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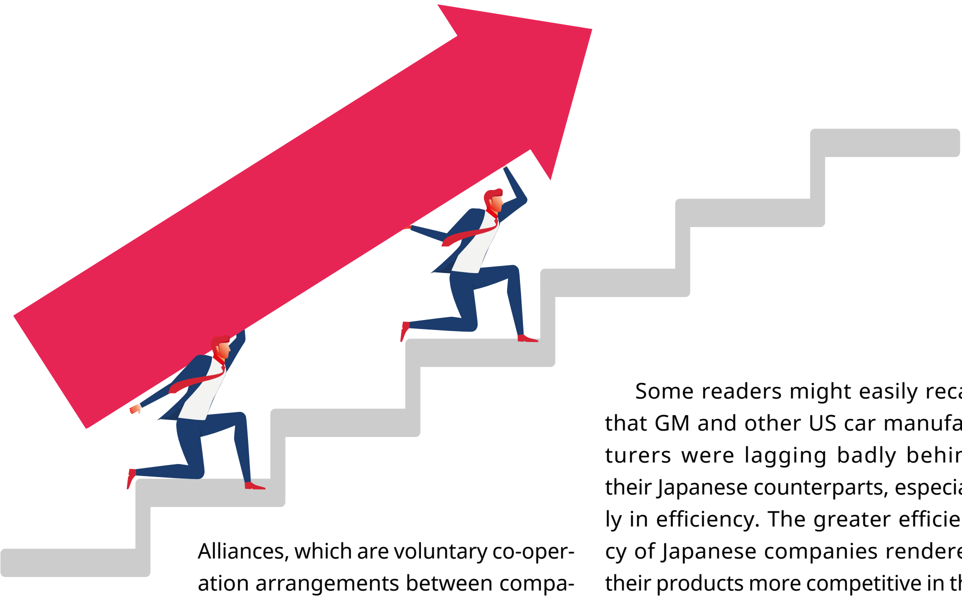
# Developing capabilities through strategic alliances

By ***Korcan Kavusan***

**Never underestimate the potential of a commercial alliance. Just as in the classic equation one plus one equals three, the combined strength of two companies to achieve a set business goal can, if properly managed and encouraged, achieve results that stretch well beyond its original objective.**



Alliances, which are voluntary co-operation arrangements between companies, have long been a route that companies have taken in order to achieve business goals that they don't have the technological or financial resources to target on their own.

During my research I came to understand that there are two key long-term benefits of alliances. The first is learning from one's partner or partners. The alliance struck between General Motors (GM) of the USA and Toyota of Japan in the 1980s for the joint production of cars represents a good example of how companies can enhance their competitiveness by collaborating with competitors.

Some readers might easily recall that GM and other US car manufacturers were lagging badly behind their Japanese counterparts, especially in efficiency. The greater efficiency of Japanese companies rendered their products more competitive in the market place.

GM wanted to observe what Toyota was doing to make itself more efficient and competitive with the aim of applying any lessons it learnt to its own car production. For Toyota, the partnership offered a route into the US market. As a result of joint work over the years, GM was indeed able to enhance its production efficiency by applying lessons learned from Toyota.

## Finding the right balance

What does it take to learn effectively from alliance partners? My research shows that similarity in partner technology is an important determinant of knowledge transfer across alliance partners. But the right balance must be struck. The ideal is to partner with a company with a moderate degree of similarity of technology. If the similarity is too great, there will be little or even nothing new to learn. If too dissimilar, there is a lot to learn but it could be difficult to acquire, understand and retain the new knowledge.

Moderation is the key, providing common ground for mutual understanding while leaving space for acquisition of new knowledge and skills. The tale of Goldilocks suddenly springs unbidden to mind: not too similar, not too dissimilar, but just right.

The other overarching benefit of alliances is that they allow companies to capitalise on their own established abilities by combining them with the complementary capabilities of their alliance partners. The resulting complementary specialisation can be very worthwhile to rapidly develop innovative products.

The partnership between Mercedes-Benz and Swiss watchmaker Swatch is an example of how the whole of a partnership can be greater than its parts. The resultant Smart car might not be to everyone's taste but it came into existence because of the combination of the mechanical and engineering skills of Mercedes-Benz and the design expertise of Swatch.

Although a moderate degree of technological similarity is ideal for learning from alliance partners, it is the least favourable condition for complementary specialisation, my research finds. Rather, to exploit the combina-

*"Moderation is the key, providing common ground for mutual understanding while leaving space for acquisition of new knowledge and skills."*

tion of complementary capabilities, the technologies of alliance partners should either be highly dissimilar, allowing each partner to focus on its own area of expertise, or highly similar, providing partners with flexibility to allocate alliance tasks.

I also found that experience in previous alliances will improve the prospects of future success. Such experience helps capitalise on both learning and complementary specialisation opportunities in new alliances. Understanding and co-operation are both required to optimise progress. Each party needs to convince the other(s) that they are in the venture together. Previous experience will have taught them how to work together to manage the alliance and avoid basic mistakes.

## Greater capabilities

The alliance between IBM and Apple announced around enterprise solutions back in July 2014 shows how alliances can equip companies with valuable capabilities that can be useful beyond the particular alliance. This example of how two computing giants have been able to derive mutual benefit from joining forces also helps underline how companies need to take this into account to fully benefit from their overall collaboration efforts, in addition to narrowly defined benefits of each individual alliance.

While Apple had seen its mobile gadgets – like the iPhone and iPad – used in the workplace by individuals who had purchased them, there had still remained the bigger challenge of persuading large enterprises to adopt them on the kind of massive scale that might turn around the slumping sales of Apple's tablet. So far, according to innovation technology website VentureBeat, the partnership has led to the creation of 100 enterprise apps.

In conclusion, the most important implication of my research is that companies should think about alliances not just as "one-shot" activities; they can in the right hands be used to go beyond the original focus and business goals outlined in the underlying contract.

In today's volatile competitive environment, the lone wolf approach doesn't work. Even the largest companies cannot afford to go it alone and will sometimes need access to external knowledge, be it from their competitors, suppliers or buyers, if they are to remain innovative. Alliances are therefore more important than ever; wise companies are those that make their alliances a part of their overall capability development efforts. ■

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