Co-Evolution in Alliances
Reading

- Chapter 1 – Introduction Structure and Subject
- Chapter 5 – The Substance of Alliances
- Chapter 6 – Discussion, Infrastructure Alliances and Co-Evolution
Sustaining Collaboration

‘As an alliance is established there is alignment between the parent firms’ objectives and the objectives of the alliance. Alliances require the commitment of a dynamic individual or group of individuals whose personal input leads to the alliance performing. All three levels, parent firms, alliance members and individuals, have to co-evolve. Co-evolution leads to a longer-term alliance if it is still in accord with the underlying business rationale and thereby greater security of revenue. Co-evolution is required at all levels from strategy to delivery and clear, but changing, objectives lead to the delivery of a clear and appropriate result.’

Co-Learning

‘As alliances evolve a number of dimensions come into play with co-learning, often referred to as the most important.

The primary requirements of co-learning in an alliance are “recognition of an identity of interest” which continues over time, and an ability to exchange information, ideas and insights. However, information cannot flow freely in alliances “because it’s sensitive information. Those things [free information flow] will become more difficult to manage as banks, building societies or insurance companies broaden their structures, their markets and the intermingling will become more confused.” Sometimes the strategic alliance will bring specific knowledge and the partner bank will internalize it.’

Co-Learning (2)

‘Despite the above proviso many of those interviewed gave importance to the human processes that led to successful alliances through co-learning. For example:

- “Enormous value from having someone you trust and can talk about strategy” as one CEO remarked (it is lonely at the top).
- That alliances relied on trust, cultural fit, interpersonal support, equal partnership, mutual respect, core desire to maintain the relationship at a professional and personal level, open and honest dialogue, and mutual understanding.

In their daily work the alliance partners used networks and relationships to persuade and develop consensus. This consensus changed as the strategic objectives changed and developed and the positive and negative experiences of alliances determined the nature, management and development of the next alliance.’

Dissolving Cooperation – Ceasing Rationales

‘A strategic alliance is usually established to satisfy a business need – to enter a new geographical or product market, to access new knowledge – and co-evolve as the strategic needs of their parent companies evolve.

Alliances are dissolved when they no longer serve the needs of all the partners. The method of dissolution may range from a total disbanding to an internalization by one partner of the activity-competence of the former alliance. In both cases the alliance has not in some way “failed” but rather delivered what it could or was required to deliver and is no longer an appropriate way for the former partners to meet their business needs.

Again the reasons for dissolution may be as varied as the alliances dissolved.’

The Co-Evolution Framework

‘In the foregoing analysis the co-evolution of the alliance partner strategic intent, in a similar direction, was a prerequisite to the continuation of the alliance.

This co-evolution may be said to take three major forms – parallel co-evolution, convergent co-evolution, divergent evolution, see Figure 6.1.’ (See Slide 8).

The Co-Evolution Framework

Figure 6.1: Schema for Classifying Co-Evolution of Firm Level Strategic Intents in Strategic Alliances


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Parallel Co-Evolution

‘Parallel Co-evolution – This is where the strategic intents of the two firms are evolving along paths that allow the continuation of the strategic alliance in the broad nature as at establishment. The initial matching of intents continues and evolves over time at the same rate, in a similar direction. Any slight changes in the speed of evolution of the individual intents of the member firms or in the degree of parallel evolution are compensated for by the “springiness” or flexibility of the strategic alliance.’

‘Differential Parallel Co-evolution – This is where the evolution of the strategic intents of the two firms are at different rates but in a broadly similar direction. Whilst this allows the continuation of the alliance, the faster evolving firm, for example, may pull the slower evolving firm and the strategic alliance in a new joint direction.’

Convergent Co-Evolution

‘Convergent Co-evolution – This is where the strategic intents of the two firms converge over time and the rationale behind the strategic alliance is strengthened. This strengthening may ultimately lead to the merger of the two firms and the “dissolution” of the alliance.’

‘Differential Convergent Co-evolution – This is where the strategic intents of the two firms evolve at different rates but in a convergent direction. Whilst this allows the continuation of the alliance it may only do so until such time as the faster evolving firm, for example, decides to internalize the alliance and the slower evolving firm, inside its boundaries.’

Divergent Co-Evolution

‘Divergent Co-evolution – This is where the strategic intents of the two firms diverge over time and the rationale behind the strategic alliance is weakening. This weakening may ultimately lead to the dissolution of the alliance.’

‘Differential Divergent Co-evolution – This is where the evolution of the strategic intents of the two firms is at different rates but in a divergent direction. The faster evolving firm, for example, if it finds benefits from the strategic alliance may internalize it or on the other hand it may evolve beyond the alliance.’

Complexity in Co-evolution

‘The three generic, and three sub-generic, concepts above point to the complexity of the concept of anticipated durability. The complexity of the real situation is many layered with:

- the speed of evolution of each firm’s strategic intent changing over time with spurts of innovation interspersed with moments of complacency,
- changes in the nature of co-evolution over time with parallel, convergent and divergent (and differential) episodes being interspersed,
- exponential increases in complexity if more than two firms are members of the strategic alliance with all the firms, and the strategic alliance, being subject to co-evolution of their respective strategic intents. All six classifications of co-evolution (and may intermediate positions) may subsist at the same time in a multi-member alliance,
- the differential effects of the internal and external forces that tend towards inspiration, innovation, and conversely, complacency and atrophy in firms’ strategic intents,
- the further increase in complexity of co-evolution in alliances in few-party and many-party situations.’

'It is possible that valuable insights into the process of effective co-evolution in both strategic and infrastructure alliances can be obtained by combining the proposed research on the new “The Co-Evolution Model” with the existing “Real Option Theory”. A migration of “option models ... from financial markets to corporate decision making” has been seen (Kogut and Kulatilaka, 2004). In “strategically interesting settings ... having made an initial investment, firms can actively engage in follow-on activities that can influence outcomes and identify new possible actions and goals.” (Adner and Levinthal, 2004). The Co-Evolution Model by the author allows for the continuous re-configuration of an alliance (or set of alliances) – at all levels from strategic intent to operational delivery – and adds to the current debate. Adner and Levinthal (2004) suggest that real options, should not be used only to “engage in some prespecified opportunity set” but rather they should be used in a more flexible way, combining “a real options logic for initiating investments ... [with] ... an organisational design that can abandon initiatives efficiently” thereby allowing rapid and fluid co-evolution. It is beyond the scope of this research to examine this confluence of interest and models, but others may well wish to develop this area.'

The Co-Evolution Framework and Learning in Alliances

‘In addition, learning about each other’s capabilities may cause partners’ strategic intentions to diverge or converge... For example, examining co-evolution in the banking industry ul-Haq (2005) identifies three developments patterns:

(1) “differential parallel co-evolution”, in which the evolution of the strategic intents of the two firms are at different rates but in a broadly similar direction;

(2) “differential convergent co-evolution”, in which the strategic intents of the two firms evolve at different rates but in a convergent direction; and

(3) “differential divergent co-evolution”, where the strategic intents of the two firms evolve at different rates, but in a divergent direction.

Although, partners’ absorptive capacity functions as a driver for alliance adaptation, the impact is, to a certain degree, conditioned by the exploitation or exploration intent of the alliance. In exploration alliances, partners’ ability to acquire knowledge is critical, whereas the role of absorptive capacity is of minor concern in exploitation alliances. Therefore, asymmetry between partners in terms of absorptive capacity is likely to trigger adaptation in exploration alliances to control the emergence of learning races (Hamel 1991).’