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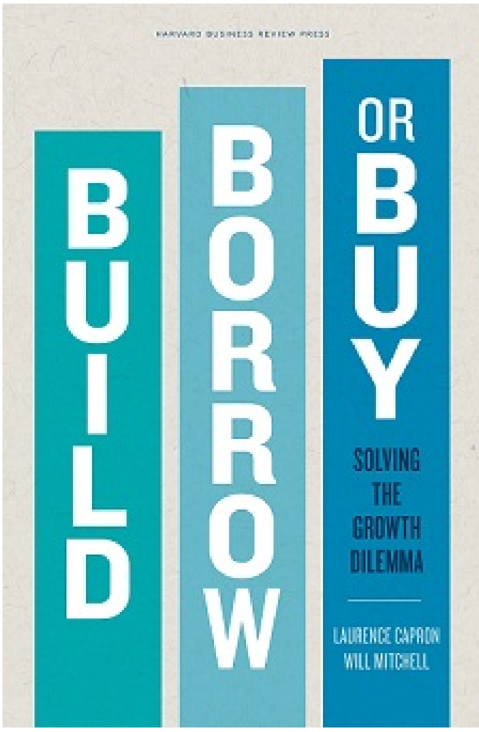
Corporate Growing Pains: Build, Borrow or Buy?

Doing the wrong thing really well in growing your business could lose you your competitive advantage. Here's how to avoid the "implementation trap".

There is plenty of strategic advice available to executives who want to grow their companies. They can squeeze more out of their existing internal resources and build organically. Or they can borrow resources from outside to supplement skills and knowledge from partners on a short-term basis. Alternatively, they can simply buy companies that provide expertise which they don't currently have. But how do you decide what is the best route?

Until now, there has been no definitive guide on how to select the most appropriate "pathways to growth" for a company to gain a competitive advantage. INSEAD Strategy Professor **Laurence Capron**, along with co-author Will Mitchell (Duke & Toronto University have written "Build, Borrow or Buy" (Harvard Business Review Press, 2012), based on more than fifteen years of research into how some companies succeed in developing powerful new business capability, while many others fail.



The biggest challenge, according to Professor Capron, is to make an accurate assessment of the gap between a company's existing resources and the targeted resources they need to grow. "Most of the time, companies tend to wrongly assess the gap and they will over-estimate what they have internally and they will not pay attention to resources that exist externally. So it leads them to focus on organic growth and to waste time internally instead of doing external sourcing from the very beginning of their growth process."

Avoid the implementation trap

That process also leads to falling into the implementation trap where the CEO will tend to revert to the default growth pathway and not explore other options. "It is very difficult to change your organisation. So once you have gained experience in one specific mode, for example mergers and acquisitions (M&A), all the organisation is going to be geared towards making acquisitions because you accumulate learning, processes, routines. So it's very hard to break the habits and the routines of an organisation."

For many companies, the dominant mode of growth is deeply embedded in the culture and structure of a company. "In some organisations you have very powerful merger and acquisitions teams and they will be very reluctant to consider an alliance, or you will have very entrenched R&D labs and they will be reluctant to go for external sources. If you take a company like Sanofi or Merck for example, what they have been doing in the past ten years was really to try to fight against this strong internal culture, their inward focus, and to go outside and to multiply their alliances and their licensing agreements and also make some acquisitions."

The alliance of science

Apple is a good example of a company that has overcome a very strong internal culture of innovation and R&D to embrace other pathways to growth. "Apple has been able to overcome its very strong culture of internal innovation to learn to make alliances; to build a global ecosystem of technological partners and also to make a few acquisitions to get the technology they couldn't develop internally, at least in a timely manner."

By contrast, Research In Motion (RIM) have been stuck for a very long time on the internal track hoping that their R&D will be able to make the Blackberry more like a Smartphone. "It's only recently that they have started to make acquisitions and to build a stronger ecosystem - making alliances to get the capability that they would need to be successful in the consumer market."

Capron argues that RIM, like many other companies, lost competitive advantage by underestimating the importance of making a well-considered decision about the right pathways to growth: whether to build borrow or buy. "A form of myopia prevents companies from seeing that their existing core resources are unequal to the competitive demands of the moment."

A multi-faceted approach

She argues for a long-term multi-faceted approach rather than being a "one-trick pony". "Over-reliance on acquisitions drains key resources, demotivates teams and fragments the organisation. Too much emphasis on growth can make your organisation so cohesive that it becomes inert. Too much reliance on growth via contracts and alliances makes you vulnerable to partner's actions and conflicts of interest."

But do most companies adopt a multi-track approach? According to the research that Capron and Mitchell carried out in the telecommunication industry, only one third actively used more than two methods of obtaining new resources. About 40 percent relied heavily on just one pathway – and when those companies did add another pathway it tended to be "Buy" to complement the "Build" of internal development.

Capron makes a case that "Borrowing" or creating alliances or partnerships should be used more often in the mix. "Don't dismiss the value of alliances and licensing agreements, it's a way to learn in a much more flexible way from multiple partners and alliances. When well-executed they can be a very powerful way to explore a new environment." Many companies moving in to Russia and China, for example, take a staged approach - moving from a loose alliance in the early stages then towards a full acquisition as the picture of the market and resources becomes clearer.

She acknowledges that one of the main challenges is "that many executives tend to be paranoid and suspicious about alliances and many firms are afraid that they will lose their capabilities or the partner will go behind their back." But the reality is that many alliances have a limited and often temporary lifecycle. "Some alliances of course can last for decades but you should look at an alliance as part of a lifecycle like a product lifecycle." The recent Apple decision to replace the popular Google Maps app with their own (less effective) mapping service was part of a long-term strategic plan. "Apple had anticipated that the mapping service will be strategically important for them, so what they have done - in parallel - is to build up their own competencies so that over time they will no longer be dependent on Google and able to control that part of their product which is very important."

Doing the wrong thing really well

On the M&A course she teaches in the Executive Education programme portfolio at INSEAD, Capron surprises her students by urging them to consider that acquisitions may not always be the right answer. “Many companies’ executives tend to regard acquisitions as the only strategy of the firm instead of just a tool by which they can deliver their strategy.

Most of the executives and firms are poorly equipped when it comes to making acquisition choices and understanding how to integrate with companies.”

It seems that many companies fall into the implementation trap of believing their success depends on working hard to implement their chosen default mode. As her co-author, Will Mitchell, said: “You can royally mess yourself up by trying to do the wrong thing really well.” To ensure that doesn’t happen, leadership has to come from the top according to Professor Capron. “The CEO needs to have the discipline and also maybe the intellectual foresight to consider all the modes and also to put them on equal footing.”

“If your company fails to understand what resources it needs to compete in the future, it makes little difference what pathway you take to obtain them. Your first step should be to use the company’s strategic planning process to identify key resource gaps.”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