## Alliances and Partnerships

## Module 3

## Learning Summary

This module has established alliances and partnerships in the context of strategic focus. The module has considered some of the primary strategic alliance drivers, and has outlined the underlying philosophy behind the strategic rationale. The module has stressed that the strategic rationale is only one of a series of underlying rationales behind alliances and partnerships. The module has discussed the concept of strategic focus, and has established the importance and relevance of strategic focus in the formation and exploitation of alliances and partnerships. The module has also introduced the idea of strategic drift. It has stressed the significance of strategic shift in alliances and partnerships, and has established the importance of internal and external strategic drift monitoring.

The candidate should now understand:

* the concept of strategic alliance drivers;
* some of the primary types of strategic alliance driver;
* the underlying philosophy behind the strategic rationale;
* the concept of strategic focus;
* the importance of strategic focus in alliances and partnerships;
* the concept of strategic change;
* the concept of strategic drift;
* the basics of internal and external drift monitoring.

The following section briefly summarises the primary learning outcomes from each section included in this module.

#### Some Common Questions about Strategic Focus and Strategic Drift

* Strategic focus is concerned with how a company focuses on its core strategy.
* Companies with a high degree of strategic focus identify their desired focus, establish strategic plans that will achieve this focus, and then implement these plans to move towards the desired focus.
* Companies often fail to achieve some or all of their strategic objectives. This failure might be due to poor strategic planning or to poor objective evaluation. It could also be the result of strategic drift.
* Strategic drift is the tendency for companies to drift off the course set to achieve their strategic objectives.
* Strategic fit is a measure of how well two companies fit together in a strategic sense. It is most often used in the analysis of mergers and acquisitions, but it is also widely considered in the formation of alliances and partnerships.
* The literature suggests a clear and definite functional relationship between strategic focus and long-term organisational success.
* In the most general terms, the more a company can focus strategically, the greater that company’s likelihood of achieving long-term success.
* Strategic focus is important because it represents one possible strategic success format for an organisation.
* There is considerable evidence to suggest that companies are moving more and more towards strategically focused operations.
* Companies need to consider a wide range of variables when considering entering into an alliance or partnership. There is no single set of factors for consideration, as these depend on the characteristics of each individual case.
* In the simplest sense, there is no direct relationship between mergers and acquisitions and alliances and partnerships. More detailed consideration, however, may suggest subtle but important links.

#### Some Common Misconceptions about Strategic Focus and Strategic Drift

* Alliances and partnerships are often strategically focused, but there is no requirement that they have to be so aligned.
* There are plenty of examples of large-scale alliances that did not work out as one or more parties to the alliance intended.
* Some companies are very good at formulating strategic plans and are very adept at implementing them. In some cases, these same companies are also lucky in that there are no major external changes or change impacts that occur during the course of the implementation of the plans.
* All strategies are subject to some degree of strategic drift. The dynamic nature of the market means that any strategic objective is to some extent compromised as soon as it is established.
* Strategic drift can be a good thing. It forces strategic planners to rethink their original ideas and perceptions. Above all it can act as a powerful driver for innovation and constructive change.
* Alliances are dynamic. They change over time as the partners change and as the external environment changes.

#### Strategic Alliance Drivers

* Companies enter into alliances and partnerships for a multitude of reasons. The literature suggests that these drivers can be considered under six main headings. These are:
  + strategic drivers;
  + speculative drivers;
  + management failure drivers;
  + financial necessity drivers;
  + political drivers;
  + evolutionary drivers.
* The literature suggests a number of underlying assumptions behind strategic alliances and partnerships. Some of these are listed below.
  + If a company forms an alliance or partnership with another company and the alliance contributes towards the core business activities of both companies, the alliance or partnership has a higher likelihood of long-term success.
  + Alliances and partnerships that are within or related to the experience of both companies have a higher likelihood of long-term success.
  + Alliances formed under the strategic rationale should be flexible and ready for change.
  + Companies that form strategic rationale alliances should ideally remain as members as long as the alliance holds.
  + Companies that form strategic alliances and partnerships should ideally have a common set of strategic objectives.
  + A lot depends on how far the other partner is prepared to go.
  + The equity joint venture company (if there is one) has to be able to compete and survive in its own right.
  + Non-related alliances and partnerships cannot be used to distribute market risk.
  + If a company uses funds generated by its mature activities to form alliances with new companies operating under growth conditions, the prospects for long-term revenues are increased.
  + A lot depends on the people in charge.
  + Individuality, flexibility and speed of response may be compromised.
  + In some cases a lot can depend on the regulatory bodies.
* Alliances and partnerships are an increasingly common option for companies when attempting to implement strategies.
* The literature suggests that a significant proportion of the value created in many sectors and industries is generated as a direct result of alliances and partnerships.
* The failure rate in alliances is difficult to ascertain, as few alliances and partnerships have established success criteria at the outset.
* The literature suggests a number of basic considerations in the context of attracting shareholders through alliances and partnerships. These are listed below.
  + Who is in charge?
  + What type of alliance or partnership will attract shareholders?
  + What level of capital investment is involved?
  + What is the form of the capital investment?
  + What benefits or advantages will the alliance provide?
  + How likely is it that these benefits or advantages will actually occur?
  + What are the major risks involved?
  + Are the potential benefits worth these risks?
  + Can these risks be contained?
  + Can the company survive the worst-case scenario?
  + How should the alliance or partnership be conducted?
  + How should the alliance or partnership be timed?
  + What is the underlying strategic rationale?
  + Is there any regulator involvement?
* The alliances and partnerships with the greatest likelihood of success appear to be those that offer increased:
  + strategic focus;
  + innovation and product development ability;
  + ability and readiness to change;
  + resistance to environmental change;
  + shareholder value;
  + shareholder confidence and attraction;
  + stakeholder confidence and attraction;
  + market risk diffusion;
  + implementation variance envelope contingency;
  + product quality;
  + enterprise-wide risk management controls;
  + supplier confidence;
  + brand image;
  + flexibility and responsiveness;
  + customer service;
  + employee motivation and commitment;
  + competitiveness in the sector concerned;
  + competitiveness in the economy as a whole.
* To justify a strategic alliance or partnership the companies concerned must ensure that the alliance or partnership represents the use of capital that best promotes the strategic objectives of the company.
* There is strong evidence in the literature to suggest that numerous large-scale alliances in recent years, although listed as ‘strategic’, have in fact been carried out more on the basis of financial necessity.
* Unrelated diversification as a concept is much less popular now than it was in the 1960s and 1970s.
* The concept of the conglomerate still exists today. Most companies look for a degree of strategic fit when considering alliances and partnerships.
* The idea of strategic fit is that it allows the partner companies to develop a value and potential of the whole that is greater than the sum of the value and potential of the components by concentrating on the core business activities of both companies (which should be compatible).
* Unrelated diversification occurs where two companies merge or form an alliance or partnership where one company acquires another under conditions where there are:
  + no obvious strategic fit characteristics;
  + no common core business skills;
  + no common key performance indicators;
  + no common critical success factors;
  + no single unified customer base;
  + no single unifying set of strategic objectives;
  + no underlying strategy implementation approach;
  + no single philosophy for making strategies work;
  + no common denominators between the acquirer and the target’s specialisation;
  + no common denominator value chain relationships;
  + no obvious contribution to brand;
  + no general or combined strategic approaches;
  + no unifying strategic themes.
* The underlying objective of unrelated diversification is to move into any sector where there is a reasonable chance of making an acceptable return on the investment made.
* In most cases the acquirer will ask a number of specific questions about the target. These may include the following examples.
  + Does the acquisition offer a reasonable return on the investment?
  + What is the risk profile of the company concerned?
  + What are the trading characteristics of the industry or sector concerned?
  + Will the target offer skills that can be transferred?
  + Will the target require a significant input of capital?
  + What is the growth potential of the target?
  + What is the growth potential of the relevant industry or sector?
  + What is the size of the target (can it make a reasonable contribution)?
  + What is the risk profile of the industry or sector?
  + Will regulation limit the potential for expansion?
* Unrelated diversification offers a number of attractive business considerations. These include the following.
  + Market risk is diversified across a range of sectors or industries.
  + Multidisciplinary management expertise can be developed.
  + Capital can be distributed according to the potential for growth and return.
  + Revenue protection may be encouraged by distributing revenue sources.
  + Value can be added where targets are chosen wisely.
  + Growth opportunities can be more readily identified.
  + Growth opportunities can be exploited more quickly as the conglomerate may have a foothold in the appropriate market.
  + The conglomeration of a range of specialisations can stimulate synergies.
* There are also some obvious disadvantages that occur in the case of unrelated diversifications. In general terms, as the degree of diversification increases the more difficult it becomes to:
  + manage the entire conglomerate;
  + identify high-risk drivers as and when they arise;
  + track each operation and anticipate problems;
  + align conglomerate and diversified company strategic plans;
  + reconcile multidisciplinary, multi-objective strategic plans;
  + form a single unified group-wide image;
  + generate conglomerate-wide synergies;
  + be able to handle a crisis in a diversified company;
  + form a single unified and flexible workforce;
  + standardise reward and motivation structures across the group;
  + select a sufficient range of management teams;
  + allow for unforeseen and cascade risk;
  + evaluate the relative performance of the individual business units.

#### The Concept of Strategic Focus

* Strategic focus is essentially the concentration of attention around the core competences of an organisation.
* Companies can either form alliances or partnerships to complement and strengthen their degree of strategic focus, or they can choose to weaken their degree of strategic focus by making less clearly related alliances and partnerships.
* In developing a strategic focus for the organisation, the top managers have to go through a number of phases. These vary depending on the application, but basically the process involved is as follows.
  + Stage 1. Identify the area in which to focus.
  + Stage 2. Strategic planning.
  + Stage 3. Strategic change.
* New alliances, divestitures or outsourcing should be treated as projects, in that they exhibit the following general characteristics.
  + They have specific start and finish times.
  + They are concerned with operations that are not core to the business.
  + They have cost limits or objectives.
  + They are relatively short in terms of the lifecycle of the company.
  + They are relatively complex.
  + They are characterised by a high degree of change.
  + They have multiple objectives.
* In fact, many alliances and partnerships are often not treated as projects and are inappropriately managed, sometimes with unfortunate consequences.
* Alliances that are badly planned, for example, may produce an end alliance that is incorrectly aligned with the strategic objectives of the two member companies.
* Strategic change should also be regarded as a *cascade* function.
* A number of important issues arise in the management of change. These are listed below.
  + It is important that all levels of the organisation understand both the need for change and how the change is to be carried out.
  + Strategic objectives have to be broken down and translated into terms that are understandable at the operational level.
  + The system should be engineered so that the objectives of the functional sections and also the objectives of the individual (where possible) are aligned to the strategic objectives of the organisation.
  + Aims, objectives and goals should be clearly stated and widely disseminated.
  + Functional and individual targets should be a translation of the appropriate sections of the organisation’s strategic objectives.
  + Organisational change should be managed through the use of project management and related tools and techniques.

#### Strategic Change and Strategic Drift

* Alliances and partnerships are carried out as part of the implementation of a strategy. The concept of strategy implies long-term evolution.
* A strategy is basically a set of strategic objectives with a strategic plan that acts as a map towards the achievement of those objectives.
* The objectives themselves may or may not be correct in terms of what the company actually requires in order to achieve the defined strategic outcomes. Alternatively, the implementation process could be subject to unexpected change after it has started, with the result that it is thrown off course. Objectives becoming obsolete and implementation divergences are examples of unexpected change.
* Once the strategy is set, there are numerous sources of change that can affect its successful outcome. Some possible examples are listed below.
  + The strategy could have been incorrectly planned.
  + The original objectives may have been incorrectly assessed.
  + The original objectives may now have changed.
  + Unforeseen events may impact on the implementation of the strategy.
  + New strategies may have evolved.
* The concept of strategic drift has a number of obvious implications for alliances and partnerships.
* The decision on whether or not to go ahead with an alliance or partnership is based on a combination of current conditions and perceived future conditions or scenarios.
* Defining strategic drift is relatively easy, but managing this risk takes a significant effort by the organisation. It can be particularly difficult to detect at an early stage as the actions of managers, within the existing norms of the organisation, may result in minor improvements, legitimising their approach.
* The control of strategic drift depends on early detection and on having resources in place to deal with it at the earliest possible stage. The longer strategic drift is allowed to continue, the more difficult it becomes to correct.
* In dealing with strategic drift, organisations should design and implement a reliable and effective monitoring and control system.
* The control process also depends on the characteristics of the organisation, as some organisations are more susceptible to strategic drift than others.
* There do appear to be some general characteristics of organisations that are particularly prone to strategic drift. Some examples are listed below.
  + The organisation operates in a sector or industry that is characterised by rapid, significant and frequent change.
  + The organisation depends on maintaining a high degree of innovation.
  + The organisation is relatively small and/or new and lacks experience of strategic plan design and implementation.
  + The senior managers tend to think in tactical (responsive) rather than strategic (proactive) terms.
  + The organisation fails to commit wholly to whatever change is required. Instead it commits in stages and carries out an incremental transformation.
  + The organisation has a strong authority culture in which open debate and challenge against the current norms are not encouraged.
  + The organisation is highly bureaucratic and strongly function oriented.
  + Existing power and authority structures have developed around particular managers. These managers then attempt to resist the change because they perceive that the change conflicts with their own aspirations and objectives.
  + Formal and informal communication systems are poorly developed.
  + Warning signs, such as high levels of internal conflict and poor overall performance relative to competitors, are ignored.
  + The organisation has a poor record on alliances and partnerships and/or mergers and acquisitions.
* Internal drift monitoring is concerned with the evaluation of drift in terms of internal measures.
* The five main steps in internal drift monitoring are:
  + phased strategic review;
  + analysis of critical success factors;
  + analysis of critical business activities;
  + analysis of key performance indicators;
  + supporting issues.
* The successful implementation of the strategy is also dependent on external influences. Numerous external factors can drive strategic drift. These external influences can take many forms and can have a considerable impact. Some obvious examples are changes in:
  + customer demand;
  + competitor behaviour;
  + interest rates;
  + exchange rates,
  + innovation and new technologies;
  + statutory regulation.
* In general terms it is possible to say that many key external influences are:
  + outside the control of the organisation;
  + potentially large impact;
  + potentially complex;
  + potentially related to a series of CSFs;
  + interdependent with internal drift drivers.



