## Alliances and Partnerships

## Module 7

## Learning Summary

This module has dealt with some of the primary considerations necessary to make alliances and partnerships work. The module considered the underlying rationale behind alliances and partnerships, and stressed the importance of making sure that this rationale is correct and adequately reflects the overall strategic objectives of the organisation.

The module also considered the human and technological aspects of alliances and partnerships. These two elements are fundamental to the success of an alliance or partnership and adequate levels of cultural and technological integration are necessary for the alliance or partnership to succeed. It is dangerous to concentrate on one aspect to the detriment of the other. The module stressed that, as the necessary degree of cultural and technological integration increases, the overall risk generated by the process increases.

The module also considered the issue of self-protection in alliances and partnerships, and looked at some standard approaches to establishing reasonable levels of protection in important areas. The module also considered the issues of alliance and partnership implementation planning. The formation of an alliance or partnership can be considered as a project like any other, and the planning and implementation processes can be improved by the use of structured project planning tools and techniques.

The candidates should now understand:

* the concept of alliance and partnership rationale;
* the importance of getting the rationale right;
* the factors to be considered in developing the rationale;
* the primary human elements to be considered;
* the concept of cultural difference and cultural integration;
* the concept of cultural fit;
* the primary technological elements to be considered;
* the concept of technological fit;
* the concept of technological potential;
* the concept of self-protection;
* the primary approaches to alliance and partnership design;
* the primary approaches to alliance and partnership implementation.

The following section briefly summarises the primary learning outcomes from each section included in this module.

#### Some Common Questions about Alliance Success and Failure

* The formation and running of most alliances and partnerships can be broken down into a standard set of common stages.
* Each stage is important. The relative importance of a particular stage depends on the characteristics of the alliance.
* There is no standard time requirement for the formation of an alliance or partnership.
* Plans have limitations. Planners can look ahead and try to plan everything in as much detail as possible, but it is never possible to cover every eventuality. A major external event such as the launch of a highly competitive new product could affect the viability of the alliance, even though it has been carefully planned and implemented.
* Successful alliances and partnerships require good technological and cultural fit.
* As with mergers and acquisitions, the standard approach to alliances and partnerships in the UK is to forge ahead with virtually no formal project planning.
* A strategic alliance is a classic form of project, and as such it can only benefit from the application of established project management tools and techniques.
* No matter how carefully planned a strategic alliance is, it is almost impossible to identify all of the change and unforeseeable risk elements that can impact on it. The primary reason for this is that individual corporate control is surrendered, at least to some extent.
* The evidence suggests that alliances made in sectors that are relatively slow in terms of change and innovation are more likely to succeed than alliances made in sectors where there is a great deal of change and innovation.
* Like mergers and acquisitions, alliances and partnerships are formed with the primary objective of adding value.
* Alliances and partnerships are becoming increasingly frequent and important in many sectors. In areas such as computer games and games consoles they are standard practice, and the efficiency with which they are executed makes the difference between successful and unsuccessful performance.
* In other cases, companies invest large sums in new alliance companies and stand to lose a lot of money if the alliance company fails to perform.

#### Some Common Misconceptions about Alliance Success and Failure

* Companies that have similar operational and customer base characteristics are no more likely to form successful alliances and partnerships than companies that have significantly different characteristics.
* Companies with experience of alliances and partnerships are no more likely to form subsequent successful alliances than companies with no such experience.
* Alliances are increasingly open-ended in terms of timescale for completion.
* Where contracts are issued, there is usually some kind of stipulated minimum term for which the alliance will be maintained, after which it will terminate or be extended, subject to the approval of each party.
* Some very large alliances are relatively dynamic, with members joining and leaving over a period of several years.
* Financial performance is not the only measure of success that should be considered when evaluating alliances and partnerships.
* Alliances and partnerships are not restricted to successful ambitious companies. For example, alliances and partnerships are sometimes used as a tool for turnaround.

#### Getting the Rationale Right

* The underlying rationale behind an alliance or partnership must be clearly linked to the overall strategic objectives of the organisation.
* In some cases, the underlying rationale may be structurally sound but the scope or range of the rationale may be inappropriate. This scenario could occur where the alliance or partnership is formed to force an entry into a market where an existing leader is entirely dominant. Even if the alliance or partnership works exactly as planned, it may be impossible to claim any increased market share against the established market leader.
* There have been some examples of successful break-ins that appeared unlikely at the outset. The classic example is Sony’s penetration into the computer games console market against the apparently overwhelming odds posed by Nintendo’s market dominance.
* The underlying rationale might be technologically correct and may have every apparent chance of succeeding, but there may be an underlying unforeseeable element that partially invalidates the rationale. Examples include sudden changes in customer demand resulting from the actions of a competitor or marketing projections that appear valid but are in fact inaccurate.
* The main difficulty associated with the adoption of an underlying rationale is that the rationale is both conceived and pursued under dynamic conditions.
* The rationale should also be sufficiently flexible to allow it to be tuned and realigned as the alliance or partnership proceeds.
* The underlying rationale has to be able to evolve in response to its own feedback as it is converted into action.

#### The Human Element

* Cultural issues are as important as technological issues.
* Culture can be defined as the collective distribution of knowledge, actions and beliefs of a person or group of people. These variables are all very much time dependent, and are functions of the environment in which an individual or group operates.
* Cultural issues are as important as technological issues in alliances and partnerships.
* Alliance partners often have significantly different cultures.
* In most cases, the likelihood of cultural integration problems in alliances is a function of:
  + the degree of cultural difference between the two organisations;
  + the degree of cultural integration required.
* Cultural differences can be amplified by the type of alliance or partnership that is sought.
* Cultural integration is a measure of the extent to which the cultures of the two organisations have to overlap and work together in order for the alliance or partnership to achieve its strategic objectives.
* Alliances and partnerships vary in terms of the degree of cultural integration required.
* As the degree of cultural integration increases, the potential for cultural opposition also increases. In addition, the degree of retraining and cultural engineering required also increases.
* As a consequence the overall degree of uncertainty within the system increases, and the corresponding risk profile and operational costs also increase significantly.
* Increased cultural integration generally leads to increased long-term effectiveness for the components concerned. It also leads to increased potential conflict and a general increase in the level of risk faced by the organisations concerned.

#### The Technological Element

* Technological fit is a measure of how effectively the technologies offered by an alliance or partnership work together to increase overall competitive advantage.
* Achieving technological fit is fraught with difficulties.
* Alliances and partnerships that appear to offer an ideal and obvious combination of technologies meet with varying degrees of success.
* Technological compatibility is sometimes a major issue in the formation of alliances and partnerships. The problem often arises as a result of the past evolution of the potential partners.
* Alliances and partnerships are sometimes formed with a view to exploiting the technological potential generated by the process. Where this is the case it is important that the full potential of the alliance is generated.

#### Self-Protection

* It is important to use open and effective communication channels so that as many people as possible across all levels of the organisation are aware of the dangers involved in what they are doing.
* Individual employees may be used to an open and cooperative attitude, and it may come as something of a culture shock when they are required to work with employees of another organisation in a context where a degree of restraint and secrecy is required.
* Partners should set clear limits on what technology or expertise can be exposed to partners. This may seem an obvious precaution, but it can be surprising how frequently alliance partners fail to put it into operation.
* In most organisations, there are a range of different types of asset that could be transferred across the partnership boundary. An obvious example is technological expertise. Alliance partners may wish to limit the extent to which knowledge can be transferred between the two organisations.
* It is vital that prospective alliance partners are checked in detail and thoroughly evaluated before the alliance is formed. Typical characteristics include high debt, low capital availability, high innovation, and small size.
* It is often useful to package sensitive or valuable knowledge in the form of a ‘sealed unit’. This is an old idea that can often be used very effectively in alliance communications.
* Particularly valuable processes such as software programs can be of great potential advantage to a partner that is also a competitor. Software, and other processes, can often be used in the form of a sealed unit where it is used by restricted access with no direct exposure of the programme itself.
* It is very important to think in the long term in most alliances and partnerships, and to avoid the temptation to consider the most obvious performance indicator of short-term profitability.
* The dynamic nature of the alliance and of the environment in which it operates generates a range of considerations that are a function of alliance lifecycle.
* Each partner should carry out regular monitoring and review exercises to determine the extent to which the development of the alliance is modifying the risk profile of each partner.
* It is very important to play for the end game. Partners should design the alliance so that they can withdraw as and when required with their individual objectives achieved.
* The alliance or partnership is a dynamic enterprise within a dynamic environment. As such, it is subject to change from numerous sources including internal and external change.
* Internal change can include anything from modifications in strategic objectives to board changes, and external change can include anything from new statute to actions by competitors.
* Risk is a function of change because change creates conditions of uncertainty. The fact that there is an unknown factor in any commercial equation generates unforeseen and unforeseeable risks. As a result, the risk profile facing the alliance partners can change, particularly in terms of unforeseeable cascade elements.
* Alliance partners should use an appropriate change management system.
* Change management systems attempt to control and manage the effects of change. In its simplest form a change management system comprises a method for identifying and evaluating internal and external changes as a function of the risk profile.
* In all cases, there is a requirement for some kind of management reserve or contingency.

#### Planning and Executing the Alliance

* The formation and execution of a strategic alliance is a form of project. As such it is more likely to achieve is aims and objectives if it is formally planned and managed using project management tools and techniques.
* The Association for Project Management (APM) recommends the use of a strategic project plan (SPP) for any major project.
* An SPP is simply a standardised format project plan. It establishes the primary areas that should be planned in advance and then monitored and controlled as the project proceeds.
* An SPP addresses the primary control areas that are likely to be present in any project, including:
  + organisational structure;
  + information control;
  + communication and reporting systems;
  + time planning and control;
  + cost planning and control;
  + risk management and control;
  + quality management and control;
  + change management and control;
  + contracts and procurement.
* Most mergers and acquisition or alliance and partnership planners would recognise a number of common elements that apply in virtually all formation processes. These are as follows.
  + Stage 1. Overview.
  + Stage 2. Aims and objectives.
  + Stage 3. Work breakdown structure.
  + Stage 4. Planning.
* Planning and implementation are two entirely different concepts. It is one thing to plan something. It is quite another thing to make that same entity *deliver.*
* Most implementation processes rely on monitoring and control systems. The idea is that these systems monitor what is happening as the alliance is implemented, and highlight any areas for concern so that these can be controlled.
* Monitoring and control systems are generally either reactive or proactive in nature. Some systems are both reactive and proactive.
* Reactive systems basically monitor past data and record performance.
* Proactive systems usually have a retrospective basis in that they look at past data in order to generate a current variance position. Proactive systems then go on to project current performance forward in order to predict future positions.

