

CHAPTER 1

Abstract

The Indian IT industry has experienced an increasing trend in the formation of strategic alliances in recent times, more particularly those between the domestic firms and foreign firms. The industry is characterized by a high degree of environmental uncertainty, short product life cycles and short product development cycles. In an emerging economy like India, the industry has become a major driver of the GDP growth. The country had in recent times experienced a high degree of economic growth and a host of economic reforms. Though the incidence of alliances has been high in the 21st century, these organizational forms have mostly been perceived as temporary structures and expected to have high relational risks.

The present research is an attempt to understand the challenges of managing alliance relationships between domestic and foreign firms in an emerging sector of an emerging economy. The study looked into the motivational factors and the governance costs experienced by Indian IT firms having Strategic Alliances with foreign firms. The relationship between the governance costs and alliance performance was also explored.

Alliance formation is looked at from three perspectives - *resource dependency, environmental uncertainty and internal organization*. From the resource dependency perspective, the factors that influence the formation of alliances outside the geographical clusters were examined. Resource dependence could lead to firms partnering with each other to gain access to spatially differentiated resources outside the cluster and also to access technology. Apart from this, the research also looked at factors relating to environmental uncertainty that influenced firms to enter into international strategic alliances. These could be linkage uncertainty, inter-regional differences associated with policy and culture, competitive uncertainty and technical change. From the internal organization perspective, the research looked at how vertical disaggregation and spatial separation of functions and the need to hedge risks and increase flexibility influenced alliance formation.

The ease of management of alliances could be hampered by the nature governance costs. These governance costs could be a result of partner behavior which is influenced by the opportunism (resulting in lack of trust and cooperation), partner diversity (in culture, size and organizational

distance) the function and structure of the alliance. The reputation of the partner and experience in managing alliances earlier could also influence the governance costs. Earlier research outside India has shown that there is a relationship between governance costs and alliance performance. The research investigated as to what are the drivers of governance costs for alliances entered into by Indian IT firms with foreign firms and also the relationship between the governance costs and the alliance performance.

The study was conducted in three stages. In the first stage, a large sample survey was undertaken to identify alliance strategies of Indian IT firms. Alliances were formed mostly for accessing technologies of foreign partners, accessing foreign markets and the brand name of the foreign partner. Majority of the alliances were in the segment of software development for international markets. In the second stage, the case study method was used to explore the variables relating to the motivational factors and the drivers of governance costs and their relationship with alliance performance. The major alliance strategies identified fell into six categories viz., alliances for marketing, learning and technology transfer, both of the equity joint venture and non-equity joint venture type. The factors emerging from this study were used for developing a questionnaire which was administered in a larger sample for establishing the generalizability.

It was found that Indian IT firms entered into strategic alliances for gaining resources which were spatially separated. These resources were mostly knowledge of the products and technology of the partners and the brand name of the foreign partner. The alliance route was perceived to be the best organizational mode for gaining access to technology due to the access to the knowledge of the foreign partner through the training programs and socialization. Indian IT firms also sought to overcome competitive and technical uncertainty through the alliances, apart from gaining operational advantages. The efficiency in production and internal organization was higher by participating in an alliance, as the Indian IT firms were able to spatially separate their functions across the value chain and handle these functions in partnership with the foreign firms. The Indian firms were also able to distribute risks and gain flexibility by participating in alliances. Inter-regional differences on account of culture or government regulations were not perceived to be factors that needed to be handled through the alliance relationships. The governance costs were also influenced by the perceived opportunistic behavior of the partners and differences between the partners on account of culture, size and the like. influenced the governance costs. Relationships with a high degree of trust had low governance costs. Managing

the physical and cultural organizational distance added to governance costs. The reputation of the partner helped in building an effective relationship. The alliances were cheaper for firms with a longer experience in alliance management. The performance of the alliances was higher if the benefits were not eroded by governance costs.

It was found that Indian IT firms did not seek to access technology from marketing alliances. Thus they also did not seek to overcome any technical uncertainties through these alliance relationships with foreign partners. The data also showed that Indian IT firms entering into learning alliances do not seek to overcome uncertainties relating to efficient organization of their production or development activities. It further evolved from the research that for domestic IT firms in an emerging economy like India, partnering across borders and outside the clusters gave them the ability to spatially disaggregate functions and efficiently organize their activities by partnering with the foreign partners along the value chain.

The findings of the study suggest that firms can have a smooth alliance operations by putting efforts to build trust, hiring managers with alliance experience, selecting reputed partners, understanding the diversity of the partner and structuring a relationship which is flexible.

The findings of the research are in the context of the alliances domestic IT firms in an emerging economy have with foreign firms. Indian IT firms were taken as specific cases. The findings could be generalizable to similar firms in other emerging countries.