

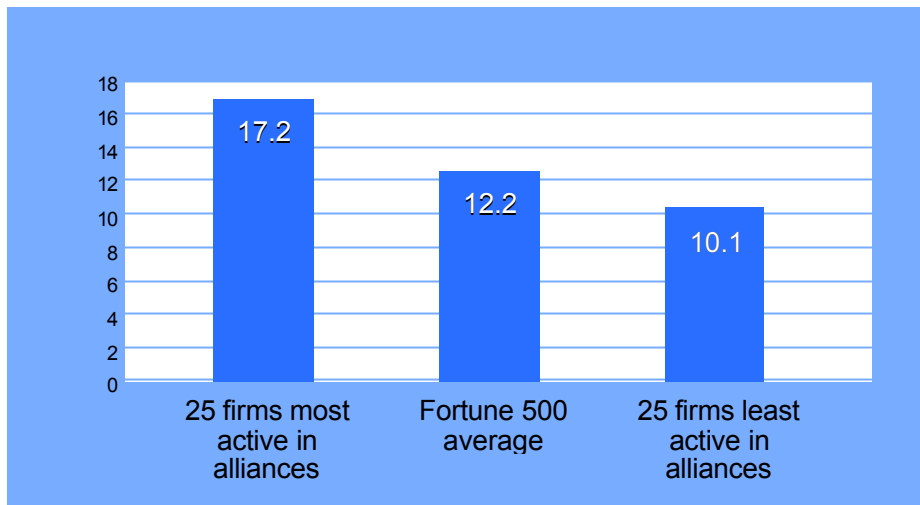
The future of alliance capability: towards a basic necessity for firm survival?

Ard-Pieter de Man

What is an alliance capability?

There is a vast difference between the alliance performance of firms. On average alliance failure rates of 60 or 70% are not exceptional (KPMG, 1996). Successful firms however can have success rates of 90%, whereas unsuccessful firms can have success rates as low as 30% (Booz Allen & Hamilton, 1998). Likewise the top 25 firms of the Fortune 500 most active in alliances, clearly outperform their competitors in terms of return on equity (see figure 1). This clear difference between individual firms in their alliance performance suggests that some firms are better able to manage their alliances than others, and that this may lead to superior financial performance. This observation has led an increasing number of researchers and managers to direct their attention to the subject of alliance capability. An alliance capability can be defined as the ability of a firm to manage its alliances successfully towards achieving their goals.

Figure 1: Effect of alliance intensity on return on equity



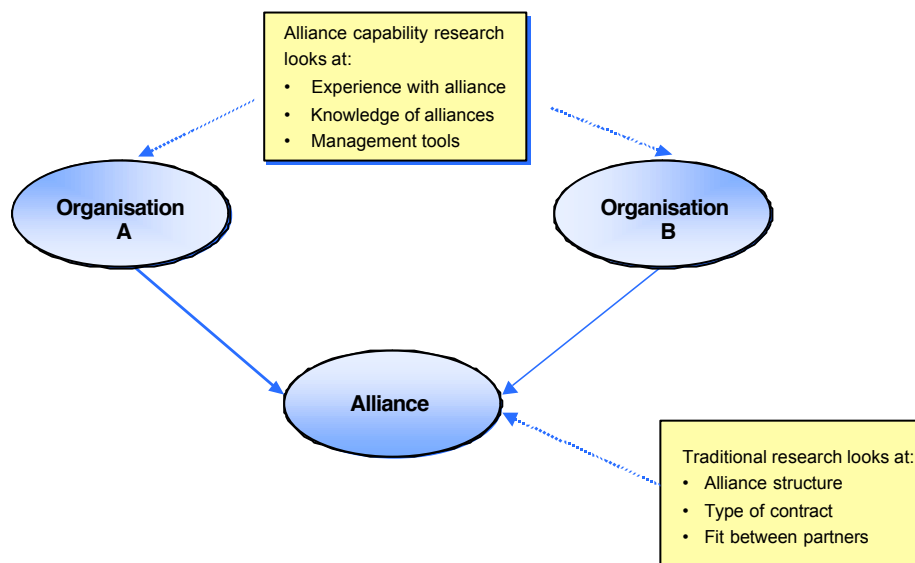
Source: Booz Allen & Hamilton, 1997

The attention for building up alliance capabilities is a marked shift away from the traditional approach to alliances (see figure 2). The traditional approach tried to explain alliance success and failure by focusing on the alliance itself. Issues researched were the structure of the co-operation, the type of contract and the strategic, organizational and cultural fit between the partners forming the alliance.

Alliance capability focuses on the internal organization of the alliance partners and the accumulation of alliance knowledge inside the individual organization. It studies the experience firms have with alliances (Gulati, 1999), the knowledge they have built up about them and the alliance management tools they have implemented. In short: not the relationship is studied, but the ability of the individual partners to manage the relationship. The idea lying behind this approach is that a firm's alliance success will augment when its internal

organization is geared for alliance management. The reverse side of this idea may be less obvious, but may be true as well: some of the most important barriers to alliance success lie in the individual partners, not in the co-operation itself.

Figure 2: Alliance capability versus the traditional approach



Source: Draulans, De Man and Volberda (1999)

How can an alliance capability be built up?

A first, preliminary research into the use of alliance training, alliance specialists and different methods of evaluating alliances, found that these management tools had a clearly discernible impact on alliance performance (Draulans, De Man and Volberda, 1999). This supports the hypothesis that firms can learn how to manage alliances. There are several tools firms can use to structure this learning (see table 1) and to make existing knowledge available to employees.

Table 1: Tools for alliance management

- alliance training: attending alliance training is mainly useful to get basic knowledge about structural, relational and legal aspects. It is relevant for people new to alliances.
- evaluation: this is a particularly strong tool when alliances are not only evaluated individually, but are compared to one another as well. Such evaluation stimulates the transfer of alliance knowledge inside the firm. Moreover, the inclusion of partners in the evaluation allows a firm to get a complete picture of alliance performance.
- alliance specialist: having an alliance expert inside the firm is helpful, provided that such a person is not too far removed from line management. Usually this specialist is responsible for finding best practices in alliance management, organizing alliance workshops and documenting and disseminating knowledge inside his firm.
- database: access to experiences, tools, checklists, and information about partners can support managers of alliances in their daily work.
- partner programs: these programs allow firms to keep track of and coordinate a large number of partners. Firms like Oracle and Compaq provide access to (parts of) their partner program on their websites.
- portfolio analysis: currently the most advanced tool in alliance management, portfolio analysis allows firms to optimize, not just individual alliances, but their entire alliance portfolio.

Source: Draulans, De Man and Volberda (1999), Duysters, De Man and Wildeman (1999),

Harbison and Pekar (1997)

However, the availability of tools is not a sufficient condition for bringing about an alliance capability. The experience of individuals and the attitude of employees towards alliances, are at the core of such a capability. Gaining practical alliance management experience should become a standard element in management careers, if an alliance capability is to be built up. Even more than implementing tools, this will ensure an alliance mindset inside the firm. In practice many firms view alliances as an add-on to existing business, which can be managed in the same way as the organization itself. Research into alliance capability has shown this notion to be false. Alliances require different tools and different attitudes.

Competitive advantage and alliance capability

Of course the interesting thing about alliance capabilities is not that they enhance a company's alliance performance, as such. The truly important element is that alliance capabilities play a role in the competitive process and can underpin a competitive advantage. From the perspective of competitive advantage, an alliance capability can perform three roles (see table 2):

- critical success factor. An alliance capability is a critical success factor when it contributes to alliance success, but when alliances themselves are not key to gaining a competitive advantage. Typical examples include joint ventures aimed at reaping economies of scale in the chemical and oil industry. These are important in managing costs, but are more a tool to optimize than a powerful competitive weapon. Nonetheless, they require an alliance capability to make them work. In this role an

alliance capability is of interest to the firms in the alliance, but has little consequences outside the alliance. It may support a competitive advantage, but is not its source.

- core competence. When a firm is able to use alliances pro-actively for example for speeding up the innovation process or getting access to customers and technologies, a firm may outperform its competitors. If a distinctive competitive position is created by smart alliance management, the alliance capability has become a core competence: a source of competitive advantage. Firms with such a superior skill in alliance management include Starbuck and Nike.
- qualifier. In many industries nowadays, allying and networking has become so pervasive that it is virtually impossible to operate successfully without alliances (and as a consequence without an alliance capability). These industries include the car industry (with its supplier networks), many high tech sectors (in Silicon Valley survival is impossible without inter-firm cooperation) and the airline industry (in which several major alliance groups compete head on). When alliance capability has become a prerequisite for survival, it has become a qualifier, meaning that in order to qualify at all for a position in that industry, a firm must have an alliance capability. Not possessing one, puts a firm at a severe disadvantage.

Table 2: Alliance capability as a source of competitive advantage

Alliance capability as a	Characteristic	Example
Critical success factor	Capability increases the success rate of alliances, but alliances are not critical for outperforming	Alliances aimed at optimization, efficiency, cost management

	competitors; it supports competitive advantage	
Core competence	Superior performance in alliances allows the firm to outperform its competitors; alliance capability is a source of competitive advantage	Starbuck, Nike
Qualifier	Ability to manage alliances successfully is a prerequisite for firm survival in its industry; absence of a capability is a severe competitive <i>dis</i> advantage	Car industry, Silicon Valley, airlines

The future of alliance capability

In the 1970s, alliance capabilities mainly performed the role of critical success factor. In the course of the 1980s various firms started to develop their alliance capability into a core competence. In the 1990s, with the advent of the network economy, alliance capability is becoming a qualifier in an increasing amount of industries. Of course some industries (like the car industry and the high tech industry) are ahead in this development, while others (especially the service industry and agriculture) appear to trail somewhat behind. However with the increasing amount of alliances being formed in all sectors of economic activity, it can be expected that alliance capability will become a qualifier in a rising number of industries.

The demands made by competition on a firm's alliance performance push alliance capability from being a critical success factor towards being a core competence and next, in the direction of a qualifier.

If this indeed happens, then no firm will be able to survive without an alliance capability.

Those firms who are still seeing an alliance capability as a critical success factor may underestimate its importance and will need to give more attention to learning about alliances.

Those firms seeing alliance capability as a core competence, need to be aware of the possibility that sooner or later the advantage of this core competence will be eroded, when other firms build up a similar alliance capability. Finally, in those industries where alliance capability is a qualifier, firms should continually monitor the capability and be on the look-out for new alliance management knowledge. They are to avoid being overtaken by new developments in the rapidly expanding field of alliance management and should take care not to be put at a competitive disadvantage from which they cannot recover. Benchmarking alliance performance, followed by implementation of best practices is a prerequisite in this phase.

Summary

An important cause of the low success rates of alliances is that many firms do not possess an alliance capability. An alliance capability consists of the alliance experience of a firm and the alliance tools it has implemented to manage its alliances. In some industries, alliance capability is a core competence: firms can create a distinctive position vis-à-vis competitors by smart alliance management. In an increasing number of industries, however, an alliance

capability becomes a prerequisite for survival. In these industries, firms will be at a competitive *disadvantage* when they do not master the art of alliance management.

References

- Booz Allen & Hamilton, 1997, *Cross-Border Alliances in the Age of Collaboration*, Los Angeles, Booz Allen & Hamilton.
- Booz Allen & Hamilton, 1998, *Institutionalizing Alliance Skills: Secrets of Repeatable Success*, Los Angeles, Booz Allen & Hamilton.
- Draulans, J., A.P. de Man en H.W. Volberda, (1999), “Alliantievaardigheid: een bron van concurrentievoordeel”, *Holland/Belgium Management Review*, No. 63, January, pp. 52-59.
- Duysters, G., A.P. de Man en L. Wildeman, (1999), “A network approach to alliance management”, *European Management Journal*, Vol. 17, No. 2, pp. 182-187.
- Gulati, R, (1999), “Network location and learning: the influence of network resources and firm capabilities on alliance formation”, *Strategic Management Journal*, Vol. 20, No. 5, pp. 397-420
- Harbison, J. en P. Pekar, (1997), *A Practical Guide to Alliances: Leapfrogging the Learning Curve*, Booz Allen & Hamilton.
- KPMG, 1996, *Alliances and networks: the next generation*, KPMG, Amsterdam.