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Why or Maybe Why Not Have an Alliance! - Case Studies of the Security Industry

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Executive Summary

Throughout the fall of 2006 and spring of 2007, more than 60 interviews were conducted on the topics of alliance and network building within the security industry. The interviews coupled with studies of academic research on the matter resulted in a number of pros and cons for alliance building as well as some general knowledge on the topic. The strongest facilitator for alliance building within the security industry has proven to be interpersonal relations as well as trust.

Background and Theory

The ability to stay competitive in terms of skills, competencies, and offerings is ever so important, and typically these qualities can be obtained either by organic growth or mergers and acquisitions (M&A). However, both options pose some noteworthy challenges: organic growth typically is slower and growing faster on a fast-growing market demands a lot of work that companies do not necessarily have the time and energy to execute. M&A is typically a faster way to achieve scale and reach, but can be costly and still take time and energy, given the demands on due diligence and post-acquisition activities to merge the new with the existing operations. Alliances and inter-firm collaboration are thus options worth considering. Teaming up with partners can offer functions benefiting from scale, provide possibilities for market expansion and penetration, add offering components, open new networks, and create a forum for knowledge sharing. Even though alliances have steadily increased in popularity they are difficult to manage, and approximately half of all alliances fail. According to Weiss and Visioni (2004) the top three reasons for alliance failure are: 1. Poor or Damaged Relationships between firms 64%, 2. Poor Strategy and Business Planning 30%, 3. Bad Legal and Financial Terms and Conditions 6% (see Figure below). Some firms are, however, much more successful than others in managing alliances or creating value from them suggesting that there is still much to learn on the subject. As the importance of alliances has grown, so has the stack of literature on the topic. This text has no ambition to give a complete account for all research on alliances, nor can you get all the answers from interviews, but specific concepts and theories that can be used to explain why, or why-not companies choose to work within an alliance.

Top 3 reasons for alliance failure

- Poor or Damaged Relationships Between Firms
- Poor Strategy and Business Planning
- Bad Legal and Financial Terms and Conditions
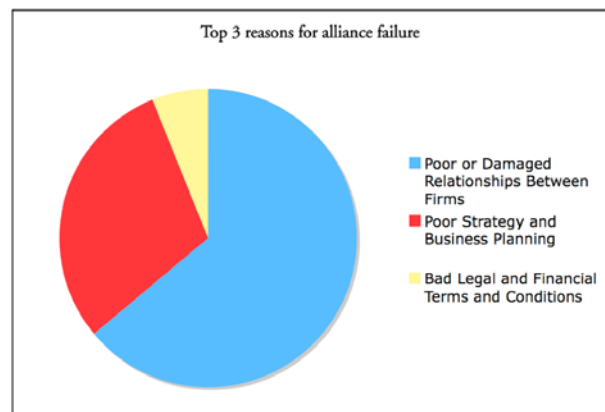
Method

The work to date has been centered upon in-depth interviews with top officials within the security industry as well as the IT Industry. During 2006 and 2007 more than 60 interviews with alliance managers, presidents, and CEOs in companies such as Assa Abloy, Axis, Broadware, Cisco, Convergint, GE, HiD, IBM, Lenel, March Networks, Mileston, Pelco, Securitas Systems, Sun, and 3Com were conducted. A number of phone interviews as well as site visits were also conducted.

Results

Reasons to partner

- Resource utilization

    Resource utilization represents economies of scale and combination of resources that enables the same amount of products being produced with fewer resources, or the same amount of resources produces greater output. This category also includes transaction costs as well as time to market arguments.

- Coordination

    Coordination is foremost related to vertical integration. The actors of the value chain are often complexly nestled in their internal value chains and dependent on their peers further up or down in the extended chain. Companies may then seek interfirm collaboration to increase coordination and control of previously uncontrolled parts of the chain. The reason for alliance building can also be in order to co-ordinate better different activities and to facilitate learning and knowledge sharing.

- Positioning

    Alliance building has been described as a way of positioning the company for possible future developments. Multinational companies in mature businesses may seek cooperation with technological leaders on upcoming market and western companies may team up with local market leaders in developing countries to ensure a foothold if the market booms. The alliance can be seen as a precursor to M&A and as a way to mitigate risk.

Reasons not to partner

- Culture

    The cultural aspects of why companies choose, or at least should choose, not to join an alliance is often overlooked, where great cultural differences is a starting point for having a harder time to communicate if this is coupled to no, or low personal relationships there is a significant risk for alliance failure. These differences can also be viewed in the light of putting personal interests in focus where the alliance interest should be in focus.

- Intent

    The companies' intent will make or break the alliances. If there is a lack of commitment as well as resources to the alliance it cannot succeed. This can be due to divergent expectations between the partners or different organizational and strategic intent. The intent can also be different depending on the values or ideas a company represents, which makes this an important item to define for any company not just when they enter into an alliance.

- Time and knowledge

    Time and knowledge are important in the aspect that in an alliance there is a greater need for consensus than within an organization and this slows down the decision making process, if there is a great need for speed or action this is something that will cause stress and problems unless dealt with. There is always a risk of expropriation of knowledge, or of deskilling the company so there needs to be rules and regulations for how knowledge should be communicated. On the back end of this knowledge gap there might be a lack of knowledge within the companies in how to manage and maintain alliances, which often also leads to failure.

General knowledge around alliances within the industry

- Managing expectations
  The ability to manage the expectations around the alliance is paramount. This is important internally as well as externally where both aspects represent both possibilities as well as threats to the company as such as well as the alliance.
- Managing projects
  The ability to manage projects was held as one of the key factors for success by most interviewees and many felt that this was a skill that is often missing. Training and education in management of projects and diverse groups was one idea of improving results.
- Sell through
  Often alliance projects start at the top end of the companies deciding to interact, but just as often there is a lack of sell through of the idea and values behind the alliance within the companies involved, resulting in an adverse feeling towards the project often resulting in failure.
- Risk assessment
  More often than not there seems to be a complete lack of risk assessment in and around the alliance process. This is not only evident in the actual go/no go for the alliance but more so looking to the effects of how the alliance will potentially change the company or how a failed alliance could change current customers views of the company. There are a number of risk issues in and around alliances that are never even mentioned or investigated.
- Owning the customer
  When companies start alliances and they do become successful there is the issue of who owns the customer. This might seem a rather pleasant problem, but it can get unpleasant consequences and falls back to the risk assessment issue mentioned earlier.
- Defining success
  Before starting any venture, alliance related or other, there is a need to define what will constitute success. If you get a moving target it is impossible to get success and in the long run this will damage the people involved in the project. It is also important to understand that an alliance might end as an M&A and then the alliance as such has failed or seized to be, but if the M&A was the goal then the project as such has been a success.
- Trust and Relations
  The trust being the bridge that allows the companies within the security industry today to work together in a good matter, it is also trust that allows people to strike out and try to do new alliance constellations such as the Cisco AssaAbloy alliance. The trust that seems to infuse all work within the industry allows companies to share information and ideas in an informal matter that helps facilitate understanding and learning.