Collaboration: the new core competency in an era of joint ventures and alliances

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It used to be that if an entity wanted guaranteed access to new skills or other resources such as scale, or distribution channels in overseas markets, without being dependent on a partner it had to obtain these by merger or acquisition.

Successful M&A depend on the acquirer’s ability to choose the appropriate target, acquire it cost-effectively, and integrate the acquisitions into its existing operations, or create a new combined entity post-merger. In M&A, although the thrill of the chase and the structuring of the eventual deal are what make the news, the real work starts after the papers are signed and the Lucite awards despatched to corporate shelves.

The golden age for M&A was the latter half of the twentieth century, due to the availability of low cost capital in the UK and the US. Famously good at acquisitions was Hanson Trust, created in the UK in 1964. Its greatest success was Imperial Tobacco, acquired in 1986 for £2.5 billion, portions of which were divested for £2.3 billion, and the residue improved by Hanson so much that by 1994 it was worth £2 billion. A notable contemporary conglomerate is India’s Tata Group, whose M&A strategy is to ‘expand capabilities’ rather than merely acquire assets.

But even in the right economic conditions, success eludes many. M&A are a costly and time-consuming business requiring due diligence and oversight from competition authorities. Many surveys report widespread disappointment with the results, and suggest that the majority of M&A fail to deliver the expected benefits. In its 2009 survey of the post-deal performance, KPMG International found that 73% of companies fail to create value from M&A activity; and 39% of deals actually reduced value.

The most important factors for M&A success seem to be a M&A strategy linked to the organisation’s business plan (rather than reacting to opportunistic acquisitions); properly conducted due diligence; and effective integration, with a common problem being the integration of information systems. Integration of people, processes and information can initially be a destructive process before new relationships and modes of operation are created.

KPMG were surprised to find that only half (53%) of corporate acquisitions had been fully integrated, despite the intentions otherwise of management before the event. KPMG commented on the importance of effective integration, advising that fully integrated acquisitions were shown to be twice as likely to
enhance value as those that remained standalone entities. There are only a few circumstances under which acquisitions should be kept separate – for example, in a multinational acquisition where there is not a good cultural fit between companies concerned.

For those dissatisfied with M&A, there is an alternative which offers organisations access to the scale, markets, distribution or other channels they seek, without many of the problems caused by transferring assets and people – such as the valuation of assets and liabilities (the bulk of due diligence), ‘storming and norming’ of teams, and meshing together processes and data. Moreover, these alternatives offer the flexibility and speed of response required by the twenty-first century economy. They are joint ventures and alliances.

Joint ventures and other alliances

A joint venture (JV) enables two or more parties to pool their resources to undertake specified activities, and is governed by a contract which specifies roles and how proceeds will be shared. A strategic alliance is suitable for more enduring relationships. For all types of alliance, failure on the part of one party can significantly damage the reputation, performance, prospects or relationships of other members. Trust is therefore an extremely important quality in such relationships.

In fact, a recent survey from KPMG suggested that trust was the most important determinant of success for JVs, slightly ahead of strategic compatibility and effectiveness of communications. The overall message from the survey was that JVs were the ‘vehicle of choice’ to achieve growth, during the current economic downturn. 52% of the senior executives polled felt their recent JVs delivered at least what was expected; although a significant proportion (31%) were dissatisfied. However, 50% of respondents expected to undertake more JVs in the near future.

Trends in strategic alliances have been tracked by CIMA’s 2009 Visiting Professor Shannon Anderson. Her research shows that the number of strategic alliances in the USA almost trebled from 1990 to 2000. The prevalence of alliances by industry sector also changed markedly. In 1990, the majority of alliances were formed by manufacturing companies; by 2000 it was service companies.
Making joint ventures and other alliances more effective

JVs are merely a specific type of alliance, so the risks and drawbacks of both are similar. The conditions for success are goal compatibility (partners wanting the same things); synergy (so that acting together, the partners are more efficient and effective than if they were to act separately or with another partner); and a certain amount of equality (so that partners value more or less equally what each other brings to the relationship).

Controlling and managing operations where these occur outside an organisation’s own boundaries causes predictable problems. There are two specific solutions, both enabled by collaborative internet-based techniques, which are based on making the organisational boundaries irrelevant. This requires good communication at all levels of the alliance partners (e.g. by using an extranet\(^1\)); and inter-organisational performance management to identify risks and ensure rewards are shared fairly among participants.

Additional new organisational forms

Once the concept is accepted, that organisations can rely on each other without being locked together as a single legal entity, even looser organisational forms become possible. For example, TrackStar Alliance appears to be a traditional Australian rail infrastructure company but is in fact a temporary virtual organisation made up of five component companies. Aerochain is an e-marketplace for aircraft maintenance. Its members are suppliers, contractors or customers and thousands of transactions are facilitated, but not governed by the network. Both examples of such internet enabled collaboration are discussed further in Beyond enthusiasm: making the business case for your organisation’s use of Web 2.0.

\(^1\) a private internet-based network, which operates like an extension of the company’s intranet to its suppliers or supply chain partners
Conclusion

Joint ventures and strategic alliances offer the benefits of M&A – access to necessary resources – without the irrevocable commitment and time-consuming integration inherent to M&A. Collaboration and trust are key to getting the most out of these new relationships, and both collaboration and trust (through better communications) are facilitated by internet enabled tools. These tools also enable the creation of specific new organisational forms, such as industry consortia and virtual organisations.

To find or more about trends in strategic alliances view the CIMA Professor, Shannon Anderson’s, presentation slides or listen to the archived audiocast on the topic of Management Accounting in Supply Chain and Alliances.