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# **Alliance Sweet Talk:** Tough Questions Worth Asking

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Strategic alliances are back. Last month, Nortel's stock jumped several percentage points at the mere mention of the idea of a partnership with Cisco. "I believe in strategic partnerships," Cisco's CEO John Chambers said during the question and answer session following a speech in Toronto. And then the magic words: "I would love to have Nortel as a partner."

Even though I make my living studying alliances and teaching how to manage them, I am concerned when I see such an immediate, positive reaction by investors. What are they thinking? Did they forget how many alliance announcements in the dot-com years were mere ruses for companies that had no viable strategies? Perhaps they are betting that Cisco will acquire Nortel, bidding up its stock. If so, did they forget how many recent big acquisitions have failed or become stuck in courts? My guess is yes on both counts: Investor myopia is back too.

So, how *should* investors react when they catch high-tech CEOs singing love songs to each other? First, with cautious optimism. Alliances can indeed help companies leverage each other's strengths. Just look at Airbus, Wintel, Canon and HP, or Cisco's own ecosystem of allies. But many alliances fail to become happy marriages, let alone produce dividends. Just look at IBM-Apple, Disney-Pixar, or one or two in Nortel's own history that it rather forget.

Every manager in a failed alliance has a pet theory for why some alliances fail and others succeed. But research and experience across many cases has found one common success factor -- the trick is to look beyond the deal. How do the alliances contribute to the company's business strategy? How does the company manage its alliances? What resources does it devote to implementation after deals are signed? Do the firm's various alliances reinforce or interfere with each other? Companies that look beyond the deal and attend to these broader questions succeed in their alliance strategies; those that don't, fail.

So, the second reaction of investors hearing about a new alliance should be to ask more questions. Place an opening bet, if you wish, but be ready to fold – or raise – depending on how the CEOs answer these five tough questions:

1. **What is the strategy *behind* the deal?** A "strategic alliance" without an "alliance strategy" is doomed to fail. Find out how this deal fits into the broader business strategy for each company. The deal itself is never an end in itself. If the CEOs get mushy at this point, fold right away.

2. **Is the alliance designed to maximize cooperation and minimize conflict?** Don't fall for the 1990s talk about "co-opetition" – it does not work. Well-matched partners don't have reason to fight; and where they do have differences, they must show you how they will manage these.

3. **How will the alliance be governed?** The right answer here is: flexibly. An arrangement whose terms are set in stone is not an alliance. Yet, neither is one that is left too loose. The partners must create a *relationship contract* that lets them make joint decisions on unforeseen issues.

4. **How will each of the partners prepare *internally* to manage their relationship?** Face it – company marriages are not natural acts. Managers don't cooperate instinctively with outsiders. The firms must consciously train, coordinate, and tool-up their alliance managers. And, by the way, if the CEOs don't know about this function – alliance manager – turn in your chips.

5. **How will *other partners* – and rivals – respond to the new alliance?** Every new alliance creates a new friend and often more than one new enemy. The key is to make sure the partners on your team are friends. In other words, each new alliance should reinforce or at least not conflict with other important alliances of the firm.

These are not easy questions to ask, and worse yet, to answer. They are not amenable to the quick give-and-take typical of meetings with analysts. The good news is that these questions are not discreet, stand-alone queries; they are part of a whole – they each probe into one aspect of how prepared a company is to use alliances effectively. Good analysts will use these questions not just to generate points on a scale; they will also connect the dots. Does the firm seem to master the requirements for an effective alliance strategy? That is the fundamental question.

A firm can be good, mediocre, or downright miserable in designing and executing an alliance strategy. Just as some firms are good at lean manufacturing, others are good at customer service, and others are good at high-tech wizardry, so too with organizational strategies. Corning, for example, has a long tradition of success with 50/50 joint ventures; it has many and runs them expertly. Other firms are master acquirers; Cisco is among these. Some are good at managing complex networks of inter-locking partners; global airline companies today are vying for first honors here. Still others are good at using partnerships to commercialize external inventions; Eli Lilly and other pharmaceutical companies have made great strides in this area recently.

A firm that masters alliance strategy will talk candidly and concretely about how alliances fit in its strategy. Its top executives will signal publicly that cooperating with partners is part of their winning game and they will create the conditions necessary to enable the organization to carry out this plan. Middle managers, in turn, will know that alliance management is not business as usual and will double-up their efforts to do it right. To be sure, there will be failures. But a firm seeking to master alliance strategy will learn from these failures. It should glean "best thinking" from outside, but it should know that another firm's "best practice" may not fit its own situation. Ultimately, therefore, the firm will only gain mastery from homework, experimentation, and experience.

When love-struck CEOs can tell this story, then by all means put your money on their marriage plans. But, if they hem and haw, remember that T-bill rates are on the rise.

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