Alliances and Partnerships

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Contents

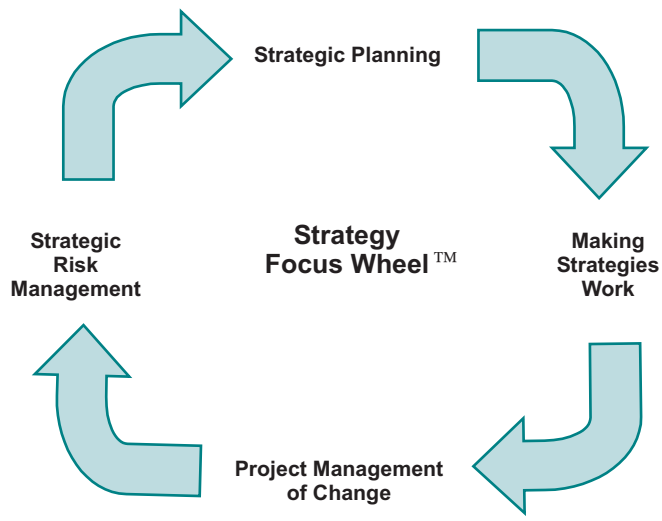
Preface			7
List of Abbreviations			11
Module 1	**Introduction**		1/1
	1.1	Introduction	1/2
	1.2	The Concept of Alliances And Partnerships	1/6
	1.3	Alliance and Partnership Drivers	1/12
	1.4	Two Views on Alliances and Partnerships	1/17
	1.5	Evaluating Alliances and Partnerships	1/26
Module 2	**The Value Chain and Alliance and Partnership Types**		2/1
	2.1	Introduction	2/2
	2.2	Some Common Questions about Alliances and Partnerships	2/3
	2.3	Some Common Misconceptions about Alliances and Partnerships	2/7
	2.4	The Value Chain	2/12
	2.5	Types of Alliance and Partnership	2/25
	2.6	Alliance Networks and Hubs	2/32
	2.7	National and International Regulation	2/38
Module 3	**Strategic Focus and Strategic Drift**		3/1
	3.1	Introduction	3/2
	3.2	Some Common Questions about Strategic Focus and Strategic Drift	3/3
	3.3	Some Common Misconceptions about Strategic Focus and Strategic Drift	3/8
	3.4	Strategic Alliance Drivers	3/12
	3.5	The Concept of Strategic Focus	3/26
	3.6	Strategic Change and Strategic Drift	3/36
Module 4	**Risk in Strategic Alliances**		4/1
	4.1	Introduction	4/2
	4.2	Some Common Questions about Risk in Alliances and Partnerships	4/3
	4.3	Some Common Misconceptions about Risk in Alliances and Partnerships	4/7
	4.4	The Concept of Risk	4/10
	4.5	The Concept of Risk Management	4/28
	4.6	Risk in Strategic Alliances	4/33
Module 5	**Partner Selection**		5/1
	5.1	Introduction	5/2
	5.2	Some Common Questions about Alliance Partner Selection	5/3
	5.3	Some Common Misconceptions about Alliance Partner Selection	5/8
	5.4	Partner Issues	5/12
	5.5	Opportunity Partners	5/18
	5.6	Due Diligence	5/26

	5.7	Payback Period	5/33
	5.8	Reliability	5/39
Module 6	**Forming the Alliance or Partnership**		6/1
	6.1	Introduction	6/2
	6.2	Some Common Questions about Alliance Formation	6/4
	6.3	Some Common Misconceptions about Alliance Formation	6/8
	6.4	Obstacles to Alliance Formation	6/12
	6.5	The Process of Alliance Formation	6/24
	6.6	Organisational Structure Issues	6/30
	6.7	Contractual Issues	6/38
Module 7	**Making Alliances and Partnerships Work**		7/1
	7.1	Introduction	7/2
	7.2	Some Common Questions about Alliance Success and Failure	7/3
	7.3	Some Common Misconceptions about Alliance Success and Failure	7/7
	7.4	Getting the Rationale Right	7/10
	7.5	The Human Element	7/16
	7.6	The Technological Element	7/24
	7.7	Self-Protection	7/29
	7.8	Planning and Executing the Alliance	7/35
Appendix 1	**Answers to Review Questions**		A1/1
Appendix 2	**Practice Final Examinations**		A2/1

Preface

This text forms an elective in the suite of electives that complement the six core courses of the Edinburgh Business School (EBS) Doctorate in Business Administration (DBA) in Strategic Focus programme. The EBS DBA programme is based around six core courses and at least five electives.

The EBS DBA in Strategic Focus was developed by Professor Alex Roberts in 2000. The core of the CSDI approach lies in the *Strategic Focus Wheel*™ as developed by Professor Roberts. The Strategic Focus Wheel comprises four subjects as shown below.



The Strategic Focus Wheel™

A. Roberts and A. MacLennan

The wheel is used to focus the efforts and resources of organisations on delivering their intended strategic objectives, and has four core elements.

Strategic Planning revolves around identifying the options available to an organisation and selecting the most appropriate. If the strategic option selected is poor or inappropriate, even the best implementation capability is unlikely to compensate.

Making Strategies Work is a process for connecting the high-level strategic plan to the day-to-day activities critical to its delivery.

Project Management of Change ensures completeness and control over the physical realisation of the chosen strategy. Project management provides a comprehensive set of tools and techniques that enable managers to plan and implement change effectively and increase the likelihood of achieving the various objectives of the change process.

Strategic Risk Management concerns the identification, monitoring and management of the risk profile of the organisation. Strategic Risk Management covers four primary risk areas or levels. These are strategic risk, change or project risk, operational risk and unforeseeable risk.

The Strategic Focus Wheel is based on the concept that strategies have to be made to work. It is one thing to develop a detailed strategy but it is quite another to implement that strategy and make it work. Strategy implementation is a highly complex process involving a large number of potentially disruptive influences from inside and outside the organisation. The Strategic Focus Wheel requires the use of reliable tools in order to improve the likelihood of successful implementation. These tools are project management and strategic risk management. They effectively act as enablers for making strategies work.

The EBS *Making Strategies Work* course examines issues and processes for connecting the high-level strategic plan to the day-to-day activities critical to its delivery. The EBS *Making Strategies Work* course is core in the DBA programme and an elective in the MBA programme.

The EBS *Project Management* (of change) course examines issues related to the achievement and completion of the chosen strategy. Project management as a discipline underpins virtually all aspects of strategic focus and therefore is core in the DBA programme and core in the MBA programme.

Strategic Risk Management examines issues related to identifying, monitoring and managing the risk profile of the organisation. Major changes in the risk profile can result in a need to revise or change these elements. The course is core in the DBA programme and an elective in the MBA programme. Strategic Risk Management completes the group of subject-specific core courses.

Three research courses are run in conjunction with the four subject-specific core courses.

Introduction to Business Research 1: The Research Proposal acts as an introduction to business research and provides an understanding of how to develop a research proposal.

Introduction to Business Research 2: The Literature Review develops and builds on the material covered in the first research course. It provides the understanding required by the candidate to develop a full literature review.

Introduction to Business Research 3: The Research Method, Data Collection, Analysis and Results provides an understanding of how the candidate can develop and design a suitable research method, collect and analyse data, and generate results and conclusions. It also describes the process involved in writing up a doctoral thesis and presenting the work to a board of examiners.

The DBA programme centres on these four subject-specific courses and three research courses.

The electives complement these core texts by developing an understanding of a range of specific strategic issues. At the time of writing, the current list of available EBS DBA electives was as shown below.

- *Alliances and Partnerships.*
- *Mergers and Acquisitions.*

- *Competitive Advantage.*
- *Strategic Negotiation.*
- *Corporate Governance.*

A further range of electives were in production. The subjects were as listed below.

- *Leadership.*
- *Stakeholder Management.*
- *Management of Competences.*

The programme examines the disciplines as separate entities and also (more importantly) how they interrelate. It is necessary but not sufficient to develop a knowledge and understanding of each discipline in its own right. The true value of the DBA lies in its ability to provide an understanding of how the four disciplines work together and can be used together in the development and achievement of strategic focus. The value and power of this combination of interrelated disciplines can only be appreciated once a detailed knowledge and understanding of the strategic focus wheel has been formed. This outcome is the primary aim of the DBA programme.

The second purpose of the DBA is to produce applied business *research professionals* who can use their doctoral-level skills at senior executive level in a business environment. The term 'research professional' should be clearly understood. It could be said that a Doctor of Philosophy (PhD) programme produces a graduate who is a *professional researcher*. He or she has developed a detailed theory or hypothesis in order to evaluate a specific piece of theoretical research. The hypothesis, or theory, could be concerned with almost any area, from molecular structure to particle beam physics. In many cases, there may be no direct application of the hypothesis or theory. To gain a PhD degree it is necessary only to demonstrate an original contribution to the knowledge base. A large proportion of PhD graduates continue their research either in academia or in non-academic organisations such as private companies and the public sector. The EBS DBA programme, in contrast, aims to produce *research professionals*. EBS DBA graduates are typically professional managers who are also researchers. The majority of DBA graduates will go on to work in a non-academic environment, primarily as senior managers who will not only retain their doctoral research skills but will also use them in a *real* and *applied* capacity within their organisations.

List of Abbreviations

APM	Association for Project Management
AWRMS	alliance-wide risk management system
CA	cooperative agreement
CBA	critical business activity
CBAM	critical business activity measure
CIP	cultural integration plan
CIS	cultural integration survey
CJV	cooperative joint venture
CMS	configuration management system
CRP	company reliability profile
CSF	critical success factor
EJV	equity joint venture
EWRMS	enterprise-wide risk management system
FTC	Federal Trade Commission
IIBDLDP	International Internet-based distance learning degree programme
ISP	Internet service provider
JVC	joint venture company
KEI	key environmental indicator
KPI	key performance indicator
NEA	non-equity alliance
OFT	Office of Fair Trading
RCSP	risk-considered safe provision
RSPO	range of successful potential outcomes
SCC	strategic change campaign
SME	small or medium-size enterprise
SPG	special purpose group
SPP	strategic project plan
TOC	train operating company
UKR	undisclosed key risk
UNEA	unincorporated non-equity agreement
USPS	United States Postal Service
WAP	wireless application protocol
WBS	work breakdown structure

Module 1

Introduction

Contents

1.1	**Introduction**	1/2
1.1.1	The Process Model	1/2
1.1.2	Summary	1/5
1.2	**The Concept of Alliances And Partnerships**	1/6
1.2.1	Introduction	1/6
1.2.2	Alliances	1/7
1.2.3	Partnerships	1/7
1.2.4	Mergers and Acquisitions	1/9
1.2.5	Mergers and Acquisitions or Alliances and Partnerships?	1/10
1.2.6	Summary	1/11
1.3	**Alliance and Partnership Drivers**	1/12
1.3.1	Introduction	1/12
1.3.2	Driver Types	1/12
1.3.3	Summary	1/17
1.4	**Two Views on Alliances and Partnerships**	1/17
1.4.1	Introduction	1/17
1.4.2	The Resource-Based View	1/18
1.4.3	The Risk-Based View	1/21
1.4.4	Summary	1/25
1.5	**Evaluating Alliances and Partnerships**	1/26
1.5.1	Introduction	1/26
1.5.2	Some Performance Measures	1/26
1.5.3	Summary	1/31
Learning Summary		1/31
Review Questions		1/35

Learning Objectives

By the time the candidate has completed this module, he or she should understand:

- what an alliance is;
- what a partnership is;
- how alliances and partnerships differ from mergers and acquisitions;
- the basic choice options between alliances, partnerships, mergers and acquisitions;

- the basic alliance and partnership drivers;
- the concept of the resource-based view;
- the concept of the risk-based view;
- the basic alternative measures of success for alliances and partnerships;
- the underlying complexity of a range of interlinked success measures.

1.1 Introduction

This module is designed to provide a basic understanding of the concept of alliances and partnerships. It considers what alliances and partnerships are and how they may be considered as an alternative to mergers and acquisitions when companies are attempting to add value by combining their competences and resources with those of other companies. The module goes on to consider some of the primary drivers behind alliances and partnerships. The module considers the resource-based view and the risk-based view. These are two alternative approaches for considering the underlying rationale behind alliances and partnerships, and reflect the two most obvious considerations in forming an alliance or partnership: the move could be to make better or synergistic use of resources, or to address and/or control business risk. Working closely with another company is one way of reducing the overall risk profile that faces an organisation. Unfortunately, new risks are usually created – for example the risk of the alliance partner using its position to misappropriate valuable and otherwise classified information.

The module then goes on to consider some possible performance measures for alliances and partnerships. Most people tend to immediately think of financial measures as the obvious way of measuring alliance success. In fact, financial performance is driven by a whole range of variables, of which the effect of the alliance is only a single element. In addition, not all alliances are formed with the strategic objective of increasing company performance and/or value. Some alliances are formed with consolidation or defensive objectives. In such cases, it would be dangerous to consider subsequent financial performance alone as the measure of success of the alliance.

1.1.1 The Process Model

In common with the other EBS DBA courses, the alliances and partnerships course can be expressed in terms of a process model. A process model simply shows the range and sequences of processes and sub-processes involved in forming and executing an alliance or partnership. The process model for the alliances and partnerships course is shown in Figure 1.1.

The EBS DBA alliance and partnerships process model comprises six primary stages. These are listed below.

- Rationale.
- Partner identification and appraisal.
- Planning and negotiation.
- Formation.

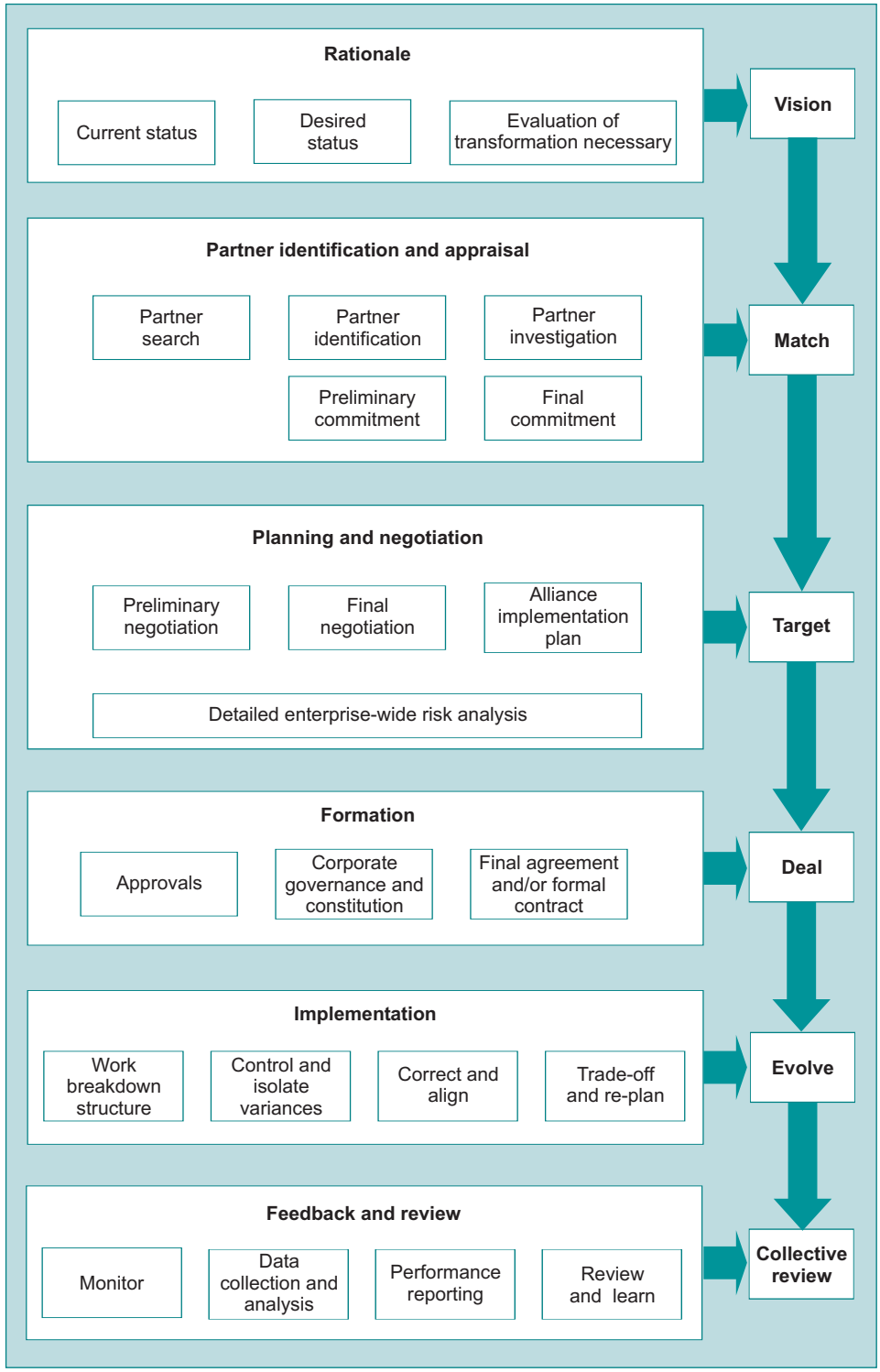


Figure 1.1 The alliances and partnerships process model

- Implementation.
- Feedback and review.

We shall now consider each stage in more detail.

1.1.1.1 The Rationale Stage

The company examines its **current status** and identifies a need or option for the formation of a strategic alliance. This need or option could be driven by any one or a combination of drivers. The company considers its **desired status**. This is the position that the company hopes to achieve through the formation of the alliance. The company then carefully undertakes an **evaluation of the transformation necessary** in order to move from the current status to the desired status. If the degree of transformation is considered to be too great, the company may decide not to proceed. If the degree of transformation is acceptable, the process continues. The end result of the rationale stage is the **vision**. This is a picture of the current status and desired status of the company within the scope set by the limits of the **degree of the transformation necessary** in order to achieve the desired results.

1.1.1.2 The Partner Identification and Appraisal Stage

Guided by the vision, the company initiates a **partner search**. In some cases there may be numerous prospective partners. In others there may be only one suitable partner. At some point the company achieves **partner identification**. The most suitable (or only) partner is isolated. The company then carries out a process of detailed **partner investigation**. This sub-stage could involve everything from detailed financial appraisal to due diligence. If the prospective partner is found to be acceptable the company makes a **preliminary commitment** to proceed. After a more detailed and complete analysis the company may decide to make a **final commitment** to the prospective partner and to proceed on this basis. The end result of the partner identification and appraisal stage is the **match**.

1.1.1.3 The Planning and Negotiation Stage

The next stage involves **preliminary negotiation** and, where appropriate, **final negotiation**. The negotiations could be relatively informal or highly complex, and could cover a wide range of issues from proposed senior management control distribution to required financial commitment. Once negotiations are complete, the company can develop an **alliance implementation plan**. The plan covers all aspects of the implementation process from duration to implementation cost limits. The negotiation and planning processes are both executed within the controls set by a **detailed enterprise-wide risk analysis**. An enterprise-wide risk analysis is vitally important because the alliance will generate new risks and the entire risk profile of the company will change. The company must ensure that the resulting risk profile is within the limits of acceptability. The end result of the planning and negotiation stage is the establishment of the potential partner as a firm **target**.

1.1.1.4 The Formation Stage

The company must then secure any necessary **approvals**, for example from regulators or shareholders. In the case of a contractual alliance, where a new alliance company is formed, it may be necessary to establish **corporate governance and constitution** frameworks. The final sub-stage is the final agreement and/or formal contract. Once these are agreed and – where necessary – contracts are signed, the alliance becomes a reality. The end result of the formation stage is the **deal**.

1.1.1.5 The Implementation Stage

The companies now have to implement the alliance. This is usually achieved through a project management approach where the project is the process of making the alliance work. The **alliance plan** is usually broken down into separate elements using a **work breakdown structure** approach, and each element is then initiated and **controlled** as it moves towards completion. Where **variances** (divergences between planned and actual development) occur these should be isolated and investigated. Where necessary, the implementation manager should **correct and realign** these variances. It may be necessary to perform **trade-offs** (balancing one objective against another to arrive at a compromise) and **re-plan** the implementation process. The end result of the implementation stage is the condition where the alliance can **evolve** into reality.

1.1.1.6 The Feedback and Review Stage

Alliances may be of a relatively short duration, and further alliances may follow after the current alliance has finished. Alternatively, the alliance may evolve in the long term and new partners may join. It is therefore essential that the alliance be monitored and used for corporate learning. This usually involves **data collection and analysis** in certain key performance areas of the alliance. This performance-monitoring data is usually used as a basis for the **generation of performance reports** that record the development of the alliance over a period of time. The company uses these reports to **review and learn** about the performance of the alliance, thereby creating greater understanding of the processes involved and the best ways of responding to problems. The end result of the feedback and review stage is the **collective review**.

The process model does not, of course, accurately reproduce all the processes included in every alliance and partnership. It does, however, provide a general overview of some of the key stages likely to be encountered in the formation and operation of any strategic alliance or partnership.

1.1.2 Summary

This section has provided an overview of the main elements covered in the introduction module. The specific learning outcomes have been defined, and the structure of the entire course text has been set in the context of the EBS Alliances and Partnerships process model. It has been made clear that the process model is a simplified way of representing the processes and sub-processes involved in forming and implementing a strategic alliance.

The next section introduces the concept of alliances and partnerships. It defines the two options and contrasts them with mergers and acquisitions.

1.2 The Concept of Alliances And Partnerships

1.2.1 Introduction

Alliances and partnerships are ways in which organisations can work together to achieve defined objectives. These objectives could be common to both organisations or they could be specific to each organisation. The overall philosophy is the same. The two organisations feel that they can operate more effectively if they work together than they can working individually. There are a number of obvious reasons why this should be so. Companies working together or in teams are similar to people. Teams are often more effective than individuals because the team can make common use of the assets and competences of the group.

The concept of alliances and partnerships is not new. Countries and nations have been forming alliances for thousands of years, often as a means of either attacking or forming a defence against an enemy. In more recent times, democratic government in numerous Western countries has often led to the formation of a government where there is no single elected majority. The result has been a political alliance where two of the stronger political parties have forged a working partnership that gives them an overall majority in the parliament or equivalent. Historically, alliances in the political sense have been driven largely by a combination of necessity and adversity.

In the highly competitive industrial and commercial markets of the twenty-first century, companies are finding alliances and partnerships attractive for similar reasons. There has been a sustained drive towards increased efficiency. Many companies have reached a point where they cannot downsize any further, and where productivity is as high as can be achieved within the limits of the resources available. Other companies have developed as far as they can in their chosen market without further innovation or development and lack the finance necessary for major investment in these areas. In such circumstances, growth can sometimes be achieved through mergers and acquisitions, but these can be very expensive and high risk. They are also, to some extent, irreversible and can lead to companies losing their identity and freedom of operation.

Alliances and partnerships offer a workable alternative. Companies can ally themselves to each other as a way of improving their competitive advantage for as long as it suits them. Just as with political alliances, each partner need remain in the alliance only while they are receiving benefit from it. They can then withdraw and continue operating under their own identity.

This section explores the underlying concept of alliances and partnerships and establishes some common definition of the two terms.

1.2.2 Alliances

The word **alliance** can be defined as *a mutually agreed association of two or more parties in order to promote the common interest of the parties*. It can also be regarded as being the *condition of being allied*. Historically it has been used in the context of joint benefit agreements between monarchies, governments, tribes, companies, families and individuals.

Perhaps the best-known examples are the major alliances formed between countries during the two World Wars. These alliances involved the development of global political strategies and involved enormous sums of money. They resulted in the loss of millions of lives and the devastation of large tracts of the European continent.

Some literature sources define alliances as **horizontal associations** within the **supply chain** where two or more organisations providing similar products or services work together for a specific reason. The specific reason could be anything from improving efficiency to breaking into new markets. The alliance could apply to all aspects of each organisation or to parts of each organisation. For example, in January 2003 regulators in the US gave their approval to a large-scale marketing alliance between Delta, Continental and Northwest airlines in what was the US airline industry's largest ever strategic alliance. In this case the alliance was limited to *marketing* only. Under the terms of the alliance, the companies could sell tickets for seats in each other's aircraft. The regulators were, however, concerned that the alliance could be used as a means of reducing competition. They, therefore, insisted that the three airline companies could not combine revenue, agree fares, or carry out any other actions that could reduce the overall level of competition within the industry.

The Delta–Continental–Northwest airlines deal was an example of an alliance in that it was horizontal within the supply chain, and it involved three companies that all provide the same service: airline transport. The reason for forming the alliance was to reduce operational costs and provide cheaper transport for customers. Indirectly, the alliance also provided a useful way of reducing operational costs in the very unfavourable trading conditions that affected the US after the September 11 terrorist attacks.

1.2.3 Partnerships

Partnership can be defined as *a relationship either, contractually supported or otherwise, between two or more parties, each of whom shares joint and several liability for the actions of the whole*. It an also be defined as *the state of having a partner*. Partnerships have also been widely seen throughout history. Perhaps the most common form of partnership that people are familiar with is the *marriage partnership*. In marriage, two people agree to share their assets and work together. Historically the traditional reason for doing this was to assist in raising children.

In the literature, partnerships are often defined in terms of being *freely entered into by both parties* and being for *the benefit of both parties* and where *both parties largely retain their own freedom of action*. This last term is particularly important. In partnerships, both parties remain largely unchanged. In most cases, there

is no merger of administration or production systems and no common management structure. Both companies continue more or less as they were in the pre-partnership stage. They do, however, work together for the common benefit of both parties and have an obligation, whether contractual or otherwise, to accept some level of individual liability for the actions of the partnership as a whole.

Some literature sources define partnerships as **vertical associations** within the supply chain where two or more companies that provide different, although probably related, products or services, work together for a specific reason. As with alliances the specific reason could be anything from improving negotiation power to scale economy.

♢ Time Out

Think about it: Public–private partnerships.

In the UK public–private partnerships (PPPs) are widely used as a means of financing public projects. PPPs have the advantage of combining private sector business acumen and efficiency with the public sector demand for long-term public projects. The idea was first introduced by the government in the 1990s and has grown in popularity since that time. The main advantage of a PPP is that the government can improve public services without using large capital sums of public money. Under a standard PPP deal, the government agrees to allow a private contractor to execute a major public project such as a new hospital. The capital cost of a new state of the art hospital might be £700m–1bn. The government simply does not have enough money to build such projects in the numbers required to meet public demand for improved services. It should be remembered that the issue of public services improvement is not restricted to hospitals. It extends to a wide range of other areas including roads, schools, and prisons. In addition, central government is only one client. PPP contracts are increasingly being used by local government, individual health boards, the prisons service and even the fire services.

Under a PPP agreement the agreed contractor finances and builds the project on behalf of the government. The contractor then 'rents' the finished project back to the government over a number of years, thereby recovering the capital costs and making a profit. The profitability of the arrangement depends on the capital investment required and the agreed annual rent and rental period. There has been some controversy over this issue. In one case in the UK a private contractor built a new prison under a PPP contract. The capital cost of the construction was recovered through rent within 3 years. The total rental period agreed was 25 years, leaving 22 years of clear profit for the contractor. Another frequent complaint or disadvantage associated with PPP contracts is that the contractors often produce low-quality work as they seek to minimise capital costs and, therefore, maximise profit. In some cases the government has attempted to address this problem by building performance clauses into PPP contracts so that it has some level of hold over contractors who perform badly.

PPP is perhaps not an ideal example of a partnership. It has many disadvantages and has attracted a bad press in the UK, having become associated with defective buildings and the erosion of workers' rights. It has, however, allowed the UK government to increase the overall standard of infrastructure, including schools and

hospitals, to a standard that would not have been achievable within public spending limits.

1.2.4 Mergers and Acquisitions

A **merger** or an **acquisition** can be defined as the combination of two or more parties into one new party.

The main difference between a merger and an acquisition lies in the way in which the combination of the two companies is brought about.

In a merger there is usually a process of negotiation between the two companies prior to the combination taking place. Assume that companies A and B are existing financial institutions. Company A is a high street bank with a large commercial customer base. Company B is a building society or similar organisation specialising in providing home loans for the domestic market. Both companies may consider that a merger would produce benefits as it would make the commercial and domestic customer bases available to the combined company. There will obviously be some complications and difficulties involved but there are also some obvious potential **synergies** available. For example, company B might be able to use its home loans experience to offer better deals to potential and existing mortgage customers of company A. The two companies may decide to initiate merger negotiations. If these are favourable, the outcome would be a merger of the two companies to form a new larger whole.

In an acquisition the negotiation process does not necessarily take place. In an acquisition company A buys company B. Company B becomes wholly owned by company A. Company B might be totally absorbed and cease to exist as a separate entity, or company A might retain company B in its pre-acquired form. This limited absorption is often practised where it is the intention of company A to sell off company B at a profit at some later date. In acquisitions the dominant company is usually referred to as the **acquirer** and the lesser company is known as the **acquired**. The lesser company is often referred to as the **target** up to the point where it becomes acquired.

In most cases, the acquirer acquires the target by buying its **shares**. The acquirer buys shares from the target's shareholders up to a point where it becomes the owner. Achieving ownership may require the purchase of all of the target shares or a **majority** of them. Different countries have different laws and regulations on what defines target ownership.

Acquisitions can be **friendly** or **hostile**. In the case of a friendly acquisition the target is willing to be acquired. The target may see the acquisition as an opportunity to develop into new areas and use the resources offered by the acquirer. This occurs particularly in small successful companies wishing to develop and expand but held back by a lack of capital. The smaller company may actively seek out a larger partner willing to provide the necessary investment. In this scenario, the acquisition is sometimes referred to as a **friendly** or **agreed** acquisition. Alternatively, the acquisition may be **hostile**. In this case the target is opposed to the acquisition. Hostile acquisitions are sometimes referred to as **hostile takeovers**.

One tactic for avoiding a hostile takeover is for the target to seek another company with which it would rather merge. This third company, if it agrees, is sometimes referred to as a **white knight** as it 'comes to the rescue' of the threatened target.

In hostile takeovers the acquirer may attempt to buy large amounts of the target's shares on the open market. The problem with this is that target share prices will tend to increase in value as soon as any large-scale purchases are detected. In order to minimise target share price rises, the acquirer may attempt to buy as much stock as possible in the shortest possible time, preferably as soon as the markets open. This practice is sometimes referred to as a **dawn raid** as it attempts to take the market (insofar as is possible) 'by surprise'.

In both friendly and hostile takeovers the decision of whether or not to sell target shares lies with the shareholders. If all or a large proportion of target shareholders agree to sell target shares, ownership will be transferred to the acquirer. Shareholders generally will agree to a merger if they are recommended to do so by the board of directors and if they stand to make a profit on the deal. The acquirer may offer either cash or its own shares in exchange for target shares. Cash transactions offer shareholders an immediate potential profit, whereas stock offers a longer-term investment. Stock transactions tend to be more attractive to shareholders in a buoyant market as the value of the stock is likely to increase more rapidly than in a stagnant market.

1.2.5 Mergers and Acquisitions or Alliances and Partnerships?

Having considered the basic elements of alliances, partnerships, mergers and acquisitions the obvious extension is to consider which approach is most appropriate in a given situation. There are obvious advantages and disadvantages associated with each alternative. The literature suggests six primary areas where the choice of alternative may be focused.

- **Cost considerations.** The cost of the change could be a significant element. Large-scale mergers and acquisitions can be extremely expensive and may require considerable investment over several years. Alliances and partnerships are generally much cheaper than mergers or acquisitions simply because less reorganisation is involved and there is less disruption to normal operational processes.

- **Time considerations.** Mergers and acquisitions can be very time consuming. Large-scale examples may take years to complete. Alliances and partnerships can generally be planned and executed much more quickly because considerably less change and disruption is involved. There may also be other implications, depending on the nature of the company. A strategic alliance may not require the consent of shareholders, and, because each company retains its original identity, there is less need for complex and potentially lengthy negotiations.

- **Performance considerations.** Performance in this context means the quality of the end product. This quality can be measured in terms of how effective the end product is in relation to how effective the original plan called for

it to be. In some cases, a full merger, where two companies join to become one new company, can provide a most effective outcome simply because the new company is (hopefully) absolutely aligned to the strategic objectives of the merger. Two companies that enter into an alliance or partnership still retain their own identities, and are therefore less likely to be able to offer the full range of synergistic benefits that a full merger can generate.

- **Risk considerations.** The risk consideration is highly complex and can take many forms. Outcome risk is generally lower in mergers or acquisitions because the target is merged or absorbed into the new organisation. Provided the resulting organisation is correctly aligned this allows the development of one set of strategic objectives and one strategic plan. In the case of an alliance, each partner still has its own objectives and self-interests at heart. Unsuccessful alliances can always be dissolved. Unsuccessful mergers are much more difficult and disruptive to correct.

- **Synergy considerations.** There is generally a greater likelihood of achieving combined resource synergies where the new organisation has full control over the resources and over how they are used. Resource control is higher in mergers and acquisitions than in alliances and partnerships because the various sections of both organisations are fully combined.

- **Integration considerations.** Technological and cultural integration can be major issues in mergers and acquisitions and are key elements in determining whether or not the move is successful. Integration problems are far less pronounced and involved in alliances and partnerships, because less organisational change is involved.

  It is generally easier and less risky to form an alliance or partnership than to undergo a merger or acquisition. The time, cost, performance and risk issues are much less formidable. The potential benefits, however, are correspondingly lower.

1.2.6 Summary

This section has defined alliances and partnerships and has briefly introduced the concept of each approach. It should be clear that alliances and partnerships are distinctly different entities although they are closely related. Alliances and partnerships are both significantly different from mergers and acquisitions. The choice of forming an alliance or partnership or carrying out a merger or acquisition depends on a range of variables that are likely to be unique for each individual set of analysis variables.

The next section considers alliance drivers. These are the various internal and external forces that drive a company towards forming an alliance or partnership.

1.3 Alliance and Partnership Drivers

1.3.1 Introduction

Alliances and partnerships don't just happen. They are formed by companies to achieve specific objectives. A whole range of forces can act as drivers for alliances and partnerships. This section briefly introduces some of the primary drivers identified in the alliances and partnerships literature. The list is not intended to be exhaustive. It simply addresses some of the more common and important alliance drivers.

1.3.2 Driver Types

There are numerous reasons why companies form alliances and partnerships. Sometimes the issue may be forced as a result of market necessity. In other cases an alliance may be established on a speculative basis. Alliances can be **offensive** where they are aimed at increasing competitiveness to achieve an edge on the competition, or they may be **defensive** where they are aimed at deterring or limiting the effects of increased competition. Let us consider some common drivers.

- **A requirement for a specific skill or resource.** One company might want to form an alliance or partnership with another company because the other company has a specific set of skills or product that the first company needs in order to make it more competitive or effective. A good example of this was the alliance between a number of Internet security companies in 2001. Security problems, including malicious programs and hacking, have been increasing steadily as the Internet has grown. Expanding broadband access caused a major increase in security problems, with rapid increases in 2000 and 2001. As a result *McAfee*, *Mazu Networks*, *Asta Networks* and *Arbor Networks* formed an alliance so that the specialist expertise in each company could be pooled in an effort to generate new and more powerful anti-virus programs that could counter the broadband-driven proliferation of malicious software on the Internet. At the time the alliance was formed, the outcome priority was to generate software that could reliably scan the Internet for different types of malicious software such as worms and Trojans. A secondary priority was to produce new software that could detect when a malicious software attack was in progress even when the virus itself was unknown. This alliance was an example of a number of companies attempting to combine their various specialist skills in order to generate a pooled skills field that was more effective than the sum of the individual skills fields that were used to make it.
- **A desire to acquire a new market or customer base.** An alliance or partnership can sometimes provide a fast-track route to new and established markets. This would apply particularly in the case of a partnership where a vertical association through the supply chain is formed. For example, a drinks manufacturer might form an alliance with a food retailer. In some

cases, a drinks manufacturer might effectively form an alliance with an entire food retail sector. An example of this type of alliance is that of *Cobra* beer and the UK Indian restaurant sector. Most people who frequent UK Indian restaurants and who drink beer will have seen (or indeed drunk) Cobra beer at some point. Cobra beer was founded by an Indian, Mr Karan Bilimoria. He identified the Indian restaurant sector as an important niche market that had been ignored by the main breweries. By a combination of careful marketing and an Indian association (the beer was originally brewed in Mysore in India but was later moved to the UK) Cobra became more and more popular in Indian restaurants. Many diners expected to see Cobra on sale, much as a corresponding diner in Burger King would expect to see Coca Cola on sale as the primary soft drink. By 2003, Cobra was selling over £50m each year, with more than half of these sales in Indian restaurants – a far higher proportion than for any competing brewer.

- **Geographical consolidation.** This type of driver occurs where there are compatible companies available for alliances and partnerships within the same general geographical area. A good example of this was the alliance formed in 2002 involving around 40 companies in the aerospace sector in North Wales in the UK. The companies formed an alliance called the *North Wales Aerospace Group Network*. The alliance was formed as a response to the difficulties arising in the aerospace industry in general following the terrorist attacks of 11 September 2001. The companies within the alliance all manufactured parts or components for the European Airbus passenger aircraft. Although sales of the Airbus remained reasonably stable after the attacks, the overall economic position within the industry dropped substantially and most of the companies involved found themselves having to reduce their workforce in order to reduce costs. Given the fairly close geographical location of each company, it was felt that a North Wales alliance would be a useful response in pooling resources and attracting funding and assistance from regional support bodies. In the event, the alliance received direct support from the Welsh Development Agency and the Education and Training Council.
- **Buying into a growth sector or market.** Companies sometimes use alliances and partnerships as a way to enter a desirable new market or sector, particularly if they expect that market or sector to expand in the future. In some cases, companies offering similar products and services may team up in a strategic alliance allowing them to combine technology or resources in order to provide access to a high-growth, high-demand market. In 2000, in what was to some extent the forerunner of broadband Internet access, the Internet service provider *Freeserve* and UK telecommunications giant *British Telecom* formed a strategic alliance to offer high-speed access to the World Wide Web. Most UK connections at that time were non-broadband: that is, users had to log on and off, and access speeds were relatively slow. By combining resources, Freeserve and BT were able to provide ADSL technology, which was cutting edge at the time, allowing information to be transferred electronically more quickly than using traditional streaming technology. The companies formed the alliance because they could see that broadband access would be increasingly demanded by the UK Internet pop-

ulation. The two companies also had large numbers of existing subscribers (telephones and Internet users) who would provide a ready market for the new broadband-type service.

- **Strategic focus.** Companies sometimes enter into alliances and partnerships as a way of increasing the degree of strategic focus of the organisation. This might be necessary because of legacy consequences where the current position is influenced by a past decision that perhaps resulted in a less than fully focused structure. For example, a financial institution might offer financial services, ranging from investment banking to pensions. This range of activities might result from strategic decisions made years ago when diversification was regarded as being more favourable. The financial institution might now want to focus on a smaller number of key business activities and transfer the remaining non-key activities to an alliance partner. Exactly this kind of transition occurred with *Barclays Bank* and *Legal & General* in January 2001. Barclays is on of the UK's top five high street banks and has for many years operated a life assurance and pensions division. In 2001 Barclays decided to close its life assurance and pensions division to new customers and transferred all future responsibilities in these areas to the specialist life assurer, Legal & General. Barclays predicted that the formation of this alliance would have the effect of significantly increasing overall sales of life assurance by the alliance partners. It was also predicted that the corresponding closure of Barclay's life assurance division would save over £70m per year.

  The strategic alliance between Barclays and Legal & General was, in fact, the latest of a series of similar alliances and partnerships or mergers and acquisitions that have taken place between banks and life assurance companies in the UK. Such alliances and partnerships or mergers and acquisitions are sometimes referred to as the formation of a **bankassurer** company. Other recent bankassurers include Lloyds TSB – Scottish Widows, and National Westminster Bank – Legal & General.

- **Diversification.** A company may want to diversify into new areas or sectors as a means of balancing the risk profile of its portfolio. The alliances and partnerships and mergers and acquisitions literature suggests that the moves that have the greatest probability of success are those that increase, rather than decrease, the degree of strategic focus within the organisation. Sometimes such apparently unrelated moves may be carried out in response to changes in environmental conditions and/or the actions of competitors. For example, in 2000 *Barclays Bank* formed an alliance with *Nomura* of Japan. Nomura is a world-leading financial services group offering services in many areas, from mergers and acquisitions to merchant banking. Barclays and Nomura formed the alliance with the intention of developing a joint venture on-line Internet shopping portal.

  Barclaycard had noticed ever-increasing competition from new and upcoming Internet banks, and had accepted that it had to adapt to this new medium and establish its own version of Internet banking and account management. The move into Internet shopping was new, however, and very much away from Barclays previous strategic planning. It did, however,

offer Barclays a new and potentially lucrative income stream, particularly if shopping figures were good.

In establishing a strategic alliance with Nomura with the intention of establishing a new Internet shopping portal, Barclays was making a move that was clearly away from that required for any direct increase in strategic focus. Barclays went on to form other similar alliances, such as with the Internet service provider Freeserve, in setting up and operating a small businesses portal.

- **New technology.** Alliances and partnerships sometimes become necessary because of new technology. A good example is where existing and traditional business has to adapt and change because of changes in the way in which business is conducted as a result of new technology. An example is the January 1992 alliance between *eBay* and *Sotheby*'s. Both companies are auctioneers. Sotheby's has been trading as an auctioneer for over 200 years. The company realised the importance of the Internet and established a website but met with only limited on-line sales success. eBay has only been in existence for a few years, but in that time it has built up a reputation for being a leading on-line auction service with over 40 million registered customers in 2002. The alliance gave Sotheby's access to eBay's advanced Internet auction technology and opened up the possibility of Internet bidders being able to make instantaneous bids at live auctions.
- **Sector pressures.** Some sectors may go through phases where alliances and partnerships and mergers and acquisitions become popular, either through economic necessity or through the actions of competitors, or simply because such moves become fashionable. Just as the global oil industry was swept by a series of very large-scale mergers and acquisitions in the 1990s, the world airline industry was characterised by a whole series of large-scale alliances, driven by the deteriorating trading situation after September 11. In many cases the airlines would have preferred to go for full-scale mergers because of the severe economic problems they faced, but full mergers were largely prohibited by the various regulators because they would have had too much of an impact on the overall level of competition within the industry. The result was a series of large-scale alliances such as *Oneworld*, which included British Airways and American Airways, and Global Star Alliance, which included 15 major airlines including United Airlines, Lufthansa, SAS and KLM Singapore Airlines. The ultimate objectives of these alliances were to allow the airlines concerned to respond to the worsening economic situation within the industry. In some cases the alliances allowed the companies to negotiate lower fuel supply prices (rises in which had compounded the already poor trading conditions) and take advantage of marketing agreements, joint booking arrangements, aircraft decommissioning and air miles.
- **Capacity reduction.** The total production in a given sector may exceed or be near to demand so that the value of the product is low. In some cases it may be desirable for a company to enter into an alliance or partnership (or indeed merge with or acquire a competitor) in order to secure a greater degree of control over total sector output. If company A acquires company B, company A has achieved greater control over total sector production and

also has the opportunity to maintain more of its own production facilities and employees within the new company at the expense of company B.

- **Vertical integration.** A company may attempt to integrate vertically by initiating an alliance or partnership with, for example, a key supplier in order to reduce the risk profile associated with that supplier and, therefore, ensure continuity of supply.
- **The stock market and the economy in general.** Variations in share prices can act as powerful drivers for alliances and partnerships. The main reason for this is that alliances and partnerships are generally regarded as being an alternative to mergers and acquisitions. A stock market boom tends to make acquisition activity more attractive because it becomes easier to use the acquirer's shares as the basis for the transaction rather than cash, although obviously the cost of the target shares could also increase. Generally, as mergers and acquisitions become more attractive for financial or whatever reason, alliances and partnerships become less attractive. Alternatively, the economic position might point towards mergers and acquisitions but these may not be possible because of, for example, regulatory limitations.
- **Increased management efficiency.** A particular company may have a deficit in management expertise in one or more key areas. Such areas may be 'key' because they are central to a new growth area that the company is seeking to develop, or because they relate to the achievement of new strategic objectives that have been established. An example of two companies forming an alliance to use their individual specialisms was the proposed strategic alliance between *AOL* and *Time Warner* in 2000, prior to the eventual and subsequent merger of the two companies. Time Warner's specialisations are in film making and television, whereas AOL is an Internet service provider. Time Warner saw an alliance with an Internet service provider as the obvious move forward in terms of media distribution. In forming the alliance, Time Warner could make use of the existing infrastructure and management expertise of AOL in electronic distribution.
- **Globalisation.** Increasing globalisation, facilitated to a considerable extent by the growth and development of IT, tends to encourage international alliances and partnerships as the geographical separation between individual companies becomes less of an obstacle to organisations working together as single entities both within the same countries and across international boundaries. An example is the January 2002 alliance between the steel manufacturers *Corus* and *Sumitomo*. At that time, Corus was the second largest steel manufacturer in Europe and Sumitomo was the fourth largest in Japan. This alliance was one of several that took place between 1998 and 2003, driven largely by increased international competition. The Japanese economy, in general, fared particularly badly over this period. Similar international alliances over the same period included that between Nippon Steel and Usinor of France, and the alliance between NKK Corporation/Kawasaki Steel and Thyssen-Krupp of Germany.

These alliances all include companies that are geographically separated by thousands of miles, but where this separation is regarded as no significant obstacle to alliances designed to exchange technology and promote research and development.

- **Stepping stones.** An increasing number of strategic alliances are being made as stepping stones or as portals that can be used for the exploitation of new markets. An example of this was the 2002 strategic alliance between *Cathay Pacific* and *DHL*. This alliance is discussed in more detail in Module 4. The alliance gave DHL access to a number of airports in the Far East. These markets had previously been dominated by DHL rivals Federal Express (or Fed-Ex) and UPS. DHL had made a number of attempts to break into the air freight sectors of these markets and compete against Fed-Ex and UPS but without success. DHL realised that the best way of achieving a foothold in the Far East was to form an alliance with an international carrier. The Cathay Pacific deal appeared to provide the ideal solution.

1.3.3 Summary

This section has considered some of the more common alliance drivers. It should be appreciated that the list of drivers considered is not intended to be exhaustive. The drivers considered are intended to provide an overview of the range and types of forces that might propel a company towards the formation of a strategic alliance. In some cases there could be a range of different drivers all acting at once. In such cases some drivers could complement or **amplify** other drivers whereas others might act to dilute or **damp** yet other drivers.

The next section introduces the two most common overviews of strategic alliances: the resource-based view and the risk-based view. The attractiveness of a potential alliance or partnership depends very much on the view adopted by the companies concerned.

1.4 Two Views on Alliances and Partnerships

1.4.1 Introduction

The literature on strategic alliances and partnerships suggests two main views of alliances and partnerships. These are the **resource-based view** and the **risk-based view**. The resource-based view assumes that the alliance is driven primarily by the consideration of resources; primarily in terms of the resources that the company already has in relation to the resources that it needs to increase its competitive advantage. The risk-based view assumes that alliances and partnerships are driven primarily by the risk involved in the enterprise. These alternative views are considered in more detail in the following sections.

1.4.2 The Resource-Based View

The resource-based view assumes that alliances and partnerships generally rely on the fact that a company's core competences are usually based on the unique resources owned by the company. Most companies have some kind of skill or ability that makes them different from other companies. It is this skill, or combination of skills, that gives the company its competitive advantage. An alliance or partnership in this context is one way for different companies to pool these valuable resources for the benefit of all. In order for it to work, the skills or attributes brought by one company must be sought by another company, and the corresponding skills of that company must, in turn, be required by the first company. In other words the relationship is essentially symbiotic in that both organisations contribute to the existence of the other. In some cases each company might provide the same type of resource, whereas in other cases the resources provided by each company could be entirely different.

The literature on the resource-based view suggests six primary types or classification of resource that are significant in alliances and partnerships. These six types are briefly summarised below.

- **Resource type 1: Finance.** A company might provide available capital. The other company in the partnership might have a high potential new product but lack the investment capital needed to develop it. Alternatively, one company might own a good product but lack exposure and need to increase its potential market. An example of this type was the *Netscape–Excite* alliance in 1998. Excite paid Netscape over £40m to make Excite the default search engine used in the Netscape browser home page. At that time, Netscape was still a major force as an Internet browser and the location of the Excite search engine on the Netscape home page was guaranteed to generate millions of uses every day.

  Financial considerations can often be the most significant single element in whether or not a proposed alliance is able to proceed. In 1999 the US-based toy retailer Toys 'R' Us and the finance company Benchmark Capital announced a proposed strategic alliance. Toys 'R' Us is an established retailer in the US and Europe. Benchmark Capital is an Internet venture capital company. The idea behind the proposed alliance was to establish a major on-line toy shop. Under the original agreement Benchmark was to provide around £7m against Toys 'R' Us' contribution of around £50m. Benchmark Capital was therefore contributing a significant proportion of the start-up finance and felt that it should have a significant say in the operation of the proposed on-line toy shop. Toys 'R' Us tried to impose its own ideas on the development of the project, and Benchmark Capital eventually pulled out because it felt it was being 'steamrollered' into an end result that was largely outside its choice and control.
- **Resource type 2: Technology.** Two or more companies might see an advantage in combining their technological know-how, perhaps to stimulate innovation and development or to fend off competition. An example is the alliance formed in July 2003 between *Texas Instruments*, *STMicro*, *Nokia* and *ARTM*. Texas Instruments and STMicro specialise in integrated circuit (chip)

manufacture, whereas Nokia is a cellphone manufacturer and ARTM is a semiconductor manufacturer. The alliance was formed to counter the growing dominance of Microsoft and Qualcomm. The underlying idea is to produce mobile phone components and chips that are all compatible, and avoid the stranglehold that Microsoft and Intel have engineered on the PC chip/operating system sector. The main concern of the alliance partners is that the mobile phone and hand held might find itself dominated by the use of Microsoft Windows aligned/compatible components. If this does occur it will be extremely difficult for any other operating system to ever make any significant inroads against Windows.

- **Resource type 3: People.** Companies may form alliances or partnerships to make more effective use of people. A typical example would be a production company forming an alliance with a research and development company in order to improve the rate and effectiveness of its research and development capability. Management experience and individual and collective expertise are the two most common sub-resources under this heading. Individual and collective expertise could cover anything from learned customer-interface skills to an understanding of regulations and legal complexities. An example is the 1998 trial alliance between the UK high street chemist *Boots* and the Japanese *Mitsubishi Corporation*. Market research indicated that the annual cosmetics and toiletries industry in Japan was worth nearly £20bn and was rising as the Asian crisis expanded (people really do buy more toiletries, general cosmetics and make-up when the economy is in decline). Boots realised that it could never break into the Japanese high street without a Japanese partner. Mitsubishi is a well-respected brand in Japan and understands the Japanese market in detail.
- **Resource type 4: Production.** Production outcomes could include a range of possibilities. An alliance between two automobile manufacturers could result in new markets and customer bases opening up for each company, or the possibility of common production platforms and even components. The Japanese manufacturer *Nissan* and the French manufacturer *Renault* formed a strategic alliance in 1999 when Renault bought a 35% stake in Nissan with the agreement that Nissan could similarly buy Renault shares when it was able to do so financially. This agreement was honoured in 2001 when Nissan bought a 15% share in Renault and Renault increased its stake in Nissan to 44%. The two companies worked together in standardising their production systems and product development divisions.
- **Resource type 5: Management.** This heading includes the management competence of the organisation. Typical specific examples include knowledge of the market (local knowledge) and experience of the product. In other cases it could include extensive experience in relation to optimising a particular approach or customer base. An example is the 2002 sell-off of credit card accounts by *Alliance & Leicester*. This company is a UK bank and is also a former building society. In August 2002 it sold its existing credit card accounts to *MBNA Europe Bank* for around £230m. Alliance and Leicester had formed a strategic alliance to allow this transfer of accounts to take place. Alliance & Leicester argued that the credit card business is

becoming more and more global and subject to intense competition from a range of on-line competitors. Under the terms of the alliance, credit cards continue to be issued in the name of Alliance & Leicester but the accounts are owned and managed by MBNA. The underlying rationale is that MBNA is one of the word's largest credit card companies and has the long-term experience and expertise to develop and implement systems that allow it to compete with the rest of the world. This move is another example of a strategic focus exercise in that Alliance & Leicester is focusing on its key business activities of home loans, current accounts, savings and personal loans.

- **Resource type 6: Brand.** The larger partners are likely to have a unique brand image. A particularly powerful brand image can be central to the success of the alliance. In some cases, companies may use important brands together to break into new markets. An interesting example from 2002 centred on, of all things, the Chinese beer market. In a large-scale alliance the largest brewery company in the world, the US-based *Anheuser-Busch*, formed a strategic alliance with China's largest brewery company, *Tsingtao*. A number of Western analysts had realised that the Chinese beer market was largely untapped (no pun intended) by Western brewers, despite its enormous size and obvious potential. Anheuser-Busch realised that the only way to extensively penetrate the Chinese market would be by 'riding on the back of' the established brand leader, which is Tsingtao beer. At the time the alliance was formed Tsingtao was aiming to increase production to reach around 25% share of the Chinese domestic beer production market. Tsingtao was also well known outside China and accounted for virtually all Chinese beer exports. Some analysts would have argued that, domestically, it was China's leading branded consumer product. Anheuser-Busch, therefore, acquired this valuable brand image which it was able to use of give it ready made access to the Chinese market. Anheuser-Busch felt that this was necessary to open up the Chinese market despite it already owning globally known brands such as Budweiser.

In the resource-based view, organisations can make the best use of the alliance when they can ally themselves with firms that have resources different from their own or which are complementary to their own. Prospective alliance partners will therefore be concerned with the balance of resources likely to be provided by the other partners in the alliance. A finance provider will be most concerned with the security of the finance provided and with the return on any capital employed. A technology provider will be most concerned with protecting its technology and with the overriding of any patents, trademarks or intellectual property rights. A brand provider will be primarily concerned with the protection of the brand image.

♢ Time Out

Think about it: Strategic alliances.

Strategic alliances often take place between very large global companies. In June 2002 the *Walt Disney Company*, *Visa* and *Bank One* announced a two-year joint marketing and promotional strategic alliance.

The Walt Disney Company is an internationally diverse entertainment company. Disney is a leading brand in the field of family entertainment, ranging from cartoons and films to theme parks and retail outlets. The company also owns a cruise line, radio and television stations and channels and a number of cable networks. The company employs more than 100 000 people around the world and generates annual revenues in excess of $26bn.

Visa is the world's leading credit card brand. The company generates annual revenues in excess of $2tn (trillions), which is very large indeed by anybody's standards.

Bank One is one of the ten largest bank holding companies in the US and has assets in excess of $250bn. The company serves tens of thousands of private and commercial customers around the world.

The Disney–Visa–Bank One strategic alliance will generate the world's first Disney-branded credit card. The use of this brand image will probably generate increased application for Visa cards from the public. Use of the Visa card will earn Disney rewards for the card holder. Visa will benefit by having access to Disney's worldwide chain of retail outlets and theme parks. The Disney card will also enable Visa to develop joint Visa–Disney marketing strategies where full use of the Disney brand can be made. Disney will benefit from continued and increasing Visa advertising on its television networks and in its theme parks. Bank One will benefit from association with the world's leading entertainment brand and the world's number one credit card brand. Disney Visa card holders will receive Disney promotional material along with their statements. Use of the Visa card will be encouraged by the introduction of loyalty rewards, based on Disney products, for frequent card use. Visa has more than 25 million acceptance locations around the world, so the potential for developing the alliance is enormous.

Questions: from a resource-based point of view:

- What resources does each organisation bring to the alliance?
- How can these resources be classified using the classification system discussed above?
- What is the distribution of brand image provision among the three partners?



1.4.3 The Risk-Based View

The literature on alliances and partnerships suggests that risk considerations may be equally as important as resource considerations in the formation of alliances and partnerships. Risk may be the driver behind the formation of an alliance or partnership in the first place, or it may be the driver behind the formation of an alliance or partnership rather than a merger or acquisition.

In a business risk context, strategic alliances often form an attractive alternative to mergers and acquisitions. Strategic alliances involve less change to company structure and authority systems, and are therefore usually cheaper and can be implemented faster than mergers and acquisitions. In addition, an alliance can be established for a stated duration or timescale after which it can be dissolved. It could therefore be argued that a bad alliance is not as risky as a bad merger

as a bad alliance can be terminated. To continue the rather morbid human comparison initiated above, if a marriage (alliance) turns out to be bad there is always the option of a divorce, whereas if an organ transplant (merger or acquisition) turns out to be bad, the recipient is in serious trouble as it is more difficult to reverse the joining process.

One of the primary risks associated with a strategic alliance is that of the hidden agenda. One or more partners to the alliance may, in fact, join the alliance with just such an agenda, which could include anything from the exploitation of a successful brand to the theft of technology. In most cases, technologies are adequately protected. In practice, it is much more difficult to protect intellectual and management-based resources. Working practices and innovative management structures and approaches are easily copied and mimicked.

Risk is an important consideration in any kind of strategy. Most strategies develop under the impact of internal and external events. These events can have the effect of deflecting the strategy implementation process away from the desired and planned course. There is never any guarantee that a particular strategic plan will succeed, or even that a particular strategy will prove to be successful if correctly and fully implemented.

The literature suggests a number of risk headings in the context of strategic alliances and partnerships. The terminology used varies, depending on the source of literature consulted, but the main types are as listed below.

- **Financial risk.** An obvious reason for forming an alliance or partnership is to reduce the level of financial risk faced by one or more partners. Typical examples include new ventures with a high level of up-front investment. One such example was the 2003 alliance between *KLM Dutch Airlines* and a number of potential partners as KLM sought to significantly expand its budget airline division *Buzz*. At that time, Buzz was one of the top three budget airlines in Europe, along with *Ryanair* and *easyJet*. Buzz had around 15 aircraft, but was seeking to expand this fleet to around 40 aircraft. Modern airliners are very expensive, and the acquisition of 25 new aircraft represents a major investment by anybody's standards. In KLM's case it was beyond the limits of what was considered to be an acceptable financial risk. The proposed expansion of Buzz was in marked contrast to the general picture within the international airline industry. In fact, budget travel is the only part of the international market that has been growing since September 11, and virtually all analysts predicted that it would be the one subsector to continue to expand within the foreseeable future.
- **Partner risk** relates to the risk of problems in the degree of cooperation that develops among the various members of the strategic alliance. In order to succeed, the alliance has to contain a level of mutual trust and cooperation, especially where high-risk items such as secret technology or high levels of finance are involved. Partners with a hidden agenda (see above) may appear to be cooperative but may in fact be acting in a negative way. On other occasions, the priorities and aspirations of one or both partners may change and the attractiveness of the alliance or partnership may change as a result.

- **Outcome risk** relates to the likelihood of a strategic objective, or set of strategic objectives, not being achieved. Outcome risk also relates to occasions where a strategic objective or set of strategic objectives are achieved, but the outcome is different to what was originally anticipated. Outcome risk exists whether or not partner risk is significant. Outcome risk is likely to increase in scenarios where the level of partner risk is high. An example of this is the breaking of the alliance between the Dutch *KLM Dutch Airlines* and the Italian *Alitalia Airlines* in 2002. The alliance was initially formed for the classic airliner sector reasons, such as joint booking systems, joint ticket sales and baggage handling. At first, the alliance appeared to be going well but as time passed, KLM became increasingly disillusioned with the attitude of Alitalia. KLM eventually withdrew from the alliance. Alitalia, however, was not content with this decision and took KLM to the Dutch Arbitration Court in an attempt to recover some of the losses suffered as a result of KLM's withdrawal. The court ultimately upheld Alitalia's claim for €250m. In doing so, however, the court ordered Alitalia to refund €100m that KLM had invested in Alitalia's development of Milan's Malpensa Airport. The slow rate of development of this project was one of the reasons why KLM walked away from the alliance in the first place.
- **Commitment risk.** Alliances and partnerships present a lower-risk profile than mergers and acquisitions in that they are easier to reverse. There have been some examples of mergers and acquisitions that have been truly disastrous, and yet once a new company is formed, as in the case of a merger of equals, there is effectively no way back. Typical recent examples of unsuccessful mergers and acquisitions include *AOL–Time Warner* and the former *GEC-Marconi*.
- **Static development risk.** All business activities involve risk of one type or another. It is possible to say that it is necessary to have risk in some form in order for there to be the potential to add value. Any kind of organisational change, whether an alliance, partnership, merger or acquisition, involves the creation of corresponding change risk. Change is, however, necessary as organisations are dynamic and operate within dynamic environments. A refusal to change is a risk in itself as, although that would allow the organisation to avoid the risks associated with the change, it would put the organisation into a position where it would not evolve in relation to external and internal pressures to change.

Risk and risk management are highly complex areas and are covered in detail in the Edinburgh Business School text *Strategic Risk Management*. In the most straightforward analysis, the formation of a strategic alliance is one form of risk response and is specifically a form of risk reduction. It may also be considered as a form of risk transfer where the risk is shared.

An example is a strategic alliance where two or more firms set up a specialist research unit to develop a high-cost innovation. If successful, the innovation could be extremely valuable. There may, however, be a significant risk that the same innovation might be developed first by a competing alliance or company. If the competitor makes the innovation first, the research and development costs committed to developing the innovation may be lost. In this case, the

rewards may not justify the risk if only one company considers the balance of potential risk and reward. If several companies form a strategic alliance and fund the research and development functions collectively, the potential loss to each company in the event of innovation failure is reduced.

It should also be appreciated that alliances and partnerships and mergers and acquisitions generate risks that apply at all levels throughout an organisation. The most common classification system in the literature is as shown below.

- **Strategic risk.** In an alliance, an example of a strategic risk would be the risk associated with the strategic objectives of the alliance. These strategic objectives could be incorrectly defined so that even if they are eventually achieved they do not accurately reflect where the organisation actually wanted to go. Strategic risk in alliances and partnerships tends to be lower than in mergers and acquisitions, simply because the companies concerned can disassociate in the case of an alliance or partnership. There were a number of examples towards the end of the 'dot-com boom' in the last years of the twentieth century. For a number of years, the dot-com bubble had grown and grown and there was no sign of any slowing down let alone a collapse of the market. Many of the dot-com companies were not like traditional companies. They often did not have any significant fixed assets or established brand and their credit rating was often low. This meant that they had less flexibility when the market changed and demand for their services decreased. Up to that point there were lots of examples of non dot-com companies looking to form alliances with or merge with dot-com companies.

  In some cases these alliances went spectacularly wrong, not so much because of poor strategic planning but because the companies concerned were to look too far ahead in what was a rapidly changing market which contained a great deal of uncertainty. A typical example is *AOL Time Warner*. At the time, this merger appeared to be ideal. *AOL* had developed a large Internet-based client structure while *Time Warner* had a great reputation for different forms of entertainment, especially feature films. Using AOL's infrastructure to deliver high quality entertainment to an existing and established customer base seemed to be an ideal strategic choice. The main problem was the rapidly increasing, and to some extent unexpected, increase in competition from Internet service providers. This increased competition had a profound effect in some areas, one of which was broadband Internet access. AOL Time Warner had correctly predicted a large increase in demand for broadband but they made the mistake of thinking that the demand would be for both fast access and content. In other words there was no point in providing broadband access unless you also provided entertainment, films, etc. as well. This slowed down AOL Time Warner's broadband development and other companies that provided broadband access only were able to run ahead and establish large broadband customer bases.
- **Change risk.** These risks include the risks directly associated with the change. In formulating the alliance or partnership the process will presumably be planned in some way. Some aspect of the planning may be incorrect or may be based on assumptions or evaluations that turn out to be unreli-

able, or elements of the implementation process may be flawed, giving rise to a final outcome that is not as envisaged.

- **Operational risk.** The operational aspects of the alliance or partnership refer to the working (operation) of the completed entity. There is always a risk that the operational process of one company (or even of both companies) may fail. For example, an Internet service provider may find its systems compromised by a malicious hacker just after it has formed an alliance with a financial institution to provide an on-line financial advice service.

  In some ways the 2000 alliance between *Toys 'R' Us* and *Amazon* was a classic example. Toys 'R' Us was an experienced children's toy retailer, whereas Amazon was an established Internet trader, specialising primarily in books. The two companies decided to form a strategic alliance so that each company could use the other company's expertise. Toys 'R' Us tried setting up and running its own on-line ordering system in 1999 but the design of the system was poor; the company ended up being unable to meet its delivery commitments and was ultimately fined by the US Federal Trade Commission. It was hoped that Amazon's expertise would allow it to develop a website, ordering system and warehouse/distribution service that would be able to meet customer demand. In setting up its own website, Toys 'R' Us was introducing a very significant operational risk. It was moving into an area where it had no expertise and where its established brand image was at risk. As things worked out, the brand *was* damaged, but not irrevocably. Toys 'R' Us then opted to reduce the operational risk involved by forming a strategic alliance with an established operator in the field.
- **Unforeseeable risk.** No matter how carefully the risk identification and analysis systems are used, there will always be an unforeseeable element that falls outside the risk management system. Unforeseeable risks are those that cannot reasonably be foreseen given the current level of knowledge available. An example would be a sudden change in the risk profile because of the impact of an event that has never occurred before. The terrorist attacks of 11 September forced many companies to realise that their back-up and continuity planning systems, in the event of a major terrorist strike, were inadequate. The attacks also had wide-reaching implications across a range of different industries and sectors. The international airline industry was particularly badly hit. The attacks led to an immediate and devastating fall in demand for flights of all kinds. This sudden slump came on top of several years of general decline in demand for airline seats in all areas except economy flights. The effect of the attacks on the already weakened industry was immediate and extensive. Airline companies that had previously been discussing the formation of strategic alliances suddenly realised that this major unforeseen event had rendered their plans and projections obsolete.

1.4.4 Summary

This section has introduced the concepts of the resource-based and risk-based views of strategic alliances. The approach adopted is important because it

affects the partners' perceptions of what is likely to be involved in forming the alliance and what the potential alliance outcomes may be. In some cases a potentially favourable alliance using the resource-based view may appear much less favourable using the risk-based view.

The following section considers some alternative views on evaluating alliances and partnerships. As with mergers and acquisitions, there are a number of possible approaches to measuring whether an alliance has been successful over a period of time. The method chosen by different stakeholders is crucial. For example, an alliance may perform well in terms of reducing risk, but less well in terms of generating short-term increases in value.

1.5 Evaluating Alliances and Partnerships

1.5.1 Introduction

Alliances and partnerships are formed with specific objectives in mind. These objectives often centre around some kind of overall improvement in the performance of the companies concerned. This gives rise to the concept of performance measurement. To determine whether or not an alliance or partnership can be considered to be successful, it is first necessary to determine the nature of success. The obvious determinant of success is financial performance. Even this determinant, however, is subject to other considerations, the most obvious of which is time. For example, one alliance may generate improved financial performance in the short term but may lead to no measurable long-term improvement. Another alliance may generate long-term financial improvement, but the effects in the short term may be less obvious.

This section considers some of the most popular measures of alliance and partnership success.

1.5.2 Some Performance Measures

In the literature there are numerous examples of performance measures for both alliances and partnerships and mergers and acquisitions. The issue of how to measure success and evaluate performance is important because the various **stakeholders** may view success in different ways. Shareholders are likely to be concerned primarily with the value of their shares over a period of time. In this case the success of the venture is determined by the overall value of the company. Customers may determine success in terms of the company's products and how well these perform in terms of value for money, innovation and reliability.

There are numerous different approaches to measuring the success of alliances. Until recently the literature was dominated by financial measures of success (Geringer and Herbert 1991). Typical success determinants included the return generated on the venture, share price variations and overall profitability. Other measures of success have included:

- **The immediate survival of the alliance.** One measure of success is whether or not the alliance can survive through the early formative stages. The early part of the overall alliance lifecycle is the most dangerous as this is the period that contains the greatest degree of unknown information. It is also often the period in which the greatest degree of organisational change takes place. If process- or people-based conflicts are going to arise, they are most likely to do so in the early stages.
- **The lifespan of the alliance.** Success has also been measured in terms of the overall lifespan of the alliance. For an alliance to be successful it has to offer some kind of benefit or advantage to each partner. If one party to the alliance believes that it does not stand to gain anything from the alliance, there is no point in that party entering as a partner. If an alliance continues for a long time, it does so because all parties to the alliance feel that they are obtaining benefit. Longevity is, therefore, one measure of success.
- **Company value.** An obvious measure of success is share price. If the alliance is working well, one outcome could be increased profitability and therefore enhanced returns. Companies that can show sustained and reliable growth become more attractive to investors, and share prices are likely to increase as a result. As share prices increase, the overall value of the company increases. Investors are, in turn, attracted to shares that demonstrate a sustained value increase, so that demand for shares increases further. There are, of course, a multitude of drivers of share value, of which the alliance or partnership is only one. A particular alliance may be a failure but share values may increase because of other factors. A long-term alliance that creates sustained growth in share value is, however, more likely to indicate venture success than venture failure.
- **Stakeholder perceptions.** In considering the success or otherwise of an alliance or partnership, stakeholders use various measures that range along a continuum from purely objective to purely subjective. Most business people are able to appraise a venture in terms of objective values such as company value, share price, market position and sales down to more subjective values such as prospects for long-term success and likely future alliances. By balancing their objective and subjective appraisals most experienced business people are able to make a reasonably accurate assessment of how successful an alliance has been, currently is, and is likely to become.
- **Increased innovation and new product development.** In some cases, the alliance may be formed with the specific objective of increasing the rate and standard of research, development and innovation output of one or both partners. In some cases, such as industries or sectors that are characterised by high levels of change, this could be an overriding requirement. In the longer term, increased performance in these areas is likely to lead to increased company value and shareholder perceptions but, in the short term, launching new products more quickly than before could be a basic requirement for survival and/or growth.
- **Key person movements.** Mergers and acquisitions and alliances and partnerships necessarily introduce change into the corporate system. This change in turn generates a degree of instability. Instability in turn tends to result in

the movement of personnel, often at all levels of the organisation. If senior or other key personnel start to move, the chances are that the alliance is not working effectively.

Most companies rely on a number of key individuals. Sometimes these are senior managers. On other occasions the key people could be located lower down the authority structure. This applies especially in companies that rely on research and development and on constant, rapid innovation. The loss of key people can only damage the organisation, and such events are likely to indicate that the alliance or partnership is misaligned.

- **Disputes and conflict.** In forming an alliance two or more companies have to work together. In doing so the two process and cultural centres have to adapt to working within new constraints. In some cases, this adjustment and realignment can generate conflict as it is discovered that aspects of the production systems are incompatible, or that aspects of culture cannot easily be modified. In some cases disputes and conflict could be short-term problems that resolve themselves with time. Conflict that progresses and propagates can be much more serious, and as with key person migration (see above), the net result can only be damaging to the organisations.
- **Renegotiation of the alliance contract.** Alliances and partnerships may or may not involve a formal contract. Where contracts are in place, one or more partners may seek to renegotiate the contract. This could occur because the partner concerned feels that it is at a disadvantage or is not obtaining as much benefit from the merger as was anticipated. In other cases, an alliance or partnership may initially be formed as a loose collaboration. If this initial collaboration proves to be successful, the partners may seek to formalise the agreement through a formal contract. In this case the fact that contract negotiations are initiated is a sign that the alliance has been successful.
- **The development of multiple alliances.** Sometimes alliances are successful, and as a result the partners seek to extend the alliance. Rather than allowing new members to join the alliance, the partners might form a joint or multiple alliance with another successful alliance. This type of approach often occurs internationally, where an alliance that is successful in one country is extended to embrace compatible successful alliances based in other countries.
- **Alliance partners withdrawal.** The fact that one or more alliance partners withdraws from the alliance does not necessarily imply that the alliance has been unsuccessful. The alliance will have been performed with specific objectives in mind. If the alliance achieves these objectives, it has been successful. Once the objectives have been achieved, one or more partners may feel that, having been successful, the alliance has served its purpose and it is time to withdraw. Alternatively, a successful alliance may continue to run and new objectives may be set for it.
- **Additional partners joining the alliance.** If further members seek to join the alliance this is usually an indication that the alliance is perceived as being successful. The decision of another partner to join may be objective or subjective. An objective judgement could be based on the past performance of the alliance, whereas a subjective judgement could be based on the

perceived benefits available to the prospective partner.

- **A sustained customer base.** Alliances and partnerships operate under normal market conditions. If the alliance or partnership is working effectively, the chances are that the existing customer base will be sustained or will grow. Where the customer base erodes, the chances are that the alliance or partnership is not adding value to the companies concerned.
- **Market position.** Market position is an obvious measure of success. If the alliance or partnership improves the market position of the partners over a sustained period, the chances are that the alliance or partnership is working successfully. The equation, however, is usually not as simple as this, as market position is determined by a whole range of drivers. The alliance or partnership is only one of a number of drivers that determine market position. For example, a company might enter into an alliance that adds sustained competitive advantage, but because of, for example, poor customer relations, sales actually fall.
- **Defensive strength.** Alliances or partnerships are sometimes formed as a defensive move in an attempt to deter the competition. This often applies in industries or sectors where a major new competitor breaks into the market and the existing players recognise the threat and join together to resist it. This scenario is typical of industries or sectors involved in constant innovation and change, such as telecommunications. In such cases, the degree of success of the alliance may not depend on increased market share or share values. It is, rather, based on the degree to which the combined effort does indeed resist incursions by the new major competitor. In some cases, such as the mobile telephones industry, alliances of this type have successfully limited incursions by mega companies such as *Microsoft*, which could otherwise have easily and quickly come to dominate the mobile telephone software industry.

It should be stressed that the degree of success of an alliance or partnership is a complex issue, and it is often not possible to express success in terms on one set of values. In many cases, measures of success are diverse and interlinked. In terms of the examples discussed above, a defensive alliance may not improve market position or company value, but it may be extremely successful in defending the partners against incursions by a new and powerful competitor. Partners may leave an alliance even though it is adding value to the companies concerned and is viewed positively by stakeholders, simply because the alliance has achieved its initial strategic objectives.

It is therefore important to adopt a balanced approach and to develop an appreciation of **success interdependency**.

Success interdependency considers the full range of success drivers, and balances the contribution to overall company success made by the alliance or partnership. This is important because some alliances may appear to be more successful than they actually are whereas others, while successful, may appear to fail. In real alliances and partnerships, in most cases, it is not possible to isolate any one single determinant of success. In most cases, success can be expressed in terms of a number of different variables, each of which has to be considered as part of a larger overall picture.

An attempt to illustrate the complexity of the consideration is shown in Figure 1.2.

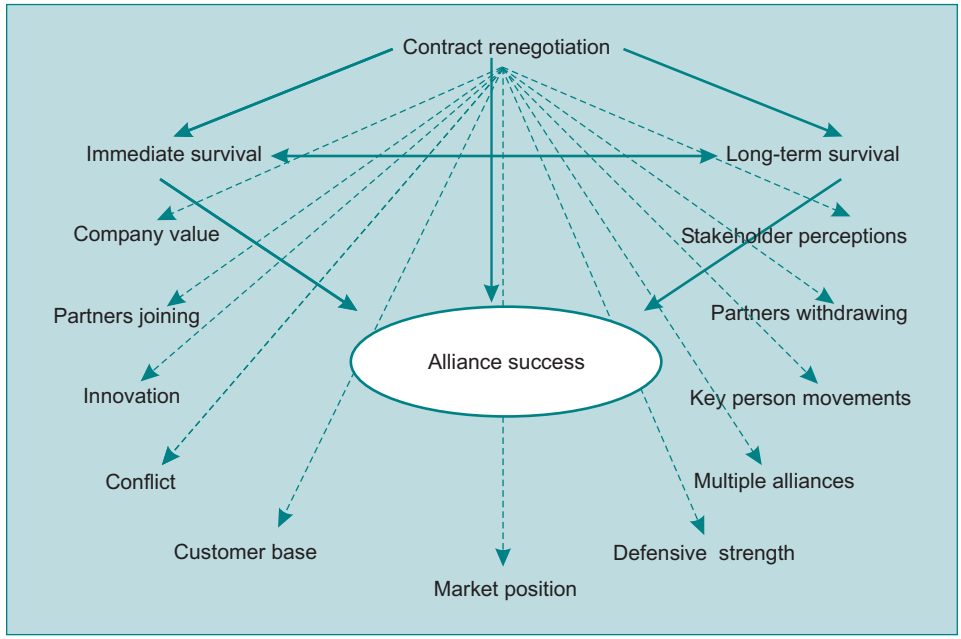


Figure 1.2 Alliance success measures

The overall picture is considered in terms of the contract negotiation determinant of success. Any contract negotiation has an immediate impact on the short-term and long-term prospects of survival of the alliance or partnership. These relationships are shown as solid arrows in Figure 1.2. Short-term and long-term survival are clearly linked and are shown as sold arrows in Figure 1.2. There is, therefore, a set of intrinsic links between long-term and short-term survival, and between these two variables and contract renegotiation. Favourable contract renegotiation will generally serve to promote both short-term and long-term survival, and as these are both determinants of long-term success, the overall prospects of alliance success are increased.

Contract renegotiations also have an indirect impact on the other determinants of alliance success. For example:

- **Contract renegotiation: company value.** A renegotiation may improve the alliance position of a partner, either within the alliance itself or in the market generally. This in turn may increase overall profitability and attractiveness to potential investors.
- **Contract renegotiation: partners joining.** Contract negotiations may be necessary to allow another partner to join the alliance. This would apply where an alliance is formed initially between two partners and later there arises a necessity or a desire to extend the membership. In other cases, a renegotiation may strengthen an alliance and make membership more attractive to other potential partners.

- **Contract renegotiation: innovation.** The terms and conditions of the original contract may limit the exchange of information or production facilities between the partners, and the alliance may be strengthened where the contract can be modified to improve the degree of cooperation.

It should be clear that alliance success is a complex issue involving a range of interlinked performance measures. There is no single universally accepted measure of alliance success. Whichever measure is used, that measure is likely to be intrinsically linked to a range of alternative measures. It is only when the collective range of measures is considered as a whole that any long-term assessment of overall success can be made.

1.5.3 Summary

This section has considered some alternative approaches to measuring the success or otherwise of alliances. It should be clear that there are a number of different approaches, and the one that is most suitable depends on the nature of the alliance and on the priority views of whoever is making the assessment.

Learning Summary

This module has provided a basic introduction to the concept of alliances and partnerships. It should be apparent that alliances and partnerships are widely used in commerce and industry as a way of improving competitive advantage. Alliances and partnerships can take numerous forms, from loose agreements to the formation of new alliance companies. Companies invest large sums of money in alliances and partnerships. In some cases, the outcomes are of great benefit while in others they are less successful.

There are numerous alliance drivers. Companies may enter into an alliance to increase company value, break into new markets, form defensive groupings and so on. The primary considerations revolve around resources and risks. Alliance partners can share resources in order to generate synergies. If this works, the total competence of the alliance may be greater than the sum of the competences of each individual partner company.

It can be difficult to measure the success of an alliance, primarily because alliances may have a range of objectives. Measures of success are interlinked and have to be considered collectively.

The candidate should now understand:

- what an alliance is;
- what a partnership is;
- how alliances and partnerships differ from mergers and acquisitions;
- the basic choice options between alliances, partnerships, mergers and acquisitions;
- the basic alliance and partnership drivers;
- the concept of the resource-based view;
- the concept of the risk-based view;

- the basic alternative measures of success for alliances and partnerships;
- the underlying complexity of a range of interlinked success measures.

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

Introduction

- In common with the other EBS DBA courses, the alliances and partnerships course can be expressed in terms of a process model.
- A process model simply shows the range and sequences of processes and sub-processes involved in forming and executing an alliance or partnership.
- The EBS DBA alliance and partnerships process model comprises six primary stages. These are listed below.
  - Rationale.
  - Partner identification and appraisal.
  - Planning and negotiation.
  - Formation.
  - Implementation.
  - Feedback and review.
- The rationale stage comprises current status, desired status, and the degree of transformation necessary to move from current to desired. The end result of the rationale stage is the vision.
- The partner identification and appraisal stage comprises partner search, partner identification, partner investigation, preliminary commitment, and final commitment. The end result of the partner identification and appraisal stage is the match.
- The planning and negotiation stage comprises preliminary negotiation, final negotiation, alliance implementation plan, and detailed enterprise-wide risk analysis. The end result of the planning and negotiation stage is the target.
- The formation stage comprises approvals, corporate governance and constitution, and final agreement and/or contract. The end result of the formation stage is the deal.
- The implementation stage comprises work breakdown structure approach, control and identify variance, correct and realign and tradeoff and re-plan. The end result of the implementation stage is the evolution of the alliance.
- The feedback and review stage comprises monitoring, data collection and analysis, generation of performance reports, and review and learn. The end result of the feedback and review stage is the collective review.

The Concept of Alliances and Partnerships

- Alliances and partnerships are ways in which organisations can work together to achieve defined objectives. These objectives could be common to both organisations or they could be specific to each organisation.
- The overall philosophy is the same. The two organisations feel that they can operate more effectively if they work together than they can working individually.

- Alliances and partnerships offer a workable alternative to mergers and acquisitions.
- The word 'alliance' can be defined as a mutually agreed association of two or more parties in order to promote the common interest of the parties.
- Some literature sources define alliances as horizontal associations within the supply chain where two or more organisations that provide similar products or services work together for a specific reason.
- Partnership can be defined as a relationship, either contractually supported or otherwise, between two or more parties each of whom shares joint and several liability for the actions of the whole.
- In the literature, partnerships are often defined in terms of being freely entered into by both parties, as being for the benefit of both parties, and where both parties largely retain their own freedom of action.
- Some literature sources define partnerships as vertical associations within the supply chain where two or more companies that provide different, although probably related, products or services, work together for a specific reason.
- A merger or an acquisition can be defined as the combination of two or more parties into one new party.
- The main difference between a merger and an acquisition lies in the way in which the combination of the two companies is brought about.

Alliance and Partnership Drivers

- Typical drivers include:
  - a requirement for a specific skill or resource;
  - a desire to acquire a new market or customer base;
  - geographical consolidation;
  - buying into a growth sector or market;
  - strategic focus;
  - diversification;
  - new technology;
  - sector pressures;
  - capacity reduction;
  - vertical integration;
  - the stock market and the economy in general;
  - increased management efficiency;
  - globalisation;
  - stepping stones.

Two Views on Alliances and Partnerships

- The literature suggests two main views on alliances and partnerships. These are the resource-based view and the risk-based view.
- The resource-based view assumes that the alliance is driven primarily by the consideration of resources; primarily in terms of the resources the company

already has in relation to the resources it needs to increase its competitive advantage.

- The risk-based view assumes that alliances and partnerships are driven primarily by the risk involved in the enterprise.
- A typical resource-based classification includes:
  - Resource type 1: Finance.
  - Resource type 2: Technology.
  - Resource type 3: People.
  - Resource type 4: Production.
  - Resource type 5: Management.
  - Resource type 6: Brand.
- A typical risk-based classification includes:
  - financial risk;
  - partner risk;
  - outcome risk;
  - commitment risk;
  - static development risk.
- the risk profile can also be considered in terms of:
  - strategic risk;
  - change risk;
  - operational risk;
  - unforeseeable risk.

Evaluating Alliances and Partnerships

- There are numerous examples of performance measures for both alliances and partnerships and mergers and acquisitions in the literature.
- Typical performance measures include:
  - the immediate survival of the alliance;
  - the lifespan of the alliance;
  - company value;
  - stakeholder perceptions.
  - increased innovation and new product development;
  - key person movements;
  - disputes and conflict;
  - renegotiation of the alliance contract;
  - the development of multiple alliances;
  - alliance partners withdrawal;
  - additional partners joining the alliance;
  - a sustained customer base;
  - market position;
  - defensive strength.

- The degree of success of an alliance or partnership is a complex issue and it is often not possible to express success in terms of one set of values. In many cases, measures of success are diverse and interlinked.
- It is important to adopt a balanced approach and to develop an appreciation of success interdependency.
- Success interdependency considers the full range of success drivers and balances the contribution to overall company success made by the alliance or partnership. This is important because some alliances may appear to be more successful than they actually are whereas others, while successful, may appear to fail.
- In real alliances and partnerships, in most cases, it is not possible to isolate any one single determinant of success. In most cases, success can be expressed in terms of a number of different variables, each of which has to be considered as part of a larger overall picture.

Review Questions

True/False Questions

These questions are designed to allow an evaluation of the general level of understanding of the subject areas. The questions should be read and answered as quickly as possible. Having read the preceding module it should be possible to answer the majority of the questions correctly, provided a reasonable level of understanding in each subject area has been developed.

Introduction

1.1 The EBS DBA Alliances and Partnership process model comprises seven stages. T or F?

1.2 The rationale stage comprises current status, desired status and partner search sub-phases. T or F?

1.3 The partner identification and appraisal stage occurs after the planning and negotiation stage. T or F?

1.4 The outcome of the planning and negotiation stage is the match. T or F?

1.5 The end result of the implementation stage is the condition where the alliance can evolve into reality. T or F?

1.6 The collective review is the final stage. T or F?

The Concept of Alliances and Partnerships

1.7 Alliances are a relatively new concept. T or F?

1.8 Alliances and partnerships are more or less the same thing. T or F?

1.9 Alliances are sometimes defined as horizontal associations within the supply chain. T or F?

1.10 Partnerships are sometimes defined as vertical associations within the supply chain. T or F?

1.11 Horizontal associations are often associated with companies that make dissimilar products. T or F?

1.12 Vertical associations are often associated with companies that make similar products. T or F?

Alliance and Partnership Drivers

1.13 Alliance drivers are forces that suggest alliances and partnerships as being an option. T or F?

1.14 Alliances are only ever formed as a result of the force generated by a single driver. T or F?

1.15 The most powerful drivers include no financial considerations. T or F?

Two Views on Alliances and Partnerships

1.16 All alliances are formed on the basis of the resource-based view. T or F?

1.17 Alliances are sometimes formed to allow a company to gain access to investment capital. T or F?

1.18 Most approaches using a resource-based view assume six primary resource types. T or F?

1.19 The resource-based view and the risk-based view are mutually exclusive. T or F?

1.20 Under the risk-based view, the only risk level to be considered is strategic risk. T or F?

1.21 Risks across the risk profile are interdependent. T or F?

1.22 Operational risk relates to the consequences of the change involved in implementing an alliance. T or F?

Evaluating Alliances and Partnerships

1.23 Alliances and partnerships are always evaluated in terms of increase financial performance. T or F?

1.24 Alliances that survive in the short term are less likely to survive in the long term. T or F?

1.25 Defensive strength is one measure of alliance success. T or F?

1.26 Measures of alliance success can be realistically considered in isolation. T or F?

Multiple-Choice Questions

These questions are designed to allow an evaluation of the general level of understanding of the subject areas. The questions should be read and answered as quickly as possible. Having read the preceding module it should be possible to answer the majority of the questions correctly, provided a reasonable level of understanding in each subject area has been developed.

Introduction

1.1 In the EBS DBA process model the rationale stage includes:

I current status.

II desired status.

III evolution of evolution necessary.

IV partner search.

Which of the following is correct?

A I only.

B I, II and III.

C II and III.

D II, III and IV.

1.2 In the EBS DBA process model the partner identification and appraisal stage includes:

I partner search.

II partner identification.

III partner investigation.

IV preliminary and final commitment.

Which of the following is correct?

A I only.

B I, II and III.

C I, II, III and IV.

D II, III and IV.

1.3 In the EBS DBA process model the planning and negotiation stage includes:

I current status.

II preliminary negotiation.

III alliance implementation plan.

IV approvals.

Which of the following is correct?

A I only.

B I and II.

C II and III.

D II, III and IV.

1.4 In the EBS DBA process model the feedback and review stage includes:

I approvals.
II final agreement and/or formal contract.
III work breakdown structure.
IV performance reporting.

Which of the following is correct?

A I only.
B I, II and III.
C II, III and IV.
D IV only.

1.5 The end result of the rationale stage is:

A the vision.
B the target.
C the deal.
D the collective review.

1.6 The end result of the rationale feedback and review stage is:

A the vision.
B the match.
C the evolutionary conditions.
D the collective review.

The Concept of Alliances and Partnerships

1.7 Alliances are generally described as _____ within the supply chain.

A vertical associations
B horizontal associations
C diagonal associations
D retrospective associations

1.8 Partnerships are generally described as _____ within the supply chain.

A converse associations
B horizontal associations
C vertical associations
D retrospective associations

1.9 Forming a strategic alliance is generally:

A much more costly than forming a merger.
B much less costly than forming a merger.
C about the same cost as producing a merger.
D slightly more costly than forming a merger.

Alliance and Partnership Drivers

1.10 Alliances are generally driven by:

A a single driver.
B one or two drivers.
C a small number of drivers.
D a significant number of drivers.

1.11 Example drivers include:

I a requirement for a specific skill or resource.
II a desire to acquire a new market or customer base.
III geographical consolidation.
IV buying into a growth sector or market.

Which of the following is correct?

A I and II.
B I, II and III.
C I, II, III and IV.
D II, III and IV.

Two Views on Alliances and Partnerships

1.12 Most resource-based views include a series of standard resources type including:

I time.
II finance.
III technology.
IV people.

Which of the following is correct?

A I only.
B I and II.
C II and III.
D II, III and IV.

1.13 Most risk-based views include a series of standard risk types including:

I outcome risk.
II commitment risk.
III static development risk.
IV time risk.

Which of the following is correct?

A I only.
B I, III and III.
C I and IV.
D II, III and IV.

Evaluating Alliances and Partnerships

1.14 It is generally safest to consider alliance success evaluation in terms of:

A a single measure of success.
B one or two measures of success.
C a small number of measures of success.
D a significant number of measures of success.

1.15 In general terms determinants of alliance success can be considered

A singly.
B in pairs.
C in small simple groups.
D in large complex groups.

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