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COLLABORATIVE ADVANTAGE

A CASE FOR CREATING STRATEGIC BUSINESS ALLIANCES IN OIL SECTOR IN INDIA

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STRATEGIC Alliances (SA) have gained significant acceptance as a viable business re-structuring phenomenon in the last few decades. However, in India the concept is yet to make meaningful inroads in the business corridors. Although their relevance for business growth has been recognised beyond doubt, the industrial activity on account of strategic alliances is still observed as scattered and inconsistent with only very few cases happening in select industrial sectors. The oil sector in India presents a highly conducive environment wherein strategic alliance phenomenon can breed and thrive successfully. In the wake of recent disinvestments and dismantling of APM era, the big giants of oil sector in India have started realizing that strategic alliances can successfully be exploited as the most viable growth option. The present paper seeks to explore and elaborate the elementary understanding of the strategic alliance phenomena and their relevance as a promising business growth tool with special focus on oil sector in India.

Transmogrified Scenario

Traditionally the corporate entities had very limited needs and reasons to interact with each other. In stable competitive environments, the companies will operate as independent entities expressly requiring to come in contact with others mostly in market set-up to execute exchange of their respective products or services. So the most common forms of business interactions were in a vertical chain of dependencies between potential suppliers and prospective consumers. Many such vertical chains would exist parallel to each other centering round competitive players who would forever be engaged in a relentless battle to protect and enhance their respective market shares. The only ways known to deal with your business rivals were either to compete or compromise. Until very recently the words cooperation and collaboration were not recognised as being eligible for inclusion in the popular business vocabulary.

But, of late, the scenario has undergone a sea-change. In a changeable business environment with rapidly globalising markets and industries, companies are fast realizing the inevitability of forging inter-dependency. This is in sharp contrast to the long known and vastly practised-method of "going alone". Slowly but surely, the realization is becoming clearer that in a complex, uncertain business world characterised by converging consumer tastes, rapidly growing technologies, blurring of industrial boundaries, escalating fixed costs etc., no one company can afford the costs and risks attached with the proposition of business growth. The obvious result is *a clear and strong mandate for strategic alliances***.**

The dramatic environmental changes coming with the onslaught of globalization and shrinking of the world markets are making unprecedented demands on organizations. The strategies which were time-tested and popularly practised so far are falling flat in the current scenario and are thus no longer effective. Today the companies have more serious concerns like the need to expand with minimum risk and cost, gain entry into alien and unfamiliar territories, to lead and create new markets for themselves than just sustaining their present market share (Ohmae, 1989). There is, therefore, a clear need for an integrated and holistic framework to help business leaders identify ways and means to initiate, manage and sustain fundamental strategic changes in order to grow and expand. A possible route for this is emerging in the form of strategic alliances and partnering with your competitors.

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Strategic Alliances: Emerging Tool of Business Growth

The strategic alliances offer a viable growth option to the companies beyond the usual and familiar but costly options of horizontal expansion and/or vertical integration. Both these traditionally popular modes of business growth entail heavy investment of resources. Moreover, both these strategies make a heavy demand on the companies for huge internal resource generation making the proposition further costlier and riskier. In the wake of all these developments, the companies around the globe are fast beginning to learn that in a complex, uncertain business world inhabited by unscrupulous rivals on an acquisition hunt, cooperating with your competitors, makes a sensible growth strategy.

The obvious result is that the case for collaboration is getting stronger than ever before. This is where the strategic alliances come to play a crucial role. In particular, the route of *strategic alliances* towards business growth *offers three distinct advantages* over the traditional modes, viz.,

- Organic expansion and speed;
- Immediate access to factors (including management) of production, resources and customers; and
- The riding of an already proven corporate vehicle.

Traditionally strategic alliances were used by multinational companies as a vehicle to enter the markets of developing countries which enforced restrictive conditions on foreign investment. More recently, companies in developed market economies have increasingly been willing to participate in cooperative ventures often with their direct competitors. This prompts us to search for such characteristics of strategic alliance phenomenon that causes it to become a hot fancy of the corporate wizards across the continents. Glaister and Buckley (1996) observe that an alliance can be defined as an "*inter-company collaboration over a given economic space and time for the attainment of mutually defined goals"*. From this definition emerge a number of *important characteristics* of this phenomenon, which are enumerated as under:

- An alliance *operates across the boundaries of a company*;
- It is *collaborative* in nature;
- It can *range from local to global* and can be defined in real time or *until the defined goals are achieved; and*
- While the *goals may be mutually* agreed upon, the *partners* may *have their own individual perspectives* on the same.

The last two decades have particularly seen the companies all over the world witnessing as also showing symptoms of gripping *alliances* fever. The concept of collaboration, in its present clear form, has slowly emerged as an attractive business growth option from some earlier forms of strategic cooperative networks like formidable oil cartels and cross-shareholdings in the US and Europe and even in Asia. Later, oil-exploration and mining companies started entering into alliances to reduce the risks involved. The trend in 1980s, therefore, started shifting from consolidation of conglomerates towards emergence of strategic patnerships. As the companies began to realize their geographical, technological and financial limitations, the focus shifted on pooling of core competencies. This trend resulted in the emergence of *strategic business alliances as an important business-restructuring phenomenon*. The major forces which contributed to the wide employment of this relatively new mode of strategic growth are:

- *Globalization of markets*;
- *Search for more comprehensive capabilities as technology blurs industry boundaries; and*
- *Scarce resources and intensifying competition for markets.*

Through a *strategic alliance*, companies can select, build and deploy the critical capabilities which will enable each of the partners to gain competitive advantage, enhance customer value, and drive markets. Rather than solidifying the alternatives and getting locked in either/or situations, the strategic alliances facilitate the potential attainability of business growth plans by way of creative integration of complementary strengths of alliance partners.

Formation of a Strategic Alliance

There are many perspectives which explain the formation of a strategic alliance. Many eminent authors have provided insights into formation of alliances. The main elements of the *strategic motives for formation of strategic alliances,* as identified by these authors, are highlighted below:

1. **Risk Sharing:** *Lorange* along with his research allies (1988) identified that alliances could reduce a partner's risk by: (1) *spreading the risk* of a large project over more than one company; (2) enabling product *diversification;* (3) enabling faster *market entry*; (4) *reducing investment burden* for individual partners.

2. **Product Rationalization and Economics of Scale:** External growth through horizontal merger, involves the combination of whole companies. Strategic alliances allow companies in the same industry to rationalize production, thus reducing costs through economics of scale and learning by doing, while avoiding the uncertainties and difficulties of full-scale merger and simultaneously allowing the use of the comparative advantage of each partner.

3. **Transfer of Complementary Technology/Exchange of Patents:** Alliances provide strategic benefits from the exploitation of synergies, technology or other skills transfer. It is argued that alliances may be used to bring together complementary skills and talents, which cover different aspects of the know-how needed in high technology industries.

4. **Shaping Competition:** Strategic alliances may be used to reduce competition by co-opting potential or exiting competitor into an alliance or even by linking with a competitor to put pressure on a common rival.

5. **Conform to Host Government Policy:** Many companies in the developing countries and the former Soviet Block insist that access to the local market can occur only if the foreign company works in co-operation with a local partner. Thus conformation to the host Govt. policies remains one of the oldest rationales for formation of strategic alliances.

6. **Facilitate International Expansion:** *Contractor and Lorange* (1988) argue that in general it is an expensive, difficult and time-consuming business to establish a global organization and a significant competitive presence. In this respect a strategic alliance offers considerable time saving.

7. **Vertical Linkage:** It is uniformly argued by almost all leading authors on the subject that strategic alliances have the potential to prove a good form of quasi-integration with each partner contributing one or more different elements in the business process.

Glaister and Buckley (1996) conducted a study to examine the strategic motivation for the international alliance formation for a sample of UK companies with partners in Western Europe, the US and Japan. The study identified the main strategic motives for alliance formation as linked to geographical expansion and also to some extent to aspects such as risk-reduction. This study tested its hypotheses on a sample of 94 strategic alliances of the UK companies formed between 1980 and 1992. The various strategic motives under study were ranked in the order of their respective mean measure of importance. Accordingly, the *strongest motives* were found to be:

- ***desire to*** *gain a presence* ***in new markets;***
- *faster entry* ***to the market;***
- *international expansion****;***
- ***forces*** *against a common competitor****; and***
- *maintenance of the existing market positions****.***

The group of *second most important motives*, though less consistent in their response across the alliances formed from among the various industry groups, does reflect a certain pattern indicated through following:

- Exchange of complementary knowledge;
- Economies of scale;

- Product diversification;
- Faster pay-back on investment;
- Share R&D costs;
- Spread risk of large projects;
- Higher margin businesses.

The *motives with least importance* were the following:

- To obtain a lower cost location;
- To exchange patents and/or territories;
- To conform to host Govt. policies.

The above discussion provokes an enquiry into the relevance of adopting strategic alliances as a feasible growth option in the oil sector in India.

Strategic Alliances in Oil Sector in India

Economic reforms in India have largely been guided by various socio-political factors. The obvious result has been a mosaic of lop-sided, single-track reforms affecting and benefiting only some selective sectors of industrial groups enjoying political patronage. In the current scenario, therefore, the toughest task that the Indian economy is facing is the carrying out of specific target-oriented reforms in the core sectors. In this regard, the oil sector very naturally assumes a respectable priority for various reasons, such as:

- To be able to absorb the impact of global oil market shake-ups of the type which had happened in the wake of two oil price shocks during 1970s and major oil crisis as an aftermath of Gulf aggression of the early 1990s and also the one currently ensuing on Iraqi territories;
- To be able to minimize the imbalance of our FE reserves by reducing the oil imports;
- To keep pace with those reforms, which are presently being carried out around the globe in this sector;
- To bridge the growing technology gaps between the Indian industry *vis-à-vis* the state of the art technologies in the first world countries;
- To augment the present infrastructure that has major limitations; and
- To develop and achieve better competitive advantages especially in view of the decontrol of the hitherto protected oil market within the country.

Obviously the list of factors prompting the flag-bearing oil giants in India to reconsider their operational strategies, reassess their marketing positions and thus redesign their business outlook is quite long. The restructuring exercise has, therefore, started shaking the oil sector in India and that too in a formidable way. This exercise has a prime objective of improving the productive base of the technology in the oil industry in India so as to achieve international competitiveness and sustain growth in productivity since the same has to play a role of critical importance in maintaining and improving the overall economic vitality of the country. Hence, restructuring of this industry requires very detailed analysis. This need is substantiated by the fact that the effects of industry revamping and corporate realignments in oil sector in India is sure to leave a far-reaching impact on the nation's economy, poised as it is for considerably higher levels of dynamic growth.

As is commonly known, the Hydrocarbons Industry in India assumes critical importance as a front-runner sector of core operations. The fact that this privileged sector was entirely owned and operated by the Government of India in the post-nationalization phase was reason enough for the sector to be governed and protected by a common thread of operational mechanism. The onset of liberalization, however, exposed this so far passionately protected market to the intimidating pressures emanating from the global developments.

The mechanism as adopted by the Government of India during 1976 came to be known as *The Administrative Price Mechanism* (APM). This mechanism had the inbuilt assurance in terms of the guaranteed return and cost plus formula. As the oil industry in India was growing, the system-based support through APM ensured fair amount of growth for all by minimizing overlaps and maintaining coordinated and synchronized operations. This, however, certainly did not encourage improvement in the quality of services to the customers or even the products. The operating efficiencies based on benchmarking to international standards and innovativeness in funding the profitable strategic investments also suffered. Moreover, the huge Government subsidy under APM started giving rise to burgeoning oil deficit. As the APM started showing gaps and loopholes, wide and significant enough to succumb before the onslaught of spiralling demand and global prices, the Government of India announced a phased programme of de-regulating the oil sector in India.

This move came at a time when the oil world around the globe was as it is going through a series of well-meaning restructuring arrangements having far-reaching ramifications. A discerning feature of the global oil economy is the existence of a widely segmented market with the presence of several players with equal footing, customer focus and resultant fierce competition. The need for survival and maximizing the shareholders' wealth is putting pressures on the oil companies to take advantage of scale, cut costs and finding newer avenues for increasing synergies. The obvious result is that global oil giants are resorting to realignments and entering into alliances, mergers and acquisitions to save cost of doing business in an emerging scenario of intense competition. Thus the joint ventures and mergers across the energy sector are being tried out to improve upon the poor returns on capital and/or rewarding the shareholders.

The recent surge of corporate realignments in the oil sector worldwide opened a plethora of options and opportunities for the oil giants in India as well to explore and exploit. The focus in all mergers and strategic alliances is to find and actualize synergies in operations of the giant and finely fragmented oil industry around the globe. The natural culmination of such an effort is the emergence of a vibrant and segmented market with a level playing field which is eventually beneficial to the customer. The obvious results of such developments have happily been in favour of the customer. Under the controlled regime of APM era, the oil companies in India had remained considerably insulated from the forces of fierce competition of a free market and had thrived on the system support. The consumer, inspite of having to bear the brunt of spiralling oil prices, had no influence on the determination of service standards and quality of products leave alone the fixation of prices.

All the above prompted an initiative on the part of Government of India towards the restructuring of this Industry in the shape of setting up of a Strategic Planning Group on restructuring of the Oil Industry. This initiative was widely welcomed by one and all in both the public as well as private sector. This group was entrusted with the daunting task of reviewing the strategic restructuring plan prepared by the Oil Industry Planning Group and make recommendations in regard thereto. The recommendations of this group resulted in constitution of an Expert Technical Group to examine the alternative scenario in the event of dismantling the APM. The report as submitted by the Expert Technical Group drove Government of India towards adopting the agenda of a phased deregulation of petroleum sector. This set the ball rolling in favour of globalization of the hitherto protected Oil Industry in India and opened the gateway of opportunities for many formidable domestic and international players to vie with for a noticeable share of this enormously promising market segment of Indian economy along with making the scenario more conducive for customer-orientation and quality consciousness.

Researching Ramifications for the Oil Industry in India

In a fully de-regulated scenario and with the entry of multi-national oil giants in the Indian market, the oil companies in India are now forced to take an all new and fresh look at the happenings around. This has yielded definitive results in the form of development of consumer focus, cost optimization, improved productivity, increased efficiency etc. It is in the backdrop of such realities that the significance and desirability of strategic alliances, as a viable restructuring and growth phenomenon, is receiving clear recognition.

In response to this development, a study was undertaken by the author, as part of her Ph.D. research work, to investigate the prevalent mood in the Oil Industry towards the phenomenon of *strategic alliances* as the appropriate vehicle for corporate turnaround and growth. The idea was to concretize a basic perception towards desirability of *strategic alliances* and what goes into the making the same sustainable. The respondents were drawn from various global and domestic alliances of the three major down-stream oil players in India. The total sample of 155 accepted questionnaires were divided into two sub-groups, namely G-I and G-II. G-I comprised of people stationed at parent company set-ups, engaging in conceptualization of and providing the back-office support for the *strategic alliance* project. G-II included people posted at the *strategic alliance* set-up for project implementation. This was done to gather a contrasting sectoral view of the diverse perceptions which are held by people who conceive and design a *strategic alliance* project on one side and the people who actually implement such a project on the other.

The exercise was conducted through a simple opinion poll structured around six basic issues pertaining to the phenomenon of *strategic alliances*. As is obvious, the results of any opinion poll are best explained by way of a frequency distribution. The results of this exercise are discussed in the following paragraphs.

1. V1 – Growth Strategy

When asked as to which growth strategy is perceived to be more desirable in the current business scenario, 87.1% of the total respondents polled in favour of *strategic alliances* while only 12.9% opined that an organization should go-alone.

Table 1: V1 Growth strategy

(in %)

Option	Total (N=155)	G-I (N=70)	G-II (N=85)
1. Strategic Alliances	87.1	90.0	84.7
2. Go-alone	12.9	10.0	15.3

As shown in Table 1, 90% of the respondents in G-I opted in favour of *strategic alliances* as desirable growth strategy leaving a meager 10% of respondents favouring go-alone as a preferred growth strategy. Similarly in G-II also 84.7% opined in favour of strategic alliances while only 15.3% opted for *go-alone* as the desired growth strategy. From this data, it emerges that a handsome majority of the respondents perceives strategic alliances as the appropriate growth strategy in the current business scenario.

2. V2 – Acceptable Tenure for Sustainability

Referring to Table 2, it is observed that 61.9% of the total respondents perceive a strategic alliance to be sustainable if it has lasted for more than five years whereas 38.1% would accept a strategic alliance to be sustainable, if it has lasted for any time between two to five years.

In terms of group-wise results, 64.3% of the G-I respondents accept 5 years as the minimum tenure to regard an alliance as sustainable, whereas 35.7% accept 2-5 years as the minimum acceptable tenure from the angle of sustainability of the strategic alliances. Likewise 60% of the G-II respondents opine in favor of 5 years as the least acceptable tenure for a strategic alliance to sustain and the balance 40% opting for 2-5 years as the acceptable tenure for the sustainability of a strategic alliance.

Table 2: V2 Tenure for Sustainability

(in %)

Option	Total (N=155)	G-I (N=70)	G-II (N=85)
1. 2-5 years	38.1	35.7	40.0
2. >5 years	61.9	64.3	60.0

A crisp view of the above table confirms the desirability of a minimum tenure of 5 years for a strategic alliance to be regarded sustainable.

3. V3 – Issue of Sustainability

In response to whether the issue of sustainability of a strategic alliance is episodic or process-oriented, 69% of the total respondents opined that it was process-oriented whereas only 31% thought it to be episodic.

Table 3: V3 Issue of Sustainability

(in %)

Option	Total (N=155)	G-I (N=70)	G-II (N=85)
1. Episodic	31.0	32.9	29.4
2. Process-oriented	69.0	67.1	70.6

Looking at table 3, it is observed that 67.1% of the G-I respondents vote in favour of issue of sustainability being process-oriented, whereas 32.9% of the respondents perceive the issue of sustainability to be episodic. In case of G-II, 70.6% of the respondents regard sustainability of a strategic alliance as a process-oriented issue, whereas only 29.4% of the respondents perceive it to be episodic. In the ultimate analysis, it can be said that a significantly large section of respondents considers the issue of sustainability to be process-oriented.

4. V4 – Economic vs. Behavioral Feasibility

In response to ascertaining the relevance of various feasibility studies for the sustainability of a strategic alliance, 21.9% of the total respondents favour the relevance of economic feasibility alone, whereas 16.2% of the respondents consider the behavioural feasibility alone to be critical for making a strategic alliance sustainable. Interestingly a good 61.9% opine that it is important to carry out both these two feasibility studies.

Table 4: V4 Economic vs. Behavioural Feasibility

(in %)

Option	Total (N=155)	G-I (N=70)	G-II (N=85)
1. Economic Feasibility	21.9	22.9	21.2
2. Behavioral Feasibility	16.2	18.5	14.1
3. Both	61.9	58.6	64.7

As displayed in table 4, 22.9% of the G-I respondents consider economic feasibility to be paramount, 18.5% perceive behavioural feasibility to be critical, whereas 58.6% of the respondents regard both to be equally relevant for the sustainability of a strategic alliance. Similarly, in case of G-II, 21.2% of the respondents poll for economic feasibility, whereas a much less 14.1% poll for behavioural feasibility. The rest, i.e., 64.7% of the G-II respondents opine that both economic as well as behavioural factors explain the sustainability of a strategic alliance. The above results clearly convey that a good majority of the respondents regard it relevant to consider the relevance of both economic and behavioural variables from the point to point of sustainability of a strategic alliance.

5. V5 – Organizational vs. Individual's Role

Table 1.5 reveals that 42.6% of the total respondents believe that sustainability of a strategic alliance depends on the organizational efforts whereas a meagre 3.2% of the total respondents hold individual efforts of the employees alone important for making an alliance sustainable. In all, 54.2% of the total respondents regard it as necessary for both organizations and individual employees to contribute significantly towards making strategic alliances sustainable.

Table 5: V5 Organizational vs. Individual's Role

(in %)

Option	Total (N=155)	G-I (N=70)	G-II (N=85)
1.Organizational Effort	42.6	48.6	37.6
2. Individual's Effort	3.20	7.10	-
3. Both	54.2	44.3	62.4

In case of G-I, the highest percentage of respondents, i.e., 48.6% opine that the sustainability of a strategic alliance depends entirely on the organizational efforts whereas a much lesser 7.1% of the respondents perceive the relevance of individual efforts in making an alliance sustainable. However, 44.3% of the respondents consider it necessary for both organizations and individuals to play a role of importance in making a strategic alliance sustainable.

Interestingly, G-II summarily rejects the relevance of individual efforts alone in making a strategic alliance sustainable. Whereas 37.6% of the G-II respondents perceive the relevance of organizational efforts, a whopping 62.4% opt in favour of both organizations and individual employees jointly working together making a strategic alliance sustainable. This is in sharp contrast to what G-I perceives about the same. As is amply, there is apparently a wide gap between the perceptions of planners (G-I) and those who are actually at work implementing the alliance project (G-II).

6. V6 – Growth Visions

When asked whether a sustainable strategic alliance should satisfy the growth visions of partner companies or individuals associated with itself or both, 45.2% of the total respondents opine that a sustainable strategic alliance should aim at satisfying the growth visions of the partner companies alone.

Table 6: V6 Growth Visions

(in %)

Option	Total (N=155)	G-I (N=70)	G-II (N=85)
1. Partner Companies	45.2	50.0	41.2
2. Individuals	2.60	2.90	2.40
3. Both	52.3	47.1	56.5

A mere 2.6% of the total respondents felt that a sustainable strategic alliance should satisfy the growth visions of the individuals whereas a majority of 52.3% of the total respondents polled in favour of a sustainable strategic alliance aiming at the achievement of the growth visions of both the partner companies and individuals associated with itself.

As far as G-I results are concerned, an exact 50% of the respondents consider it necessary for a sustainable strategic alliance to satisfy the growth visions of the partner companies in contrast to a meager 2.9% opining in favor of the growth visions of the individuals alone. In contrast, a good 47.1% of the respondents favour the achievement of the growth visions of both the partner companies and the individuals associated with the same.

It also emerges that the results for the G-II diverge a little with 56.5% of the respondents desirous of a sustainable strategic alliance satisfying the growth visions of both the partner companies and the individuals, a mere 2.4% opining in favour of the supremacy of the growth visions of the individuals, whereas 41.2% of the respondents asking for a sustainable strategic alliance to concentrate on the growth visions of the partner companies alone.

Summary of the Above Results

The results of the simple opinion poll as discussed above are in almost all the cases very straight. For simplified understanding of the relevance of strategic alliances and the criticality of their sustainability, the above results can be summed up as follows:

- In changing business scenario, *growth and development* can be better achieved *by entering into strategic alliances* rather than going-alone.
- An alliance can be considered sustainable if it has been around for a *minimum of five (5) years*;
- The *issue of sustainability* of a strategic alliance is *process-oriented*;
- *Sustainability* of a strategic alliance is better *explained by* both *economic and behavioural variables* together;
- *Sustainability* of a strategic alliance *depends both on organizational and individual's efforts*;
- A *sustainable strategic alliance* should *satisfy* the *growth visions of both the partner companies and the individuals* associated with it.

From the above discussion, it can be inferred that whereas *strategic alliances* are inarguably held as the more plausible growth option by the respondents, they also insist that a *strategic alliance* project has to survive for atleast five years to be regarded as sustainable. It also emerges from the above discussion that the issue of sustainability of a *strategic alliance* requires concerted process-oriented thrust rather than isolated, disconnected efforts. A very encouraging development is that *behavioural feasibility* of a strategic alliance has been placed on the same footing as its *economic feasibility* from the perspective of its sustainability. Moreover, it can also be concluded that the efforts of partner organizations to make their *strategic alliance* project sustain have meaningfully to be supported by the individuals working therein. Lastly, having achieved its sustainability, a strategic alliance has to take care of the growth visions of not just the partner companies but also the individuals working in the project set-up itself.

The results as indicated above do only not confirm the growing desirability of strategic alliances as the appropriate growth and restructuring tool in the contemporary business environment of oil industry in India, but they also raise a range of other concerns regarding the ensuring of the sustainability of collaborative advantage achieved through *strategic alliances*. An indepth study was carried on concurring similar aspects by the author in his Ph.D, research work. Nonetheless, in summation, it is sultice to conclude that:

- The case for collaborative advantage is getting stronger than ever before;
- Strategic alliances are poised to emerge as an important vehicle for collaborative advantage;
- In Indian perspective, oil sector presents high potential to explore and exploit the benefits of strategic alliances;
- While *strategic alliances* are perceived by the selected sample as a preferred option for corporate growth to the going-alone option, they also hold their concern for the issue of sustainability of a *strategic alliance*;
- Behavioural feasibility of a *strategic alliance* project is perceived to be as important as the economic feasibility.

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