Key Concepts

In order for leaders to choose the right resource pathways for growth, it is recommended they:

- **Avoid the “implementation trap.”** Do not get stuck trying to force the wrong resource pathway to work. The Resource Pathways Framework ensures that the right resource pathway is chosen in the first place.

- **Develop resources internally when there is a base of relevant internal resources.** Building resources through internal development makes the most sense when resources are “relevant,” or there is a strong organizational fit.

- **Forge alliances with other firms for “tradable” resources.** Borrowing through basic contracts provides a superior pathway to new resources. When a company and its competitors have compatible goals, they can be protected equally in the contract.

- **Choose the acquisition pathway only when all other options will not suffice.** Buying resources through an acquisition makes sense when the firm anticipates needing the freedom and control to make major changes to new resources, has an integration path, and has the ability to retain key people.

- **Realign resource portfolios as time passes and circumstances change.** The Resource Pathways Framework will increase control over particular resources, decrease control over others, and completely divest those that have become irrelevant.

Introduction

In **Build, Borrow, or Buy**, INSEAD’s Laurence Capron and Will Mitchell reveal that the more developed an organization’s process is for choosing resource pathways for growth, the more likely it will succeed. The authors provide readers with the Resource Pathways Framework, a roadmap to determining whether the build, borrow, or buy resource pathway for growth is best suited to an organization’s needs. By adhering to the framework, leaders can successfully grow their organizations without wasting time or resources.
Build, Borrow, or Buy

Laurence Capron and Will Mitchell

The Resource Pathways Framework

In order for a company to compete and grow in today’s ever-changing business landscape, it must have the tools to regularly expand or reinvent its resources. The quick pace of change in competitive markets often creates gaps in companies’ existing knowledge and skills. To close resource gaps, leaders have one of three options:

1. **Build**: internal innovation
2. **Borrow**: enter into contracts or joint ventures
3. **Buy**: merge or acquire

Most companies struggle to find and manage the resources critical for their future success because they choose the wrong paths or get caught in the “implementation trap” where their leaders insist on doggedly pursuing the wrong course of action. The Resource Pathways Framework (RPF) allows companies to select the best option for obtaining resources by comparing the potential risks and benefits of all possible sourcing modes. The following four questions make up the foundation of RPF:

1. Are your internal resources relevant?
2. Are the targeted resources tradable?
3. How close do you need to be with your resource partner?
4. Can you integrate the target firm?

When to Build

When it comes to acquiring new resources, internal development is an appealing option as it allows companies to better integrate, control, and protect core resources. However, blind spots like hubris, limited horizons, and misaligned stakeholder incentives often prevent leaders from choosing the internal resource pathway.

To overlook these blind spots and effectively decide if internal development is best for a company, leaders must assess how relevant their internal resources are. Relevant resources:

- **Have a high level of “knowledge fit.”** The existing knowledge base aligns closely with the targeted resources. This means there is resource closeness or a strong similarity among resources, and resource strength, where the company can develop the needed resources faster, more cheaply, and at higher quality than their competitors.
- **Have a high level of “organizational fit.”** New internal resources fit well with the organizational processes, and no one who has a stake in the old culture and processes resists them. The adoption of new resources should create healthy, performance enhancing competition within staff, and there should be extra financial and human resources to tackle new projects.

Leaders should consider the levels of knowledge fit and organizational fit of the projects they take on to determine if internal development is the best choice. Types of projects include:

1. **Close-knit projects.** These types of projects have high knowledge and high organizational fit. Close-knit projects should follow the path of internal development.
2. **Unrelated projects.** These projects have low fit in the company’s knowledge base and organizational structure. Leaders should consider external sourcing.

Further Information

Information about the author and subject: www.build-borrow-buy.com

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By Mitchell Lee Marks and Philip H. Mirvis
3. **Homeless projects.** These projects have high knowledge fit but low organizational fit. Leaders should consider external sourcing or a less risky internal exploratory environment.

4. **Resourceless projects.** These types of projects have high organizational fit but low knowledge fit. Leaders should again consider external sourcing or internal experiments.

### When to Borrow via Contract

Basic contracts are the first and most straightforward external option and provide specified rights through a sales agreement or more limited rights through a licensing agreement. With a good contracting strategy, leaders can shop freely for resources from third parties without the costs and complexities of acquisition. However, most leaders overlook basic contracts because they are obsessed with control or mistakenly believe that mergers and acquisitions are easier shortcuts to getting resources.

To decide if it is best to acquire a resource by borrowing it through a basic contract, leaders must first determine that the resources are tradable. ** Tradable resources** are those that can be under a contract that protects the rights of both parties. Determining a resource’s tradability requires leaders to ask the following two questions:

1. **Can the targeted resources be defined clearly?** Both parties must have a shared understanding of the following elements:
   - The current nature of the targeted resources, or how developed and clear the resources are.
   - The future value of targeted resources. As a resource’s value rises and falls in different conditions, contracts work best with a shared understanding of the resource’s future value.
   - The working relationship with the resource partner. Leaders must identify the kind of working relationship they need with their resource partner.
2. **Can the resource’s value be protected?** Partners must discuss:
   - **Partner opportunism.** Contracts only work when the parties enforce their contractual rights. Three conditions that must be set are clarity, trust, and law.
   - **Resource leakage.** No chance of valuable intellectual property being stolen.

The following four types of agreements can help leaders identify their targeted resource’s level of tradability and determine whether they should opt for a basic contract or a different external sourcing option:

1. **Modular agreements.** When there is high resource clarity and protection, the resource has high

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levels of tradability and leaders should opt for basic contracts.

2. Combination-demanding agreements. Low levels of resource clarity and protection mean a low level of tradability. In these scenarios, leaders must consider alliances.

3. Undefended agreements. Low levels of resource protection but high levels of resource clarity mean leaders should consider alliances or complex contracts.

4. Interwoven agreements. High levels of resource protection but low levels of resource clarity mean leaders should consider an alliance or complex contracts.

Complex contracts are more stringent contracting options that recognize and articulate any contingencies that may arise during the life of a contract. They typically include hostage terms, where partners suffer consequences if they intentionally cheat or underperform. Hostage terms can include penalty clauses.

Alliances create a paradox. On the one hand, they are attractive because they are cheaper and more flexible than acquisitions. ... On the other hand, executives often worry especially about stoking any current competitive overlap between the parties into a full-blown future rivalry.

When to Borrow via Alliance

When an arm’s-length contract does not meet a company’s resource needs, leaders must consider a more complex external contract like an alliance. Alliances can take the forms of R&D and marketing partnerships or freestanding joint ventures. While alliances are cheaper and more flexible than acquisitions, leaders are often hesitant to choose them because they do not want to share control or payoffs with others. Additionally, they worry the competitive overlap of parties will turn into a full-blown rivalry.

To choose between an alliance and an acquisition, leaders must assess the following:

1. How focused is the scope of the collaboration? Alliances are more likely to succeed with a narrowly focused scope. A narrow collaboration scope includes:

- A limited span of activities. An alliance is more manageable and affordable when it spans a limited number of parties’ functions and activities, like a subset of R&D.

- Simple patterns of coordination. Simple patterns include vertical supply agreements, or when resources are coordinated sequentially and one partner’s output is input for the other’s activity.

2. Are the company’s strategic goals compatible with the partner’s goals? Alignment generally includes:

- Low competitive overlap. Low competitive overlap in current and future markets builds trust between parties and aligns partners’ objectives.

- Balanced resource contributions. The most effective alliances are those where every partner provides key resources.

- Symmetrical learning opportunities. The benefit of learning opportunities must be balanced and affect each partner equally.

- Alliance execution skills. Effective pre-alliance execution skills include the ability to prospect for appropriate partners, assess potential resource value, negotiate, and create business plans. When the alliance is under way, effective execution skills include clearly defining the parties’ roles, providing effective oversight, building strong ongoing relationships, minimizing conflict, and keeping the main goal of the partnership clear.

Additionally, leaders must consider the desired level of closeness between the alliance parties. The lower the desired closeness is, the more successful an alliance will be. Higher levels of desired closeness are better suited for acquisitions.

There are four kinds of alliances leaders must analyze to decide on a suitable resource pathway:

1. Focused and compatible alliances. With high goal compatibility, a low desired closeness with resource partners, and narrow collaboration
scope, these alliances make sense and are often very successful.

2. **Integration-demanding alliances.** In these alliances there is a high level of desired closeness, a wide collaboration scope, and a low level of partner goal compatibility. If these are the circumstances, it is often better for a company to opt for acquisition.

3. **Focused but incompatible alliances.** In these alliances there is a medium level of desired closeness with resource partners, a narrow collaboration scope, and a low level of partner goal compatibility. Leaders should consider acquisition or complex alliances instead.

4. **Compatible but broad alliances.** These alliances are marked by a medium desired closeness, a wide collaboration scope, and high partner goal compatibility. Collaboration in these scenarios requires many points of contact and leaders are better off considering acquisitions or complex alliances.

**Complex alliances** require a strong design and strong commitment from all partners. They can address the challenges of extensive coordination and misaligned goals only if the parties possess strong alliance execution skills.

**WHEN TO BUY**

The buying strategy is only appropriate for a company when more straightforward and transient strategies are not possible. While mergers and acquisitions (M&A) can be powerful tools that reshape a business and allow a leader to set precedence, M&A failures are both common and expensive. Most leaders do not choose acquisitions selectively or walk away from deals that do not make sense. Instead, they choose the resource pathway of acquisitions in the self-interest of building an empire, to prevent their competitors from purchasing a target, or due to a perceived time pressure.

To integrate a target firm successfully in an acquisition, leaders should consider the following questions:

1. **Can leaders map integration clearly?** Leaders need to achieve clarity in the following three areas for every acquisition deal:
   - **Scope of resource combination.** Identify which resources in the target will fill the resource gap and which to leave as autonomous assets.
   - **Scope of resource divestiture.** As acquisitions also come with unneeded resources, leaders must have a process for divesting unnecessary resources.
   - **Integration process timeline.** An exploitative acquisition must be integrated relatively quickly while an exploratory acquisitions benefit from low-intensity initial interactions.

2. **Can leaders keep employees motivated?** Beyond knowing what to integrate, leaders must know how to:
   - **Identify key people.** Leaders must evaluate key resources in context and remember that star players are often great because of the team they work with.
   - **Retain key people.** Leaders must discover what incentives will entice key people to stay: money, career advancement, or new challenges.
   - **Have M&A execution skills.** Leaders must assess whether or not they have the necessary financial and human resources to integrate the target firm with their current organizations.

The following four scenarios will help leaders determine if acquisition is the best way for them to acquire new resources:

1. **Smooth-path acquisition.** There is a clear integration map and high employee motivation. These conditions make for a high level of target-firm

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**Acquisition consists of many steps, each with the potential to either facilitate or derail your success. The real killer, though, is postmerger integration: creating value from blended resources of an acquisition.**
integration, which means leaders can go ahead with an acquisition.

2. **Cliff-edge acquisitions.** An unclear integration map and low employee motivation make for low feasibility of target-firm integration. Consequently, leaders must reconsider their build and borrow options.

3. **Driverless acquisitions.** Clear integration map and low employee motivation make for partial feasibility of target-firm integration. Leaders should revisit their build and borrow options or consider complex acquisitions.

4. **Light-in-the-fog acquisitions.** With unclear integration maps and high employee motivation, there is a partial chance for target-firm integration. Leaders should revisit their build and borrow options and consider complex acquisitions.

**If you obtained resources and then simply displayed them in glass cases, in the business equivalent of a natural history museum, perhaps they would forever remain in a pristine state. But instead, you put them to work creating new value. ... Over time, they are altered and recombined with other resources as your competitive environment changes.**

Complex acquisitions can help keep employee motivation high. Options for complex acquisitions include:

- Breaking M&A into staged steps
- Financial incentives like stock options
- Nonfinancial conditions like expanded career opportunities
- Special consideration with respect to target company’s culture
- A high level of autonomy

**REALIGNING YOUR RESOURCE PORTFOLIO**

As industries and companies change, leaders must learn how to realign their resource portfolios by using the resource pathways framework to increase control over particular resources, decrease control over others, and completely divest any that have become irrelevant.

When it comes to realigning internal resources, leaders have generally reached a point where their level of control over the resources no longer fits their circumstances. There are three realignment options:

1. **More Control of Internalized Resources.** Moving the internal team, exploratory environment, or target firm into leaders’ mainstream organizations.

2. **Less Control of Internalized Resources.** When a firm lacks sufficient knowledge of the technical and market trajectory of its resources, the best strategy may be having less control over internal resources. This requires the firm to increase the autonomy of the internal team or previously acquired firm.

3. **Divestiture of Internalized Resources.** If the following circumstances arise, leaders must consider divesting the resources altogether:

   - Resources no longer suit market conditions
   - They are stifling the development of potentially valuable resources
   - There are duplicate competencies among the resources
   - They want to correct past mistakes

When it comes to realigning borrowed resources, leaders must consider the following three options:

1. **More Control of Borrowed Resources.** To gain more control of borrowed resources, companies must shift from contracts to internal projects, alliances, or acquisitions.

2. **Less Control of Borrowed Resources.** To reduce control of borrowed resources, companies must reduce their scope and commitment with their contractual or alliance partners or shift from alliances to contracts.

3. **Divestiture of Borrowed Resources.** When the circumstances implicate that the resources are no longer strategic, companies must end their alliances and contractual relationships.
Developing Your Enterprise Selection Capability

To use the RPF effectively, leaders must build strong selection capabilities. The selection capability cycle can help leaders achieve this through the following steps:

1. Define a strategic road map and resource gaps.
2. Select the most viable option for obtaining the needed resources with the resource pathways framework.
3. Use the RPF to manage a full portfolio of resources over their life cycles.
4. Develop enterprise selection capabilities by:
   - Balancing portfolio of build-borrow-buy initiatives by ensuring new projects will not create an overreliance on one sourcing mode.
   - Keeping the pipeline stocked with internal and external sourcing opportunities.
   - Gaining experience and coordination across build-borrow-buy modes.
   - Defining the role of leaders.

Features of the Book

Estimated Reading Time: 4–5 hours, 244 pages

Build, Borrow, or Buy is a guidebook for organizations looking to achieve growth without wasting time or resources. Laurence Capron and Will Mitchell provide readers with a clear framework to navigate the resource pathways for growth options and strategically pick which route best fits their organizations’ needs. The book is an ideal read for executives and business owners. The chapters should be read consecutively.

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