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When to Ally and When to Acquire

Key ideas from the [Harvard Business Review](#) article By Jeffrey H. Dyer, Prashant Kale, Harbir Singh

The Idea in Brief

Many companies view acquisitions and alliances as interchangeable strategies for spurring growth. But each strategy has unique advantages and disadvantages. Firms that ignore those differences risk acquiring companies they should have collaborated with or allying with those they should have bought.

To escape this fate, know when to use each strategy. Dyer, Kale, and Singh advise basing your choice on the types of synergies you want, the type of resources you'll need to combine, and market conditions. For instance, if you want to generate synergies by combining your and another company's workforces, forge an alliance. Why? Acquisitions often spark a talent exodus in target firms. But if you're combining manufacturing plants to gain synergies, go with acquisition so you control economies of scale.

Cisco discovered the advantages of knowing when to acquire or ally. Over ten years, it purchased 36 firms *and* entered into 100+ successful alliances. Its market capitalization grew 44% every year.

The Idea in Practice

Synergies		
If...	Consider this strategy...	Example
You want <i>sequential synergies</i> (one company completes tasks and passes the results to a partner to do its part)	Equity alliance (one company invests in an equity stake in the other)	Bristol-Myers Squibb took a 20% equity stake in ImClone in return for the marketing rights to ImClone's cancer-fighting drug Erbitux, and 40% of annual profits.
You seek <i>modular synergies</i> (managing resources independently and pooling results for greater profits)	Nonequity alliance	An airline and a hotel chain agree that hotel guests earn frequent-flyer miles, connecting consumers' choices of an airline and hotel, both organizations benefit.
You want <i>reciprocal synergies</i> (both firms execute tasks through close knowledge sharing)	Acquisition	Exxon and Mobil knew they had to merge for efficiency throughout their value chain to stay competitive. They could do this by combining all assets and functions.
Resources		
If...	Consider this strategy...	Example
You must combine <i>hard resources</i> (e.g., manufacturing plants) to get desired synergies	Acquisition	To generate economies of scale, home improvement company Masco quickly scales up its acquired firms' manufacturing capacity.
You must combine <i>soft resources</i> (e.g., workforces) to get synergies	Equity alliance	A commercial bank buys an equity stake in a securities firm rather than acquire it, knowing that the bank's culture and compensation structure could drive securities firm employees out the door.
You estimate being saddled with <i>extensive redundant resources</i> after collaborating with another organization	Acquisition	When computer makers Hewlett-Packard and Compaq merged, they aimed to save \$2 billion in the first year by eliminating redundancies across every function.
Market Conditions		
If...	Consider this strategy...	Example

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Further Reading

Articles

Not All M&As Are Alike--and That Matters

Harvard Business Review

March 2001

by Joseph L. Bower

Even if your company has decided on an M&A instead of an alliance, keep in mind that different acquisitions/mergers can have very different strategic aims. These include: dealing with overcapacity through consolidation in mature industries; rolling up competitors in geographically fragmented industries; extending into new products and markets; substituting for R&D; and exploiting eroding industry boundaries by inventing an industry. Each strategic intent presents unique integration challenges. To address those challenges, be sure to assess the acquired company's culture. Depending on the type of M&A you're considering, your approach to the culture in place will vary, as will the degree to which culture will interfere during integration.

Your Alliances Are Too Stable

Harvard Business Review

June 2005

by David Ernst and James Bamford

Whenever your company opts to establish alliances, you need to look critically at them afterward to see whether they're delivering their promised value. If they are not, you may need to restructure them or intervene to correct performance problems. Evaluate your ventures on these dimensions: ownership and financials, strategy, operations, governance, and organization and talent. Identify root causes of problems in any of these dimensions, not just the symptoms. Decide whether to fix, grow, or exit the arrangement. If you're going to fix or grow, assemble 3-4 restructuring options, test them with shareholders, and get parent companies' approval. Execute the changes, assigning accountability to specific groups or individuals.

Launching a World-Class Joint Venture

Harvard Business Review

February 2004

by James Bamford, David Ernst, and David G. Fubini

Even if an alliance is right for your company, it may not necessarily deliver on its promised value. How to ensure success? Devote adequate time and attention to planning the launch and executing the deal. The launch phase begins when the parent companies sign a memorandum of understanding, and it continues through the first 100 days of the alliance's operation. During this period, convene a team dedicated to exposing inherent tensions early and tackling four key tasks: 1) Building and maintaining strategic alignment across the corporate entities, each of which has its own goals, market pressures, and shareholders. 2) Creating a shared governance system for the parent companies. 3) Managing the economic interdependencies between the parents and the alliance. 4) Building a cohesive, high-performing organization.

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