Alliance Strategy:

Managing Beyond the Alliance

By **Ben Gomes-Casseres**

Just a few years ago, high-tech companies were forming strategic alliances at a feverish pace. No one could go it alone; alliances were the future. Or so they thought.

IBM, in its heyday, shunned alliances, but by the late 1990s it was the most active partner in its field. Not all its alliances worked out. IBM's much-touted PowerPC alliance with Apple and Motorola was going to take on Intel and Microsoft. It didn't happen. Other alliances formed at high levels, often blessed with the designation 'strategic', have also failed to deliver. By the end of the decade, these alliance faded, leaving unfulfilled aspirations, frayed relationships and wasted effort.

Analysts disagree over what caused each link-up to fail. Some blame egos and clashing cultures while others cite business conflicts and ruthless competition. These explanations often share one factor: amid the hype, the alliance came to be seen as an end in itself, rather than as a means toward a broader goal. The failures teach one clear lesson: what matters is the strategy behind the deal, not the deal itself.

Companies that succeed with alliances put strategy first and deal-making second. For example, Cisco Systems has leveraged its capabilities impressively through a multitude of alliances. Some alliances have survived for a long time, others were short-lived; some were narrowly focused and a few broader; and some led to full acquisitions. Partners included Motorola, Sun, EMC, and Intel. But no single alliance accounts for Cisco's success. Rather, the way Cisco integrated its alliances into a coherent strategy and managed them over time allowed it to get the most from the partnerships. The same is true for companies in other fields and with other motivations – for Starbucks, alliances are a way to reach new customers, for Sony they are a way to influence industry standards.

Today, the mindless alliance fever has died down, but smart firms are still using alliances as flexible tools to further their business strategies. The action is worldwide and by no means confined to the United States. In Europe, Nokia is using alliances to develop its wireless Internet business; Lufthansa uses alliances to provide seamless global service to business travellers; DaimlerChrysler is using alliances to expand in Asia; Novartis acquires new drug formulas through alliances with biotech firms; AXA's alliances helps it provide an integrated set of financial services; and the granddaddy of European alliances – Airbus – has lofted itself ahead of Boeing in their battle for global market share.

ALLIANCE STRATEGY

One of the fundamental conclusions from the experience of the last decade or so, is that companies that have a 'strategic alliance' without a coherent 'alliance strategy' are almost sure to fail. The difference is more than semantic. A strategic alliance refers to a deal and a specific organisation or contract; an alliance strategy is much broader and deeper. It has four elements:

- a **business strategy** that shapes the logic and design of an alliance;
- a **dynamic view** to guide the management of each alliance;
- a **portfolio approach** to manage the firm's 'constellations' of alliances;
- an **organisational infrastructure** to build and sustain the alliance capability.

These four components of alliance strategy must be consistent with the broader strategy of the firm and with its organisational culture, as illustrated in the Arc of Alliance Strategy **(Figure 1.)**.

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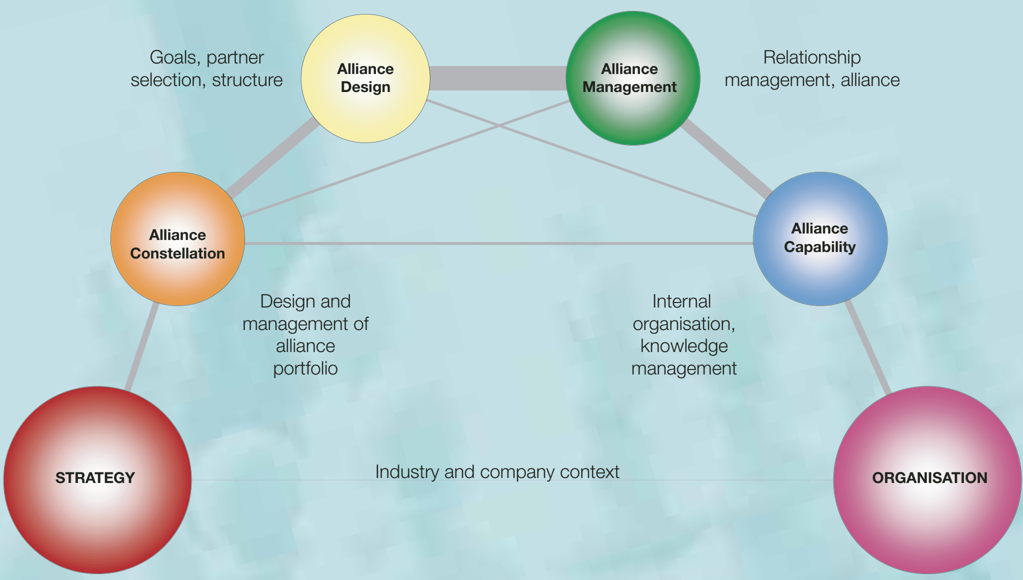

Fig 1. The Arc of Alliance Strategy

Source: Mastering Alliance Strategy: A Comprehensive Guide to Design, Management, and Organisation, by James Bamford, Benjamin Gomes-Casseres, Michael Robinson (Jossey-Bass, 2003).

BUSINESS LOGIC AND ALLIANCE DESIGN

Most managers would agree in principle that an alliance needs to be backed by a business strategy. Signing up as many partners as possible is not a strategy – and worse, it can drain the company of vital resources.

Ideally, strategy dictates why each partner and structure is better than any other option, what the company expects, how risks will be managed and how the new alliance will be co-ordinated with others. Even knowing this, companies make alliances without a clear strategy. Why?

The reason lies partly in the tendency of the deal's champions to see the alliance itself as a goal. Often, the opportunity for an alliance arises suddenly - prompted by an inquiry, a competitor's move, or a Chief Executive's conversations with a counterpart. Before they know it, companies are 'doing the deal' rather than determining what kind of deal is best. Time to think can seem a luxury, but it is precisely because of the tendency to focus on the transaction that it is essential to examine how the alliance fits the business strategy.

Alliances have many goals, depending on the strategy. Being clear on how the alliance fits the business strategy is important when evaluating its performance. The true value of any alliance is usually not evident from the narrow costs and revenues of the collaboration itself, even when the alliance is a stand-alone joint venture. Because the alliance is part of a broader strategy, its effect must be measured in terms of its contribution to that strategy. Thus, we must also account for the opportunity

CASE STUDY 1

The venture between **Xerox** and **Fuji Photo Film** was created to help Xerox sell copiers in Japan. Over time, Xerox's strategy and Fuji Xerox's capabilities evolved so the venture became a supplier of products to Xerox globally and a partner in developing technologies. The joint venture was profitable, grew in size and issued modest dividends to Xerox. But its true value lay in how it helped Xerox beat back Japanese competition in the 1980s, halt its previous decline and launch initiatives worldwide. Today, this forty two year old joint venture is arguably the most successful US-Japanese alliance on record, because of the way it helped Xerox compete globally. The alliance's role in corporate strategy is much bigger than the partnership itself.

costs of options foreclosed and for qualitative benefits the alliance brings to the company.

PARTNER DYNAMICS AND ALLIANCE MANAGEMENT

The example of Fuji Xerox also shows the value of a dynamic approach to managing alliances. Just as the broader strategy is more important than the individual deal, so too the evolution of the relationship over time is more important than the initial deal. Automobile companies today are discovering this fact as allies try to use alliances to rationalise their global operations. Renault and Nissan, DaimlerChrysler and Mitsubishi, Ford and Mazda – each pair is trying to integrate its supply chains, share technology, and produce expensive components jointly. Doing so requires much more than signing a deal for part-ownership or for a joint venture. It requires close planning, continual adjustments, and deep relationships among partner organisations and managers.

The reason why this kind of post-deal management is so important is that alliances by their very nature are open-ended and ever changing. If all the terms between two companies can be specified and agreed at the outset, there is no need for an alliance; a contract will do. A true alliance is an organisational structure that enables control over future decisions to be shared and that governs continual negotiations - it is recognition that the initial agreement is incomplete. That is why success in alliances depends so much on governance structures and on the relationship between companies, including personal relationships between managers.

The tendency of alliances to change over time is often misinterpreted as a weakness. Managers complain about the high 'divorce rate' in alliances, and academics conduct statistical studies of their 'instability'. This misses the point: the goal of an alliance is not its survival, but the success of the alliance strategy. Sometimes strategy will call for using alliances as transitory mechanisms. At other times, the strategy may involve launching several alliances at once to see which ones are worthy of further investment and which should be terminated. Such a strategy is no different from companies hedging their bets or pursuing parallel projects to develop products. The flexibility of alliances is often a strength, not a weakness.

LEVERAGING THE ALLIANCE CONSTELLATION

A good fit with strategy and flexible management of the alliance after the initial deal are pre-requisites for success of each alliance (see summary in box - page 8). But even a well-designed and well-managed alliance will not reach its potential if it is not properly integrated into the firm's broader 'constellation' of alliances. The firm's alliance constellation is the set of alliances that the firm uses to compete in a particular domain – these are the partner relationships that leverage the firm's own capabilities against its rivals. The whole of this constellation needs to be more than the sum of its parts.

Alliance constellations are also important in other types of companies. Business units that use multiple components will depend on many supply alliances. Airbus is an example of this writ large, so to speak. Different Airbus partners are responsible for different components, and the alliance is responsible for completing assembly and for marketing and selling. Businesses that sell in multiple markets may also use allies to reach different customers. Corning has long used a constellation of joint ventures to reach widely

CASE STUDY 2

The global airline business today provides excellent examples of the importance of alliance constellations. Every major airline today is part of one of the global constellations, each of which tries to offer seamless travel across continents, particularly to lucrative business travellers. Lufthansa and United form the core of the Star constellation, but other partners, such as Singapore Airlines, ANA, Air Canada, and Varig fill important roles in regional markets. Similarly, American Airlines and British Airways form the core of oneworld, and Air France and Delta the core of Sky Team; Northwest and KLM have a long-standing alliance that is due to merge with Sky Team. The battle in global air travel, increasingly, is between these constellations of allies, rather than between individual firms. So, the design and management of these constellations is critical to the success of the member firms.

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different industrial users of its glass materials. Similarly, a constellation of alliances is useful when a critical mass of 'sponsors' is key to market acceptance, such as in establishing software standards.

But being involved in multiple alliances is not sufficient; the company must manage the portfolio as a whole also. Two alliances of a company, with two different partners, may either complement each other or they may conflict. The same is true of a portfolio of many alliances. A poorly-designed and -managed network can entangle the company and waste managers' time. Good co-ordination, on the other hand, can save resources and diversify options for growth. How are companies facing the challenges? The pharmaceutical company Eli Lilly has an office of alliance management which helps identify alliance candidates, evaluate deals and train managers new to the field. This should lead to the company having a higher proportion of successful alliances, compared with companies adopting a more informal approach.

BUILDING AN ALLIANCE CAPABILITY

Eli Lilly's system is not only important for co-ordinating a portfolio of allies, but also for upgrading its ability to manage alliances. In case after case, it has become clear that the internal organisation of a company is critical to successful partnerships. Without a supportive infrastructure, every alliance will fail, no matter how ingenious the external deals.

All too often, however, alliances are seen as outside 'core' operations and therefore less deserving of resources. In fact, relying on someone else to implement a piece of your strategy may require more, not less, management effort. Although companies typically choose to relegate to allies functions they cannot do, or have no time to develop internally, forging and managing the relationship demands resources. Companies may overlook this and fail to provide the resources required for success.

A good alliance strategy therefore starts at home. The company must define a business logic for its alliances, keep an eye on the future and manage the group of partners well. Moreover, it must align its organisation and invest resources in the strategy.

Companies that are doing this are frequently cited for their 'alliance capability'. The essence of this capability is that alliances are made part of the everyday functioning of the company. They are not special deals relegated to a group of alliance experts. An organisation that truly values its alliance capability will seek ways to share best practices among its business units and to develop special expertise where it is needed. The best practitioners therefore record the lessons from their own alliance experience, assemble tools for future alliance designers and managers, and train managers involved in alliances. Finally, a good internal infrastructure identifies and mediates the internal conflicts that can pit one alliance against another.

The evidence suggests that there are many ways to build an alliance capability. What works depends on the organisational culture of the company—some organisations use extensive data storage and sharing tools, others do just fine with personal interaction and a minimum of technical skills. Some firms place alliance management under a centralised organisation, say at the corporate level, while others prefer to distribute responsibility for alliances across all business units. Furthermore, the degree to which a company is willing to invest in a permanent alliance capability, or indeed needs to do so, also depends on its organisational and strategic circumstances.

10 STEPS TO A SUCCESSFUL ALLIANCE

- Have a clear strategic purpose - alliances are never an end in themselves, they provide tools to achieve a business strategy
- Find a fitting partner - a partner with compatible goals and complementary capabilities
- Specialise - allocate tasks and responsibilities in the alliances in a way that enables each party to do what they do best
- Create incentives for cooperation - working together never happens automatically, particularly when partners were formerly rivals
- Minimises conflicts between partners - the scope of the alliance and of partners' roles should avoid pitting one against the other in the market
- Share information – continual communication develops trust and keeps joint projects on target
- Exchange personnel - regardless of the form of the alliance, personal contact and site visits are essential for maintaining communication and trust
- Operate with long time-horizons - mutual forbearance in solving short-run conflicts is enhanced by the expectation of long-term gains
- Develop multiple joint projects - successful cooperation on one project can help partners weather the storm in less successful joint projects
- Be flexible - alliances are open-ended and dynamic relationships that need to evolve in pace with their environment and in pursuit of new opportunities

MASTERING ALLIANCE STRATEGY

An alliance strategy is thus more than a strategic alliance. Managers need to construct processes that root alliances in strategy and recognise that alliances will work for some things but not others. Next, they need a way to manage change. The history of alliances shows you will not get everything you wanted; but you may well get much you didn't expect. The key is to grasp change, not ignore it.

So, how do you master alliance strategy? As in other activities, mastery comes from deep understanding, frequent practice, and some wisdom from others. This article has tried to point the way. But there is more to think about; the references at the end provide material for further study.

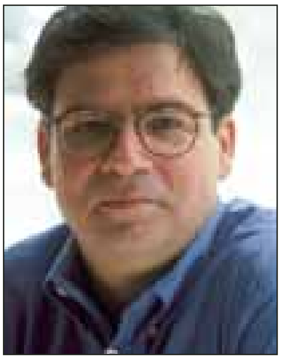
What should be clear from this overview is that there can be no cookie-cutter approach to alliances that works for all. So-called 'best-practice' formulas have limited shelf-lives and narrow applicability; 'best thinking', on the other hand, prepares managers for sustaining good practices even when the situation changes. The effectiveness of a management practice depends critically on its organisational and strategic contexts. To know what works for you, therefore, you must first understand not only what another company is doing, but also why its people are doing what they are doing. Then, you must know how to translate the foreign experience to your own company.

Companies will not survive if they try to do everything themselves. But they will not be served well by a headlong rush into multiple deals. Only a real alliance strategy will give them a fighting chance.

Further reading

James Bamford, Benjamin Gomes-Casseres, Michael Robinson. Mastering Alliance Strategy: A Comprehensive Guide to Design, Management, and Organisation. San Francisco, CA: Jossey-Bass/Wiley, 2003.

Benjamin Gomes-Casseres. The Alliance Revolution: The New Shape of Business Rivalry, Cambridge, MA: Harvard University Press, 1996.



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