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Forming Corporate Alliances That Get Results

Four principles that describe how well-chosen and well-managed alliances boost financial performance.

A well-managed portfolio of corporate alliances can create unique pathways to competitive advantage. However, failure rates remain high – in **a recent study**, around 80 percent of companies reported that the vast majority of strategic partnerships fail. The advice you usually hear regarding alliances is often quite general, if not painfully obvious: Have a clear process in place, know what you want to achieve, etc.

By contrast, recent years have seen a proliferation of academic studies yielding highly relevant insights about how to exploit the performance-enhancing opportunities afforded by alliances. We compile some highlights from this impressive body of knowledge in a recent **virtual special issue of *Strategic Management Journal***. Four principles emerged from our survey of the latest research.

A strategy for start-ups

1. When a firm lacks any experience, i.e. a start-up, it needs to build a vast and diverse alliance portfolio, but the weight of the evidence disfavours partnering with potential rivals.

A 2000 article in the ***Strategic Management Journal*** analysed the alliance portfolios of 142 Canadian biotech start-ups alongside the firms' early performance data (revenue, R&D spending growth, number of patents issued, etc.). Start-ups with a larger number of upstream and downstream partnerships generally performed better, with nearly all types of partnerships presenting at least potential benefit. However, relationships with industry associations, presumably formed to compensate for underdeveloped personal networks, were a significant drag on performance. As you might expect, the highest performers had worked out efficient ways of managing their sizeable networks, minimizing redundancy, conflict and complexity.

Start-ups that forged collaborations with potential rivals at launch were on thin ice, the researchers found. On the whole, their performance suffered; the authors theorise that the putative allies in these cases were actually working against one another to the detriment of both. However, when the two partners differed greatly in the scope of their market activities, the firm with more diverse activities was able to profit from the more focused firm's specialised knowledge.

Established firms

2. More experienced firms, research suggests, should also think twice about working with their own direct competitors. But partnering

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with multiple firms that compete *among one another*, rather than with your firm, can improve performance.

A 2007 article in the ***Strategic Management Journal*** tracked the evolution of alliance portfolios for 367 U.S. software companies from 1990 to 2001 against the companies' performance during the same years. The results point out a disparity between joint value creation and value appropriation within corporate alliances. In other words, a power imbalance between two allied firms may result in the more influential of the pair walking away with most of the benefits generated by the alliance. The article describes how a company can "reduce its dependence on any given partner by forming alliances with that partner's competitors". It cites the hypothetical example of video game developers who, in order to weaken the bargaining position of a platform provider with whom they do business, also ink deals with said provider's rivals.

Matching portfolio to strategy

3. Whether your optimal partner pool would be diverse (i.e. largely disconnected from one another) or homogenous (i.e. playing mostly in the same space) may depend on your firm's strategy.

A 2006 study in ***The Academy of Management Journal*** found that established investment banks improved performance when they matched their alliance portfolio to their corporate strategy. That is, diversified investment banks benefited from collaborating with a diverse set of partners.

Based on an analysis of syndicates formed by Canadian investment banks for the purpose of underwriting public offerings, the article concludes that both highly diversified and highly specialized banks performed well, while those in the middle lagged behind – and that this pattern would also hold true in other business sectors where valuable information is shared among discrete, largely non-communicating groups. In these networks, specialists, those with insider knowledge, and generalists, those enjoying the widest variety of business opportunities, are in the best position to cement mutually beneficial alliances (in the case of Canadian investment banks, alliances take the form of syndicated deals). Everyone in between is left out in the cold.

Exploration vs. exploitation

4. In order to extract the maximum possible value, firms should view corporate alliances in light of all the other strategic vehicles at their disposal.

A 2014 article in the ***Strategic Management Journal*** examined how U.S. software firms balanced exploration (developing or discovering new knowledge) and exploitation (refining and implementing acquired knowledge). This balancing act is called "ambidexterity" in management research. It is nearly impossible to employ both mind-sets simultaneously and at equal strength. Any such balance can be achieved only through trade-off, which can be difficult to accomplish and costly if not done well. To make it easier, most researchers recommend separating the two somehow – the gap could be temporal, organisational, or accomplished by using specific alliances to either exploit or explore.

Researchers found that ambidexterity worked best when firms explored via externally oriented modes such as acquisitions and alliances, while exploiting via internal organisation modes. Exploration is best pursued, they argue, under the conditions of flexibility and openness that alliances force on firms. Conversely, exploitation is more likely to be effective when firms can fully apply their past experience and core competencies to given tasks. Therefore, companies should minimise resistance between strategic mode and mind-set, rather than pursuing ambidexterity in ad hoc combinations.

The alliance portfolio

The above principles point to the value to be derived from considering individual alliances in terms of where they fit in the overall "alliance portfolio" as well as the grand strategic scheme. They reinforce one of the core ideas from the book ***Network Advantage: How to Unlock Value From Your Alliances and Partnerships***: "Success comes to firms that actively manage their alliance portfolios." Companies can indeed achieve competitive advantage from collaboration when they proactively take the learning and resources acquired from one alliance and find value creation opportunities with the resulting ideas or resource combinations in another alliance.

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