

# Mba strategic managment

Business, Management



Introduction After reading John R. Harbison and Peter Pekar's article " A Practical Guide to Alliances: Leapfrogging the Learning Curve" I have been thinking about successful corporate alliances; and how companies could use this ' middle-ground' approach, to focus on their capabilities, retain their competitive edge, and enhance ROI. According to the authors, corporate alliances help to leverage differential capabilities of partners to access incremental opportunities, and improve ROI. Based on a survey of 700 companies, the authors claim that companies which succeed in alliances significantly improved their ROI. The authors also claim that as company gains more experience in forging alliances, their success-rate improves, thereby, favorably impacting profitability. For the most part, the authors have successfully argued that corporate alliances, and collaboration, would become a strategic differentiator between those who flourish; and, those who perish, in the global competitive turf. Reflecting upon the contents of the article, I question, is the ' bonding spree' (as in alliances), always better than ' buying spree' (as in acquisitions) of the past? So the classic management question, ' to make or buy,' has shifted in a refined sense, ' to acquire or to ally?' I believe, the middle-ground approach of corporate alliances, is playing safe; lowering " I" and increasing " R" of ROI.

### Hypotheses

The hypothesis I developed in synthesizing my questions in this area are as follows:

1. A company's sustained growth and competitive edge is derived through ' middle-ground' strategic alliances, than extreme M&A.
2. Overly tactical approach, rather than building reciprocal trust, between

allying partners leads to failed alliances

Test

The articles I researched to support and/or refute my hypothesis are summarized below:

a) Pekar, Peter. & Margulis, Marc, S. (2003). Equity alliances take center stage: The emergence of a new corporate growth model. Ivey Management Services.

In this article, the authors emphasize that equity alliances are emerging as a new corporate growth model. The authors note that between 2000 and 2002, corporate alliances have risen from a mere 25% to 62%. This encompasses industries ranging from heavy engineering, automotive, durable goods to entertainment, media, business and financial services. Interestingly, of top 50 global alliance-forming firms averaging 150 publically announced alliances, 25% are equity-based. Studies quoted by the authors indicate that alliances are yielding 50% higher ROIs for the top 1000 U. S. and non-U. S. global companies as compared to their core businesses. The success trend of alliances and their encompassing reach to all kinds of industries upholds hypothesis-1. While bi-lateral, and multi-lateral due diligence, and co-planning is important to the success of an alliance, the authors also point out that corporate managers must realize that alliances are predicated on shared risk and prudent use of resources. Alliances for that reason should not be construed as a corporate tactic, but a long-term durable partnership to enhance future capabilities and sustenance at market place. To that extent, the authors' findings seem to infer hypothesis-2; though quantitative evidence to state that overly corporate tactic led to failed alliances is not

discussed.

b) Cherian, Mathew, Flores, Myrna, & Srinivasan, G. (2008). Critical Success Factors to Collaborate in Cross Border Alliances: Experiences of Indian Manufacturing Enterprises. SMF conf. 08: IIT Kanpur.

In this paper, the authors have examined the efficacy of cross-border alliances specific to Indian Manufacturing Enterprises. Based on a case study of four companies in India, the authors opine that these manufacturing firms benefited in sharpening their competences to become part of supply chain of global OEM companies. In this limited context, the authors enumerate eleven critical factors for success in cross-border alliances, grouped into: strategic, environmental, structural and temporal. Whilst the authors evaluate alliance success in terms of financial and market growth, they are quick to emphasize the value creation in the alliance that the capabilities of partners assure. The authors conclude that true alliances can lead from 'people-cost-arbitrage' to innovation in the long term. Hypothesis-1 is indeed upheld in this paper inferred from the performance of alliance partners; but more significantly, hypothesis-2 is qualitatively emphasized through moving up the value chain, than merely, operating performance factors.

c) Sharma, Harish (2001). Corporate Relationships: Pros and Cons. Research Project, University of Ottawa.

The author brings up an interesting point that 50% of alliances formed in recent times are amongst the competitors in the same industry. Rivals are becoming allies; competition is giving way to collaboration and cooperation (a. k. a. co-opetition). This only re-emphasizes Jack Welch's famous comment, " If you think you can go it alone in today's global economy, you

are highly mistaken.” Perhaps, in times of global economic recession, even more. All these lead to support of hypothesis-1. The author further opines, customers’ relationships may be tactical; but alliance relationships are strategic. It corroborates with hypothesis-2 that the emphasis in alliances should be towards cementing trust, and long term reciprocal partnership to move up the value chain. The focus should shift from: gaining competitive advantage with current capabilities to building better future capabilities.

### Reflection

Upon reflection, the key insights I have gleaned from capturing questions, developing hypotheses, and reviewing a limited amount of literature in this area are as follows:

Strategic alliances are not merely a fad. Global competition and shrinking time-to-market for products and services necessitate long term reciprocal partnerships.

Strategic alliances should take a long term view in fostering mutual trust, and sharing of resources from a strengths perspective; to move up the value chain, and sustain competitive edge in future.

Failing to take time to select the right partner leads to disastrous consequences. Getting to know partners culture and how it influences, both inside and outside the business environment is crucial for success of alliances.

### Questions

How does a company forge strategic relationships where corporate cultural differences are wide?

In recessionary economy, what role do strategic relationships play to retain competitive edge?