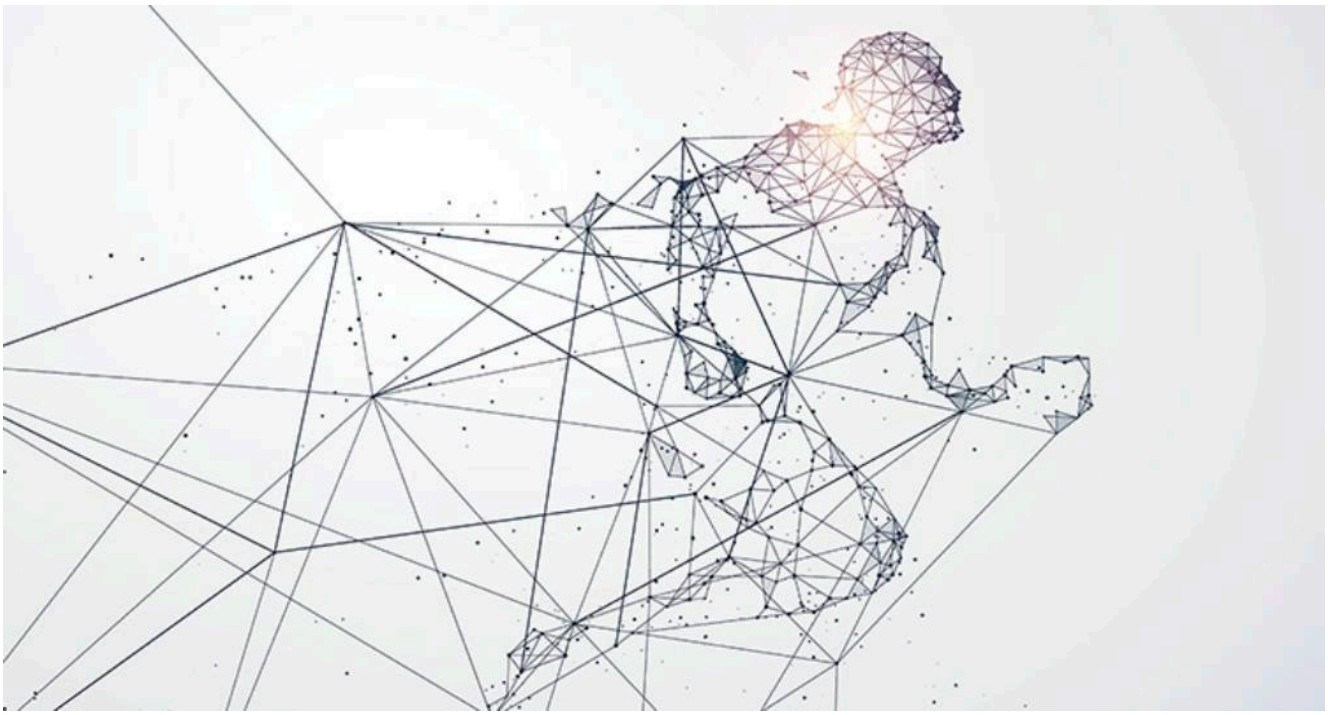
How much should a strategic alliance evolve?

Strategic alliances, like the companies that form them, must evolve to adapt to their changing environment. But what is the optimal level of adaptation?



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A study by Xu Jiang, Feifei Jiang, Mike W. Peng and África Ariño, holder of the Joaquim Molins Figueras Chair of Strategic Alliances at IESE, takes a transaction cost perspective to analyze how changes in circumstances (i.e., technological and demand uncertainty) and partners' actions (i.e., behavioral uncertainty) lead to adaptations in the governance of alliances aimed at optimizing their performance.

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The importance of uncertainty

The authors' report reinforces the hypothesis that the greater the uncertainty about demand and partner behavior, the greater the adjustments companies make to their strategic alliances.

However, when it comes to technological change, there is a point at which increased uncertainty no longer warrants a major adaptation.

This is reflected in the figure below: the relationship between the level of demand uncertainty and the degree of adaptation made to the alliance is linear and positive. And the same can be said for uncertainty about partner behavior. When it comes to technological uncertainty, however, the pattern does not hold true. At a certain point, increased uncertainty no longer warrants further changes to the alliance; indeed, changes are often reduced.

Why? Transaction costs could be the reason. When there is a high level of technological uncertainty, companies tend to adjust and adapt the conditions of their agreements. But when that happens, and the level of uncertainty continues to rise, they perceive that the costs associated with changes to the agreements outweigh the potential benefits. It's simply not worthwhile.

Adapt, But Only So Much

Based on their research, the authors draw a double conclusion:

- The greater the uncertainty surrounding an alliance, the more frequent and extensive the adaptations that companies make.
- While they support the findings of previous research that improved alliance performance derives from some of these adaptations, they also say that positive impact may decrease when a certain threshold is exceeded.

From these conclusions, the study offers some clear, emphatic advice to alliance managers: be flexible, and adjust to deal with uncertainty... but don't go overboard.

When circumstances are in flux, it may be reasonable and effective to adjust the governance mechanisms of a strategic alliance to achieve better synergy between the terms of the agreement and the environmental conditions.

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But the managers of the alliance must be aware that the optimal degree of adaptation will depend on the type of uncertainty at hand. They also need to be especially cautious if that uncertainty relates to technological change, which is common in more dynamic and disruptive industries.

As always, it's a case of weighing up cost and benefits, with some quirks specific to strategic alliances.

Methodology, Very Briefly

The authors analyzed the data for 178 Chinese companies that maintain strategic alliances with other firms. China was chosen because few countries have gone through as much change and uncertain circumstances in terms of demand, technological change, and the creation of all sorts of joint ventures — precisely the three sources of uncertainty that this study analyzes.

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