Management Dynamics

Volume 7 | Number 1 Article 5

April 2007

Partnering Capability for Growth: Maturity Levels

Dinesh Kumar Likhi
Business Planning, Steel Authority of India Limited, New Delhi, India

Partnering Capability for Growth: Maturity Levels

Dinesh Kumar Likhi*

Abstract

Strategic Alliances are mushrooming with a desire of Co-creating and attaining Objectives, difficult to be achieved alone. The objective of this article is to understand two basic issues related to Strategic Alliance- Capabilities and Performance Management issues in Strategic Alliances. Strategic Alliances success can be gauged by their performance. To illustrate this point, we have taken two cases of steel industry. Caselet A has been a failure case and was taken at a stage when alliance capability maturity in the organization was low. Caselet B is a successful case and was taken at a stage when alliance capability maturity of the same organization improved at higher level.

UNDERSTANDING STRATEGIC ALLIANCES

The world economy is increasingly becoming integrated, on account of need to improve top and middle line with an aim to increase shareholders wealth. This is fuelling incidents of interdependencies amongst organizations. This phenomenon can be scene from the number of cases of Merger & Acquisitions and Strategic Alliances, across the Globe. Strategic Alliances are mushrooming with a desire of co-creating more objectives that are difficult to be achieved alone. Optimizing mutually shared resources and capability requires nurturing certain "Intra Strategic Alliances Capabilities".

An alliance is defined broadly as an agreement between two or more partners to share knowledge or resources, which could be beneficial to all parties involved. Alliances can take place by intra-or inter-industry participation. To put it differently, an alliance meeting any one of the following criteria is strategic and should be accordingly made (Wakeam, 2003).

- Critical to the success of core business goal or objective

**Deputy General Manager, Business Planning, Steel Authority of India Limited, New Delhi*

- Critical to the development or maintenance of a core competency or other source of competitive advantage
- Blocks a competitive threat
- Creates or maintains strategic choices for the firm
- Mitigates a significant risk to the business

The Inter-firm relationship family has various genus (Arm's Length Dealing, Alliances and Mergers). Under the genus of alliances, the species like buyer-supplier alliances, co-marketing agreements, channel partnerships, manufacturing alliances, technology alliances and joint ventures have been defined (Spekman *et al.*, 2000). One can also classify strategic alliances on the basis of partnership through equity or non-equity.

The objective of this article is to understand two basic issues related to Strategic Alliance Capabilities and Performance Management issues in Strategic Alliances.

RESEARCH DESIGN

Research gap in extant literature suggested areas for further research. Case base research methodology was adopted for a preliminary study.

In an attempt to fill the gap left open by earlier studies, researchers have started to analyze internal or intra-firm factors rather than dyadic or inter-firm factors as antecedents of alliance performance. Consequently, they highlight that firms that consistently generate above-average performance, invest in alliances processes' specific alliance capabilities (Alliance Analyst, 1996; Kale and Singh, 1999; Anand and Khanna, 2000; Kale *et al.*, 2002; Bamford and Ernst, 2003). Detailed studies on the exact contents of such alliance capability maturity and levels of such maturity and how firms can internally nurture it are virtually non-existent (Gulati, 1998). Challenges for scholars and managers lie ahead to understand the elements of such capabilities.

Although recent research has started to try and solve the causal ambiguity between alliance management practices and performance outcomes, little micro-level evidence has so far emerged.

Most scholars deduce the existence of an alliance capability maturity from a firm's prior alliance experience or from a higher level of performance between firms that frequently re-partner or through other indirect measurements (see e.g. Anand and Khanna, 2000; Zollo and Reuer, 2003). Apart from some notable exceptions (Makija and Ganesh, 1997; Nault and Tyagi, 2001; Zahra and Nielsen, 2002), so far scholars' attempts to discern how firms develop such a capability maturity are tinted (Simonin, 1997; Sarkar et al., 2004) and little is known about the mechanisms that make up such a capability maturity (Thomke and Kuemmerle, 2002). Moreover, the relationships between capability maturity and performance have remained complex and obscure (Dosi et al., 2000b; Rugman and Verbeke, 2002).

To understand the subject, we have attempted to explain key preposition and related terms. The key preposition is that Strategic Alliance Capability Maturity enhances Strategic Alliance Performance. Strategic Alliance Capability Maturity consists of a series of Capabilities. Hieratically, there are three levels. The lower level, is gained by Structural Capability. At the middle level, it consists of Knowledge Management Capability, Relationship Capability, and Cultural Management Capability. At the highest level, it consists of Revitalization Capability.

Structural capability is defined as 'bundle of resources and skill', consisting of dedicated department, past alliance experience, top Management support, alliance know-how, supportive process structure including review mechanism. Knowledge Management capability is defined as 'bundle of resources & skill' consisting of ability to transfer knowledge (which is influenced by ambiguity, tacitness, specificity, complexity, experience, partner's protectiveness, cultural distance and organizational distance). Relationship Management Capability is defined as 'bundle of resources and skill' consisting of ability to commit, fair dealing, open flow of information, quality of coordination, long term focus, joint decision making.

Cross Management capability is defined as 'bundle of resources and skill' consisting of (a) ability for managing interaction with partner firm in a flexible manner as against in a stable manner. (b) Ability to focus on collectivism, defused power, certainty and accommodating style, as against individualism, centralized power, uncertainty, tough and competitive attitude.. Harnessing characteristics of Flexibility is influenced by adaptability and involvement whereas stability is influenced by mission and consistency. Revitalization capability is defined as 'bundle of resources and skill', consisting of continuous mutual interaction, creation of mutual innovation, entrepreneur style and flexibility.

Success of strategic alliances can be gauged by their performance, which can be defined as an outcome in the areas of financial performance, internal business process improvements, enhancement in learning and innovation and customers' satisfaction (internal/external).

RESEARCH FINDINGS

To illustrate this point, we have taken two cases of the steel industry, as briefly explained in the Appendix. Caselet A has been a failure case and was taken at a stage when alliance capability maturity in the organization was low. Caselet B is a successful case and was taken at a stage when alliances capability maturity of the same organization improved at higher level. In caselet A, none of the performance areas like financial, business processes, learning/innovation improved. However, there were a few glimpse of higher customers satisfaction. In caselet B, there has been all round performance improvement in all four areas viz. financial, internal business processes, learning/innovations and customers satisfaction. A comparative capability profile is illustrated below:

Capability	Elements Required	Case-A	Case-B
Structural Capability	Dedicated department, Past alliance experience, Top Management support, Alliance know-how, Supportive process structure, Review mechanism	Available	Available
Knowledge Management Capability, Relationship Capability, and Cultural Management Capability	Ability to transfer knowledge Relationship Management Capability (ability to commit, fair dealing, open flow of information, quality of coordination, long term focus, joint decision making.) Cultural Management capability- (a) ability for managing interaction with partner firm in a flexible manner. (b) Ability to focus on collectivism, defused power, certainty and accommodating style	Low Level of Capability	High Level of capability
Revitalization capability	Continuous mutual interaction, creation of mutual innovation, entrepreneur style and flexibility.	Low Level Capability	High Level Capability
Performance		Poor (Only customers satisfaction was enhanced)	Excellent (all round performance improvement observed)

CONCLUSION

It is evident, based on the two caselets, that Alliance Capability Maturity can be enhanced to increase chance of success in strategic alliances, in terms of multi-dimensional areas. However, these issues need to be validated with multi-model quantitative and qualitative research in Indian Context. Future work with cross-sectional and longitudinal studies is also suggested.

APPENDIX

Caselet A

In 1997, the largest steel company of India created a department named Business Planning at its Corporate office with employees drawn from various functions viz Finance, Operations, Commercial and Legal Departments. Some strategic alliances enhanced the group's alliance experience. Top Management support was provided by a senior Board member (full time director in charge of corporate planning). Wherever required, alliance know-how and supportive process was outsourced. There used to be regular review mechanism of such business alliance cases.

The company, being in public sector was not proficient in relationship building and was culturally incompatible. During those years, there was no appreciation for knowledge management. With this backdrop, the company in the steel sector decided to set up Service Centers in different regions of the country with another company under joint venture arrangement in which the company would hold a minority stake. The company signed an MOU with the company partner in the year 1999 to broadly express and define the scope and understanding between them for creation and functioning of a JVC for setting up and operating the Service Center.

Subsequent to the starting of the service center, the key executives from parent company started interacting with the JV partner to finalize the contracts and formulation of Memorandum and Articles of Association of the proposed JV Company. Work started in the year 2002 and in 2003, the performance was found below expectations mainly due to the perspective gap amongst partners. While the parent company prioritized the sale of its products directly to past customers for speedy disposal of its products and wanted new entity to be an independent viable business, the partner desired that the material should be given to new entity on priority for processing and to attain the capacity utilization for break-even and further growth. There was no attrition of key managers on the partner's side, whereas the key managers of parent company were found changing organization positions from time to time due to organizational changes and retirements, which also created obstacles in the management of alliance. The process of JV Company such as in-bound logistics, process and out-bound logistics was found to be conflicting with the partners' parent companies, affecting the performance of JV. There were no efforts to revitalize the performance of the Joint Venture Company. Despite increase in customers' satisfaction of JVC Company, there was a general feeling that JVC is under performing. Such events made the company sick by the year 2005-06.

Caselet B

After a couple of years, wherein structural capability, as defined earlier, was at an improved stage the company was already facing competition in the market, had learnt to manage relationships with other organizations and had created appreciation of other organizations' cultural dimensions. IT was being appreciated and people had realized the importance of knowledge management. At such a capability level, the company decided that its operating power plants, a non-core business, need to be operated in strategic alliances and therefore the company decided to go for strategic alliance with a partner with core strength in power business. The action was also triggered, due to need of cash for core business in steel. In 2001-02, the company transferred its Power Plants to Joint Venture Company. The assets of two power plants were also transferred for a value as part of the share of parent company's equity in the JV Company. The performance till 2005-06 indicates that there has been overall improvement. The company is paying dividends to parent companies since inception. The customers of the company are satisfied. Internal business processes have improved significantly. There has also been improvement in internal business processes. Revitalization processes prompted the company to expand further in power by taking initiatives to commission 2 units of 250 MW power plants. This case clearly endorses our initial proposition that Higher Alliance Capability enhances Alliance Performance.

REFERENCES

Alliance Analyst. 1994. Two Grandmasters at the Extremes. November 1994. NewCap Communications: Philadelphia, PA.

Anand BN, Khanna T. 2000. Do firms learn to create value? The case of alliances. Strategic Management Journal 21(3): 295-315.

Bamford JD, Ernst D. 2003. Growth of alliance capabilities, in Mastering Alliance Strategy: A Comprehensive Guide to Design, Management, and Organization. Bamford JD, Gomes-Casseres B, Robinson MS (eds). Jossey-Bass: San Francisco, CA: 321-333.

Dosi G, Nelson RR, Winter SG. 2000b. Introduction: The Nature and Dynamics of Organizational Capabilities, in Dosi G, Nelson RR, Winter SG (eds). The Nature and Dynamics of Organizational Capabilities, Oxford University Press: New York: 1-22.

Gulati R. 1998. Alliances and Networks. Strategic Management Journal 19: 293-317.

Kale P, Singh H. 1999. Alliance capability and success: a knowledge-based approach. Working paper Wharton School, University of Pennsylvania.

Kale P, Dyer JH, Singh H. 2002. Alliance capability, stock market response, and long-term alliance success: the role of the alliance function. Strategic Management Journal 23(8): 747-767.

Makhija MV, Ganesh U. 1997. The relationship between control and partner learning in learningrelated joint ventures. Organization Science 8(5): 508-527.

Nault BR, Tyagi RK. 2001. Implementable mechanisms to coordinate horizontal alliances.Management Science 47(6): 787-799.

Rugman, AM, Verbeke A. 2002. Edith Penrose's contribution to the resource-based view of strategic management. Strategic Management Journal 23(8): 769-780.

Sarkar MB, Aulakh PS, Madhok A. 2004. A process view of alliance capability: generating value in alliance portfolios. White paper presented at KUN seminar, Nijmegen, the Netherlands.

Simonin BL. 1997. The importance of collaborative know-how: an empirical test of the learning organization. Academy of Management Journal 40(5): 1150-1174.

Spekman, R.E.; Isabella, L.A. and MacAvoy, T.C. (2000). Alliance Competence, John Wiley and Sons, Inc., New York

Thomke S, Kuemmerle W. 2002. Asset accumulation, interdependence and technological change: evidence from pharmaceutical drug discovery. Strategic Management Journal 23(7): 619-635.

Wakeam, J. (2003), The Five Factors of a Strategic Alliance, Ivey Business Journal, London, May/Jun 2003, pg.1, www.iveybusinessjournal.com/article/asp?intArticle_ID=417

Zahra SA, Nielsen AP. 2002. Sources of capabilities, integration and technology commercialization. Strategic Management Journal 23(5): 377-398.

Zollo M, Reuer JJ. 2003. Experience spillovers across corporate development activities. Working paper, INSEAD.