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Opportunities of Strategic Alliances: Malaysian Perspectives

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Abstract: With the emergence of stiff competition there has been an increased focus on the use of inter-firm relationships or strategic alliances in delivering best service packages to the consumer. Despite a number of studies there is still much to be learned about why alliances form and why they take the form they do. Based upon case based methodology in Malaysia this research argues that the formation of strategic alliances is due to firms seeking out new market opportunities under conditions of increased uncertainty and competition. We adopt resource dependence views of alliance formation with those of conventional economics and argue that alliances are a means of reducing the uncertainty that surrounds the undertaking of new market opportunities.

Key words: Alliances, collaboration, uncertainty, market opportunity, strategy

INTRODUCTION

While there is general support for the idea that firms form alliances in response to perceived environmental uncertainty (Achrol, 1991), it is not exactly clear how it does (Johnson, 1999). Johnson (1999) argued that in general, 2 arguments have been put forward for the effects of uncertainty. First, contingency theorists argued that uncertainty causes fragmentation and decentralisation in organizational systems. Second, transaction cost economics traditionally argues that alliances are a way of reducing the uncertainty experienced by each individual firm. Our position is that uncertainty drives the formation of an alliance although, the mechanics of that alliance may involve a large amount of decentralisation in regards to systems and decision making. Indeed we will argue further that uncertainty has caused firms to decentralise by outsourcing non-core functions, turning studys of the organization into business units and developing a divisionalized form. This renewed focus upon a set of core competencies has driven the need for alliances as firms seek to deliver greater services to customers (Gronroos, 1996; Johnson, 1999).

The study will first define strategic alliances and identify reasons for their formation. Second, the study will review the literature on the resource dependence theory of the firm and argue that this theory offers a partial explanation for the formation of strategic alliances. Following this will be the discussion of various theories of economies (Hayek, 2005) that identified the importance of knowledge and the entrepreneur in the market process. We argue that these long ignored theories of economy provide a strong theoretical explanation for the formation of alliances, particularly when complemented by the resource dependency view of the firm. The integration of these 2 theories provides a theoretical basis for explaining the formation of strategic alliances as both a proactive and reactive process. This study will be followed by a methodology study which will argue in support of inductive, theory building research using case studies (Glaser and Strauss, 1967). Following this will be a findings study which presents data from four Malaysian organizations embedded in industries characterized by a large number of alliances. Following this will be the discussion and conclusion studys.

Literature review: Defined a strategic alliance as a relatively enduring inter-firm co-operative agreement, involving various linkages that use resources and/or governance structures from autonomous organizations for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firms. Argued that the most common motivation for forming an alliance involved the “joint maximization of complementary assets by sharing in the residual returns from a business activity.” This involved the partners setting up a subsidiary company in which the parents have joint ownership. Present day examples of this structure include

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the "Star Alliance", "One world" and the Robert Mondavi Wines-Rothschild alliance, "Opus One". The recommended strategy for these alliances is an equal equity split (Bleeke and Ernst, 2011). Hitt *et al.* (2007) list 15 reasons as to why firms may form strategic alliances. who argued that the motives for forming alliances could be categorized into 8 key motives give a more parsimonious list. These are presented in Table 1. What is interesting to note is that all of these motivations for forming an alliance are a response to changes in the environment. Implicit in many of the motives is the idea that firms seek to control their environment by securing resources, reducing uncertainty, securing a market advantage, gaining needed knowledge and securing important resources. All of these motives are consistent with the resource dependency model although, they support greater strategic choice than has traditionally been the case with resource dependence models (Child, 1972).

Developed a model which has become known as the resource based view of strategic alliances. This view argued that market uncertainty, the drive for increased efficiency, resource dependency, skill, resource heterogeneity and imperfect markets drove the formation of strategic alliances. Heide and John (1990) found that the determinants for alliance formation for industrial purchasing are specific investments and uncertainty. This view provides support for the position that firms form alliances to reduce uncertainty and take advantage of new market opportunities. Argued that in industries characterized by dynamic change there will be a greater incidence of alliance formation than for industries in relatively stable environments.

The conventional view of the market as "market process": Conventional schools of economics view strategic alliances as a means of reducing competition, gaining market power and extracting monopoly rents. This view is premised upon an oligopolistic model of economic competition (Galbraith) where firms exert significant control over their environments (Child, 1972) and may in fact reach a point where they can define or enact their own environments. This view of economics has traditionally been used to counter those theories of organizational development that arc based upon a neoclassical view of economics which sees the market as perfectly competitive, characterized by profit maximizing rational economic actors equipped with perfect foresight and knowledge.

Resource dependence theorists who argued (premised upon oligopolistic models of competition) for limited strategic choice (Child, 1972) have criticized this view. Machovec has argued that the perfect competition model of neo-classical economics has resulted in a reaction against free markets in favor of state intervention, e.g., anti-trust laws. Macboyce argued in favor of the Austrian school of economies represented by Menger Machovec's research argued for an integration of these views of economies with general organizational theory. This he argued would offer a more realistic explanation of the way markets work as it accounted for the role of knowledge, uncertainty and most importantly the entrepreneur (who had been previously ignored in neo-classical economic theory). It is this view that will be deliberated below amid integrated with resource dependence theory to provide a theoretical explanation for the emergence of strategic alliances.

MATERIALS AND METHODS

The method chosen for this study was to make use of a variety of case studies of Malaysian firms that were known to have formal strategic alliances. This study also takes a stance similar to Madhok and Tallman who argued that an alliance is embedded in a larger context of resource relationships between the 2 firms. Case studies are a recognized method for understanding the dynamics of alliance formation within a specific context (Eisenhardt, 1989). Multiple case studies also allow for replication in multiple settings (Johnston *et al.*, 1999). Qualitative methods are also useful when a field is in its early stages of development for business to business research and when the purpose is to develop inductive theories grounded in rich data (Glaser and Strauss, 1967). The adoption of an inductive stance towards theorizing is also consistent with the conventional stance on economic theorizing. We also argue that the study of alliances needs to be conducted using longitudinal methods such as individual case studies, given that each alliance will evolve and develop over time (Eisenhardt, 1989).

Our principle aim in this study was to understand why firms were currently forming alliances in such large numbers. We were prepared to trade off, breath, for depth in order to do this. The case study method employed followed that of Yin and Eisenhardt. The sample selected was based upon a purposive method, i.e., we actively sought out organizations that had formed strategic alliances. As we were looking for any wider market factors that could drive the formation of alliances we decided to select our cases from industries that were characterized by high levels of strategic alliances. To identify these industries and organizations we conducted a wide search of the general business literature (for example, weekly newspaper such as far eastern economic review, the star and the new straits times). This process took approximately 3 months.

In order to improve the validity of our data, the interviews were coded separately by both researchers and the results discussed before a summary was written up. Each summary was sent back to the interviewees to allow for addition of material, corrections to our interpretation and to satisfy the requirements of confidentiality. This process resulted in more accurate summaries and corrected any misinterpretations on our part. On the whole there was remarkable agreement between each member of the organization and the benefits that were being sought. Both alliance partners were committed to the alliance and agreed that cultural fit was the most important reason for seeking out each other. Undertaking the analysis straight after each interview enabled us to form initial categories and focus questions in later interviews (Glaser and Strauss, 1967) as well as identify gaps or inconsistencies (these were then followed up with each participant). Once all the interviews were conducted we used a method of constant comparison between the different cases to achieve greater theoretical saturation (Eisenhardt, 1989; Glaser and Strauss, 1967). Following this, the findings were integrated with the relevant literature on alliances, organizational theory, economics and relationship marketing. At the final stage, the study was sent to each participant to allow for any questions, feedback, corrections or disagreements. This allowed for triangulation, increased face validity and independent validation (Johnston *et al*., 1999). The following resulting findings and discussions have emerged from this process.

RESULTS AND DISCUSSION

An agriculture company: The US agriculture market is characterized by heavy state regulations, fragmented state wide laws, large geographical size and a state wide law, large geographical size and a state mandated three tier distribution system which effectively protects large scale, low quality local producers from overseas competition. This distribution system demands that a firm entering the US market to team up with a good importer. High entry costs caused by government regulation, a large and fragmented market which increases costs of promotion and research, limited importers and distribution channels and large scale competition make an alliance an effective means of entering this market, gaining access to key distribution channels and gaining important market information. This company was keen to stress the importance of cultural fit in selecting an alliance partner. Interestingly, after a long search they settled on an alliance with a firm that had previously owned a large part of the company's stock in the previous 2 decades.

This partner was selected because they had an understanding of the strategic goals of the wine company and where the company's products should be positioned in the US to support their overall goal of producing and selling their product in the premium and ultra-premium markets. This organization also has links with a French producer. This alliance is purely for knowledge transfer. The two companies regularly swap their technicians at certain time in order to learn the different approaches to making quality products between the "Old" and "New" world. This also enables them to reduce cost as they get more work out of their staff who usually only work for short periods each year.

Private healthcare company: This company makes extensive use of strategic alliances which reflects the regulatory and industrial structure of the industry as a whole. The health care sector in Malaysia is a mixture of private providers and publicly funded providers. The uncertainties surrounding the healthcare market (you never can predict what resources you will need for accidents, etc.) increases the need to form alliances with government agencies, public hospitals equipped to perform specialized operations, radiology clinics, ambulance agencies and general services such as catering and cleaning. Alliances are therefore formed throughout the value chain. Horizontal alliances are developed with "competitors" who may be needed to offer full clinical services as well as share expensive resources. Vertical alliances are formed with suppliers of skills (private surgeons), hospital equipment, general services and needed supplies such as pharmaceuticals.

High overhead costs also mandate the use of alliances. This coupled with a reduction in health care expenditure was driving a move to alliances as organizations sought to get more efficient use out of expensive equipment such as CAT scans. Predominantly, the public healthcare partners of the private companies were sceptical about the gains, although they admitted that this view was clouded by opposition to the reforms undertaken by the government. As the private providers were profit driven, the gains from alliances were tied to customer satisfaction research that demanded greater service offerings as well as more competitive prices. In the private sectors, hospitals had to take into account all the elements of the service offered to the customer from medical care, ward cleanliness, food, after sales service and interactions with general practitioners. On the public side, the tendering process set up by government meant that firms had to be able to not only deliver better services than they had before hut they had to operate within strict cost controls. Alliances enabled them to get better use out of resources as well as extend the range of services offered to clients which in turn helped them through the tendering process.

Airline: This alliance was an alliance between seven airlines that had formed a new company that undertook joint promotion of services to the business market. Each company had to drop previous arrangements with non-alliance members and form an alliance with each member before they were admitted into the alliance structure. The airline company typically operates a variety of code sharing flights which enables each airline to offer a marginal service to out of way areas, offer more flights to popular areas and enable airlines to spread airport charges and other associated costs. These alliances are typified by contractual arrangements that specify strict performance and quality standards. The motivation for forming alliances here is varied. Offering more services at shared cost enables firms to provide customers with a full product offering as well as establish brand recognition and loyalty and develop extensive shared air-points arrangements. Sharing flights with providers on popular routes enables a company access to customers and therefore fares without requiring each airline to have sufficient shack in their timetables or fleet to meet demand in high periods or in case something goes wrong. This cuts down on the high investment costs and the costs of keeping expensive equipment idle. This arrangement also ensures greater access to new markets. Where a market may not have high initial potential (such as South America and some Asian countries), an alliance with the home carrier allows the company to build brand recognition and gain access to information about the market.

There was some concern that the alliance would restrict options to travelers due to the dropping of previous code share arrangements with companies that were not part of the alliance. The company was focusing primarily on the business market to the exclusion of the tourist. This may have implications for the future market share of the company as tourists find better packages and offers elsewhere. Ignoring the travel agents and also cutting commissions has also resulted in some loss of customers and preference on the part of travel agents to promote other airlines.

Pharmaceutical: High research and development costs and the dead weight costs associated with regulatory compliance have increased the resources required for pharmaceutical firms to make advances in medicine. The extensive government regulation which bans advertising of medicines to doctors and hospitals and that impedes a firm's ability to bring a new product to market have all led to pressures within the industry to form horizontal alliances with competitors and vertical alliances with healthcare providers. While the latter is legally possible and many firms have made tentative steps in this direction, alliances among competitors are likely to run foul of anti-trust laws. With recent cuts in funding for medical research this company has chosen to move offshore.

While the data cannot support broader generalizations, some key themes can be identified in the approaches that these companies have taken to forming alliances. First, the development of alliances is clearly a proactive strategy on behalf of management to reduce environmental uncertainty by seeking to control more of their immediate environment. Second, the resource dependence view of strategic alliances is borne out here. Firms base used an array of alliances with suppliers, competitors, labour providers, distribution channels and information sources to provide customer with a total service offering. Given that alliances are formed in order to take advantage of new opportunities, reduce market uncertainty and gain access to critical resources, the discussion will now focus on the case specific issues that support this contention.

The government controlled structure of the healthcare market which is characterized by a number of public and private hospitals interacting has also necessitated closer relationships between healthcare providers. The opening up of airline markets and decreased government funding for medical research has resulted in firms forming alliances to ward off competitors, share costs and engage in high cost research amid development. For each ease there are factors that are part of the firm's particular industry stage or cycle that are driving time formation of alliances. These may either be brought about by the participants themselves by changing government, new technologies (for example in medicine) or through competition. On this last point, the formation of several "airline blocs" (e.g., one world, wings, star alliance) necessitates that you either be part of an alliance or become a niche player in the local market.

The another strategy for market entry or access was the need to circumvent government regulations by finding a local distributor (agriculture) or sharing compliance costs (healthcare and airlines). Organizations also formed alliances in order to increase their current market position. For example, the airline gains access to their customers of the other alliance partners. As part of this alliance Malaysian partner also gets increased brand recognition in overseas markets as the "daughter" company advertises for till the partners using generic branding and market. In the agriculture company, each partner promoted the other's product range in their respective markets. Healthcare organizations wanted to secure their market position by being able to offer a greater range of services (by joining with public organizations) than they could by themselves. Public healthcare companies could increase their chances of contestable government funding as they could offer greater services and cost efficiencies to die government than standalone public hospitals could. Finally, pharmaceutical companies wanted to share research and development efforts so that they could marry complementary skills in order to make breakthroughs in meadical technology that would enable them to expand their product portfolio.

Throughout each case was a strong desire to reduce uncertainty faced by each firm as they undertook new opportunities. The agriculture company wanted to enter into a potentially lucrative but new marketplace in which they had little local knowledge of. They also wanted to develop new products at price points where mistakes are not tolerated (the production of fine wines). Airlines formed alliances as a response to changing regulation, increasing alliances among competitors, the need to offer greater transferability of airpoints programs and to take advantage of a surge in the number of frequent air travellers. Healthcare organizations, operating in a period deregulation joined together in order to pool complementary resources to meet the needs of an uncertain) market (each patient in effect needs customized service). As changes in medical technology opens up a range of long term research opportunities, pharmaceutical companies wanted to form alliances to reduce the amount of uncertainty that surrounds new research.

CONCLUSION

Although, the above findings are qualitative in nature, they do provide greater insights into the dynamic nature of the market and how the market environment encourages the need for strategic alliances. Generally, we believe that the case data support our contention that in response to market conditions, firms seek out new knowledge and new discoveries in order to provide market actors with what they want. The changing nature of the market offers support for the claim of Stinchcombe that various structures emerge in the social context of their day.

The study of the effect of uncertainty on alliances also needs to take into account a far broader view of the environment than that of the immediate task environment. All the cases here are responding to changes both in the immediate task and broader market environments. The study of alliances also needs to take into account a far broader view of strategic choice than the resource dependence school has typically recognized. Integrating resource dependence with the market process view of conventional economics offers a powerful explanatory tool for understanding alliances. Further research needs to be done to understand how uncertainty effects alliance formation, whether it affects the mechanics of each alliance operation and the effect alliance formation has on the marketplace itself. This latter point is emphasized by conventional economics. As new forms emerge, this may throw the market into disequilibrium resulting in new opportunities and discoveries. The formation of the "Star alliance" has in fact driven the formation of other alliances. This may reduce the competitive advantage accruing to "Star alliance" members and will require new strategies to gain a new advantage. Whether this is possible within an alliance structure or not remains to be seen.

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