Course OGE | IOGE
Organizational Design and Management
Introduction to Organizational Design and Management

Interorganizational Strategies

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The contents presented here has been collected from different sources (Books: Organizational theory, design and change (Gareth R.Jones); Modern Management (Certo); Managment and Organizations (Robbins Coultler) and lectures notes from several origins). Several additions, modifications and updates have been made by Américo Azevedo (ala@fe.up.pt) *in order to support the learning process defined in the context of OGE program .*

After studying this class, you should be able to:

- Justify the adoption of Interorganizational strategies
- To describe the different types of Interorganizational Strategies
- To explain the concepts of Symbiotic and Competitive interdependencies
- Know the differences between strategic alliances and joint ventures

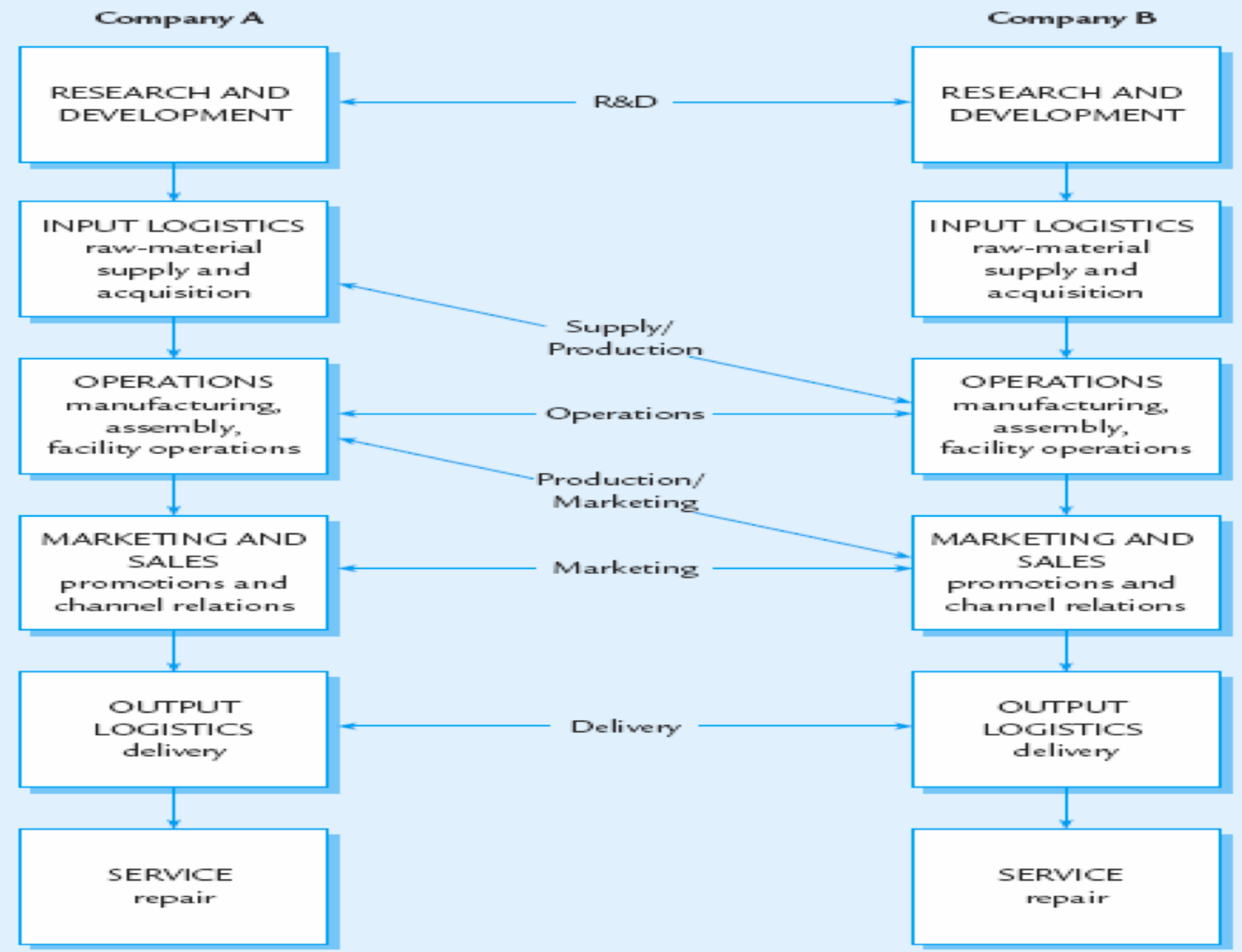
When to Go for a "Strategic Alliance"?

- Organizations depend on their environment for the resources they need to survive and grow → they try to <u>minimize its dependence on</u> other organizations for the supply of scarce <u>resources</u>
- An organization devises inter-organizational strategies <u>to protect and enlarge its domain</u> and to find ways of influencing other organizations in order to make resources available
- Organizations seek to minimize the <u>costs of exchanging resources</u> in their environment and the costs of managing exchanges inside the organization

When to Go for a Strategic Alliance?

- Adding value to products
- Improving market access
- Strengthening operations
- Adding technological strength
- Enhancing strategic growth
- Enhancing organizational skills
- Building financial strength
- Resource dependency

When to Go for a Strategic Alliance? Some Examples



Source: Adapted from Lorange, Peter, and Johan Roos. 1992. Strategic Alliances. Cambridge, MA: Blackwell.

Resource Dependence Theory

how the external resources of organizations affect the behavior of the organization

- RDT explains how organizations depend on external resources and must actively manage these dependencies to survive and grow.
  - (The theory originated in the 1970s with the publication of The External Control of Organizations: A Resource Dependence Perspective by Jeffrey Pfeffer and Gerald R. Salancik)
- <u>A theory that argues</u>
  - the goal of an organization is to <u>minimize its dependence</u> on other organizations for the supply of scarce resources in its environment
  - and to find ways of influencing them to make resources available
- Organizations require critical inputs (e.g., raw materials, technology, funding) from external sources (e.g. Apple depends on TSMC)
- Organizations that control scarce and valuable resources have greater bargaining power (e.g. google in digital advertising)
- Organizations take proactive steps to reduce dependence and increase control (e.g. vertical integration, strategic alliances, JV,…)

Transaction Cost Theory

- Transaction cost theory
  - **TCT explains how organizations decide between making (internal production) or buying (external market transactions) based on the costs of economic exchanges.** (Developed by Ronald Coase (The Nature of the Firm, 1937) and later expanded by Oliver Williamson (Markets and Hierarchies, 1975).)

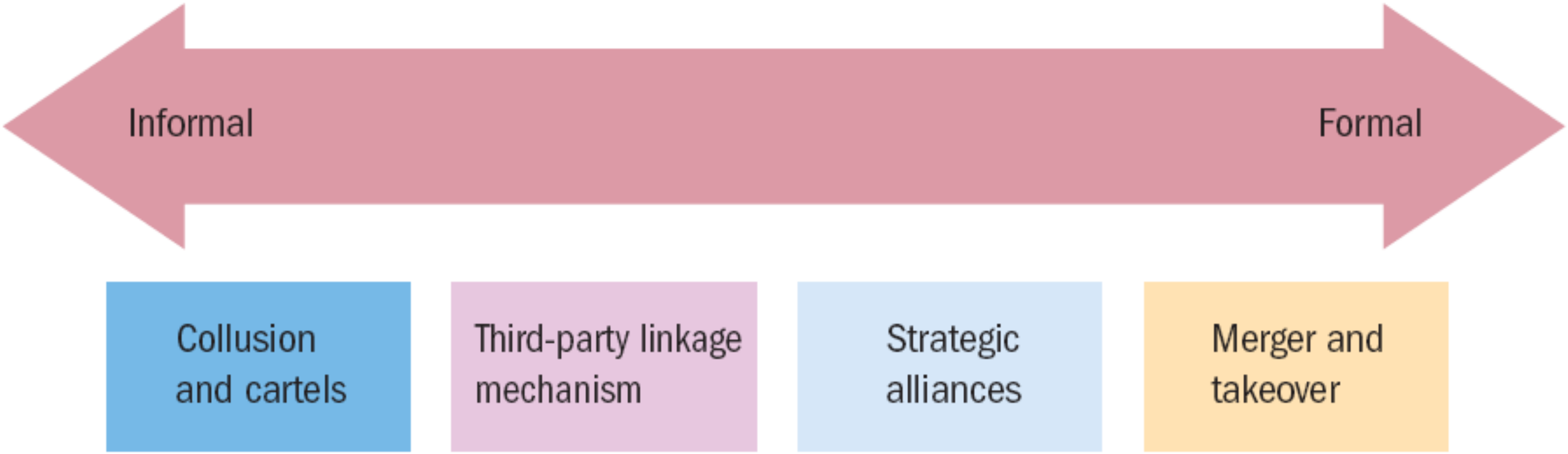
- Should a company produce goods/services internally or outsource them?
  - If transaction costs are high → Firms internalize production (hierarchy).
  - If transaction costs are low → Firms use the market (outsourcing, contracts)

- Using Transaction Cost Theory to Choose an Interorganizational Strategy
  - Managers can weigh the savings in transaction costs of particular linkage mechanisms against the bureaucratic costs

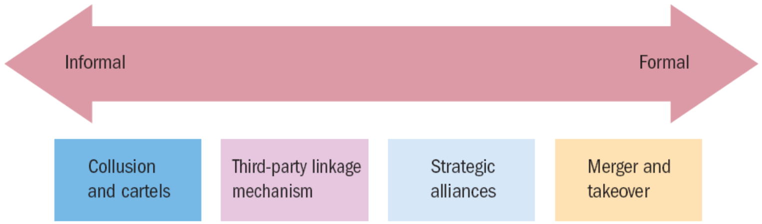
Symbiotic and Competitive interdependencies

- **Organisations interact in complex environments where they depend on each other for survival and competitive advantage**
- Two main types of interdependencies:
  - **Symbiotic** – Cooperation for mutual benefit (e.g., supplier-buyer relationships) - when two or more organizations cooperate because they benefit from each other's existence (e.g. Intel & Dell – Intel provides processors, Dell sells computers. Both companies benefit.)
  - **Competitive** – Rivalries over scarce resources - Organizations that compete for the same customers, resources, or suppliers (e.g. Apple vs. Samsung – Compete in smartphones while both depend on chip suppliers)
- These interdependencies can be managed through interorganizational strategies:
  - a strategy should be chosen that offers the most reduction in uncertainty with the least loss of control

Interorganizational Strategies for Managing Competitive Dependencies



Interorganizational Strategies (II)



- Collusion
  - A secret agreement (sometimes illegal and therefore secretive) among competitors to divide a market, set prices, limit production or limit opportunities (Example: Price-fixing scandals).
- Cartel
  - An association of firms that explicitly agrees to coordinate their activities (agree to fix prices, marketing, and production) (e.g. OPEC (Organization of Petroleum Exporting Countries) – Controls oil production levels to influence prices.)
- Third-party linkage mechanism
  - A regulatory body that allows organisations to share information and regulate how they compete (e.g. Credit Card Networks (Visa & Mastercard) – Competing banks use shared payment infrastructure.)

Interorganizational Strategies (III)

- **Strategic alliances**
  - is a formal agreement between two or more companies to collaborate while remaining independent
  - Competitors **collaborate in some areas while competing in others** to reduce risks and costs.
- **Horizontal strategic alliances** are formed between partners operating in the same business area. (e.g. a strategy to sell a product in multiple markets)
- A **vertical strategic alliance** is a partnership between a firm and its suppliers or distributors.
  - Some firms utilize vertical alliances to produce their products and services.
- **Merger and takeover**
  - The ultimate method for managing problematic interdependencies

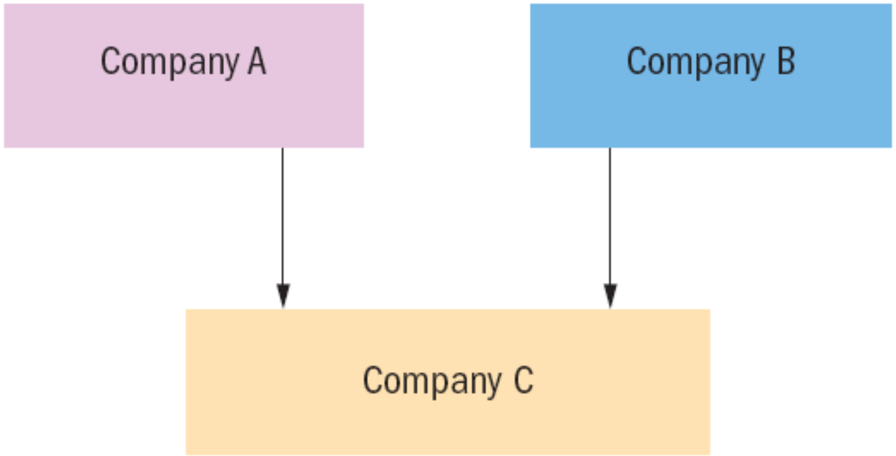
Strategic alliances & Joint Venture

- Non-Equity Strategic Alliance **(contractual agreement, no shared ownership)**
  - License agreements, Distribution agreements, Contract is given to supply, produce or distribute a firm's goods or services - without equity sharing; ex: DaimlerChrysler's supplier network (e.g. **Apple & Foxconn** – Apple **outsources manufacturing** to Foxconn without equity exchange)

- Equity Strategic Alliance (involves shared ownership)
  - A partnership where partners exchange equity but do not form a new organisation (**Renault-Nissan Alliance** – Renault owns **44.3% of Nissan**, and Nissan owns **15% of Renault)**

- Joint Venture
  - Two or more firms create a legally independent company to share resources and capabilities to develop a competitive advantage

Joint Venture Formation



If Firm A and Company B each control 50% of the child company, we refer to it as a 50-50 Joint Venture.

The joint venture is categorized as a Majority-owned Venture if Company A owns 70% and Company B owns 30%.

- Separate legal entity owned by two or more parent companies from different countries
- No need for equal ownership - equity based on cash or other contributions (e.g. one partner brings technology while other partner brings financial contributions)
- Optimal when firms need to **combine their resources and capabilities** to **create a competitive advantage** that is substantially different from individual advantages, and when highly uncertain, hypercompetitive markets are targeted.

Example of a Joint Venture

Accenture and **Siemens** Form **Joint Venture** to Unlock Full Benefits of Smart Grids to Improve Energy Efficiency, Grid Operations and Reliability

Newly formed **Omnetric Group** will bring together the best in information technology and operational technology capabilities from both companies

AMSTERDAM and NEW YORK; Oct. 15, 2013 – Accenture (NYSE:ACN) and Siemens have entered into an agreement to form a joint venture in the smart grid field that will work with utilities to improve energy efficiency, grid operations and reliability.

The new company, named Omnetric Group, will provide the energy industry with advanced solutions and services focused on data management and systems integration. These solutions will integrate operational technologies – such as distribution management and real-time grid operations – with IT systems supporting smart metering, energy consumption and work and asset management.

OMNETRIC Group
A Siemens & Accenture Company

Strategic Alliance vs Joint Venture

- A <u>strategic alliance</u> is often a more flexible, less formal collaborative relationship focused on specific business objectives without creating a new business entity.
  - Control and management are typically exercised through contracts and agreements rather than a separate management structure.
  - Alliances can be more flexible in scope and duration and may be easier to adapt or dissolve as the market or strategic priorities change.
- A <u>joint venture</u> involves forming a new entity with shared ownership, risks, and governance, usually requiring more significant investment and offering a more structured framework for collaboration.
  - A joint venture has its management structure, and decisions are made jointly by the partners.
  - They are often less flexible and more complicated to dissolve than strategic alliances

When Should an Organization Choose a Strategic Alliance vs. a Joint Venture?

- A **strategic alliance** is typically **less formal and more flexible** than a **joint venture**.

- It is ideal when: **Low Commitment is Preferred** – The organisation seeks collaboration **without creating a separate entity**.

- When NOT to Choose a Strategic Alliance?
  - If the collaboration **requires strong governance** or heavy investments.
  - If a **long-term, high-risk commitment is needed** (a JV would provide better control).
  - If a **separate identity is essential** (e.g., launching a distinct product line).

When Should an Organization Choose a Strategic Alliance vs. a Joint Venture?

- A **joint venture (JV)** involves forming a **new, legally independent entity** jointly owned by two or more organisations.

- It is ideal when: **High Commitment & Shared Risks** – Organizations are willing to **invest capital, technology, and resources**.

- When NOT to Choose a Joint Venture?
  - If **companies want to avoid regulatory complexities** (JVs require legal structuring).
  - If one company **fears losing control over intellectual property**.
  - If the market **is highly volatile**, and agility is needed (alliances are easier to dissolve).

Strategic Alliance vs Joint Venture : Important Differences

Factor	Strategic Alliance	Joint Venture
Definition	A cooperative agreement between firms to achieve common goals while remaining independent.	A new, separate legal entity created and jointly owned by two or more companies.
Ownership	No shared ownership; partners remain legally independent.	Equity-based partnership with shared ownership.
Control	Control remains within each company; decisions are based on agreements.	Shared governance with a new management structure.
Investment & Risk	Lower investment and risk; partners contribute expertise and resources.	Higher investment and shared financial risk.
Flexibility	More flexible; can be short or long-term and is easier to dissolve.	Less flexible; formalized agreements make exit more complex.
Duration	Short to medium term (can be long-term if beneficial).	Typically long-term and requires stronger commitment.
Examples	- **Apple & IBM** (partnership in enterprise solutions). - **Star Alliance** (airline collaboration).	- **Sony Ericsson** (JV in mobile phones). - **Renault-Nissan-Mitsubishi** (global automotive JV).

Examples of Alliances and JV

- *Nokia* and Microsoft in *alliance* to make Zune phone
- Star Alliance – Airlines alliances.
- Philips and Sony jointly launched the mini-CD.
- McDonald's with Disney, Coca-Cola & Walmart
- Boeing, General Dynamics & Lockeed in the early 90's, these companies united to win a bid put forth by the Pentagon for the construction of a tactical combat destroyer.
- Alcatel –Fujistsu made a joint venture to develop the equipment for the third generation of cellular telephone
- Samsung & Sun Microsystems cooperated in solution business and next generation business computing system.

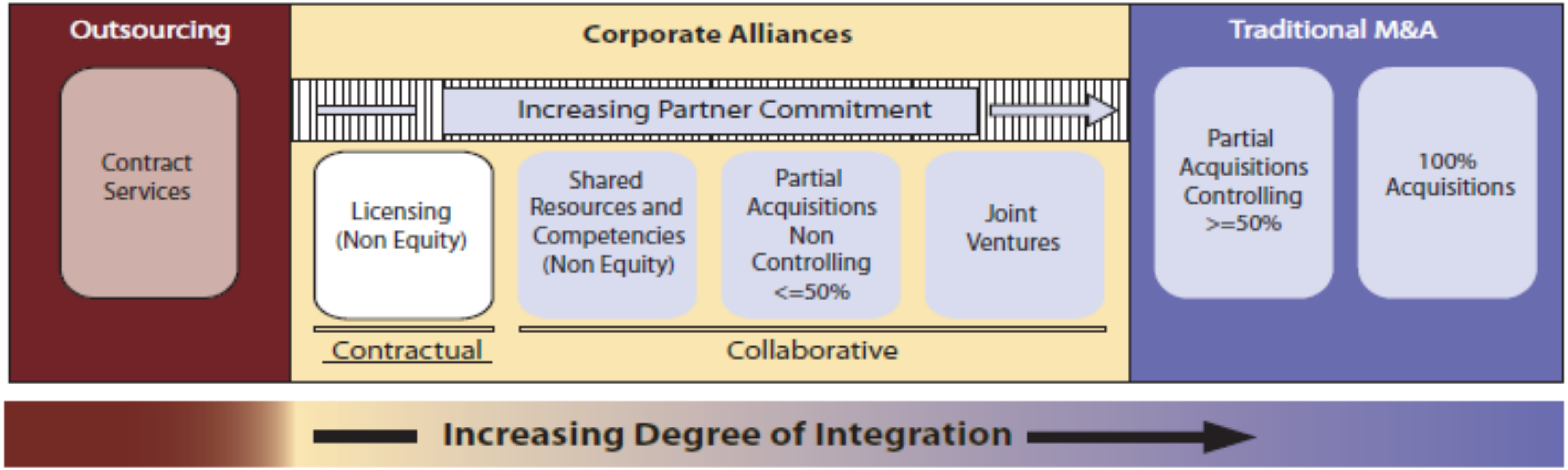
Difference between a strategic alliance and an acquisition

- We can boost growth organically by building and launching new products and services, but these efforts could be not enough to stay competitive → We can accelerate growth inorganically - through acquisitions and strategic alliances
- Both acquisitions and alliances are often used strategies for external growth.
- Where an acquisition involves taking control over another company through obtaining shares or properties,
- an alliance comprises companies that cooperate to pursue shared goals while remaining legally independent.
- In an acquisition, both companies continue to exist, with one becoming the parent of the other
- Mergers are similar to acquisitions, which is why they tend to be grouped together (e.g. M&A)

Licensing and Franchising

- **Licensing**
    - an organization gives another organization the right to make or sell its products using its technology or product specifications.
- A **franchise** is a business that is authorized to sell a company's products in a certain area
    - The franchiser sells the right to use its resources (name or operating system) in return for a flat fee or share of profits

Summary



http://iveybusinessjournal.com/

THE RENAULT-NISSAN ALLIANCE: COLLABORATING TO SUCCEED

- The 1999 French-based Renault and Japanese-based Nissan alliance was launched because each firm lacked the necessary size to develop economies of scale and economies of scope, critical components in the global automobile market.
- Renault has a 44.3% stake in Nissan while Nissan has a 15% stake in Renault, with Brazilian-born Carlos Ghosn as CEO for both companies.
- Under CEO Ghosn's leadership, each company maintains its separate identify while capitalizing upon their collaboration.