ALLIANCE MANAGEMENT

Diana Elena Ranf[1]
Elida Todăriţa[2]

ABSTRACT: This article wants to respond to a number of critical questions about alliances. First of all 'Why alliances', than 'What is alliance management and how should it operate'; 'which is the role played by an alliance manager', "How should top performing managers act" and finally 'How to manage an alliance". Alliance success hinges on people issue – in particular, defining roles and responsibilities and creating the incentives to drive individual performance.

Key words: globalization, alliance managers, alliance management, strategic alliance.

JEL codes: M16

Introduction: why alliance?

In the era of globalization few organizations have sufficient resources of their own to achieve an effective presence in all desired markets and product areas. This is particularly true in industries where new product introduction entails a massive outlay of funds. Partners variously contribute complementary products, market presence, distribution networks, production facilities, skills, and technologies. As network economy becomes increasingly prevalent, traditional models of strategic thinking, which emphases the integrated organization acting in isolation to leverage proprietary resources, lose their relevance. New thinking and new competencies that combine competitive and cooperative strategies are required.

Alliances are where the real growth is. That challenging assertion comes from Peter Drucker, who in no way includes mergers and acquisitions in the statement. Most are not alliances and, says Drucker; don't in them win real growth. Rather, many are costly efforts to counter adverse commercial trends in the hope (often disappointed) that just bigger will somehow be better at winning the competitive wars.

Since the 1960's scientists have already addressed the need for organizations to engage in inter-organizational relationships.

According to J. Contractor and Peter Lorange (their book – Cooperative Strategies and Alliances, 1988), Hamel (1989), the first line of interorganizational partnering was generally undertaken in order to gain access to foreign markets or to bypass government regulations. In the late 1970's organizations gradually started to become aware of the advantages related to partnerships/alliances. The growth leveled of at the end of the 1980s when organizations realized the risks and dangers associated with the unstable character of partnerships while this period was also characterized by a worldwide recession, which led to a more inward-directed orientation triggered by restructuring activities (Duysters, 1999). Today the number of partnerships is growing (Ingham, 1998; Davenport, 1999; Quelin 2000; Krikštaponytė, 2003). Peter F. Drucker has said that there is not just a surge in alliances but "a worldwide restructuring" is occurring in the shape of partnerships/alliances

[1] Universitatea Romano-Germană, Sibiu, Calea Dumbrăvii nr 28-32, tel. 0269 233 568, e-mail: rectorat@roger-univ.ro
[2] Universitatea Romano-Germană, Sibiu, Calea Dumbrăvii nr 28-32, tel. 0269 233 568, e-mail: rectorat@roger-univ.ro

(Krikštaponytė, Pukelienė, 2003; Valantinienė, 2006). Also they create the paradigm of successful business management and development cause by the increase of globalization more and more the traditional industrial model transforms to orientate to network business model.

Today, alliances can be found across every business sector, from health care to multi-media to high technology.

Drawing on the concept of a life cycle, the authors suggest that an alliance should be seen as a dynamic entity, a complex interaction of business and interpersonal activities. Managers are often more comfortable addressing the commercial side of alliances, and tend to neglect the interpersonal aspects of the partnerships they manage. However, the interpersonal relationship-which helps define the alliance "dream," facilitates dialogue, and strengthens ties between partners-is as crucial to the alliance's success as traditional business and product/market concerns.

Alliance management presents both strategic and human resource issues to firms. First, the strategic goals of the alliance must be clearly defined and articulated. Then, as the alliance evolves, managers must be attuned to the changing dynamics of the environment and of the firm's own objectives. Alliance partners' ability to openly question the strategic direction of-and joint commitment to-the partnership is a sign of the alliance's health.

In the judgment of Joachim Klewes and Ralf Langen from their book, “Change 2.0”, change management usually refers to a change within a company. This is increasingly inappropriate since more and more companies are working together with partners in alliances, joint ventures or other cooperative arrangements. Therefore, appropriate tools have to be developed to manage change in alliances. This contribution shows how suitable construction and management of alliances may facilitate change and what specifics have to be considered in the change management of alliances.

Klewes and Langen show how companies can rely heavily on the activities of their partners, which are out of their control or which they have at most limited influence over. They observe numerous examples of such cooperative arrangements: the Star Alliance, a cooperation of airlines, the collaboration of hardware and software producers in computer industry (e.g. Microsoft and AMD), or the supply chain partnerships in the automotive industry (e.g. the case of BMW and Magna Steyr producing BMW □sX3).

Alliance manager

Very important is the role played by the alliance manager. At each stage of its evolution, an alliance presents unique managerial challenges requiring different skills and competencies on the part of the alliance manager. In the early stages, for example, the manager must be a strategic sponsor, a "visionary" who defines and promotes the alliance "dream." In later stages, he or she becomes net worker and facilitator, linking people, functions, and business areas in pursuit of the alliance's goals.

Robert F. Bruner retail in his book how successful alliances management must operate simultaneously on three levels. These levels are interorganizational, interorganizational, and interpersonal. On the interorganizational level, the alliance manager must balance the needs, resources, and desires of each of the partner companies. On the interorganizational level, alliance managers must manage the needs, resources, and desires of each of their own company. On the interpersonal level, the alliance managers must manage relationships with superiors, peers, and subordinates, not only in their own firm, but also across boundaries of their various partner organizations.

“The goal of the alliance manager is not to create harmony but to create a sense of dynamic tension”, said one CEO whose company was built around alliances. “Think of the cathedral at Notre Dame with its flying buttresses. It is the equal and opposing pressure that keeps it up. That is the basic architecture inside the alliance. An alliance manager must create a situation where all the different forces push inward and they are so strong that they create stability, provided, of course, they are all vectored in the right direction."

Alliance management poses a unique set of challenges that set it apart from hierarchical management. Alliance management is dependent on terms like compromise, influence, trust, and commitment. Since partners maintain their autonomy, you cannot make demands, dictate, or issue directives.

The particular managerial needs of any given alliance vary in response to a wide variety of influences. Nevertheless, this framework offers a perspective for identifying the most appropriate manager for a given set of situational circumstances and an appreciation for the different roles played by the alliance manager over the various stages of the alliance s life cycle. As started previously, in the early stages of the alliance, the alliance manager might be a strategic sponsor and a combination of visionary and emissary. As the alliance grows, the manager takes on the role of networked and facilitator responsible for linking key people, functions, and business area in the pursuit of the alliance s goals. In addition to being a manager who shoulders responsibility for the business of the alliance, the alliance manager must also be an adept mediator.

Kotter s view of prototype for a twenty-first-century executive is also similar to our vision of a successful alliance manager. The commitment to learning, seeking challenges, and reflecting honestly on success and failure is consistent with our profile. The successful alliance manager is the symbol of the learning organization. Kotter describes this lifelong learner as someone who is a risk taker and a careful listener, reflective and open to new ideas.

Ard-Pieter de Man thinks that 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 2000, the number of new alliances formed almost equaled 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.

Alliance managers as Coaches

However, attitudes and knowledge, while the foundation of effective alliance management, are not sufficient to guide alliances to consistent success. Top performing alliance managers also act as great coaches to all parties in the alliance.

As such, great alliance managers show the same behaviors as all great coaches (Fig. no. 1).

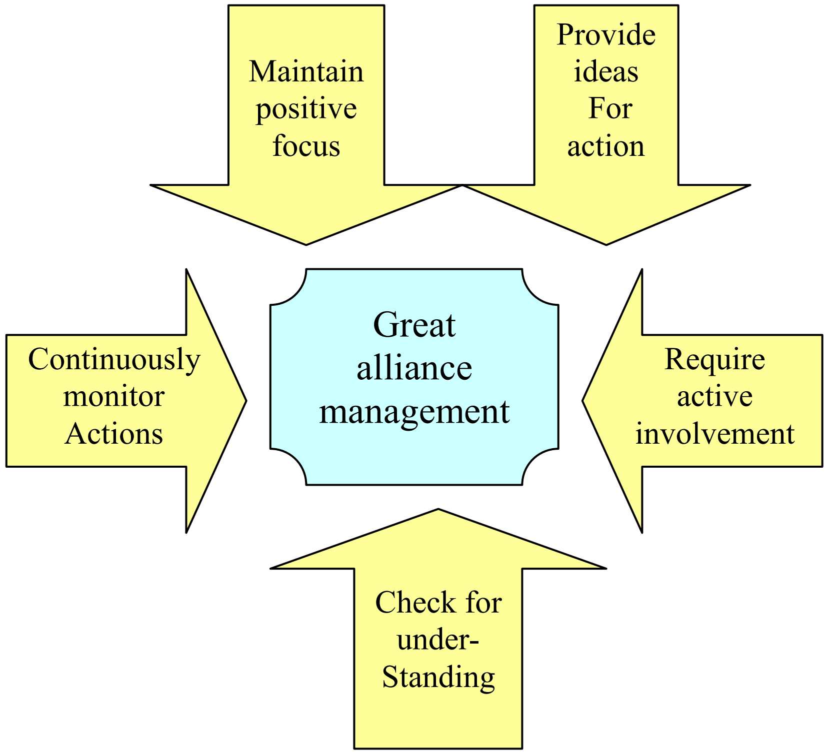

Fig. no. 1 - Alliance manager as coaches

Top performing alliance managers always:

- Are extremely positive about the alliance, focusing most of their time on how to do it he right way;
- Provide their team with specific stimulus and ideas for actions designed to enhance the performance of the overall alliance;
- Check for mutual understanding, pausing frequently to ask all parties to feed back their understanding of the discussion and agreements to date;
- Aggressively require each team member to apply positive energy, ideas and understanding to their own situation until a comprehensive, highly detailed action plan is developed;
- Continuously monitor the actions and behaviors of the alliance partners to ensure adherence to the plan and provide quick responses to emerging problems.

Frank Caroll, initially as Vice President of Manufacturing for Collagen Aesthetics is a top performing alliance manager. He has developed successful alliances to facilitate product development and manufacturing for a wide variety of biotech products ranging from the development of Botox to the replacement of filters in blood plasma manufacturing. Frank consistently displays many of the attributes of a great alliance manager.

Frank and other top performing alliance managers organize their attitudes, knowledge and behaviors into four main domains, each with a series of sub domains. (Figure 2). The first and most important domain is their mental model or vision of the alliance. Top performers always have a more passionate and exciting vision of their alliance than less effective performers. This vision always includes an understanding of the social value of the alliance. For example, Frank thinks of an alliance as: "a win-win relationship that leverages each partner □s expertise and/or cost effectiveness to provide safe and effective products that enhance patient's □quality of life."

For top performers, alliances are always driven by o powerful, energizing mental model that stresses a positive social impact typical of the industry.

Drive to succeed

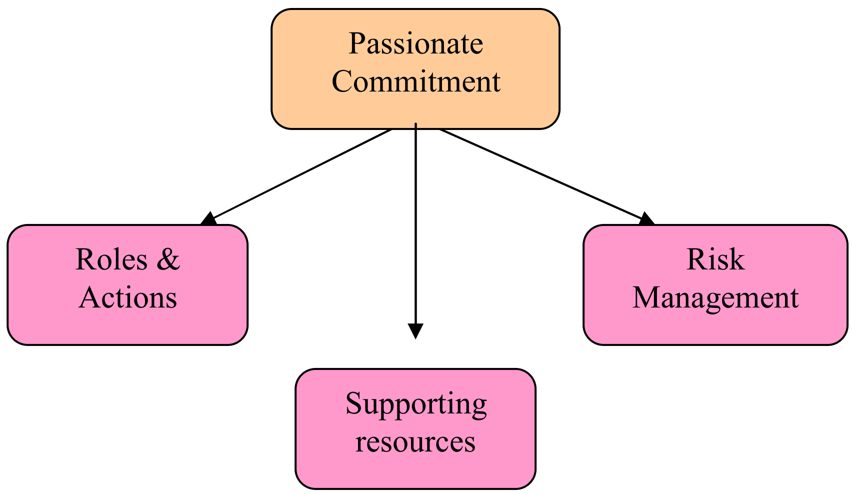

Fig. no. 2 - Alliance Managers Secret Sauce

Because of the difference in the underlying framing of the alliance relationship, top performers do everything differently. They say different things to their alliance partners structure the relationship differently and even sit in different places during alliance meetings. By grounding their behavior in a socially powerful, win-win relationships, top performing managers can be open to a much broader exploration of the alliance.

In addition, top performing alliance managers are significantly more effective at detecting and managing risk situations than less effective managers. For instance, top performing alliance managers in a large consulting company recognize that the "official story" (Seidman and McCauley, 2003) of an alliance is rarely the true reason for the alliance. Instead, top performers; listen for certain casual phrases that define the "real story" of an alliance. These informal statements actually represent the true goals of the alliance and are almost always significantly different than more formal statements provided in standard documentation. In turn and in sharp contrast to less effective alliance managers, the top performing alliance managers align all of their work with these real goals as the focus, virtually ignoring the official statements.

Finally, the top performers are very aggressive about using supporting resources. They have already identified the reports, processes, training or documents that provide the most value and, with rifle-shot precision, employ them in just the time and place that creates value for the alliances. In one situation, for example, Frank Caroll s team had identified and specified the use of the specific federal certification form, culled from the hundreds of forms available, required of an alliance partner for a particular type of blood filter replacement.

How to manage an alliance

Ben Gomes-Casseres, author of *The Alliance Revolution* and co-author of *Mastering Alliance Strategy*, a professor at Brandeis University, and the principal of Alliance Strategy Consulting, think that companies that succeed with alliances put strategy first and deal-making second. For example, Cisco Systems has leveraged its capabilities impressively through a multiple of alliances. Some alliances have survived for a long time, others were short-lived; some were narrowly focused and a few broader; and some led to full acquisitions. Partners included Motorola, Sun, EMC, and Intel. But no single alliance accounts for Cisco success. Rather, the way Cisco integrated its alliances into a coherent strategy and managed them over time allowed it to get the most from the partnership.

Today, the mindless alliance fever has died down, but smart firms are still using alliances as flexible tools to further their business strategies. The action is worldwide and by no means confined to the USA. In Europe, Nokia is using alliances to develop its wireless Internet business; Lufthansa uses alliances to provide seamless global service to business travelers; DaimlerCrysler is using alliances to expand in Asia.

One of the fundamental conclusion from the experience of the last decade or so, is that companies that have a “strategic alliance” without a coherent “alliance strategy” are almost sure to fail. The difference is more than semantic. A strategic alliance refers to a deal and a specific organization and contract; an alliance strategy is much broader and deeper. It has hour elements:

- A business strategy that shapes the logic and design of an alliance;
- A dynamic view to guide the management of each alliance;
- A portfolio approach to manage the firm s “constellation” of alliance;
- An organizational infrastructure to build and sustain the alliance capability.

These four components of alliance strategy must be consistent with the broader strategy of the firm and with its organizational culture, as illustrated in the next figure.

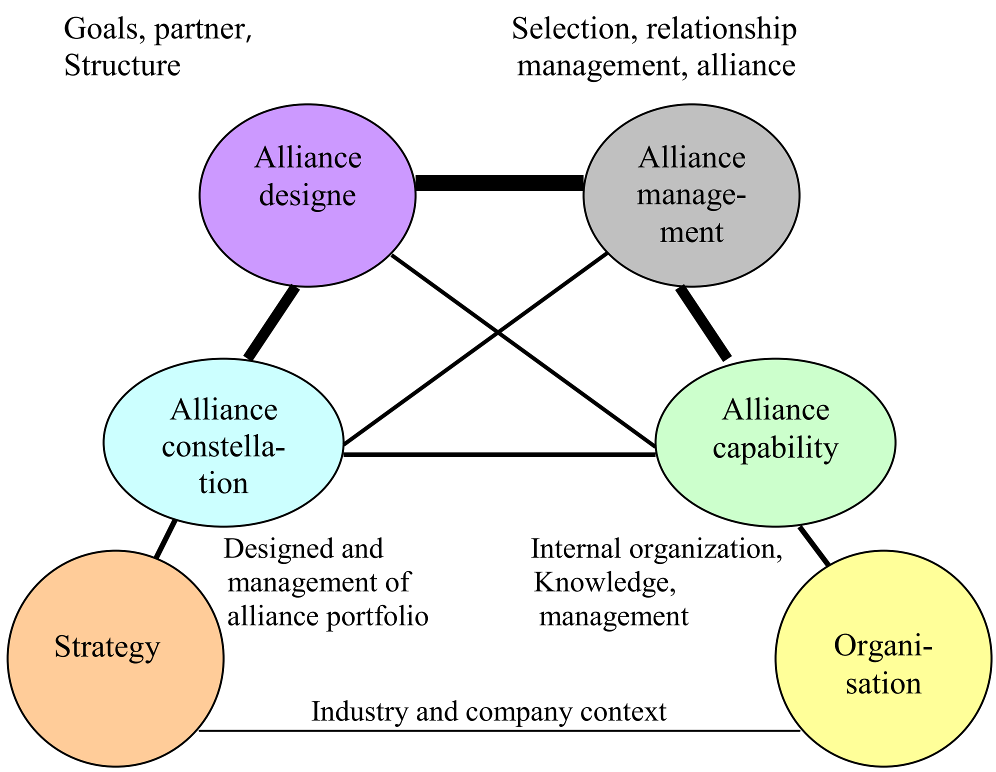

Fig. no. 3 - The arc of alliance strategy

Most managers would agree in principle that an alliance needs to be backed by a business strategy. Signing up as many partners as possible is not a strategy – and worse, it can drain the company of vital resources.

The reason lies partly in the tendency of the deal's champions to see the alliance itself as a goal. Often, the opportunity for an alliance arises suddenly - prompted by an inquiry, a competitor's move, or a Chief Executive's conversations with a counterpart. Before they know it, companies are 'doing the deal' rather than determining what kind of deal is best. Time to think can seem a luxury, but it is precisely because of the tendency to focus on the transaction that it is essential to examine how the alliance fits the business strategy. Alliances have many goals, depending on the strategy. Being clear on how the alliance fits the business strategy is important when evaluating its performance. The true value of any alliance is usually not evident from the narrow costs and revenues of the collaboration itself, even when the alliance is a stand-alone joint venture. Because the alliance is part of a broader strategy, its effect must be measured in terms of its contribution to that strategy.

For example, the venture between **Xerox** and **Fuji Photo Film** was created to help Xerox sell copiers in Japan. Over time, Xerox's strategy and Fuji Xerox's capabilities evolved so the venture became a supplier of products to Xerox globally and a partner in developing technologies. The joint venture was profitable, grew in size and issued modest dividends to XeroxToday, this forty two year old joint venture is arguably the most successful US-Japanese alliance on record, because of the way it helped Xerox compete globally. The alliance's role in corporate strategy is much bigger than the partnership itself.

Automobile companies today are discovering this fact as allies try to use alliances to rationalize their global operations. Renault and Nissan, DaimlerChrysler and Mitsubishi, Ford and Mazda – each pair is trying to integrate its supply chains, share technology, and produce expensive components jointly.

Conclusions

With the significant emergence of globalization, organizations from all sectors of the economy are increasingly bringing their forces together to achieve collaborative advantage and to remain competitive.

The global economy requires firms who wish to compete internationally to become more flexible in their operations; to use advanced technology to produce high-quality, reasonably-priced goods; to rely on speed-to-market methods of operation; to use multi-site locations; and to adopt just-in-time production and delivery and world-wide components sourcing.

Alliances come in all shapes and sizes, but share the same essential foundation: the belief that as active and sharing partners, both sides will achieve high ambitions that otherwise lie beyond reach. And the vital means is communication, in which the Internet, especially in its extranet form, plays the crucial role.

Companies will not survive if they try to do everything themselves. But they will not be served well by a headlong rush into multiple deals. Only a real alliance strategy will give them a fighting chance.

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