

Collaboration for Competitive Advantage: The Changing World of Alliances and Partnerships

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THE SPREAD OF COLLABORATIVE PARTNERSHIPS has rapidly gained momentum on a worldwide scale over the past few years. In industrialized countries alliance growth rates are currently estimated at an average of approximately 30% per annum, a trend that looks set to increase further during the remaining part of the decade.²

Spurred on by increasing globalization, competitiveness, risk and uncertainty within the business environment, businesses as diverse as insurance, airlines and computers are recognizing the need to collaborate in order to compete.²⁻⁴ Industries typically associated with high capital expenditure requirements such as telecoms, aerospace and chemicals, are consolidating their position in the global market through strategic partnerships. Companies considering new market ventures or planning long-run research and development programmes are equally finding collaboration offers the opportunity to spread the risks of this form of investment. The list of organizations choosing to work together, and the motivation or reasoning behind them, is rapidly becoming inexhaustible.

Benefits can be significant. The pooling of resources and capabilities can generate synergistic growth between organizations, either in terms of developing a current product or service offering, or through the creation of an entirely new venture. Increased competitive power can help firms to leapfrog jointly over larger competitors, and generation of higher returns on investment levels can provide the means for further expansion into new market areas at relatively little cost. In an increasingly unpredictable and complex international arena, the flexibility and speed of entry associated with collaboration is opening up new

opportunities and possibilities which outright investment through merger or acquisition cannot offer.⁵

Collaboration can, however, have its drawbacks. History is strewn with the wrecks of failed partnerships left as a warning to the unwary. Many more struggle on without realizing their full potential, frequently to be ultimately bought out by one partner or the other. With almost 50% deemed as failures, collaborative partnerships are proving to be complex relationships which demand a particular level of expertise and management skill in order to navigate the relationship through the hazards associated with this form of behaviour.⁴ With this issue in mind, the one day conference on Collaboration for Competitive Advantage organized by the Strategic Planning Society with AMBA (the Association of MBAs) in February 1995 provided a highly relevant, timely and thought provoking debate, bringing together both recent research and practical experience on the issues surrounding alliance management.

Speakers at the conference were:

Preben Jensen, *Fisons Plc*
 Paul J. Joachim, *Anglian Water Authority*
 Malcolm Naylor, *Arthur Andersen and Co*
 James Ross, *Cable and Wireless Plc*
 Stephen Adler, *Horack Adler and Associates*
 Peter Melville, *Powergen Plc*
 Jody Chatterjee, *The Technology Partnership Plc*
 Graham Wylie, *Xaar Ltd*

The conference succeeded in covering a wide range of pertinent issues and perspectives on collaborative relationships. The key areas discussed included:

- Using collaboration as a strategic weapon



- Fitting expectations into reality
- Planning to avoid the pitfalls
- Observing the etiquette of the alliance
- Managing collaboration in the future

Using Collaboration as a Strategic Weapon

As the business environment becomes increasingly hostile, the strategy of the firm needs to be able to provide it with the means with which to defend its position and to tackle the opposition. In pursuing this objective the strategic alliance can prove to be a powerful tool if the objectives are clearly understood and if the design of the alliance is considered with care. This aspect of the alliance was well illustrated by Preben Jensen of Fisons Plc. With responsibility for the development of core marketing strategies and alliances worldwide within the organization, Jensen emphasized that, in the pharmaceutical industry, success is determined by the ability to deploy resources into business opportunities with high potential returns. The cost of R&D in identifying and developing these opportunities is, however, considerable, as is the risk involved as many products can take up to twelve years to develop and may be rejected at any stage in the development process. As product life cycles are continuously being shortened, and patent protection is reduced, the organization's strategy of developing a variety of focused collaborative partnerships is providing the company with the ability to invest in a wider variety of R and D projects, thus reducing the considerable costs and risks associated with this form of operation.

Fitting Expectations into Reality

Although the alliance can be a highly relevant and effective tool, there is a danger of overselling the concept. In the initial enthusiasm to join forces, alliances are often entered into without due consideration for the possible implications or the changes which may occur in both the internal and external environments. This area of debate was underlined by Paul Joachim, Head of Strategy for Anglian Water International. He drew upon the organization's attempt to use a collaborative venture with H and G of Glasgow to globalize its water purifying business. At the outset the partners appeared compatible, bringing together Anglian's purifying expertise with a key technology of H and G developed originally for the oil industry. However, a change in ownership of the partner organization resulted in a growing divergence of opinion between the two parties. With different industrial backgrounds, and with market requirements also

changing, the two partners found themselves increasingly working towards different strategic goals, the incompatibility of which eventually resulted in the breakdown of the relationship.

Planning to Avoid the Pitfalls

Many organizations enter into a partnership without giving sufficient thought to the structure of the alliance and the consequent tax implications this implies. As Malcolm Naylor of Arthur Andersen and Co emphasized, different alliance structures can impose different tax liabilities on the venture and upon the partners concerned. This can result in significant financial costs and may also encourage bad feeling between the partners concerned, where the particular structure adopted distributes costs asymmetrically. Advance planning in this respect is therefore important in order to reduce unnecessary or unanticipated tax burdens on the venture, and to allow the participants to make the most of the potential benefits the alliance option can offer.

Observing the Etiquette of the Alliance

Recognition of cultural differences, the balance of power and the importance of trust are all aspects associated with the etiquette of the alliance. These were underlined by James Ross, CEO of Cable and Wireless and keynote speaker at the conference. He emphasized that relationship building through recognition and acceptance of both corporate and national cultural differences can prove to be a key factor in ensuring the continued existence of the partnership and of its development. Companies can gain by learning from the differences between themselves and their partners, rather than stifling them with their own imposed approach. Even where the key objectives for the alliance differ between the participants, this does not have to prove problematic providing they are basically complementary. However, it is important to acknowledge that these objectives will diverge over time as the relationship develops and the ability to recognize when the partnership has outlived its usefulness can be a critical factor when using the alliance option.

In terms of balance of power, it should not be assumed that the real power and influence necessarily comes from the major shareholder. As Peter Melville of Powergen also emphasized, the smaller shareholder in some partnerships can often hold a vital key to the success of the venture. Recognition needs to be given to the fact that both partners regardless of differences in size, scope or position add value to the relationship. A level of flexibility and respect by both

participants should, therefore, be maintained throughout the life of the partnership.

Trust is a further element important in a collaborative partnership and can prove to be a deciding factor in its success or failure. Each partner must have realistic expectations and share these within the relationship. However, as James Ross underlined, awareness also needs to be maintained to guard against a predatory partner in order to avoid the possibility of the alliance turning into what may be described as a 'Trojan horse'.

Managing Collaboration in the Future

Looking ahead, Jody Chatterjee of The Technology Partnership emphasized that there is likely to be an increasing need for alliance partnerships in the future as firms continue to compete at a global level. He outlined the wide-ranging potential value and flexibility of selective, focused collaborative partnerships for; identifying new technologies, exploring new market opportunities, building market position, specialization, achieving cost leadership and even, where appropriate, for performing an orderly withdrawal from the market place. Stephen Adler of Horack Adler and Associates reinforced this point. Drawing upon statistical evidence he emphasized that, as alliance management becomes increasingly relevant in the future, this form of operation will become more diverse and more complex, both in the type of alliance networks that are being constructed, and the need to operate increasingly at international and multi-cultural levels. Management requirements will, therefore, also need to become more elaborate and perceptive and organizations must not only learn from their previous experiences but aim to develop a

system of integrating this learning into the organization in order to help handle future collaborative issues.

As a final illustration of the benefits that can emerge when all the key aspects associated with alliance management are addressed, Graham Wylie discussed the growth of his venture capital company, Xaar Ltd. This company faced issues requiring flexibility, trust and the handling of cultural differences in addition to size asymmetry in its partnerships with Zenica and IBM. Despite the significant complexity of the operation, the company managed to deal with these issues and succeeded, via the alliance, in bringing a new product onto the market and establishing its position in the marketplace.

Summary

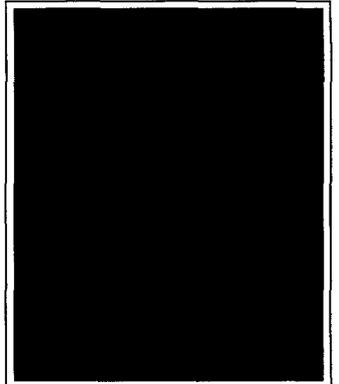
The conference clearly identified a wide range of practical issues associated with creating and managing a collaborative partnership. Successful alliances need to be developed as part of the overall strategy of the organization. They require initial identification of clear goals and objectives, significant attention to the choice and type of partner needed and to the implications of the formal structure to be adopted, in order to reduce potential difficulties and provide the greatest benefit to both participants. During the life time of the partnership, key skills associated with relationship building, trust and flexibility need to be developed and applied. If done well, the benefits can be significant, not simply in respect of the current operation, but also in terms of the learning that can be achieved and drawn upon in future collaborations. As collaboration becomes increasingly complex and relevant in all areas of business operation, this learning may prove to be the key to achieving competitive advantage in the future.

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- P. Jensen, Why Form Alliances
- P. Joachim, Beware How a New Market Purchases—a Case History!
- P. Melville, Experience of a Joint Venture Between a Large Company and Small Ones
- M. Naylor, What Form Should the Alliance Take?
- J. Ross, Keynote Address
- G. Wylie, After the Handshake



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