HOW TO GET THE BEST RESULTS FROM ALLIANCES


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MANAGING ALLIANCES FOR RESULTS

Alliances with other companies are an integral part of corporate life. No matter what industry or country, alliances are essential tools by which companies reduce costs and gain access to technology, products, and markets. Recent research shows that alliances are growing in frequency and importance, both among new and traditional businesses (Dussauge and Garrette, 1999). The glass technology leader, Corning Corporation, for instance, has long relied on alliances with European, Asian, and American firms to achieve and maintain its strong positions in fibre optics, television components, and other global markets. Alliances are particularly common in the internet economy, where agreements such as the wireless communications partnership between Vodafone AirTouch and Vivendi help firms attempt to gain quick access to new resources in rapidly changing markets. The internet networking industry leader, Cisco, has been involved in over 15,000 partnerships with other companies. Similarly, the wireless communications industry leader, Nokia, has used hundreds of alliances to extend its business around the world. No company in any industry can survive for long without an effective alliance strategy.

At the same time, though, alliances are highly risky. Research shows that unsuccessful alliances often contribute to major business problems (Singh and Mitchell, 1996). The recent break up of the Global One telecommunications alliance, for instance, has interfered with the pan-European expansion of its partners, Deutsche Telekom, France Telecom, and Sprint, leaving them at least temporarily vulnerable to competitive strategies from other telecommunications companies. Moreover, the fastest growing type of alliance is the highly volatile link alliance in which partners each contribute different types of resources to a partnership (Dussauge, Garrette, and Mitchell, 2000). Glaxo Wellcome, Rhone-Poulec Rorer, Eli Lilly, and other pharmaceutical industry leaders, for instance, rely heavily on link alliances involving R&D and marketing resources to develop and sell new pharmaceutical products. Link alliances create many learning opportunities for the partners, but are often short-lived and require quick alliance management action to achieve their benefits.

Despite growing recognition of the importance of alliances and the need for quick effective management, it remains an open question why some alliances succeed and others fail. Most analysts insist on the implementation process as the major determinant of success, but there are few conclusive studies on how to manage alliances successfully. Too often, firms simply view alliance management as similar to mergers and acquisitions integration or, even worse, completely ignore alliance management once they have formed the alliance.

As firms rely more and more on their networks of partnerships with suppliers, distributors, franchisees, competitors, foreign partners, and other allies to achieve superior performance, managers are frustrated that they have little more than their intuition as a guide. As the network economy becomes increasingly prevalent, traditional models of strategic thinking, which emphasise the integrated firm acting in isolation to leverage proprietary resources, lose their relevance. New thinking that combines
competitive and cooperative strategies is required. This article highlights some of the management mechanisms that we have observed in our studies of alliances and suggests ways that managers can increase the success of their alliance activities.

**Defining Alliances: Autonomous Cooperation**

We start by defining strategic alliances as collaborations between companies that commit resources to a joint activity while retaining strategic autonomy. Each part of this definition is important. "Collaboration" means that people from the different companies must work together. "Commit resources" implies that each company places assets at risk in the collaborative venture. "Strategic autonomy" means that each firm ultimately will pursue its own self interest, rather than focus only on the joint project. The key implication here is that firms must manage alliances in ways that provides effective interaction with their partners, while both learning from their partners and limiting opportunities for their partners to gain at their expense.

**The Alliance Management Matrix**

Our approach to successful alliance management lies in developing a matrix that highlights key strategic and tactical issues in effective alliances. The matrix has three sets of features, which we refer to as the three R's, the two C's, and the knowledge gateway. Figure 1 applies it to a disguised example of an automated device controller alliance between the Ann Arbor Control Corporation of the U.S. and Renoir SA in France, as seen from the perspective of Ann Arbor Control. Each company in a partnership, though, should develop a matrix from its point of view.

The goal of the alliance management matrix is to provide a practical tool that managers can use in the real-time demands of day to day activities, particularly when faced with conflicting demands on their time and attention. The alliance management matrix offers a means of identifying the key tasks and responsibilities that will be required for a particular alliance to succeed. In this way, the matrix encompasses both a firm's high-level strategic aims and the day-to-day tactical activities that are critical parts of defining and achieving the strategy.

**3 R's: Results, resources, and responsibilities**

The 3 R's of alliance management are *results, resources, and responsibilities*. By *results*, we mean that it is necessary to specify the intended objectives of an alliance, in as much detail as possible. Each partner needs to specify both its own objectives and those of its partner, in order to coordinate their joint activities and to take account of what learning objectives the partner might be seeking.

By *resources*, we mean that the firms must specify the key physical assets, financial assets, human capital, proprietary rights, and organisational capabilities that they will need to contribute to the alliance in order to achieve the desired results. As we will discuss below, this will include both existing resources and new resources.
By *responsibilities*, we mean that one must identify the specific people from each partner who will lead each primary task in the alliance. We view the responsibility dimension as the most important feature of alliance management. Far too often, in our research, we have found that firms enter into an alliance with thoughtful attention to goals and with detailed contracts that address expected resource issues, but with little or no attention to who will be responsible to make the alliance work. Yet, in practice, alliance management comes down to day to day interaction among individual employees of the partner companies. Without specifying who is responsible for what tasks, in as much detail as possible, alliance implementation becomes an almost random event, rather than an effective management activity.

**2 C's: Coordination and creation**

The 2 C's of alliance management are *coordination* and *creation*. By *coordination*, we mean that it is essential to identify which existing resources the alliance will use together in order to achieve the desired results. With coordination of resources, the primary alliance management issues lie in using the existing resources as efficiently and effectively as possible. Resource coordination tends to be the most straightforward set of alliance activity, as it typically involves resources that the firms understand. Moreover, coordination activities often involve relatively few risks of proprietary loss, as they typically involve more mature technology and products. At the same time, though, protection issues may arise even in coordination activities, as we will discuss below.

Resource *creation*, by contrast with coordination, involves identifying resources that the firms will need to use in order to create new assets and capabilities for the alliance. Creation activities tend to be the most ambiguous, both in terms of what the firms will need to do in order to achieve their results and in terms of the risks of proprietary losses. By distinguishing between coordination and creation activities, a firm can both assign responsibilities effectively and can help identify major risks of resource loss.

**The knowledge gateway: Protection and learning**

The final part of the alliance management matrix is the *knowledge gateway*, which has two elements, *protection* and *learning*. Protection, of course, is the need to identify the primary opportunities that your partner may seek to gain proprietary advantage from you. The alliance management matrix helps with this task because it identifies the resources that you will commit to the alliance, which, in turn, allows you to identify your partner's opportunities to gain from you. The first step to providing protection lies in specifying contractual terms that either limit a partner's activities or require appropriate payment for gains. The second, and more important, protection step then lies in assigning responsibility to specific individuals to monitor contractual compliance and to limit losses in non-contractual dimensions.

*Learning*, in turn, is the reverse direction in the knowledge gateway. Here the alliance management matrix helps you identify partner resources that offer potential benefits to
you which you can either specify in initial contracts or seek during the ongoing activities of the alliance. Again, the key issue here lies in identifying and assigning specific responsibility for learning. Moreover, knowledge gateway responsibilities for learning must arise in two locations: within the alliance and within the parent company. That is, not only must someone learn from your partner during the course of the alliance, but that person must transfer the knowledge to someone inside your company who can then use it at home.

**Leading Alliance Management**

We continue by discussing the mechanisms of alliance management leadership. Four sets of mechanisms arise here, including contracts, levels, evolution, and rewards.

**Contracts**

We view alliance contracts as intermediate outputs of the alliance management matrix. Once a firm has identified the results that it wants from an alliance, the resources that it expects to commit to the alliance, and the knowledge gateway opportunities and risks, it will be able to negotiate a contract that covers the key issues of a particular alliance. By contrast, firms that attempt to use a standard agreement for most or all agreements will both miss key opportunities and leave themselves open to unexpected losses. Good contracts that are defined in the context of the needs of a specific alliance are essential, whether they are formal with detailed descriptions of responsibilities and rights, or informal providing a shared understanding of the alliance purpose and operation. Contracts can establish high-level management responsibilities, ownership shares in existing and new resources, proprietary protection, and many other conditions.

Note, though, that contracts are only a limited part of alliance management. No contract can fully define all states of the current world, let alone anticipate all future opportunities. In addition to contracts and, in our view, of far greater importance, the personal responsibilities of the people who undertake alliance activities, both with your partner and with other people throughout your own firm.

**Levels**

Second, we believe that effective leadership of alliance management must take place at two levels within a firm, at the corporate staff level and at the level of operating personnel. Corporate staff will almost always lead the initial creation of an alliance, in determining goals and identifying resources, assigning key responsibilities, and determining key contractual terms. Indeed, in our view, we believe that it is critically important for firms to have a dedicated alliance management staff, who recognise the intrinsic needs and risks of alliance strategy and can provide a cohesive approach to alliance management within the firm. Firms that lack a dedicated alliance management staff function, which may be a single multi-tasking person in a small company or a cross-functional group in a larger firm, inevitably end up with fragmented alliances that conflict with each other, miss opportunities for synergies, and repeat the same mistakes.
Moreover, firms that combine alliance management functions with mergers and acquisitions staff in a single corporate development group usually attempt to manage alliances as if they were subsidiary companies, which typically leads to frustrations, lost opportunities, and lost knowledge. We have lost track of the number of times in which someone has said to us "we view our new partner as though it is a part of our company", only to tell us a year later that the alliance is failing because their partner "won't do what we tell them to do". In our approach, the corporate alliance management staff will lead the initial drafting of an alliance management matrix for a new alliance, identifying the key collaboration needs and knowledge challenges.

Beyond the corporate alliance management staff, however, operating managers must be intrinsically involved in developing and maintaining the alliance management matrix. Initially, operating managers will be best positioned to understand the fine-grained needs for resource commitments, protection needs and learning opportunities, and personnel responsibilities. Therefore, operating personnel must be integrally involved in developing even the initial matrix. Over time, moreover, operating personnel will take the lead in updating and revising the matrix as the alliance evolves, as they will have by far the best information about resource coordination and creation needs, about available personnel, and about risks and opportunities.

**Alliance evolution**

This discussion leads logically to our third point about alliance leadership, which concerns alliance evolution. Alliances by their nature change substantially over time, as the partners learn more about each other and as the technical and market environments within which the alliance operates change. Therefore, it is important to view the alliance management matrix as a living document, requiring regular updates. The frequency of updates will vary, depending on the rate of change in the alliance environment, but annual updates should be the minimum and in volatile environments they should take place more often than this. As noted above, we believe that operating managers will play the lead role in updating alliance management matrices. At the same time, though, it is critically important that the corporate alliance management staff take the lead in assessing and refining desired alliance results, in the context of the firm's overall objectives, so that operating managers do not become trapped within obsolete objectives.

**Rewards**

Finally, we turn to alliance rewards, which are the critical complement to responsibilities. We believe that simply assigning alliance management responsibilities without then assessing each individual's alliance management performance and providing appropriate rewards (or punishments) quickly leads to alliance futility. If the day-to-day activities of individual employees are the critical elements of alliance implementation, as we are convinced is true, then those activities must be included in performance reviews and compensation decisions.

**Alliances Are Simple**
Alliances best suit relatively simple business needs, with reasonably-well defined results, resources, and responsibilities. It is useful to view the elements of the alliance management matrix as the *points of contact* between the partners. When a firm finds that in the process of creating an alliance management matrix the potential relationship is too complicated to describe, it may be better to consider a more integrated approach, either through an internal venture or through an acquisition.

Our initial definition of alliances highlights the need for alliance simplicity, both in terms of collaboration and of strategic autonomy. Business activities that require a high degree of collaboration among many people and groups tend to be difficult to manage across companies. There are too many ambiguous decisions. Several years ago, for instance, Renault and Volvo set up an alliance to jointly manage large parts of their automobile and truck businesses. The alliance involved a host of committees, development groups, oversight agencies, and leadership teams. Not surprisingly, the venture eventually foundered in its complexity, after achieving only a very restricted set of its objectives. The problems of collaboration in complex alliances are compounded by the presence of strategic autonomy, as each new ambiguity gives rise to the potential for new conflicting objectives of each parent firm.
A. Intended alliance results

- **Explicit alliance objectives:**
  - Expand sales of existing automated AAC device controllers in France by using Renoir’s distribution network: Sell 5,000 units in 2000, 8,000 units in 2001, and 12,000 units per year by 2002
  - **Detailed goals from Ann Arbor Control perspective:**
    - Acquire knowledge about French market in order to refine one existing product (tentatively, controller 2) to specifications suited to the French market by the 2001 operating year; determine whether production in France or in the U.S. is most feasible
    - Develop new controllers for that market
    - Achieve return on sales of 10% in 2000 and 15% by 2001
- **Assumed goals of Renoir:**
  - Increase utilisation of its distribution system in France
  - Gain access to our technology
### B. Resources and responsibilities

<table>
<thead>
<tr>
<th>Our resources (Ann Arbor)</th>
<th>Resource coordination activities</th>
<th>Resource creation activities</th>
<th>Our protection requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National marketing organisation in France</td>
<td>After-sales Service organisation</td>
<td>Lille development Group</td>
</tr>
<tr>
<td>Resource coordination Activities</td>
<td>Existing controller 1</td>
<td>AA: Dorothy B. Renoir: Rene F.</td>
<td>AA: Dorothy B. Renoir: Jeanne G.</td>
</tr>
<tr>
<td></td>
<td>Existing controller 2</td>
<td>AA: Juan R. Renoir: Rene F.</td>
<td>AA: Frank L. Renoir: Jeanne G.</td>
</tr>
</tbody>
</table>

The above matrix gives a detailed breakdown of the people and departments which will be involved in the alliance, seen from Ann Arbor’s (AA) perspective. The matrix is symmetrical but note that from Ann Arbor’s point of view Renoir’s learning opportunities are potentially a threat (hence “our protection requirements”)

C. Description of employee responsibilities:

- Dorothy B. (Controller 1 sales manager): Coordinate sales and after-sales service of controller 1 in France. Continue to be based in the U.S., with travel to France as needed.
- Juan R. (Controller 2 sales manager): Coordinate sales of controller 2 in France; co-lead product development project for French market. Take two year assignment at Renoir facility in France.
- Frank L. (Controller 2 service manager): Coordinate after-sales service of controller 2 in France. Continue to be based in the U.S., with travel to France as needed.
- Terri H. (Ann Arbor aerospace design team member): Lead product development project for French market; responsible for determining what proprietary knowledge Renoir requires to undertake product development and for assessing competitive implications of revealing our technology. Take two year assignment at Renoir facility in France.
- Sanjay G. (Ann Arbor aerospace design team leader): Primary contract for importing Renoir technology to Ann Arbor, based in U.S.
- Rhonda L. (Saline production supervisor): Lead assessment of production location options for new controller 2; determine potential to use Renoir quality systems in Saline and lead Saline implementation of quality improvements. Continue to be based in the U.S., with travel to France as needed.
Works Cited


Other References

Bleeke, J., Ernst, D., *Collaborating to Compete*, Chichester: John Wiley and Sons, 1993


