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Getting the Most from Strategic Partnering:

A Tale of Two Alliances

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In today's business environment, firms need to form alliances in order to address complex business challenges. Alliances can complement organizations' core competencies and allow them to jointly answer problems that a client or market has identified and no single entity can serve. They have become increasingly important over the last fifteen years, as the pace of doing business has accelerated and the competitive landscape has globalized. In 1998, Harbison and Pekar suggested that alliances were growing at a rate of 25 percent a year. Three years later, Dyer and colleagues reported that each of the top *Global 500* companies had formed, on average, 60 alliances to address the demands of their respective markets. As this statistic implies, not only are more organizations participating in alliances as part of their business strategy, but those that do often ally with multiple partners concurrently.

TYPES OF ALLIANCES

Companies form alliances in order to address promotional, operational, relationship, or strategic issues. Firms form a *promotional alliance* to create brand awareness in a market. In 2007, Mars Incorporated formed a promotional alliance with DreamWorks Entertainment to promote Shrek 3 through Snickers candy bars. The Snickers wrapper mentions the Shrek movie, and the nougat of the candy bar (which is usually white) is noticeably colored green like the character, Shrek. In an alliance of this type, the other party will usually reciprocate by also promoting the partner product; in this case, the studio may incorporate Snickers into the movie somehow. Perhaps Shrek will develop a taste for Snickers as E.T. did in 1982 for Reese's Pieces. That adorable little alien's love for the relatively new candy (initially introduced in 1978) was also the result of a promotional alliance, but this time between Universal Pictures and Hershey Food Corp. Hershey reciprocated the movie cameo by packaging E.T. stickers in the bags of candy.

Two companies form an *operational alliance* if they need to work closely together to improve the operational efficiency of a company or market. Honeywell International has formed an operational alliance with Caterpillar Inc. One of Honeywell's key core competencies is the ability to engineer new products, and its Turbo Technologies Division has developed a state-of-the-art turbocharger for heavy manufacturing equipment. Although Honeywell could manufacture these turbochargers itself, taking on this activity would distract from its core competency of product development. Therefore, the Turbo Technologies Division of Honeywell provides the parts for the turbochargers to Caterpillar's Remanufacturing Division, which assembles the product and, in doing so, leverages Caterpillar's competency in efficient manufacturing. As a result of this alliance, each company is able to focus on what it does best. The operational alliance ultimately benefits the consumer, who gets a better designed, lower cost option than if the companies operated separately.

Unlike operational alliances, *relationship alliances* function to mitigate risk and expand new markets for two firms that are relatively equal in size. A relationship alliance currently exists between Deloitte Touche Tohmatsu and BackOffice Associates LLC. Deloitte is a large organization that provides consulting, financial advisory, tax, and audit services to public, private, and government institutions. BackOffice is a company that evolved from former "big four" consultants and provides specialty data conversion services to public, private, and government institutions. Deloitte has a number of trusted relationships in the consulting community and does not focus on data conversion as a core competency. BackOffice management maintained close ties with the Big Four and, accordingly, a relationship alliance was natural with Deloitte, who now brings in BackOffice on client relationships as a

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boutique provider of data analysis services to support specific project needs. Clients benefit from the unique capabilities of BackOffice while Deloitte manages the relationship between the organizations.

Last, *strategic alliances* are formed to create joint ventures wherein two firms complement each other's strengths. Each firm requires the other's core competency to compete in a market, but this competency is too far removed from their own to develop internally. Dell Computer Corp. and Verizon Wireless are currently in such a partnership that allows Dell to create a laptop with built-in broadband access. Both companies benefit, because Dell can sell computers to customers who value mobile Internet access, and Verizon is able to add subscribers to its network. Later in this article, we provide a detailed example of a consulting firm that has formed strategic alliances with two different technology companies. The technology firms benefit because the consulting firm introduces products and services to clients. The consulting firm benefits because it is better able to learn from the technology company about various products and map technical solutions to complex business problems. The two companies complement each other as they offer solutions to a client.

In sum, alliances generally represent one of these four functional categories, and firms initiate alliances in order to offer a new product or service or address goals relating to revenue growth, competition, and/or market share. Rosabeth Moss Kanter refers to a company's ability to sustain fruitful partnerships as a *collaborative advantage*. Successful alliance partnerships can be instrumental to a firm achieving its goals. The prior examples are illustrative, but we will offer one more. IBM Corp., a publicly traded company, reported $88.4 billion in revenues in 2001. IBM relies heavily on alliance-based relationships and actually has over *500 alliances*. Since approximately one-third of their revenue is generated through alliance activity, alliances accounted for over $29 billion of IBM's revenues that year, an impressive amount by any standard. Moreover, these alliances comprise all four alliance types previously described. IBM's alliance portfolio management activity is thus not only encompassing, but also challenging, as each relationship has a unique business function and varies in form (i.e., promotional, operational, relationship, strategic).

THE DARK SIDE OF ALLIANCES

Despite the importance of alliances, many, if not most, fail to meet the expectations of executives. In their 1999 study, Kalmbach and Roussel found that, across a variety of industries, 50 percent of alliances failed to meet the expectations of their respective organizations. In 2002, Kale and colleagues observed a similar rate of failure. Although it is well-understood that alliances are tenuous propositions, there is a need for more research identifying the specific causes of this high failure rate. One of our goals for this article is to enhance knowledge in the area of alliance failure. That said, there has been some prior discussion of alliance failure that has pointed to attributes of individual firms, partnerships, or networks of alliance relationships that can hamper alliance performance.

At the firm level, there are certain practices an organization can adopt that increase the chances of a successful alliance. The most notable is the creation of a dedicated alliance function. In the research mentioned above by Kale and colleagues, the 50 percent success rate of alliances increases to 63 percent for firms that have departments dedicated to alliance management. At the partnership level, if two firms in an alliance are compatible in terms of "softer issues," they can coordinate more easily. By softer issues, we are referring to the organizations' cultures. Corporate culture affects many critical aspects of management and operations, such as how deadlines are perceived, decisions are made, and customers are treated. Granted, only allying with firms of similar cultures is usually not a viable solution, but culture is a potential difference to anticipate and mitigate (if necessary) in order to maximize alliance performance. Alliance partnerships also differ in the amount of pressure the firms feel to cooperate versus compete. These competitive forces are affected by contracts existing between the parties, the amount of product and service overlap, as well as the amount of trust in the relationship. At the most macro level, the performance of an individual alliance can be affected by the larger network of relationships in which the alliance is embedded. As we will illustrate in the upcoming case study, if a company has multiple alliances, these alliances may compete with one another if they are formed to fulfill the same purpose. A competitive alliance portfolio creates friction and can cause a single alliance not to reach its potential. In addition to these management-related challenges, factors in the larger external competitive environment also facilitate or hinder alliance performance (e.g., new entrants).

Management scholars believe that firms can increase their chances of alliance success by building a competency in alliance management, referred to as an *alliance capability*. The logic underlying the alliance capability argument is, when a firm forms and manages an alliance, that organization gains general skills and knowledge regarding alliance management which it can then transfer and apply to new alliances as they form. The result is that some firms become better at managing their alliances than others. For example, Hoang and Rothaermel discovered that biotechnology firms with alliance experience are more successful at managing their joint projects than biotech firms with no alliance experience. Similarly, Nohria and colleagues observed that companies engaging in relatively

smaller mergers or partnerships on a more frequent basis (two or three every year) over a ten-year period were generally more successful than organizations that did large, but "occasional" deals.

However, an alliance advantage eventually tapers off as an inexperienced firm takes on more and more alliances. Thus, firms can build an alliance capability through their experiences, but this depiction requires further qualification. The prescriptions which stem from the alliance capability framework focus only on managers within a firm transferring knowledge from alliance to alliance. The alliance capability framework ignores the increased within-firm complexity that is inherently associated with developing a portfolio of alliances. Firms might be able to transfer alliance management experience to distinct new partner relationships, but as the portfolio grows new challenges inherently arise at a more aggregate level. Often alliances within a firm's portfolio will have constraining, rather than complementary, interdependencies, particularly if a firm partners with rivals from the same sector. Moreover, when a firm is balancing an alliance portfolio, many of the alliances are not successful. Even if a firm is actively transferring effective practices between alliances, within a single firm some alliances may be struggling while others are thriving. How might such a dynamic arise? More generally, how does a firm learn to function as a multiple alliance firm?

We became acutely aware of the subtle complexities of multiple alliance management from our observation of and participation in firms following this business model. In order to help managers in similar firms anticipate and weather these challenges, in the following pages we describe the common pitfalls that cause partnerships within a multiple alliance context to derail. We illustrate these points of concern by telling the story of two alliances undertaken by one organization. The two alliances are similar in purpose, but differ in their relative level of success. As the tale of the two partnerships unfolds, common risks associated with creating and managing multiple alliances are noted.

THE ALLIANCE PARTNERS

The focal multi-alliance organization is a large consulting firm such as Accenture Ltd., Deloitte, or Capgemini, which provides services to clients worldwide and supports a number of industries–such as state and local government, health care, manufacturing, consumer business, financial services, real estate, transportation, and telecommunications. Consulting firms are known to form alliances for various reasons. Sometimes these large firms will partner with boutique consulting firms to provide unique services related to accounting, financial advisory, corporate governance, or highly specialized technology needs. Large consulting firms are also known to occasionally partner with law firms if they need to work on extensive merger and acquisition projects. The most common alliance for consulting firms is with high-technology companies such as SAP, Hyperion, IBM, Sun Microsystems Inc., Oracle Corp., or Hewlett-Packard Co. We have observed that large consulting firms may have as many as 30 or more alliance partners concurrently that serve the technology sector. Alliances with technology firms allow consulting firms to complement their core business competencies with technology capability. Specifically, consulting firms create demand for technology products by driving reengineering initiatives that require increasingly advanced technology, and the technology firms develop this technology to be used in organizations. This type of partnership is the focus of the following case study. In order to preserve anonymity, we will refer to the focal firm as *ConsultFirm*.

Although ConsultFirm accrues advantages from allying with multiple technology partners, it can be difficult to manage an alliance portfolio in which many partner firms are competitors from the same industrial sector. To illustrate these challenges, we describe alliances that ConsultFirm has formed with two high technology firms, referred to subsequently as *SoftwareInc* and *TechnologyInc*. These particular alliances have developed differently in terms of relationship quality and overall effectiveness. For ConsultFirm, the alliance with TechnologyInc appears to be improving with time, whereas the alliance with SoftwareInc is not achieving its full potential.

REASONS FOR THE CONTRASTING PERFORMANCE OF THE TWO ALLIANCES

From our observation of the inception and progression of these two alliances, we have been able to identify four factors underlying their divergent performance: competing interests within firm leadership, negotiation of alliance agreements, lack of trust, and alliance promotion. In order to describe all four factors, we must begin by discussing structures existing within ConsultFirm even before the inception of the two alliances. After the comparative case study, we offer five general guidelines all firms should follow to avoid (or at least minimize) such risks.

Competing Interests within Firm Leadership

Prior to the alliances forming, ConsultFirm had worked very closely with both TechnologyInc and SoftwareInc. The two technology firms had been clients of ConsultFirm for many years, buying a variety of different services. Since TechnologyInc and SoftwareInc were significant clients, an executive level manager from ConsultFirm was dedicated to each firm's account, with

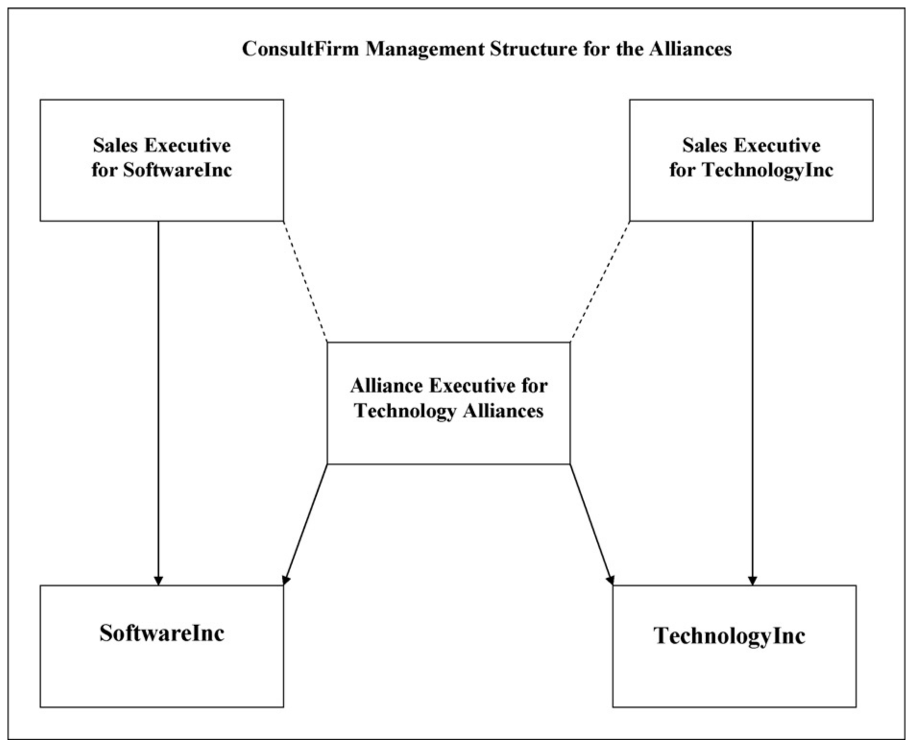
the sole responsibility of selling services to that client and overseeing client service issues. Each of these executives only had one client (i.e., TechnologyInc or SoftwareInc) and his or her compensation was directly linked to the revenue generated from that client. As the structure would imply, each executive, whom we will refer to as a *Sales Executive*, had formed a very close working relationship with his or her client over the years.

As ConsultFirm's experience increased, the firm became acutely familiar with the technology-related products and applications sold by each, and it became obvious to ConsultFirm that products from both of these firms could be integral in helping them build solutions for other clients around the globe. Once ConsultFirm made this key observation, it became clear that ConsultFirm should form an alliance with SoftwareInc and TechnologyInc. By forming an alliance with ConsultFirm, each technology firm would create an additional avenue through which to sell its products and pursue joint initiatives. Also, ConsultFirm was a global organization, and the amount of products that ConsultFirm could potentially incorporate or sell as part of a consulting engagement was significant. Therefore, TechnologyInc and SoftwareInc agreed to an alliance.

At this point, to support the formation and ongoing management of the alliances, ConsultFirm assigned an executive, whom we will refer to as the *Alliance Executive*, to manage the partnerships with SoftwareInc and TechnologyInc. Overseeing both partnerships was his or her sole responsibility within the firm. Note that assigning an executive to manage alliances is consistent with recommendations from Kale and colleagues, who found it is generally beneficial for firms to have dedicated alliance management. The compensation of the Alliance Executive was performance-based, with a majority of income, 60–70 percent, determined by the overall profitability of the alliances for ConsultFirm.

ConsultFirm has now assigned two executives to manage the relationship with TechnologyInc. One is a Sales Executive and the other is an Alliance Executive. The Sales Executive has responsibility for generating revenue by *selling services to TechnologyInc* and the Alliance Executive has responsibility for generating revenue by *selling or building a solution utilizing TechnologyInc's products*. Since the Alliance Executive is responsible for managing alliance activity with both firms, the same governance structure has been created to manage ConsultFirm's relationship with SoftwareInc. This management structure is illustrated in Fig. 1.

FIGURE 1 CONSULTFIRM MANAGEMENT STRUCTURE FOR THE ALLIANCES



Reporting to the Alliance Executive, there are ConsultFirm employees dedicated to working on each alliance, one team for SoftwareInc and a separate team for TechnologyInc. ConsultFirm created separate teams to support each alliance, since each represents a distinct profit center for ConsultFirm and each partner firm offers similar (and hence competing) products. SoftwareInc and TechnologyInc each also have employees dedicated to their alliance relationship with ConsultFirm.

Once the Alliance Executive position was created, his or her span of influence overlapped with the Sales Executives who had already worked with TechnologyInc and SoftwareInc for many years. In other words, by adopting this management structure an alignment problem was created within ConsultFirm between the Sales Executives and the Alliance Executive. The Sales Executive has complete responsibility of the client relationship, but does not share in the overall revenue reward, since alliance revenue goes to the alliance organization. To complicate matters, top management at ConsultFirm did not specifically define hierarchical boundaries and rewards for the Alliance Executive position in relation to services. As a result, the Alliance Executive was left to negotiate these details with each of the Sales Executives, creating a continued internal alignment issue. At this early stage the two alliances began to traverse down different paths.

Before ConsultFirm created the Alliance Executive position, all the revenue generated from the client relationships with TechnologyInc or SoftwareInc was entirely attributed to the Sales Executive assigned to that account. In keeping with this tradition, the Sales Executive for SoftwareInc felt that he should continue to benefit from all revenue generated from ConsultFirm's relationship with this firm (as a client or now also as an alliance partner). Therefore, it was difficult for the Alliance Executive to negotiate governance terms with this Sales Executive. Since both of these executives had power within the firm, both proceeded to protect what they perceived as rightfully theirs and never reached perfect agreement on how to manage the SoftwareInc relationship.

In contrast, the Sales Executive for TechnologyInc had no such interest in overall revenue generation from the client. Moreover, the Sales Executive for this firm had previously worked with the Alliance Executive, and they already had a good relationship. Because the TechnologyInc Sales Executive did not have conflicting interests with the Alliance Executive, they were able to sit down and clearly delineate the responsibilities of the alliance versus the sales team. The personal relationship between these two executives allowed for a creative collaboration of revenue recognition between service revenue and alliance revenue. The Alliance Executive would take some of the revenue generated from the relationship and invest in training and market initiatives for the Sales Executive. Additionally, the Sales Executive would allow the Alliance Executive to communicate internally the overall service success between the two firms.

In sum, the relationships between the Sales Executives and Alliance Executive formed the bedrock for the ensuing alliances. The TechnologyInc alliance already had a firm foundation on which to build, whereas the ground beneath the SoftwareInc alliance never completely stopped shifting. Senior management at ConsultFirm did not intervene at any time to address the issues already arising between the SoftwareInc Sales Executive and the Alliance Executive. This situation formed the backdrop as ConsultFirm entered into contract negotiations with each of the prospective alliance partners.

Negotiation of the Alliance Agreements

ConsultFirm's negotiating latitude was relatively equal in reference to both TechnologyInc and SoftwareInc (i.e., the ratio of power and resources possessed by ConsultFirm relative to each of the other firms was similar). ConsultFirm also faced the same legal constraints going into each negotiation. Accordingly, ConsultFirm should have been able to negotiate similar agreements with each party, but this is not at all what occurred. The Sales Executive assigned to the SoftwareInc relationship was still embroiled in the internal power struggle with the Alliance Executive. Instead of putting aside these differences (at least temporarily) and working together to negotiate a favorable agreement for ConsultFirm, the parties used the negotiation field as one more arena in which to compete. They effectively undermined each other's authority and failed to present a united front. The dissent was obvious to SoftwareInc's management, who were able to use it to their advantage during negotiations.

A much different scenario played out in the next boardroom. Since the Sales Executive for the TechnologyInc relationship was comfortable in his position relative to the Alliance Executive, the two executives were able to easily collaborate and devise a clear plan for the negotiations with their counterparts at TechnologyInc. As a result, the agreement was much more favorable for ConsultFirm than the agreement negotiated with SoftwareInc. Since these contractual agreements cover a period of one year, the implication was that for the first year the TechnologyInc alliance would generate about twice as much revenue for ConsultFirm as the alliance with SoftwareInc. For example, in order for ConsultFirm to make $1 million in alliance revenue from SoftwareInc, the relationship would have to produce $20 million of alliance-based activity. However, for ConsultFirm to make $1 million in revenue with TechnologyInc the relationship would only have to

produce $10 million of alliance activity. Maybe the ConsultFirm executives would be able to correct this situation when the year was up, but that was obviously an open-ended question. Once the alliance contracts were negotiated, ConsultFirm began cooperative activities with each of its new partners. Yet, there were structural elements in place which impacted the formation of trust in the two alliance relationships. Unbeknownst to SoftwareInc, they were in a much more difficult position to build trust with their new partner.

Lack of Trust

Trust between alliance parties is essential in order to share information, compete against common threats, and develop joint products. In order to cooperate fully, each partner must believe the other is not going to act opportunistically. Cooperation between alliance partners is enabled through both formal control mechanisms and trust, and the former cannot serve as a substitute for the latter.

Between any two parties, a certain degree of trust exists (or not) even before considering an alliance or entering into alliance negotiations. This type of trust stems from each potential partner firm's reputation. Is this firm known for acting opportunistically in its partner relationships (e.g., Wal-Mart Stores)? Is the firm known for producing poor quality goods or services (e.g., Firestone tires)? Has the firm treated stakeholders inappropriately (e.g., Nike Inc. contracting to sweatshops) or been found guilty of illegal practices (e.g., Andersen Consulting with Enron Corp. or Tyco International and use of internal funds)? Notably, even if an organization breaks the law and the violations do not directly relate to alliance activity, the taint arising from the criminal charges may be sufficient to call into question the general integrity of a firm's practices. Another interesting aside about firm reputation, is that a firm does not have to be guilty of elicit practices to be considered a greater risk. Although the firms in the prior examples committed the infractions in question, an organization only needs to be *accused* of such acts for its reputation to be damaged. Thus, firms must attend to their reputation, since perceptions in this area can be very fragile.

That said, even if reputation-based trust exists between two parties, trust alone is generally not sufficient to allow for coordination between firms, because of the amount of risk involved. Trust represents an *expectation* on the part of each firm that the other will not act opportunistically but it cannot prevent a firm from doing so. For this reason, many firms begin an alliance relationship with a clearly defined contract. The contract functions to directly control behavior and mitigate the firms' risk, allowing both parties to cooperate openly and make themselves vulnerable to each other even if little trust exists.

Even contracts have shortcomings, though, because not every possible opportunistic behavior can be addressed by formal policies or procedures. The latitude for acting in a self-serving fashion will always exist on the margins (at the very least). Since risk can still exist, trust must exist *in addition to* the typical formal controls and grow beyond that based on reputation alone. ConsultFirm's trust in TechnologyInc as an alliance partner appears to only increase over time. Conversely, the trust within the SoftwareInc relationship has not increased, or perhaps even degraded from its initial levels. There are two structural factors operating to create these trends: (1) conflicting interests with alliance partners and (2) ConsultFirm members' perceptions of the two alliance relationships.

Conflicting interests. The formation of trust is inherently a perceptual process. An individual evaluates whether another person or entity is likely to be "trustworthy" and based on this assessment, decides whether to make themselves vulnerable to this other party. ConsultFirm and SoftwareInc have a structural anomaly to their relationship which can cause members from both firms to perceive a greater amount of risk than they normally would. Specifically, SoftwareInc and ConsultFirm actually *compete* in ConsultFirm's core competency area (i.e., consulting). In addition to SoftwareInc's focus on technology development, they also have a consulting division, and ConsultFirm regularly finds itself bidding against this SoftwareInc division for clients.

One may wonder why SoftwareInc would ally with ConsultFirm at all, if their own business model allows them to sell their products through consulting channels, but ConsultFirm is such a sizable competitor that SoftwareInc is able to gain much more market penetration by using them as an additional avenue for sales and solution development. That said, it is obvious why this arrangement is the source of skepticism for both parties. If a Sales Executive within ConsultFirm loses a bid for a client to SoftwareInc's consulting division, this Sales Executive is probably not going to be too keen on using SoftwareInc technology on other client engagements. Conversely, the Alliance Executive from SoftwareInc must face internal pressure from the consulting arm of SoftwareInc which is, obviously, motivated to outbid ConsultFirm for clients and wants better deals on SoftwareInc technology (than would be given to ConsultFirm) in order to do so. By comparison, ConsultFirm does not compete with TechnologyInc in any markets. This provides for a purely complementary relationship in which it is easier to build trust.

Fairness judgments. Trust development within the two alliances is also impeded by concerns of fairness. Perceptions of fairness and trust are inextricably inter-

twined. From the viewpoint of ConsultFirm members, fairness judgments have impacted their willingness to trust the alliance partners. It is natural for employees within a firm to compare the relative benefits of alliances. Due to TechnologyInc and SoftwareInc's similar backgrounds and the fact that ConsultFirm has allied with each of them for similar reasons, employees are particularly prone to making comparisons between these two firms. Even upon a cursory evaluation of the negotiated contracts, it was obvious that ConsultFirm was not profiting nearly as much from its partnership with SoftwareInc as it was from TechnologyInc. Moreover, as mentioned in the previous section, ConsultFirm sometimes lost business to SoftwareInc's consulting division.

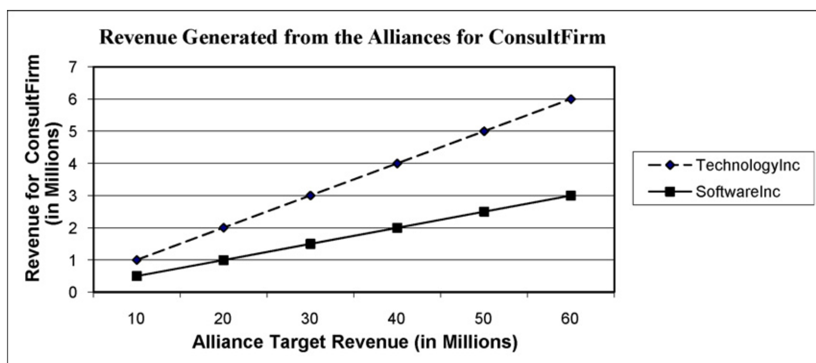
In sum, the relative benefits for ConsultFirm are much, much lower in the SoftwareInc partnership. As alluded to previously, the amount of consulting and alliance revenue generated for ConsultFirm from the relationship with TechnologyInc is about double in comparison to SoftwareInc. Not only is the consulting revenue considerably higher with TechnologyInc, but alliance revenue growth is much easier to achieve. Simply stated, the SoftwareInc relationship operates at about a 20:1 ratio (i.e., the alliance must generate 20 million in activity for ConsultFirm to make 1 million) compared to the 10:1 ratio for the TechnologyInc alliance. Alliance revenue for both relationships is illustrated in Fig. 2.

Is this discrepancy in revenue for ConsultFirm the "fault" of SoftwareInc? Did SoftwareInc act "inappropriately?" The answer to both of these questions is no. ConsultFirm negotiated with both partners and is equally responsible for the outcome of these negotiations. SoftwareInc tried to maximize their profits during the negotiation, but this is rational behavior in a business transaction. SoftwareInc acquired a consulting division, but this transaction occurred years before forming the partnership with ConsultFirm. Unfortunately, for SoftwareInc, however, they failed to predict and consider the extent ConsultFirm members would compare their alliance contract to that between ConsultFirm and TechnologyInc.

When ConsultFirm members look at the provisions of each contract, the executives do not consider the process of the negotiation, unfortunately for SoftwareInc. Thus, although ConsultFirm was clearly responsible for contributing to the existing situation, SoftwareInc came across as the "bad guy" by comparison with its similar rival. Moreover, since the contract negotiations occur at the beginning of the alliance relationship, this early perception that SoftwareInc acted opportunistically is detrimental for the subsequent relationship-building activities. Interestingly, if the TechnologyInc alliance did not exist as a comparison point, SoftwareInc may seem like a "good guy" to ConsultFirm members, who would be more inclined to consider the incremental revenue contributed by the alliance rather than relative benefits (revenue or otherwise). From another perspective, if the SoftwareInc alliance did not exist, the TechnologyInc alliance may not be held in such high regard. The concurrent existence of both alliances is an important factor driving the upward and downward momentum in these relationships.

In sum, although control mechanisms were essentially equivalent across both partners, ConsultFirm and TechnologyInc had a much firmer basis on which to build commitment, cooperation, and trust than ConsultFirm and SoftwareInc. The short-run implications of this may be trivial, but the long-term effects on the viability of each alliance are surely significant. Once the alliances began, however, the next challenge was to promote these alliances, making relevant constituents aware of the economic opportunities they offered.

FIGURE 2 REVENUE GENERATED FROM THE ALLIANCES FOR CONSULTFIRM



Alliance Promotion

Since the purpose of each alliance is to use technology products from the partner firm to create solutions for other ConsultFirm clients, alliance promotion is critical so that each alliance gains visibility throughout ConsultFirm. The primary functions of the alliance teams are to share knowledge regarding technology and client needs, jointly develop new technology solutions for clients, and see that those solutions are sold to clients. Through alliance promotion activities the teams build ties across the organizations. These promotion activities occur in a four-stage process which we have diagrammed in Fig. 3. This process, as noted, illustrates how the promotion activities operate for the firms in this example, but these activities are also generally characteristic of other consulting-technology alliances. For each alliance to be as effective as possible (i.e., sell as much technology as possible through to ConsultFirm clients), the alliance teams from the respective organizations must optimize alliance promotion across all stages.

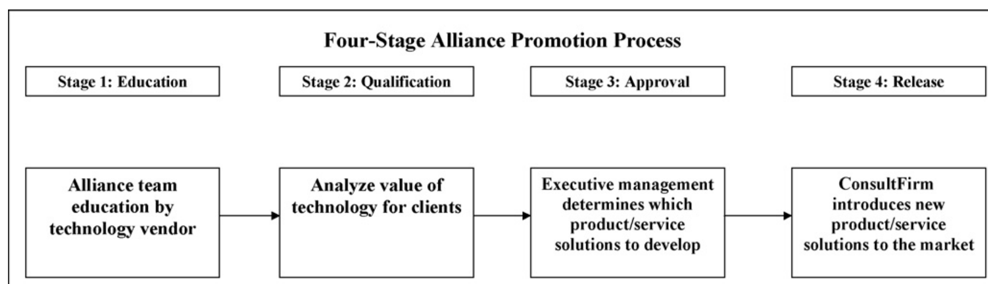
During the first stage, TechnologyInc and SoftwareInc must educate the alliance team from ConsultFirm regarding the details of their technology products. In the second stage, the ConsultFirm team then evaluates a number of products (i.e., takes it through a qualification process) to see if value can be added to clients by building out product solutions utilizing a specific technology which would be combined with consulting services. Equally important, it is during these early stages of the promotion process that the technology firms have the opportunity to facilitate relationship-building between their alliance team and the ConsultFirm team as well as build goodwill with the ConsultFirm team members. Each partner needs to trust the other in order for cooperation to be optimized over the long-term. However, "...trust building is a planned activity and takes considerable resources from organizations over time," a point emphasized by Das and Teng.

TechnologyInc has seemed distinctly aware of the importance and financial cost of building trust from the beginning. TechnologyInc made considerable efforts and expenditures to not only educate but also build relationships and goodwill with ConsultFirm team members. In contrast, SoftwareInc has made efforts to educate the alliance team from ConsultFirm, but has not devoted similar resources to the "softer" issues. Although the return on investment of these activities is difficult to quantify, from our comparison of the two alliances we have observed that the efforts of the partner firm at this stage heavily impact the success of promotion efforts downstream.

That said, SoftwareInc has not completely overlooked the necessity of fostering relations with the ConsultFirm team. From the start of the alliance, SoftwareInc hosted off-site meetings and sponsored recreational, relationship-building activities, such golf and trips to theme parks, and these types of activities may have been sufficient for SoftwareInc to build relationships in other alliances. However, in this situation SoftwareInc was faced with the unique challenge of building relationships with an alliance partner, ConsultFirm, who was concurrently building an alliance with a direct (and very similar) competitor, TechnologyInc. Although the efforts of SoftwareInc may have been sufficient if considered in isolation, they paled in comparison to those of TechnologyInc who regularly sponsored retreats at high-end vacation resorts, spending additional money to fly in significant others and families to some events. SoftwareInc never foresaw this issue.

Thus, from very early on ConsultFirm was accruing relatively more benefits from the TechnologyInc alliance, since they do not compete against TechnologyInc in any areas, the negotiated contract with this partner was more profitable for ConsultFirm, and ConsultFirm members were gaining more informal benefits (i.e., perks) through the relationship-building activities arranged by this firm. As a result, members of Con-

FIGURE 3 FOUR-STAGE ALLIANCE PROMOTION PROCESS



sultFirm perceived that TechnologyInc held their firm in higher regard than SoftwareInc and, further, that TechnologyInc was more concerned with maintaining a mutually beneficial alliance.

Therefore, the promotion process was much easier for the TechnologyInc alliance team during the downstream stages. In stage three, product solutions which have passed the qualification process are introduced to ConsultFirm executives who then judge the market value of these solutions. TechnologyInc's advantage became evident at an alliance event that ConsultFirm holds annually at a very nice resort location for the purpose of collecting input from executives regarding client needs (Stage 3) and keeping all ConsultFirm senior executives informed of alliance created products or services that can be leveraged as opportunities for the firm (Stage 4). Naturally, after ConsultFirm formed these technology alliances they invited executives from TechnologyInc and SoftwareInc. At the event, the executives from ConsultFirm spent a great deal more time with the TechnologyInc executives than the representatives from SoftwareInc. At the informal social gatherings the executives from ConsultFirm gravitated toward TechnologyInc. The executives from SoftwareInc were quick to note the issue. This was, perhaps, the first time SoftwareInc became aware of the difference in the relative quality of their relationship with ConsultFirm compared to the latter's relationship with TechnologyInc.

WHAT ARE THE MANAGERIAL RECOMMENDATIONS?

Managing alliances is a difficult endeavor. Even firms like ConsultFirm, which are adroit at handling strategic partnerships, can experience unforeseen challenges. A number of lessons can be garnered from these comparisons that are applicable and beneficial to almost any type of alliance. Specifically, to maximize alliance performance, it is necessary that managers (1) clarify roles and responsibilities, (2) consider conflicts of interest, (3) anticipate comparisons between alliances, (4) create contracts which benefit both parties, and (5) continuously evaluate alliances.

Clarify Roles and Responsibilities

When forming alliances firms need to have a dedicated alliance management structure, and it is optimal to choose people for this position who are flexible and adept at relationship building and boundary spanning. Executive management will also need to assess whether, in creating an alliance management position, they are impinging upon other managers' areas of responsibility. ConsultFirm was not mindful of this when they introduced the Alliance Executive position that overlapped the responsibilities of the Sales Executive. Senior management at ConsultFirm needed to define each of these positions a priori instead of leaving the issue for the managers to resolve amongst themselves. The solution may have been as simple as having a conversation or meeting with the parties involved.

In more complex scenarios, such as the one described herein, senior managers also have a variety of formal process planning tools they may use if necessary, such as Galbraith's RACI responsibility chart. The RACI chart (i.e., an acronym for responsible, approve, consult, inform) is a matrix in which rows reflect decisions that need to be made (e.g., product development, product price, package price) and columns include all of the roles which could potentially be involved (e.g., sales, finance, manufacturing). To use the matrix, senior management can fill out the chart and present it to the various affected parties to clarify where responsibilities lie. Alternatively, senior managers may desire a more interactive approach, and the matrix can be used for this purpose as well. In this case, senior managers would first ask all parties to fill out the chart, indicating their perception of which decision each group has responsibility for (R), must approve (A), should be consulted on (C), or must later be informed of (I) (i.e., sometimes a fifth category of "no formal role" is also included). Then, disagreements would be noted and resolved in an iterative process, until all parties were clear on their role for each type of decision.

Regardless of whether they chose a tactic which was formal versus informal or interactive versus not, if upper management at ConsultFirm had invested a little more time and effort in setting up the initial alliance management structure, as well as concurrently managing both contracts for consistency, the infighting may have largely (or completely) been avoided. If so, ConsultFirm could have presented a more unified front during negotiations and attained more favorable contract terms with both partners. Failure to attend to this issue initially may have caused ConsultFirm to lose large sums of revenue.

In addition to clarifying responsibilities, it is important to reward managers for fulfilling those responsibilities, in this case by making at least a portion of the compensation of alliance management contingent on the performance of the alliance. ConsultFirm primarily relies on performance-contingent rewards across all divisions, and alliances are no exception, so they were already implementing appropriate policies. For the Alliance Executive at ConsultFirm, 60–70 percent of his income was based on alliance performance (with the remainder being base salary), but this is only one example. In general, an appropriate compensation allocation will depend on a number of factors such as a manager's level within the firm; the risk associated with the alliance(s), and expected alliance revenue growth.

As management rank increases, contingent rewards need to reflect a larger portion of compensation, since higher ranking managers have more latitude to make decisions that affect revenue generation. If a particular alliance is risky, or exists within a volatile industry sector it may be appropriate to decrease the percentage of performance-contingent pay so as not to make the assignment punitive. Regardless, in most situations involving pay contingent on alliance performance, compensation systems can be presented in a tiered structure with bonus levels determined by increasing levels of growth.

For example, a manager at ConsultFirm may be awarded a $400,000 bonus for growing revenue for a particular alliance from one to five million (i.e., 10 percent of revenue growth). But what if this manager grows revenue from one to 10 million? Instead of receiving, $900,000 in bonus this manager might instead receive $1.8 million (20 percent of revenue growth). Obviously, the appropriate percentages will depend on a myriad of factors unique to the situation, but we offer this example to illustrate options. That said, the rewards system needs to be designed in a thoughtful manner so that management is not inadvertently incented to keep supporting a failing, unsalvageable alliance. A very large percentage of alliances end up underperforming and alliance management must have the latitude to decide whether to escalate resources to support a partnership or end the partnership.

Consider Conflicts of Interest

Another challenge the ConsultFirm-SoftwareInc alliance faces is a conflict of interests. A division of SoftwareInc competes against ConsultFirm in the consulting industry. Because of this complicating factor, managing the opposing forces of competition and collaboration is exceedingly difficult, and this conflict impedes the development of the firms' alliance relationship. Interestingly, since SoftwareInc also has alliances with a number of other consulting firms, this structural anomaly probably presents a challenge in many of SoftwareInc's relationships. Firms in this precarious situation of trying to compete in some markets and cooperate in others need to carefully assess the costs and benefits of their strategic choices.

In the 1990s, PepsiCo Inc. found itself in a similar situation. They acquired a number of fast food restaurant chains, including Pizza Hut, KFC, and Taco Bell. Upon cursory evaluation, fast food restaurants may seem quite complementary to PepsiCo's portfolio. Fast food chains sell large volumes of fountain drinks, and, in doing so, provide an avenue for creating demand for sodas and selling Pepsi beverages. However, when PepsiCo entered the fast food industry through acquisitions, it also meant that PepsiCo was competing against its customer base, which included other restaurants that sold Pepsi cola products. For the years that PepsiCo owned the restaurant chains, there were other management-related challenges that plagued the corporation and negatively affected the restaurants' performance, (see the article "Changing culture at Pizza Hut and Yum! Brands, Inc." for a more thorough discussion) and, taken together, all these factors eventually led PepsiCo to spin off its restaurant division. On 7 October 1997, the restaurants were launched into their own corporation called Yum! Brands (originally Tricon Global Restaurants, Inc.).

When SoftwareInc began to offer consulting services, this tactic was akin to PepsiCo purchasing chains of fast food restaurants. Looking at the performance of PepsiCo and Yum! Brands, the firms are more profitable as separate corporate entities. Yum!'s net income increased from a $53 million loss in 1996 to an $824 million gain in 2006, and PepsiCo's profit margin increased from 10 percent in 1996 to 18.3 percent in 2006. We readily acknowledge a spin-off may not be the best solution for SoftwareInc. However, firms often find themselves entering markets (or considering markets) where they will end up competing with alliance partners. As a rule-of-thumb, Cisco Systems Inc., known for its expertise at managing strategic relationships, will not partner with firms with whom they have product or service overlap of more than 20 percent of revenue. The appropriate guidelines for each firm surely vary, but we encourage organizational leaders to thoroughly think through how strategic decisions regarding market entry will affect current and future alliance partnerships.

Anticipate Comparisons between Alliances

Fairness comparisons between alliances are a strong driver of attitudes toward alliances. Firms which manage multiple alliances concurrently need to be aware of the basic tendency of organizational members to commit perceptual comparisons and that these comparisons will occur in a relatively automatic fashion. The two alliances described were particularly prone to comparison since the partners were so similar (i.e., they were from the same industry sector and also of comparable size), but ConsultFirm's decision to ally with industry competitors is *not* unique. In fact, in a 2003 study by Parise and Casher almost one-quarter of 35 firms observed had built alliances with two or more market competitors. Thus, many other consulting firms do the same as do firms in other industries, such as the life sciences and information-technology. In the life sciences, Genentech Inc. has allied with both Biogen Idec Inc. and Roche, who are competitors and provide manufacturing and marketing services for Genentech pharmaceuticals. In the technology sector,

Cisco has alliances with distributors Ingram Micro Inc. and CDW Corp., who both distribute Cisco's networking products. Hence, many firms are involved in a complicated network of partnerships and, if they are, their employees will also be prone to commit perceptual comparisons.

Within ConsultFirm these comparisons will make it more difficult to promote the SoftwareInc alliance and maintain commitment for this alliance. By concurrently forming alliances with both TechnologyInc and SoftwareInc, ConsultFirm will ultimately end up making the TechnologyInc alliance more effective and the SoftwareInc alliance less effective than if they had only partnered with either firm in isolation. A general lesson can be derived from this scenario: when considering whether to ally with a potential partner, managers need to familiarize themselves with the firm's alliance portfolio. Does this potential partner currently have alliances with any of my competitors? What is the state of these alliances (including employee attitudes towards the alliance partner)? What benefits is this firm receiving from my competitor? Firms should try to anticipate the tendency of employees to make comparative judgments, since such comparisons can make alliance relationships more difficult to build and manage. If firms such as ConsultFirm notice employees making these comparisons and feel they are harmful, they could try to mitigate this tendency by redirecting attention to more appropriate metrics such as incremental revenue contributed by an alliance rather than revenue from that alliance relative to others.

Create Contracts That Benefit Both Parties

As mentioned, when forming and managing alliances, a firm has difficulty balancing the motivation to compete with the necessity to coordinate. When alliances fail, as so many do, at a very abstract level many of these failures can simply be characterized as those in which competition "won out." But having a competitive mindset and seeing the alliance partnership as a zero-sum game is a very short-term perspective. For an alliance to succeed and function optimally over the long-term, a cooperative mindset is necessary, although it may not be easy to maintain. Firms want alliances to be successful, but they also want to maximize their profits. The example given throughout this paper illustrates a complicated balancing act.

SoftwareInc was able to negotiate favorable contract terms, and ConsultFirm may not have liked the initial contract terms. However, SoftwareInc cannot be criticized for acting in its own best interests. *They* may have perceived the contract as reflecting a long-term perspective. Again, if not for the existence of the TechnologyInc alliance, with its more favorable contract terms, ConsultFirm might have also perceived the terms of the SoftwareInc alliance differently. Additionally, executives within ConsultFirm should have been better prepared when entering negotiations. There was little excuse for the terms of the SoftwareInc contract being so much less favorable than the TechnologyInc contract. ConsultFirm could have explored the possibility of standardizing contracts across both alliance organizations, but with minor stipulations to account for any unique needs of each partner. Alternatively, ConsultFirm might have been able to use the more favorable terms negotiated with TechnologyInc as leverage to attain more favorable terms from SoftwareInc. Of course, both of these options would have required more coordination on the part of the ConsultFirm alliance management. Another general recommendation, that would have also been relevant to this scenario, is to have the same legal counsel assist in all alliance contracts in order to facilitate best practices.

Continuously Evaluate Alliances

Firms need to intermittently evaluate the quality of individual alliances and their alliance portfolios. Each firm should create an alliance evaluation process which can be applied consistently and reliably to assess the health of its alliances in terms of both financial and nonfinancial criteria (i.e., the "softer" issues). Alliance relationships may appear to be successful when revenue targets are met. However, if a firm does not assess the inner-workings of the alliance in addition to these more obvious, objective outcome measures, it is impossible to know whether the alliance is performing at its optimal level. Recent research conducted by the first author supports this premise, finding that organizations should consider compatibilities related to business ethics and organizational culture, not just business drivers.

For example, if an alliance relationship has a revenue target of $100 million and the actual revenue achieved is $105 million, under a fiscal-only measurement system this achievement would be viewed as a success. However, if the assessment system included an analysis of the compatibility of the firms in terms of their decision-making styles, ethical values, customer-orientation, leader communication styles, and the like, the alliance partners may have found a number of areas of conflict and misunderstanding. If these conflicts or misunderstandings were then confronted and mitigated, the alliance might meet a $125 million target in the future. In other words, the true value or opportunity of any alliance without jointly considering the "softer" issues is difficult to understand. Even if an alliance is profitable, when a firm doesn't analyzing whether day-to-day operations are maximizing potential, the revenue targets have less meaning.

Despite the utility of a holistic approach, it appears that firms are not evaluating their alliances in this manner. Even firms such as ConsultFirm, generally perceived as being adept at managing alliances, rely only on financial criteria in making judgments regarding alliance success and failure. Granted, this more "conventional" approach is easier, because financial data is more readily available and easier to benchmark. Yet, we argue that putting forth additional effort to take a more encompassing perspective when conducting alliance evaluations should pay off in much higher returns for firms. For example, if ConsultFirm senior management conducted an objective analysis of the ConsultFirm–SoftwareInc partnership looking at more than financials – even if they only considered the operations going on within ConsultFirm (and not also the interactions between the firms) – they might become aware of the conflicts that have erupted between the Sales Executive and the Alliance Executive regarding their respective management roles. By identifying and intervening on this one issue, senior management could mitigate the confusing context this conflict has created for the alliance team employees *and* potentially increase the profitability of that alliance by eliminating future conflicts within the ConsultFirm management team.

Firms should also endeavor to identify and eliminate bias from the assessment process to the greatest extent possible. One of the most common mistakes organizations make is relying solely on each alliance's dedicated management team to track the performance of that alliance and report progress up to senior management. People who were initially responsible for choosing a particular alliance partner or are currently responsible for an alliance's performance are not ideal for this role, because they have a vested interest in the success of that alliance. The assessments of individuals in active alliance roles are more likely to be biased while either reporting or interpreting information about the alliance. Such biases are not necessarily the result of intentional, unethical practices (although these might also occur) but are committed on the subconscious level, and even the most well-intentioned managers easily fall prey to them.

When gathering performance information, vested individuals are more likely to commit errors in judgment, filtering out negative information and focusing on positive. For this same reason, those with a greater vested interest in an alliance are less likely to report shortcomings in current performance or foreseeable future risks. A common tendency for people who are invested (personally or financially) in a project is to escalate their commitment to that project (or in this case an alliance) even if it is faltering or failing. These individuals often and wrongly consider sunk costs and throw good money after bad; because they do not want to admit that their past decisions may have been incorrect (i.e., continuing the behavior functions as a form of self-justification). Increasing or continuing the investment of capital and resources to an alliance which is not earning the desired profits is akin to sitting at the same slot machine all day waiting for it to pay out (i.e., "I've invested so much in this. I know it's going to pay out soon"). Continuing a failed alliance is also no different than buying a $1,000 part to fix a broken-down car which is only worth $800 (i.e., "If I just put a little more money in, I know it'll run.").

To mitigate biases, include people in the assessment process who are not directly involved with the alliance. Alliance management can (and most times should) be heavily involved, but they should not be the sole decision-makers. The assessment team can be augmented by others within the firm who can serve as a check and balance or be assigned the role of devil's advocate during meetings. Organizations with significant alliance portfolios might even consider appointing an alliance board, comprised of unvested parties, to be responsible for assessing the performance of all alliances separately, and collectively, on a scheduled basis. This board could, then, also be used to cross-pollinate the alliances with best practices. Alternatively, a firm may choose to engage an outside party to conduct the assessment. Firms rarely pursue this option, largely because consulting expertise has not kept pace with industry trends in this area. However, there is a burgeoning movement towards alliance consulting.

If a company chooses to hire a consultant, they may want to approach their current or potential partner firm about the decision. The partner firm may want to jointly hire the consultant, sharing the costs, and have the consultant act as an impartial mediator accountable to both parties. Any firm hiring an alliance consultant should also be careful to ascertain whether this person has knowledge and experience specific to alliances. Consulting practice in this area has not been as prevalent as other areas. In a related point, the hiring firm(s) should generally familiarize itself with the consultant's proposed methodology. As mentioned, a holistic perspective is necessary when estimating alliance potential or evaluating existing alliances.

However a company chooses to make decisions regarding alliances, using in-house expertise or consultant advice, these decisions will not be easy. It may be difficult to walk away from a potential partner firm that is judged to be very incompatible in the holistic sense, if the financials look appealing. When evaluating an existing alliance, it may be difficult to judge whether a faltering alliance can be put back on track. Managers will have to make painful decisions about whether to invest more resources in turning around the alliance or walking away to mitigate risk.

TO BE CONTINUED . . .. . .

So what happens next? After reflecting on ConsultFirm's experiences, some might wonder why, if the SoftwareInc and TechnologyInc alliances serve similar purposes, ConsultFirm does not simply dissolve its relationship with SoftwareInc and focus efforts on the (relatively) more successful alliance with TechnologyInc. In this case, the simple solution is neither preferable nor realistic for ConsultFirm for two reasons. First, SoftwareInc is a very large, multi-national organization, and dissolving the SoftwareInc partnership would cause ConsultFirm to lose SoftwareInc as a client (who buys ConsultFirm services). This lost revenue would hurt ConsultFirm's profits and a competitor would then get SoftwareInc's business. Second, SoftwareInc is a dominant player in the technology marketplace and, accordingly, ending the partnership would put ConsultFirm at a competitive disadvantage in the consulting industry. Many clients already use SoftwareInc technology at the time they hire ConsultFirm. Not only would ConsultFirm not be able to attract new clients who prefer SoftwareInc technology, but ConsultFirm would not be able to optimally serve existing clients where SoftwareInc technology is most suitable for solving their business problems. In the larger perspective, since certain partnerships can help give a firm, such as ConsultFirm, a competitive advantage, these same partners can also offer a similar competitive advantage to any of ConsultFirm's competitors. By losing SoftwareInc as a partner, ConsultFirm's competitors would be able to offer products and solutions that ConsultFirm could not.

Unfortunately, the results of the year two contract negotiations did not differ appreciably from year one. The infighting, which existed from the onset, has escalated, because the Sales Executive for SoftwareInc persists in trying to gain control over all revenue generated from this client, including the revenue generated from alliance activity with SoftwareInc, currently credited to the Alliance Executive. As a result, the partnership with TechnologyInc is still relatively more profitable for ConsultFirm than the partnership with SoftwareInc, with whom they have not been able to negotiate better terms. Another unwanted byproduct of these disagreements among ConsultFirm management over the past year is the uncertain context that these struggles have created for employee members of the alliance teams; they are not clear on whom they should be taking direction from, or how secure their jobs are. Hopefully, these issues will eventually be rectified.

By analyzing the specific relationships between these three firms, it is apparent that creating definitive criteria for determining which alliances to include or exclude from a firm's portfolio is difficult. There can be many nuances to these partnerships and forces existing within the larger competitive environment that necessitate that firms occasionally sub-optimize performance or revenues in certain areas in order to be more successful overall. That said, we encourage managers to learn from the experiences of the firms we have described and carefully consider the recommendations put forth. Managers need to be mindful when selecting alliance partners and forming alliances, particularly when acting within a multi-alliance context. Management challenges can be created upon the inception of an alliance, but these pitfalls can be avoided or mitigated by managers who are aware of the risks.

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