, shared distribution/service etc.

Strategic alliances may be evaluated on periodic, or on continuous basis. Managers of firms may learn skills and upgrade their business to strengthen their competitive advantage. They may ensure that their partners contribute to strategic alliance that they are committed to. Alternatively strategic alliance may be terminated. Before termination, sufficient and reasonable time for the partner to rectify the performance should be given. The termination of strategic alliance would require division of assets and liabilities. As such this is a difficult exercise. If not done judiciously, would cause bitterness among the departing partners. The degree of complexity is less when the entity under strategic alliance is maintained distinct. Thus it is advisable not to mix up the entity under strategic alliance with that of the alliance partners.

Mutual trust and doubt are the two ends of the pole with which managers maintain balance while walking on the tightrope of strategic alliances. Without adequate trust no strategic alliance could be a success. All trust and no doubt may lead managers of a firm taken for a ride only to
find themselves in ditch. Doubt only among partners would not work as the project will not even take off. Adequate trust in partner, and realistic and reasonable doubts only help strategic alliances flourish. It also helps partners improve their competitive positions as well as maintain their respective defensive positions. Not all love marriages, where both the partners love and want each other at any cost, are a success and often end up in a divorce. Strategic alliances are not even formed on the foundation of love but are formed on consideration of business interests. Breaking of strategic alliances should not be shocking. They may rather be well-planned for.

After entering into strategic alliances, managers of firms may disseminate the widespread understanding of strategic alliances among their investors, suppliers, employees, and consumers. All of them get affected due to strategic alliances and they can also influence the success or failure of strategic alliances. Managers need to specifically concentrate on coordination among other functions. It becomes more complex in strategic alliances. They also need to keep a constant watch on protecting and enhancing core competencies.

Managers also need to recognize the importance of information flows to be maintained in strategic alliances. Information flows may be centralized and direct or may be decentralized and indirect. Generally centralized and direct information flows are advisable when interaction among the two partners is low and vice versa.

One major organizational change under strategic alliances is that the
The scope of management tends to become boundaryless or with a hairline distinction. Top management has to catalyze such cultural change as this is a new experience for the corporate world which till recently has been functioning with well defined roles, responsibilities and authorities. Once a firm is a success with its first strategic alliance, it would not stop at it. The managers of such firms explore successfully new strategic opportunities and go in for more alliances. And soon the firm becomes a global-network corporation with many strategic alliances for different aspects of business with different partners from all over the globe. Such a state of business management is extremely difficult to manage but firms will not be able to survive without going in for it. The presence of global-network corporation will be easily felt but it would become difficult to distinguish it as a distinct business entity because the boundaries of the functions of management and hence of the firm would tend to fade away. And the existence of such boundaries which was the order of the day would not be necessary. What will be necessary is that the investors, employees, suppliers, consumers, governments, and any other involved agencies benefit to the maximum. Strategic alliance would not ensure all these but successful firms which use strategic alliance, the double-edged sword, efficiently and effectively would.