Organizational Dynamics (2017) 46, 148—156

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: www.elsevier.com/locate/orgdyn

Right partner for the right venture: Successful collaboration with new and old partners in new and existing markets☆

Alex Makarevich

DIFFERENT STRATEGIC ALLIANCE GOALS AND PARTNERS PRESENT DIFFERENT PARTNERSHIP BENEFITS AND CHALLENGES TO FIRMS

The dictum "Don't go it alone!" has been taken seriously by firms in a variety of industries over the past few decades. The number of organizational alliances has been growing at an unprecedented rate and shows no signs of slowing. Faced with the fast-changing competitive landscapes of modern markets, companies need to be "ambidextrous," combining both exploitation (relying on current strengths) with exploration (finding new strengths). This entails expanding into new markets while protecting competitive advantage in markets where a stronghold has already been secured. However, the actual practice of successfully entering new markets while protecting existing ones is difficult, given that managers must simultaneously address the complexity and dynamism of environmental forces such as globalization, changing product market structures, the emergence of new technologies and competitors, and a growing dispersion of innovation loci across geographical regions and markets. Because firms often do not have the necessary competencies (or resources to develop them) to address competing demands, firms have increasingly turned to alliances in order to coopt their partners' competencies and resources in both new and old markets.

Depending on the goals pursued in selected alliances and partners, firms face different sets of opportunities and challenges. Collaboration with familiar partners in particular requires a different set of benefits and risks than collaboration with new partners, as do alliances formed to explore new markets or to exploit old ones. As firms build and diversify their alliance portfolios, they increasingly need a nuanced understanding of the benefits and risks associated with different types of partnerships, as well as their implications for alliance management. In this article I contribute to reinforcing this understanding by proposing an integrative framework in order to think systematically about alliances with new and old partners in familiar and unfamiliar markets. I illustrate the framework with four cases from the global automobile industry and provide practical recommendations for managers to use in order to maximize the benefits of different partnership types while also avoiding their pitfalls.

MARKET RISK AND ALLIANCES IN OLD AND NEW MARKETS

A lack of practical experience in a new market puts firms at a distinct disadvantage in comparison to incumbent ones, and increases their risk of failure, i.e. it creates *market risk*. Market risk stems from market-specific uncertainties such as whether a firm's product or service will achieve traction with its intended customers, how competitors will respond to the firm's entry, and how technological, regulatory, and other market conditions will affect the firm's success in its respective market. However, firms need to successfully tackle market risk in order to reap the benefits of a new market such as diversification, economies of scale or scope, new sources of revenue, and growth.

Compared to new markets, market risk is low in familiar markets, as firms already have first-hand experience of

☆ This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

http://dx.doi.org/10.1016/j.orgdyn.2017.04.009

dealing with their underlying uncertainties. However, any number of factors ranging from the emergence of new competitors to the development of new technologies, from price wars to shifts in industry economics or government regulations, etc., may erode a firm's competitive advantage. Preserving competitive advantage in existing markets means not only relying on extant competencies, but also developing and modifying them in addition to acquiring new ones.

Thus, firms need to be able to pursue two major goals: entering new markets and protecting existing ones. Partnerships developed in existing markets should enable firms to protect their turf and compete successfully. These partnerships should allow firms to gain new competencies and upgrade and improve existing ones while capitalizing on their knowledge of and investments in those markets. Partnerships that firms create in order to enter new markets need to allow them to deal with market risk effectively.

PARTNERSHIP RISK AND ALLIANCES WITH OLD AND NEW PARTNERS

Research and practice show that—notwithstanding their benefits—alliances are difficult, with some estimates suggesting that over 50% fail to meet their partners' expectations. The breakdown of alliance governance, competition overshadowing cooperation, a clash of company cultures, an inability to reach key agreements or to manage an alliance through the complexities of collaboration can break up even the most promising alliances, leaving firms even worse off than when "going it alone." The possibility that an alliance might fail constitutes *partnership risk*. While partnership risk is inherent in all alliances, it is especially acute in alliances with new partners. With no previously shared experience, firms in a new partnership run the risk of failure to effectively collaborate, i.e. to adjust to working together and developing the alliance coordination and governance mechanisms that let them mutually benefit from cooperation.

Partnership risk is reduced when firms work with familiar partners, providing their collaboration is successful. This occurs because repeat partnership facilitates a relationship characterized by depth and intensity. Certain facets of these relationships are instrumental in reducing partnership risk. First, repeat interaction implies familiarity with the partner's routines, decision-making processes, and other aspects of doing business, which is essential for reaching agreement on important alliance decisions and managing collaboration. Second, firm behavior differs according to whether partnership interactions happen in the context of a close, on-going relationship, or a discrete "arm's-length" one. Firms adhere to more collaborative modes of interaction when working with close partners. Third, the more intense the interactions between partners, the more partners develop trust. This helps to smooth over contractual relations and it serves to preclude uncollaborative behavior and opportunism in alliances, as well as reducing transaction costs.

Trust and Learning in Alliances

The importance of trust in alliances is exemplified by the failed Volkswagen-Suzuki partnership. In 2009, the two companies signed an alliance agreement that would provide access for Volkswagen to the fast-growing Indian market, where Suzuki had already established a foothold with its partially-owned Maruti venture. In exchange, Suzuki would get access to Volkswagen's fuel-efficient engine technology. However, just seven months after the alliance agreement was signed, Volkswagen accused Suzuki of breaking the alliance terms by continuing to buy diesel engines from Fiat. A bitter dispute ensued that lasted for four years. It ended in the vindication of Suzuki, but the experience was so unpleasant for Suzuki that the company resolved to "go it alone." Failure to (1) establish effective collaborative mechanisms and (2) to build trust sealed the fate of this alliance.

Old and new partners also differ in another significant aspect of an alliance: learning. An important aspect of trust that develops in relationally-embedded interactions with old partners is that it facilitates the exchange of tacit, fine-grained information. Many similar-minded people who know each other well may share more subtle and sensitive information with each other than they do with strangers. Firms in embedded partnerships can exchange tacit knowledge and expertise that they would not share with new collaborators. This knowledge, although difficult to obtain, makes a big difference to the success of an alliance and the firms' performance. However, working with new partners leads to different learning advantages. One of the chief reasons for partnerships is the acquisition of new competencies from a partner, and new partners provide firms with ample opportunities for this. This advantage is not present to the same extent in alliances with "old partners".

Thus, allying with old and new partners provides different kinds of benefits and challenges. The question is, what types of benefits are more valuable for any given goal? Firms need to be able to evaluate partnership benefits depending on whether they aim to utilize new or existing partners to expand into a new market, or to strengthen their position in an old one. Based on my research in the global automotive industry, I have developed a framework to systematically think about different types of partnerships and how to best manage them.

A FRAMEWORK FOR COLLABORATION IN OLD AND NEW MARKETS

The proposed framework, shown in Fig. 1, consists of four quadrants corresponding to different partnership scenarios. I discuss each of the scenarios in turn, illustrate the framework with specific cases from the automotive industry, and provide recommendations for firms pursuing each one.

Entering a new market with new partners (Quadrant 1) exposes firms to both market and partnership risks. Consequently, I label this quadrant "*High-risk exploration.*" Entering a new market with a familiar partner mitigates the risks associated with a partnership, and provides greater safety for the venture. Quadrant 2 is therefore labeled "*Safe-mode exploration.*" Quadrant 3 represents a scenario where firms continue operating in an old market with new partners. It is denoted "*Synergistic exploitation.*" Tapping into new partners' competencies through a partnership under conditions of low market risk results in synergies benefitting the partners. Finally, I label continued operation in an old market with old partners (Quadrant 4) "*Exhaustive exploitation,*"