The "4C" Framework for Strategic Alliances[1]

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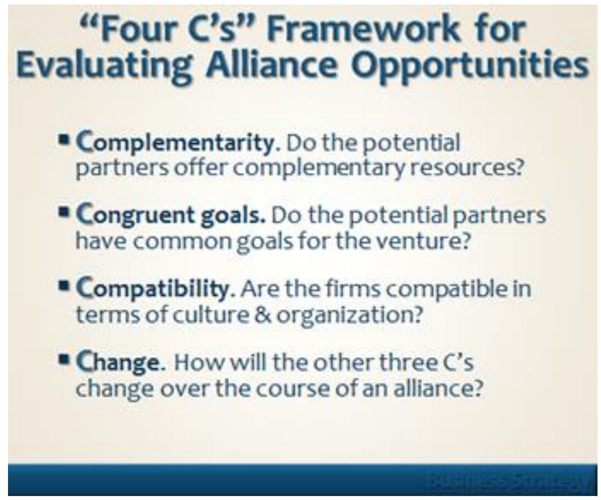
The management of strategic alliances has been more of an art than a science. They are often considered a less risky way to access new capabilities than M&A but alliances have their own pitfalls and firms that lack strong alliance capabilities are less likely to be able to create value with this mode. The management literature identifies indicators of such capabilities such as the presence of a dedicated alliance function (Prashant, Jeffrey, and Harbir, 2002).



Our purpose here is to break down what an alliance capability requires in a more fine-grained fashion at the level of evaluating and managing a given alliance. The 4C framework will briefly highlight the analytic factors required of an effective alliance capability as well as identifying the most critical issues in assessing the potential of a given alliance. As shown, the four elements are: Complementarities, Congruence of goals, Compatibility of organizations, and Change that will occur over the anticipated timeframe of the alliance. We now explore each of these elements in turn.

Complementarities

At the crux of any collaborative relationship is the notion that each party brings important resources and capabilities to the table. As such, the first step is to engage in a broad search for possible partners that have essential resources. A common mistake that firms make is to only look locally (e.g., within a given region) or through existing business relationships (Rosenkopf and Almeida, 2003). In doing so, they may miss critical opportunities. A more rigorous search, particularly in an R&D setting, may include sources such as patents, publications, or technologies that would help the firm unearth potential partners with complementarities that managers would not otherwise find.

Congruent Goals

Managers sometimes make the mistake of assuming that if a partner has strong complementary resources, they will have similar goals and benefit from an alliance. However, goal congruence is a very separate issue and this may be the most important area in which to dig deeper (Oxley and Sampson, 2004). For example, consider a small biotech firm that has developed a new compound and is considering licensing it to a larger Pharmaceutical firm that has capabilities to take the compound through trials and bring it to market. The complementarities are quite evident since it is clear what each party brings to the table. However, the larger firm will have a substantial portfolio and could choose to stop development at a point that the small firm would want to continue investing. It is essential to identify such possible challenges up front so they are specified in the contract and remedies are spelled out.

[1] Adapted from Brouthers, Brouthers, and Wilkinson (1995).

Compatibility

Once it is clear that a potential partner has complementary resources and goals are congruent, one might think that the deal is done. However, even two very willing partners might find it challenging to work together in the face of organizational or cultural incompatibilities. Who is responsible for making decisions? Is there company (or country) specific language that leads to misunderstandings as they try to work together? Some firms have a more modular structure than others and one would anticipate that these might be easier to work with than a partner that is highly integrated and idiosyncratic (Schilling and Steensma, 2001). Again, it is critical to identify these issues up front and develop strategies for how the firms can work together effectively.

Change

This is often an overlooked factor. Alliances occur over a finite period and the conditions in each of the other 3C's (complementarities, congruent goals and compatibility) may shift over that timeframe. For example, alliances have often been considered as learning races where each party seeks to learn important knowledge or capabilities from the other (Khanna, Gulati, and Nohria, 1998). Once the requisite learning has been achieved, the partner may withdraw from the alliance in spirit and perhaps even terminate the contract. Learning shifts the complementarities so that the partners no longer need each other to the same extent. These changes in complementarities or other factors, such as new opportunities, may shift goal congruence as well. One might think that compatibility would not shift however, if there is a leadership change or a change in organizational structure, this could put a once-compatible partnership in jeopardy.

Accordingly, it should be clear that an effective alliance capability would help a firm manage the 4Cs to identify the best alliance opportunities, form the best contracts to facilitate value creation and to manage the relationships over time and navigate any changes that do emerge (especially the end game).

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