CHAPTER 8
EMBEDDING ALLIANCE COMPETENCE:
ALLIANCE OFFICES

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Business leaders, always searching for ways to move their companies forward, increasingly opt for strategic alliances, joint ventures and other partnerships as alternatives for either costly acquisitions or the internal development of products and services.[1] In 2000, the number of new alliances formed almost equalled the total number of acquisitions. However, setting up a partnership is only the beginning. Turning it into a success requires specific capabilities that have to be developed and fostered by the company itself, in order for them to become structural elements of its competitive strength. To this end alliance offices are often introduced. The characteristics of such dedicated alliance offices are discussed in this article, and illustrated using the example of Philips' alliance office.

8.1 Alliances are important but their success varies widely

The number of alliances formed worldwide is growing, as well as their contribution to corporate revenues. In 2000, approximately 40.000 alliances were formed, against a total of 42.000 mergers and acquisitions (a number which declined sharply in 2001). Already, alliances contribute significantly to many organizations' market value and this contribution is only expected to grow in the coming years.[2] In 2002, 35 % of the corporate revenues generated resulted directly from alliance activity; in 1980 this was only 2 %.

Many CEOs underline the importance of alliances. According to Gerard Kleisterlee, CEO at Royal Philips Electronics, really new developments in the world arise from partnerships. His company puts these words into practice. It collaborates with many other companies and considers alliances the way forward. A few of its alliances are listed in Table 8.1. These illustrate two things. The first is that the number of alliances per company increases. Most large companies now have at least thirty alliances, many have more than a hundred.[3] This means that companies no longer operate as individual entities, but have become part of - sometimes extended - networks. The examples also illustrate the diversity that is typical of most companies' alliance portfolios:

- Philips' alliances cover all its businesses, from consumer electronics to micro-electronics;
- its alliances cover many of its value chain's aspects: R&D, production and marketing;
- the company is involved in all types of alliances: supply contracts (vertical), contractual collaboration (horizontal), joint ventures, minority stakes, etc.

These two aspects, number and complexity, constitute a real management challenge, certainly if the alliances entered into by alliance partners are taken into account as well – as they should be. How does one monitor and manage such a complex alliance portfolio?

Alliance partner	Alliance description
ASML	Minority stake in ASM Lithography, a producer of wafer steppers. Philips will gradually sell off its stake
Dell	Alliance covering different areas, among others the supply by Philips to Dell of components, collaboration in the area of technology planning, marketing and development of standards for optical data storage
Douwe Egberts	Development and marketing of a new coffeemaking machine, the SenseoCrema
Ikea	Philips will display its consumer products in IKEA stores worldwide and will become preferred supplier to IKEA
LG Electronics	Integration of activities in the area of LCD-screens in a new joint venture, LG Philips LCD. The partners have an equal share in the new company
Nike	Combine their expertise to develop and market wearable electronics
Rabobank / De Lage Landen	Philips Medical Systems and DeLage Landen, a subsidiary of Rabobank, have set up a joint venture to provide financing for the purchase of the full range of diagnostic imaging equipment. DeLage Landen will have a majority stake of 60%
STMicroelectronics and TSMC	Develop processes for 65 nm technology

Table 8.1: Examples of Philips' alliances[4]

The difficulty of managing alliances is demonstrated by alliance success rate figures, which tend to be rather disappointing. Various researchers[5] looking into alliance performance have found average success rates of between 40 and 50 %, which means that 50 to 60 % failed to meet their objectives. Research also shows that alliance success rates vary widely. Of the respondents to one questionnaire, 16 % reported a very low alliance success rate of 0 – 20 %; a similar number (15 %) reported very high figures of 80 – 100 % (Figure 8.1). The high overall alliance failure rate and the vast differences in alliance success raise the question of why some companies are so much more successful in forming and managing alliances than others.

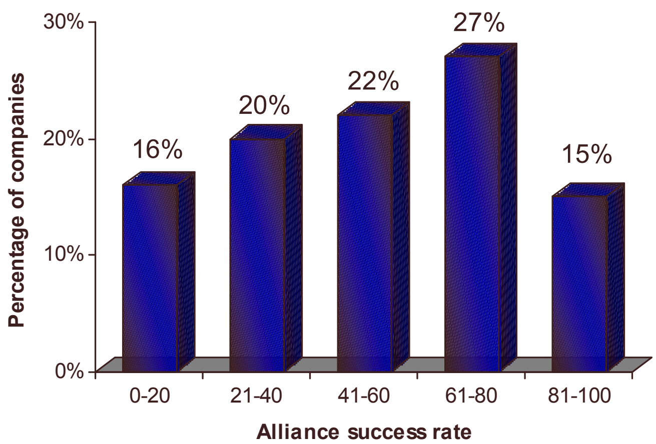

Figure 8.1: Alliance success rates[6]

In many of the unsuccessful cases the companies involved seem not to know which elements of their alliances work well or less well. They fail to recognise any patterns, let alone use such patterns actively to improve performance. Research[7] shows that unsuccessful companies lack a structured approach towards alliances. They implement hardly any alliance tools, processes or work practices. Companies that are successful, however, have developed what we would call *alliance competence*, a set of skills and capabilities enabling them to set up and manage alliances successfully. Given the contribution of alliances to corporate revenue, it is clear that developing alliance competence will pay

off, because it increases the success rate of one's alliances. Alliance competence will show in the company's institutionalized processes, working methods and tools, including standard partner selection processes, joint evaluation sessions, experience exchange sessions for alliance managers, alliance databases etc.
We will now first discuss the elements of alliance competence. Then the concept of alliance offices is introduced as a way to institutionalize such competence. Finally, the example of Philips' alliance office will be used to illustrate alliance processes, working methods and tools.

8.2 Alliance competence increases alliance success

Companies with a high alliance success rate differ from unsuccessful ones in that they have embedded alliance competence into their organization. We will now take a brief look at the four elements of which alliance competence consists: alliance mindset, supportive processes and tools, the ability to gain and disseminate know-how, and sufficient bench depth.

Successful alliances require that the company and its staff have the right alliance mindset, focusing on business, personal relations and alliance management.[8] These three aspects (Figure 8.2) must be addressed simultaneously. Many companies give sufficient attention to all business-related activities but fail to apply themselves to alliance management and relations. Neglecting the second aspect, alliance relations, may result in a non-collaborative atmosphere and a lack of commitment and trust – and a lack of trust is one of the main reasons alliances fail. Addressing the relations aspect makes alliances stronger and less sensitive to difficulties. The third aspect, alliance management, is about developing relations between alliance partners and managing the alliance's day-to-day operations. Dedicated alliance management, therefore, is important to balance the alliance's business and relations aspects.
To a certain extent, people can be trained to develop the right alliance mindset. Such a mindset must be in line with the individual's personality for it to be adopted, though. The ability to develop such an alliance mindset therefore is an important requirement for potential alliance managers.

Figure 8.2: The aspects of the right alliance mindset

Standardized processes and tools are needed in all stages of the alliance lifecycle, since they support business leaders and alliance managers who must define the alliance strategy, select the right partners and manage the alliance portfolio. By institutionalizing them a consistent company-wide alliance approach is safeguarded. Examples of such processes and tools are standard partner selection

processes, alliance performance management (including alliance scorecards and key performance indicators), and joint partner evaluation sessions.
Research shows that one of the main factors in alliance success is prior alliance experience.[9] This implies that it is of essential importance that companies learn from experience (to prevent them from making costly mistakes twice), and disseminate such know-how by making it explicit and accessible to all the organization's employees. For this purpose, every individual alliance must be analyzed and evaluated in order to define performance patterns. The lessons learnt must then be shared with the entire company, or at least with all people involved in alliances. This may be effected by organizing evaluation sessions to define the lessons learnt and then laying down the results in an intranet database focused on the company's alliances.
The fourth element of alliance competence is the availability of managerial talent[10]. One must have access to a pool of employees with the required skills and the right alliance mindset. Developing such a pool, then, is a necessary condition for alliance management. The size of the pool (its 'bench depth') must be in line with the organization's alliance ambitions. If alliances are considered important for moving forward and achieving the company's objectives, a sizeable pool of employees with alliance capabilities is needed.

8.3 Alliance offices: embedding alliance competence

Alliance competence is only valuable if it is embedded in the organization - part of its genes, so to speak. It must be shared by all employees and be integrated into its processes, working methods and company culture. The extent to which alliance competence should be institutionalized depends on a number of parameters, such as the number of alliances, the value of the alliance portfolio and the level of uniformity the organization strives for. Obviously, the need to institutionalize alliance competence is of little concern to companies with only a few alliances, with alliances of insignificant value and without much need for uniformity (as is the case with many financial holding companies). Such companies can develop and institutionalize a kind of alliance competence that suits their specific needs, appointing alliance specialists, for instance, or even approaching their alliances on an ad hoc basis. For many companies, however, such a light touch is simply not enough.

The highest level of alliance competence institutionalization is achieved by introducing alliance offices[11]. These offer a coordinated, structured approach to developing and embedding alliance competence. Many companies - Philips, Eli Lilly, Hewlett Packard, Citicorp, Oracle - already have such alliance offices to coordinate and structure their alliance activities. And they have proved to be effective, increasing their companies' long-term alliance success rates with some 25 %.[12]
The responsibilities of such alliance offices vary widely. Some do no more than manage contracts; some are responsible for all alliance-related issues. Both extremes are now generally avoided, however. Alliance offices have limited added value if they only check whether the company's contracts are met, since business units are usually perfectly capable of doing this themselves. And alliance offices who control all of the company's alliances' aspects are too far removed from daily practice to be able to do their job well. Currently, therefore, a third model is gaining popularity. In this set-up, alliance offices coordinate all alliance-related activities. They are responsible for institutionalizing supportive processes and tools, developing and sharing alliance know-how, embedding the right alliance mindset and analyzing alliance patterns in order to learn from experience. They do not manage alliances on a daily basis but support both the alliance manager responsible for day-to-day alliance management and the company executives who manage the entire alliance portfolio and establish new alliances. This implies that such alliance offices have three roles:

- coordinating the company's alliance portfolio;
- providing the competence business units need in alliance-related matters;
- developing and embedding alliance competence.

The extent to which alliance offices are involved varies with the strategic value of the alliances. In the case of alliances that are mainly operational in nature, such as sourcing partnerships, alliance offices may be involved on an ad-hoc basis. But they will be involved very closely in the case of strategic alliances.

Alliance offices may belong to various different departments. In some industries, they are part of the company's corporate marketing organization (as in many software companies), in other areas they come under Research and Development (in many pharmaceutics companies) or the strategy department. These differences can often be explained by company history. Naturally, alliance offices are set up in those departments in which alliances are most important – and sometimes they simply stay there, even if the alliance portfolio changes. Since alliances are becoming increasingly important for all business aspects, a growing number of companies have made their alliance offices part of their strategy departments. Recent research[13] among 150 companies showed that they are more effective there than under any other department.

8.4 An example: Philips' alliance office

Approximately two years ago Philips set up a dedicated corporate alliance office[14]. CEO Gerard Kleisterlee had defined alliances as important for Philips' future, and the large number of the company's alliances (more than a thousand, according to a recent estimate[15]) made it necessary to organize them centrally as well. The alliance office's objective is to enhance Philips' alliance capability and thus increase its overall alliance success rate. To get a grip on its alliance portfolio, characterized as it is by a dazzling diversity, Philips' alliance office distinguishes three types of alliances (Figure 8.3):

- corporate alliances – alliances between several product divisions and an external partner (such as that with Dell: Philips supplies its partner with components and Dell in return supplies Philips with PCs);
- strategic alliances – alliances on a strategic level, between one department and an external partner (such as that between Philips Domestic Appliances & Personal Care and Douwe Egberts, focused on developing and marketing a new coffee-making concept);
- business alliances – alliances on an operational or tactical level, between one department and an external partner; these revolve around logistics, purchasing etc.

Philips has determined that alliance performance remains the responsibility of the product division or business units involved. Its corporate alliance office plays a role that depends on the type of alliance. For corporate alliances it coordinates all alliance activities, for strategic and business alliances it acts as a competence centre.

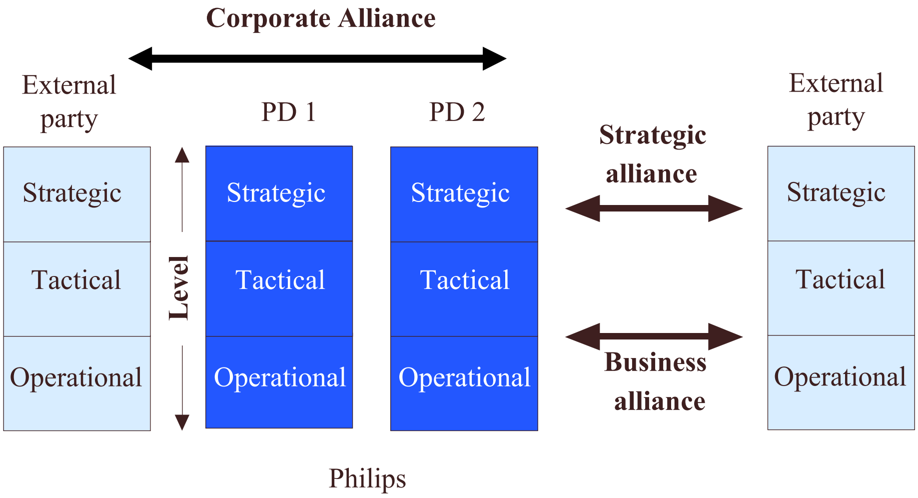

Figure 8.3: The three types of alliances defined by Philips.

When Philips enters into a corporate alliance, its alliance office is involved right from the start of the partnering process. It coordinates all contacts between the company's product divisions and their alliance partner. Thus it keeps product divisions from engaging in activities that harm other divisions, and clears the way so that synergy may arise between the divisions and their partner. The alliance office's activities for corporate alliances include:

- selecting the right partner;
- initiating the relation;
- formalizing the relation by means of contracts;
- appointing a dedicated alliance manager;
- coaching the alliance manager;
- monitoring alliance progress and performance.

Corporate alliances must be sponsored by a member of the Board of Directors. For every corporate alliance a dedicated alliance manager is appointed, someone with the right alliance mindset, who recognizes the importance of alliance relations; in the selection process the partner's company culture is taken into account as well. The alliance manager heads an alliance team, which consists of representatives of the product divisions involved and assumes joint responsibility for the alliance's performance. The alliance office will always try to have the alliance partner form a comparable governance structure, with one dedicated alliance manager as the main Philips contact. It supports and coaches alliance managers in their day-to-day operations and helps them solve any problems that may arise.

For business and strategic alliances, Philips' alliance office acts as a competence centre. The company's business units are free in their decision to involve the office, and can do so on an ad-hoc basis. Its main activities as a competence centre are making knowledge and expertise available, providing supportive processes, providing alliance training and advising the business units when asked.

To this end a large knowledge base is made available on the company's intranet, including tools and best practices (both internal and external) and a platform to exchange experience. Many people in the organization actively use this knowledge base. A network of Philips employees involved or interested in alliances is growing, which stimulates the exchange of knowledge and experience, and helps generate alliance awareness and an alliance mindset throughout the organization. The network also serves as a talent pool for future alliances. The alliance office carries out portfolio analyses for the company as a whole to identify performance patterns. Mistakes are analyzed and extra attention is then paid to prevent them from being made again. To teach them alliance skills and capabilities, employees are trained on subjects such as negotiating skills, intercultural management and alliance basics.

Since the alliance office was set up, much effort has been spent on developing supportive processes and tools. A standard, six-step alliance process is now available as well as many practical tools, and this development work still continues. An important criterion for alliance tools is that they must be practical and easy to use. Feedback from the business units indicates that the processes and tools offered indeed add value in a practical way.

Starting an alliance office from scratch is not easy in a company that – according to its CEO – has not been very good in partnering. Apart from senior management sponsorship it requires a lot of hard work. The autonomy of the product divisions and their freedom to involve the alliance office or not offer a challenge. The alliance office must continually show it adds value in partnering processes, and then advertise the results achieved. No figures are available to demonstrate that the alliance office has increased Philips' alliance success rate. But the office keeps track of the use made of its intranet site and the tools and processes provided there, as well as of the number of support requests. These results and the feedback from other departments allow the conclusion that important steps forward have been taken in the past two years, improving and enhancing the company's alliance competence.

8.5 Conclusion

Companies with many or valuable alliances must develop alliance competence and embed it in their organizations. The preferred way to do so is by introducing an alliance office. Such offices need senior executive sponsorship to succeed, and much hard work must be done to perform their three primary tasks: coordinating alliance activities, acting as competence centres and developing and embedding alliance competence. But the alliance success rate improvements achieved by companies who have set up dedicated alliance offices with clearly defined roles and responsibilities indicate that the results are well worth the effort.

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