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Recommended Citation
Available at: http://scholarworks.gvsu.edu/sbr/vol7/iss1/10
Managing International Strategic Alliance: Lessons from the Trenches

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Strategic alliances involve pooling of assets or agreements to exchange resources. Alliances have become immensely popular in recent times as companies are attracted by the many benefits of this organizational form. A case in point: America Online (AOL) has over a hundred strategic alliances with companies in the media (e.g., Tribune Broadcasting), consumer electronics (e.g., Sony), retail (e.g., Wal-Mart), and banking (e.g., Royal Bank of Canada) industries. The company has used these alliances to strengthen its position as the leading portal on the Internet.

Companies competing in international markets have used strategic alliances to succeed in foreign markets as local players provide complementary skills to these firms. Though such market entry alliances are becoming increasingly popular, not many companies have experienced total success with them. Failure of international alliances results from a myriad of causes. Principal reasons are partner selection, governance mode, and on-going management of the alliance.

We conducted a study to examine international strategic alliances closely. I worked with a leading expert on strategic alliances in India to collect the data. Because the expert was a faculty member at a business school that offered a specialized MBA program for software professionals, we studied Indo-U.S. alliances in the technology area. To gain in-depth knowledge of the alliance, we chose the case study approach. We identified five alliances (the U.S. partners were Compaq, Cisco, Intel, Microsoft, and an unidentified company) and conducted lengthy semi-structured interviews with at least three key senior managers for each alliance. We analyzed the transcribed interview data (typically 15–18 pages each) using a qualitative technique called thematic analysis. Thematic analysis identifies manifest (directly observable in the information) and latent (underlying the phenomenon) themes from the data. We attempted to look for major themes relating to alliance formation and management.

We summarize a few of our preliminary findings below, on which we then elaborate in the following paragraphs:

- There is a strong need for a “Relationship Manager”—a senior person from both partners to manage the day-to-day activities of the alliance. This is in addition to a high-level manager who acts as the formal head of the alliance.

Wipro, India’s largest (in terms of market capitalization) technology company, illustrates the learning curve advantage that comes with being involved in prior alliances. Wipro had sales of $425 million in 1999 and focuses on software as well as hardware, such as PCs, printers, and peripherals. Wipro has had alliances with GE, Sequent, Nortel, and NEC before its alliance with Compaq Computers. These prior experiences allowed Wipro to not only give its partner, Compaq, the confidence with its credibility, but also allowed for a quick and seamless entry into the Indian market for the foreign partner.

Tata Infotech has seen both sides of the alliance coin. This company is part of the Tata Group, a large Indian conglomerate with a turnover in 1999 of about $9 billion. It provides system integration advice to clients and sells a variety of application software products. Its 1987 alliance with Unisys was a failure, while subsequent alliances with Sun and IBM have proven successful. Tata Infotech realized the need to create trust between the partners by working together prior to the alliance. This company entered into the alliance with the erstwhile Burroughs Corporation (which became Unisys when Burroughs and Sperry Corporation merged) without significant prior relationship. A variety of problems surfaced subsequent to the alliance formation, and both partners felt that their objectives were not met. This subsequently led to the termination of the alliance. Tata executives reiterated emphatically that a lack of prior experience was a major cause for the failure of the alliance.

The Tata-Unisys failed alliance also underscores the need to structure the alliance agreement equitably. Being an equity partner with Unisys, all activities in the Indian market had to be undertaken under the Unisys umbrella. Tata Infotech could not take up projects outside Unisys in the particular technology area covered by the alliance. Unisys also controlled product pricing. The Indian partner felt that Unisys’s pricing did not reflect local market conditions, and the alliance lost out on a number of bids. The Indian partner’s growth objectives were not met, which it blamed on Unisys’s very restrictive covenants. In its subsequent alliances, Tata Infotech has insisted on far greater autonomy and equity in decision-making powers.

System Logic is a small (revenues of around $10 million in 1999) company engaged in providing comprehensive IT-enabled business solutions to clients in banking, insurance, healthcare,
and entertainment industries. It has an ongoing alliance with Microsoft. In addition to having a senior vice-president in charge of the alliance, a relationship manager handles the day-to-day liaison activities between the partners. This person works with a similarly titled counterpart at Microsoft. Microland, a $20 million player in the networking services segment, also designates a senior person as the "Principal Relationship Manager" in its alliance with Cisco. This person presents a single point of contact for all alliance-related issues. Both companies reported tremendous success with the use of the liaison person.

So what lessons can companies in the Greater Grand Rapids area learn from this study of international strategic alliances? First is the need to do the homework about local partners. There is strong evidence from this and other studies that companies that have experienced alliances before would bring more to the table and thus increase the chances of succeeding in the current one. Tata Infotech learned a lot about alliances even from its failed alliance with Unisys. It used this experience to make a success of its subsequent alliances with Sun and IBM.

Second is the need to be equitable in framing the alliance contract. If you are looking for the partner to provide local market knowledge, then it is important to give the decision-making authority in marketing to the local partner. Tata Infotech found that its quoted prices were significantly higher because of the markup insisted by Unisys.

Finally, consistent with the literature on strategic alliances, the study underscores the importance of a liaison person who provides the day-to-day contact between the partners. Whether called a relationship manager or by any other title, a senior person needs to be put in charge of providing the interface between the alliance partners.