Wharton
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NANO TOOLS FOR LEADERS®

STRATEGIC PARTNERING: DRIVE GROWTH AND REDUCE RISK

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes — with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

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THE GOAL:

Determine what types of partnerships are the best match for your strategic goals, increasing your success in managing uncertainty, reducing risk, and driving growth.

NANO TOOL:

All companies need growth strategies that minimize risk while enhancing their competitive positions. As the need to respond quickly to market opportunities accelerates, so does the difficulty and risk. And many companies don't have the necessary resources and assets available for a rapid response. Partnerships can decrease costs and increase flexibility, thereby minimizing risk. But many organizations are all too familiar with the risks of partnerships themselves; and when they avoid those risks by opting out they lose the potential of some highly advantageous alliances.

Wharton management professor Harbir Singh has developed a way to mitigate those risks — and realize the full advantage of partnerships — by employing the right kind of partnering strategy. Singh has identified three distinct strategies for successful alliances, each with unique strategic objectives, key success factors, and potential problems. By clearly identifying what you want to achieve through the partnership, and choosing the appropriate strategy, you can stretch your innovation dollars, share in the costs of investments, better handle uncertainty, and access new resources, capabilities, and markets.

- A **Window Strategy** uses a partnership as a window onto new technologies or developments in your industry by providing access in real time to their progress. It's appropriate when there is a high level of uncertainty because it helps you stay in the flow of new ideas, explore multiple paths, and reduce uncertainty about possible alternatives. It also lets you understand new ideas and technologies without over-investing, keeping you agile in a fast-changing marketplace. Successful Window Strategy partnerships are formed with companies that are making promising progress on one or more of your strategic objectives. Potential challenges include leakage of your firm's technologies and managing a shifting web of partnerships.
- The role of an **Options Strategy** partnership is to create real strategic options for the firm and/or build a capability platform by creating a combination of people, routines, and assets that can be scaled up or down. It's used when there is a moderate amount of uncertainty about which option(s) will ultimately succeed, because it lets you make a calculated bet without prematurely committing to just one option. For example, you can make moderate investments in compa-

nies with new technologies or services, with options to expand your involvement if the firm becomes a winner. The potential challenge of this strategy is that companies are often reluctant to shift quickly after investing.

- A **Positioning Strategy** partnership is appropriate when there is a low level of uncertainty and you want to partner with another firm to create a best-in-class advantage. It can help you achieve scale- or scope-based advantages, optimize market segmentation, or acquire a new customer base. Successful Positioning Strategy partnerships are formed between firms with complementary capabilities who seek to create a combination with the best capabilities in the industry.

HOW COMPANIES USE IT:

- The Medicines for Malaria Venture (MMV) partners with dozens of pharmaceutical and biotech companies to manage a large and diverse portfolio of antimalarial drug projects. MMV's partnerships are part of its **Window Strategy**, which aims to build a strong pipeline of molecules leading to new medicines needed to eradicate malaria. The strategy reduces the R&D timeline while increasing the number of potential effective medicines.
- French oil and gas company Total works with partners to improve the efficiency of alternative energy source Dimethyl ether, methoxymethane (DME)'s direct synthesis process. Total is experimenting with pre-commercial production of DME fuel from a pulp residue known as spent liquor as part of a European consortium led by Volvo. This partnership represents an **Options Strategy**, in which there is some uncertainty about both the energy source and the most effective, economical, method of production. By working with the consortium, Total has the opportunity to access future winning technologies while committing a limited amount of resources.
- Renault and Nissan began their highly successful partnership in 1999. The goal of their shared **Positioning Strategy** is to achieve ranking among the world's top automakers in terms of quality and value, new technologies, and profit. In an industry that experiences relatively low levels of uncertainty, the two companies together create positional advantages that neither could achieve alone.

ACTION STEPS:

The following steps will help you determine which type of strategic partnership will help you best meet your needs and deal with current levels of uncertainty as they impact returns on the business.

1. Identify the goal(s) that you want to achieve from the partnership: (A) Do you need to track technologies or developments in your industry, learn what they mean, and stay in the flow of ideas? or (B) Are you seeking to create new options for the firm and/or build a capability platform? or (C) Are you looking for scale-based advantages, market segmentation, or a new customer base?
2. As you look at the level of financial and managerial resources you plan to invest in a new venture, consider both the magnitude and the level of uncertainty about the expected returns. The role, scope, and nature of alliances will change depending upon the degree of uncertainty faced by the firm. Are you experiencing (A) high levels of uncertainty, with a wide range of risky options for growth; (B) moderate levels of uncertainty, under which you can make some strategic bets on a narrower range of growth options; or (C) relatively low levels of uncertainty, when growth is possible primarily by increasing scope and/or scale?
3. Identify your partnering strategy based on your answers to questions one and two. "A" answers would lead to a Window Strategy; "B" answers to an Options Strategy; and "C" answers to a Positioning Strategy. Once you've

identified your approach and your goals, clarify your partnership strategy and objectives with your potential partners to ensure that it will be successful for all and ensure a sustainable long-term alliance.

SHARE YOUR BEST PRACTICES:

Do you have a best practice for entering strategic partnerships? http://whartonleadership.wordpress.com/

ADDITIONAL RESOURCES:

- *Wharton on Managing Emerging Technologies.* George S. Day, Paul J. H. Schoemaker, Robert E. Gunther (Wiley, 2000). Includes a section on alliances that provides approaches for and examples of the three partnering strategies.
- *The Keystone Advantage: What the New Dynamics of Business Ecosystems Mean for Strategy, Innovation, and Sustainability.* Marco Iansiti and Roy Levien (Harvard Business Review Press, 2004). Argues that companies can protect and ensure their own success, or undermine it, depending on how they foster the combined health of the network they operate in. Bases insights on "keystone species" in biology that work to proactively maintain the healthy functioning of their entire ecosystem because their own survival depends on it.
- "When to Ally and When to Acquire," Jeffrey H. Dyer, Prashant Kale, and Harbir Singh. *Harvard Business Review,* July-August, 2004, 108-115. Provides a framework to help organizations decide between acquisition and alliance by analyzing three sets of factors: the resources and synergies they desire, the marketplace they compete in, and their competencies at collaborating.
- Harbir Singh serves as Faculty Director of and teaches in *Strategic Alliances: Creating Opportunities for Growth*, and *Global Strategic Leadership*. He also teaches in the *Executive Development Program*, *Mergers and Acquisitions*, *Strategic Thinking and Management for Competitive Advantage*, and other Executive Education programs.

ABOUT NANO TOOLS:

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, Director of Innovative Learning Solutions at Wharton Executive Education. It is jointly sponsored by Wharton Executive Education and Wharton's Center for Leadership and Change Management, Wharton Professor of Management Michael Useem, Director. Nano Tools Academic Director, Professor Adam Grant.