

Strategic Alliance Practices in Indian Tour operation Industry: an Exploratory Study

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A close look at the extant literature on strategic alliances reveals that a strategic alliance is a formal agreement to supply a product(s) and service(s) and to jointly expand knowledge, develop applications and commercialize new products, with the rights of co-ownership, and commercial exploitation of the inventions within the boundaries of the alliance particulars. Moreover, alliance partners' work together to serve the ultimate consumer by doing together what each partner could not do alone. As a result of recent trends and development in tourism market place strategic alliances are becoming an attractive strategy for future sustain growth and survive. Indian tourism market has been acknowledged as an emerging market and major forex earner. However, Indian tour operators experience difficulties in establishing and developing viable strategic alliances with international tour operators. Recognizing pivotal role of tour operation to Indian economy, the purpose of this to investigate the current nature of strategic alliance practices in tour operation industry; to identify the relationship between strategic alliances practices and demographic characteristics of tour operators and to identify the major barriers those are experienced by tour operation industry in their efforts to implement strategic alliance practices in their businesses.

KEYWORDS: *strategic alliances, international tour operator, inbound tour operator, India.*

INTRODUCTION

Resource-base theory, Transaction cost theory; Strategic management theory and organisational theory have emerged as a body of knowledge that offers new ways in which to understand key strategic alliance practices (Varadarajan & Cunningham, 1995; Wang, Cheng-Tu, 1995; Somnath et.al.1998; Lee, et.al., 2000). Indeed, strategic alliances have become a major feature of the contemporary competitive environment and have been argued to be critical to obtaining and sustaining a strategic advantage, particularly for tour operators. This has largely been due to the difficulties in being able to gain, let alone sustain, an advantage for tour operators acting independently.

According to the Ministry of tourism, Govt. of India, there were an estimated 1,500 tour operators in India (i.e., not including exclusive transport operators) in 2010. About 70% of these operators had an international component to their activities. While it is difficult to estimate the exact number of outbound trips they generated from India, they tended to be focused primarily on the UK, USA, France, Japan Malaysia, Australia and Canada. Traditionally, the India market has been dominated by medium and small-sized, specialized, and niche market tour operators. Their programs have normally been designed to cater to the more individual needs of a demanding clientele who were seeking more than just beach holidays or sightseeing. More recently, bigger tour operators offering increasingly modularized package systems have expanded competition

in the Indian marketplace. The main leaders in this regard are SOTC, Thomas cook, Cox and Kings, and many mores. The estimation of their relative shares of the inbound and outbound market are difficult to determine, largely because some of the operators count the number of clients per modular system sold, and the same client can purchase several modular components. Thus, a tour operator is often described as an intermediary (Burns and Holden 1995; Cooper et al. 1998; and Holloway 1998). As Cooper et al. (1998) 'The principal role of intermediaries is to bring buyers and sellers together, either to create markets where they previously did not exist, or to make existing markets work more efficiently and thereby to expand market size. Further, in all industries the task of intermediaries is to transform goods and services which consumers do not want, to a product that they do want.' (Cooper et al. ,1998). Tour operators are the crucial link in the distribution chain, representing the central connection between customers and providers of services and therefore having the power to influence both sides the demand and the supply, according to their interests (Mohinder, 2003&2006). The tour operator is the architect \ manufacturer of tourism product who assembles the tour ingredients and creates travel, creates a market, creates lead and creates an annuity by having satisfied clients who return year after year (Gregory, 1985). Thus, the product that a tour operator offers to the customer is the 'inclusive tour', i.e. the packaged combination of transport, accommodation and services (table 1).

During the two decades, there has been tremendous growth in corporate strategic alliance in manufacturing industry, tourism and hospitality is no exception in this context.

A strategic alliance is a business relationship between organizations in which they share risks, pool strengths, or integrate business functions for mutual benefit (Harrigan, 1987&1988; Davlin, & Bleackley, 1988). Each of the partners in an alliance remains a distinct entity, unlike a merger, where the assets are combined. In fact, strategic alliance is a cooperative strategy in which firms combine some of their resources and capabilities and to create a competitive advantage. Moreover, a strategic alliance involves exchange and sharing of resources and capabilities co-development or distribution of goods or services for long term sustain in the market. Strategic alliances (SA) are defined more broadly, covering a variety of flexible cooperative arrangements between organizations, from fluid, short term cooperation to long term, formal agreements (Das & Teng, 1998; Murray and Mahon, 1993). In a strategic alliance, partners remain

independent after forming the alliance, both share alliance management and benefits, and both contribute to the alliance on a continuing basis. According to Horton, (1992) strategic business alliances are described as a form of coalition between two or more separate business entities working together to achieve mutual objectives. Further, in similar vain Madhok (1997) opined that strategic alliances are a useful vehicle for enhancing knowledge in critical areas of functioning where the requisite level of knowledge is lacking and cannot be developed within an acceptable timeframe or cost.

TABLE 1. Tour Operators' Main Contracted Products and Suppliers

<i>Ingredients of Tour package</i>	<i>Suppliers</i>
Accommodation	Accommodation Hotels, bed & breakfasts, self-catering, (serviced) apartments, campsites, cruise ships
Transport to and from destinations	Public transport (e.g. trains), airports, scheduled air carriers, air charters, scheduled sea passages, chartered sea passages, coaches, cruises
Catering and food and beverage	Restaurants and bars, grocery stores, farmers, fishermen, local commerce/markets, bakers, butchers, food wholesalers
Ground transport	Car rentals, boat rentals, fuel providers, gas stations, coach rentals
Ground services	Agents, handlers or inbound operators in the destination
Cultural and social events	Excursion and tour providers, sports and recreation facilities, shops and factories
Environmental, cultural and heritage resources of destinations	Public authorities, protected site managers, private concessionaires and owners

Sources: The Tour Operators' Initiative for Sustainable Tourism Development (2003) CELB

In a volatile business environment a company can strengthen its competitive advantage and increase its market share by forming a strategic alliance (Harrigan, 1988). However, the cooperation does not always bring about the expected results. Hamill and Young (1990) have pointed out that the failure of such an alliance would not only have an adverse effect on an organization's financial performance in the short term but also threaten the organization's international competitive position in the long term. During recent past there have been many studies (Hui-Mei & Chian-Hau ,2003; Jaloni ,2008;

Hitt,2000) which have been devoted to evaluating alliance performance in other industries, such as technology and manufacturing, tourism industry but little efforts have devoted to explore the significance of strategic determinants for the selection of destination companies in the tour operation industry. Given the fact that the tourism product depends largely on imagery, the marketing and distribution channels that bring customers and suppliers of package holidays together play a crucial role. The image of the product is created by the tour operators' promotional activity in the generating area, frequently with very limited destination input (Mohinder, 2003; Medina-Munoz, & Garcia-Falcon, 2000 and Chathoth & Olsen, 2003). Moreover, the tour operator promises with the tourists for specific services or creates the image of destinations in the minds of tourists. In fact, the tour operator individually cannot convert the promises made with tourists into realities. Therefore, the tour operator enters into strategic alliances with the tour destination operators to offer the promised tour ingredients to the tourists. This has increased the role of tour destination operators in the tour operation activities. In fact, it is very late realized by the tour operators that the formation of strategic alliances allows for a more effective pooling of resources, improved marketing coverage, improve performance, technology sharing and client satisfaction.

Thus, the tour destination operators' strategic positioning among the various tourism suppliers at a tourist destination has made them indispensable in international tourism arena (Mohinder, 2003). Nevertheless, surprisingly little effort has been made to study their crucial role in the satisfaction of tourist at a particular destination comprehensively. To fill this gap and thereby enhance their role for alliance formation as well as strategic ability to convert the promises of international tour operator's into realities in the volatile tour operation process, the present study aims at to identify major strategic alliance practices of Indian tour destination operators adopted by the international tour operators & their impact and problems.

The purpose of this research is:

- To investigate the current nature of strategic alliance practices in tour operation industry ;
- To identify the relationship between strategic alliances practices and demographic characteristics of tour operators.
- To identify the major barriers those are experienced by tour operation industry in their efforts to implement strategic alliance practices in their businesses.

Theoretical background and Hypothesis Development

Today, in response to the global competition firms are increasingly relying on cooperative strategies to enhance their competitiveness and to compete at global marketplace. This has paved the way to develop strategic alliances not only local national but at international level. Thus, partner selection has become perhaps the most important step in creating a successful alliance (Elmuti & Kathawala, 2001). It has observed that businesses with different resources and strengths have different criteria when selecting strategic alliance partners (Dacin et al., 1997; Davlin & Bleackley, 1988). Moreover, while forming an alliance, companies will seek partners who have skills, resources and can add a distinctive set of capabilities to compete the rapidly changing business environment. Dacin et al. (1997) suggest that complementation is the main consideration to choose the alliance partner. Strategic alliances are also formed to alter the basis of competition (Porter & Fuller, 1986). To remain competitive or to eliminate competition, firms may enter into strategic alliances and thus strengthen their market position (Ouchi & Bolton, 1988). Brouthers, et al, 1995) stated that firms are driven to form alliances due to a lack of sufficient internal resources.

Geringer (1991) pointed out that the cooperation experience within the company and similarities in organizational culture could affect alliance performance. Harrigan (1988) suggest that the longevity and stability of an alliance would have positive effects on performance. According to Granovetter, (1985) reputation is an important factor in alliance success because it reflects an alliance partner's characteristics in the areas of management, product quality, and financial position. Further, Barney, (1991) and Hall, (1992) suggested that reputation reflects an alliance partner's characteristics in the areas of management, product quality, and financial position. They further stated that a positive reputation is a valuable intangible asset that may allow a firm to establish a sustainable competitive advantage. Geringer,(1991) suggested two methods useful for categorising potential partner-ability to add value and ability to lower your firm's operating risks. These criteria have profound impact on profits, market penetration, market coverage and technological innovation. Gulati (1995) finds that prior alliances create ties that directly and indirectly influence the choice of partners. Similarly, Gulati and Gargiulo (1999) find that the probability of a new alliance between two specific firms increases with their interdependence, their prior ties, common third parties and their centrality in

the alliance network. Both studies focus on intra-industry alliances. However, entry alliances in emerging markets often involve firms from different industries, which, because of industrial separated pasts, may not have any previous direct ties and merely insignificant indirect ties.

Chathoth and Olsen (2003) stated that global hotel chains have created alliances with other players of the tourism industry such as tour operators, travel agency, airlines and local operators etc to strengthen their performance and enhance their market share. Similarly, March (2000) explored how inbound tour operators acting as buyers on behalf of overseas clients and make purchase decisions for three types of suppliers. The study opines that tour operators need to develop differentiated marketing strategies depending on the inbound tour market they are targeting. Jaloni (2008) pointed out that partner selection criteria have positive influence on satisfaction, market share and profitability with alliance performance in tourism industry. Hui-Mei and Chian-Hau (2003) suggested that 'partners having excellent resources' and 'the potential for a mutually beneficial relationship' are the two major criteria used in selecting the cooperative partners. These two criteria are also significant predictors of alliance performance. 'Diversifying promotion channels and reducing cost', 'intensifying position and enhancing image', and 'increasing business achievement' are the major alliance motives of companies within the tourism industry. They also have positive effects on alliance performance.

Further, transaction cost theory suggests that firms choose allies by a comparative assessment of transaction costs involved in the specific relation (Brouthers, et.al. 1995 ; Saxon, 1997; Stuart, 1998;). Implicitly, partner choice derives from economizing on the cost of contracting considering future contingencies. The resource-based view provides insights about what kind of resources that may form the basis for an alliance and suggests that firms will benefit from allying with the strongest firm with the desired resources, which can include various kinds from physical equipment over knowledge to reputation assets.

Various other views on strategic alliance has emerged (Geringer, 1991; Pfeffer & Saxon, 1997; Stuart, 1998; Dacin, Hitt and Levitas, 1997; Dyer and Singh, 1998; and Varadarajan and Cunningham, 1995). Gulati (1995) finds that prior alliances create a tie that directly and indirectly influences the choice of partners. Similarly, Gulati and Gargiulo (1999) find that the probability of a new alliance between two specific firms increases with their interdependence, their prior ties, common third parties and their centrality in the alliance network. Both Gulati (1995)

and Gulati and Gargiulo (1999) focus on intra-industry alliances. However, entry alliances in emerging markets often involve firms from different industries, which, because of industrial separated pasts, may not have any previous direct ties and merely insignificant indirect ties.

The study provides three hypotheses in order to analyse the strategic alliance practices in Indian tour operation industry:

H1: There is a set of strategic alliance practices that are most important in the tour operation industry.

H2: There is significant difference among the tour operators on strategic alliance practices and demographic characteristics.

H3: There is a positive association among the different strategic alliance practices, their obstacles and their impact on different firm aspects.

RESEARCH METHODOLOGY

Survey instrument

In this study, strategic alliance practices identified by previous tourism researches in particular and management literature in general. Data were collected using a self-administrated questionnaire developed by the researchers, through a review of previous literature. The research questionnaire developed for this study included questions pertaining to organizational characteristics and strategic alliance practices. A set of 34 strategic alliance practice items was generated from a review of literature. Further, Likert-5-point scale values assigned 1 to 'strongly agree', 2 to 'agree', 3 to "neither agree nor disagree," 4 to 'disagree', and 5 to "strongly disagree" was used.

Sample selection and data collection

A convenient sampling method was used to conduct the survey during 2009. Total 150 questionnaires were collected from the tour operators. However, after deep scrutinising, 90 responses were found in all respect. From this distribution it is seen that the age of most organisations is between 11 and 15 years, the capital of most organisations is between 301 and 500 million US \$, the size of most organisations is between 301 and 500 employees, most organisations are MNCs, and most organisations are located in Delhi.

METHOD OF ANALYSIS

The factor analysis with varimax rotation was used to generate the factor underlying the 34 original strategic alliance practice items. In this study, factor was retained only if they had an eigenvalue greater than 1.0 and factor loadings greater than 0.4. A reliability coefficient (Cronbach's alpha) was computed for each factor to estimate the reliability of each scale. All factors with a reliability coefficient above 0.6 were considered to be acceptance in this study. In order to undermine the significant differences between strategic alliances practices & demographic characteristics and to determine association among the different strategic alliance practices, their obstacles and their impact on different firm aspects we conducted the Correlation coefficients.

RESULTS AND DISCUSSION

In order to assess the set of strategic alliance practices in the Indian tour operator industry that is of most importance, or in other words to be able to test H1, The principal component factor method with VARIMAX

rotation was used to generate the factors underlying the 24 original strategic alliance practices. To determine the appropriateness of factor analysis, the Kaiser– Meyer– Olkin (KMO) measure of sample adequacy and Bartlett's test of sphericity were used. The results of the KMO measure showed a level of 0.904, which is acceptable for further analysis. Bartlett's test revealed a significance at a level of 0.000 ($\chi^2 = 2212:275$). In this study, factors were retained only if they had an eigenvalue greater than 1.0 and factor loadings greater than 0.5. Table 2 summarizes the factor analysis results. The five factors were labeled as: "technological factor", "marketing factor", "local operation factor", "competitive factor", and "tour product factor".

Table 2 presents all the necessary information about the five factors explaining between 70.23 and 80.91 per cent of the total variation that are above the generally accepted level of 50 per cent. All items pass the eigenvalue (more than 1.00), the cut-off points (factor loading not less than 0.40), and the cross-loading (not less than 0.10) requirements. The Cronbach alphas of the five factors are very high (ranging from 0.70 to 0.80), and are above the generally accepted level of 0.70.

TABLE 2. Factor analysis results of the strategic alliance practices in the Indian tour operator industry

	Factor 1 (TF)	Factor 2 (MF)	Factor 3 (LOF)	Factor 4 (CF)	Factor 5 (TPF)	Community
Access to technology	0.93					0.82
Experience in tech. application	0.92					0.77
Potential for new tech. development	0.91					0.81
Access to tech/knowledge	0.85					0.83
Access to product-specific knowledge	0.89					0.75
Access to distribution channels		0.79				0.80
Access to marketing/distribution system		0.74				0.81
Past Reputation		0.79				0.78
Good public image		0.78				0.77
Abundant marketing resources		0.69				0.81
Performance compatibility		0.82				0.83
Volume of sales		0.74				0.75
Reliable financial performance		0.78				0.80
Numerous branches		0.69				0.81
Access to local cultural\ historical knowledge			0.78			0.78
Ability to offer local product or services			0.80			0.77
Access to local regulatory knowledge						
Operational knowledge			0.83			0.81
Access to local market knowledge			0.77			0.83
Access to related issues with local suppliers			0.81			0.75
Location			0.81			0.80
Partner firm size			0.78			0.81

TABLE 2. Contd

	Factor 1 (TF)	Factor 2 (MF)	Factor 3 (LOF)	Factor 4 (CF)	Factor 5 (TPF)	Community
ability to offer competitive product or service				0.76		0.78
strategic advantage				0.71		0.77
Partner international experience				0.59		0.81
Having good relationship with the our company				0.68		0.83
Probable relationship development in the future				0.59		0.75
Less cost for our company				0.58		0.80
Ability to add value				0.65		0.81
Ability to create and sustain trust				0.72		0.78
Access to materials/natural resources					0.69	0.77
Access to product or service knowledge					0.80	0.81
Access to links with major hospitality suppliers					0.75	0.83
Partner ability to negotiate with govt. and others					0.80	0.78
Eigenvalue	2.34	4.91	3.72	3.89	2.67	
% of total variance						
Cumulative % of variance	70.23	73.59	80.91	78.56	70.29	
KMO	0.904					
Bartlett test	$\chi^2=1046:693(p-0:000)$					

Summarising the findings above we may say that the set of experience in technological application, performance compatibility, access to local regulatory knowledge, partner firm size, and access to links with major hospitality suppliers may constitute the most important strategic alliance practices in the Indian tour operator industry. In light of these results we may accept H1, supporting that

there is a set of strategic alliance practices in the Indian tour operator industry that is of most importance. These results may be similar with the findings of Geringer (1991) with respect to compatibility among partners in terms of technological application, performance, local regulatory knowledge, firm size, and links with major hospitality suppliers.

TABLE 3. Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
TF	6.30	2.90	1.00										
MF	5.37	0.90	0.87*	1.00									
LOF	5.80	0.34	0.84*	0.26	1.00								
CF	6.82	0.94	0.96*	0.23	0.22	1.00							
TPF	2.86	0.70	0.56*	0.26	0.28	0.32	1.00						
TSAP	3.70	0.32	0.70	0.41	0.21	0.31	0.33	1.00					
Ages(years)	3.50	0.70	0.74*	0.63	0.27	-0.25	0.31	-0.43	1.00				
Number of Employees	3.40	0.13	0.82	0.78	0.22	0.34	0.53	-0.22	0.42	1.00			
Capital	5.90	0.34	0.46	0.53	0.24	0.26	0.34	0.33	0.41	0.45	1.00		
Type	2.61	0.95	0.53	0.40	0.36	0.49	0.43	0.38	0.30	0.48	0.32	1.00	
location	2.24	0.75	0.52*	0.41	0.33	0.35	0.33	0.47	0.34	0.52	0.41	0.32	1.00

***p , .001 (2-tailed); **p , .01 (2-tailed); *p , .05 (2-tailed)

Table 3 provides the correlation between the dependent variable of perceived strategic alliance practices and the independent variables of specific firm's factors which are positive, ranging from -0.25 to +0.96 and significant. Consistent with prior work, this result provides preliminary support for the first hypothesis. The magnitude of the correlations is generally small to moderate, however, potentially pointing out the difference about the substantive importance of some strategic alliance practices over others. This result also provides initial support for the second hypothesis.

Correlation coefficients among the different strategic alliance practices, their impact on the firm, the obstacles faced, are presented in the table 4. It is noted that cost

reduction and quality improvement are not related significantly with the degree of easiness in strategic alliance practices implementation. The degree of easiness in technological expertise is positively and significantly related to value addition impacts. The negative correlation between marketing systems & status and high cost obstacles, confirms that this practice limit high cost factors as obstacles. Relating to hypothesis 3, we found that there is no relationship between strategic alliance practices and cost reduction and quality improvement and there is a positive relationship between strategic alliance practices and value addition aspect. Further, there is a negative correlation between local operation expertise variables of strategic alliance practices and high cost obstacle.

TABLE 4. Correlation coefficients among strategic alliance practices, their obstacles and their impact of different firm aspects

<i>Strategic alliance practices</i>	<i>Obstacles</i>				<i>Impacts on firm aspects</i>			
	<i>High cost</i>	<i>Personnel shortage</i>	<i>Technological immaturity</i>	<i>Firm Size</i>	<i>Cost reduction</i>	<i>Value addition</i>	<i>Time scheduling</i>	<i>Quality improvement</i>
Technological Factor	.232***	.060	.043	.075	-.048	.270**	.120	-.020
Marketing Factor	-.149	.177*	.170	.095	.260**	.250**	.240**	.027
Local Operation Factor	-.207**	.128	.201*	.131	-.205***	-.095	-.003	.011
Competitive Factor	-.029	.039	.196*	.224***	-.001	.125	-.096	-.033
Tour product Factor	.150	.048	.135	.215**	-.084	.059	-.036	-.028

Significance at level * $p < (0,1)$, ** $p < (0,05)$, *** $p < (0,01)$

CONCLUSION AND RECOMMENDATION

The findings of this research could aide tourism industry managers in making strategic alliances. All five aspects of strategic alliance practices score highly, thus demonstrating that cooperating with tour operators is an effective practice for the tourism industry. The major finding with respect to the first objective may be summarised as follows: there is a set of strategic alliance practices that is constituted from “experience in technological application”, “access to technology”, “potentiality for new technological development”, “performance compatibility”, “access to distribution channels”, “past reputation”, “volume of sales”, “partner firm size”, “ability to add value”, “ability to offer competitive product or service”, “access to links with major hospitality suppliers”, and “access to

materials/natural resources”. This result is important considering that there exists an unlimited range of alternative partner selection criteria and that research till now had only a limited success in identifying the most important partner selection criteria (Geringer, 1991).

The major finding with respect to the second objective may be summarised as follows: strategic alliance practices are positively related with firm specific factors. It would appear, therefore, that the effects of type, age, number of employee and capital substantially moderate the actions of tour operator. No doubt, nationality is the dominant influence on the deployment of strategic alliance practices in tour operation industry. However, the evidence here would suggest that the diffusion of strategic alliance practices is heavily influenced by firm specific factors that play a significant role in shaping organizational responses and, in turn, the adoption of strategic alliance practices.

The results confirm that strategic alliance practices have great impact on different firm's aspects, especially on cost reduction and quality improvement. The most crucial obstacle facing the extensive implementation of strategic alliance is high cost.

Future research should consider incorporating other important items that have not been considered or omitted from other studies and are likely to influence the adoption of strategic alliance practices in Indian tour operation industry such as management support, employee's satisfaction and attitudes, quality of information perceived, operational needs, perceived benefits and problems in implementation and the cross-comparison.

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