Etihad’s Jet Air Investment: The Great Alliance Game

By Henrich Greve

Jet Airways of India has increased its revenue and turned to positive profits this quarter. This is in part because of the troubles of competitor Kingfisher Airlines, but it is also helped by cost reductions, especially in fuel. The good news is very timely because Jet Airways is in talks to sell a 24% ownership stake to Etihad Airways, the United Arab Emirates airlines. Although Etihad is already likely to pay well for the strategic value of the Jet Airways investment, the profits will make the price even higher.

So what does Etihad want with an ownership stake in a large Indian airline? Etihad is known among passengers for its high service level and convenient routes linking Asia, Europe, and the USA through its hub in Abu Dhabi. In the industry it is known for its rapid expansion: it is only 10 years old and operates 63 aircraft, most of them widebody jets for long distance routes. It has also started to move from regular codeshare alliances to taking ownership stakes in alliance partners such as Air Berlin and Aer Lingus.

Alliances are a common strategy in the airline industry because they can connect carriers with route networks that complement each other, increasing the convenience and value for their passengers. As an airline executive you would always look for alliances to strengthen your product. The trick is to find partners who have a route network that does not compete with yours, and that connects you to places that you cannot reach on your own. But that also means that you should be willing to drop one alliance and replace it with another if you get a better opportunity, so airline alliances are not necessarily stable.

So do firms really drop alliances when a better opportunity comes along? I do not follow the airline industry, but along with colleagues Hitoshi Mitsuhashi and Joel Baum I recently published a **paper in*Organization Science*** on when liner shipping firms left their alliances. What did we find? Shipping firms managed their alliances with an eye to the quality of the match, where complementarity in markets was the key dimension. This is just as you would expect from a transportation industry. And they did not just leave bad matches: they also left good matches when they were able to spot a better opportunity. If you are an executive in a firm dependent on alliances, the implication is clear. Having a good match does not mean you have a stable alliance: it depends on whether your partner can find someone better than you.

Back to Etihad. Why would they invest in an alliance partner rather than just make a regular alliance? Well, if you think that the alliance is valuable but you think that the partner might fly off with some other firm when the opportunity presents itself, an investment is a way to cement the relation. It can also be a way to reassure the partner that you are not going to leave the alliance. In alliances between firms, the stakes are so high that promises are not enough: money on the table is the way to make a commitment. So, what Etihad is doing is expensive, but it is a

good strategy if the alliance is important enough. By the way, Etihad means “union.” I am sure they are telling that to their potential alliance partners.

Chowdhury,A. 2013. Jet Air Swings to Profit as Etihad Deal Draws Closer. Wall Street Journal, February 1 2013.

Greve, Henrich R., Hitoshi Mitsuhashi, and Joel A. C.Baum. 2013. “Greener pastures: Outside options and strategic alliancewithdrawal.” Organization Science 24(1):79-98.

Find article at
https://knowledge.insead.edu/entrepreneurship/etihads-jet-air-investment-great-alliance-game

About the author(s)

Henrich Greve is a Professor of Entrepreneurship at INSEAD and the Rudolf and Valeria Maag Chaired Professor in Entrepreneurship. He is also a co-author of **Network Advantage: How to Unlock Value from Your Alliances and Partnerships**. You can read his **blog** here.