Leveraging knowledge management across strategic alliances

Alliance building has several stages, and the manager who leverages his organization’s knowledge through each stage creates the foundation for a successful partnership.

This article was originally published in *Ivey Business Journal* March/April 2002. Reprint #9B02TB13. For more information, visit their Web site: http://www.ivey.uwo.ca/IBJ/.

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Strategic alliances

Introduction

With an annual growth rate of 25 per cent and a projected value of US$40 trillion by the year 2004, there is little doubt that alliances will have a major impact on management in the 21st century. The “make versus buy” decision that once confronted decision makers has expanded and is now a more complex “make versus buy versus partner” decision. Alliance managers must make difficult decisions about when to partner and with whom, as well as how to structure and manage the partnership. Managers who can leverage information and knowledge across each stage of the alliance process will find that a knowledge-based approach is critical to the success of any partnership. In this article, we discuss the importance and effectiveness of sound knowledge management practices in the context of an alliance.

Any discussion of a knowledge-based approach to alliance management must be based on several truths.

• If managed correctly, alliances can significantly increase a company’s financial returns. As a recent study pointed out, companies expect that by 2003, 35 per cent of their revenues will come from alliances, up from 21 per cent in 1998 and 15 per cent in 1995. But alliances do more than contribute to a firm’s bottom line. Firms can no longer develop all the resources, technologies and products to compete in today’s dynamic marketplace, and so many of those firms use alliances to acquire the critical skills, knowledge and capabilities that they lack.

• Companies form R&D alliances, not simply to reach short-term financial milestones, but to observe, learn and internalize the know-how of their partners. In U.S.-Japanese alliances in the past, for example, Japanese companies saw these partnerships as a way to learn from their partner, while their U.S. counterparts used these alliances as a substitute for more competitive skills, ultimately resulting in an erosion of their own internal skills. Therefore, with companies that look on alliances as a way of learning from their partners, practices that enable knowledge sharing, creation, dissemination and internalization become critical.

• An alliance knowledge management capability is both an important component of alliance success and a differentiating factor. Managing knowledge resources in an alliance is extremely challenging, and it is a primary reason for high failure rates in knowledge-based partnerships. Alliance success rates of less than 50 per cent have been cited in the management literature.
However, recent evidence shows that using a knowledge-based approach to alliances is effective. Companies that have greater alliance experience seem to enjoy higher success rates. This implies that companies should learn from their past and institutionalize their knowledge rather than take an ad-hoc approach to alliances. In a recent study, those companies that learned from their alliance experience, and then shared and disseminated the knowledge throughout their organization, had greater success. Based on interviews we conducted with alliance managers in several companies, we noticed a wide variance in an alliance group's knowledge management capabilities. Those companies who employed standard, effective alliance processes or systematically captured alliance and partner information were more successful than those companies that did not have a knowledge management capability.

- Having an alliance knowledge management capability allows companies to deal with the increasing complexity that managing a portfolio of alliance partners entails. Most companies are involved with managing many partners simultaneously and are often working on several alliance projects with the same partner. It is critical that individual alliance managers share information with other managers, since the alliances are often interdependent. For example, alliance managers often indicated that, if they had known that their company was already involved in an existing alliance with Partner A, they would have structured the partnership with Partner B differently, given that Partner A and Partner B were competitors in certain market segments. Also, having knowledge about other partners in the portfolio creates new opportunities by combining the capabilities of multiple partners. Therefore, mechanisms that allow alliance managers to access information about the other alliance projects and partners in their company are important for alliance success.

- Finally, research has revealed that different types of learning occur in a partnership. It is important to distinguish among the different types since each one may require a different knowledge management practice. Content learning is perhaps the most common type of learning and involves acquiring the partner’s skills and know-how. Partner learning involves building social capital with the partner. The intent is to understand the partner’s culture and work routines, and use this knowledge to continuously build an effective relationship with that partner. The intent with alliance process learning is to understand what went right and what went wrong with the alliance project, and to build an organizational memory of this knowledge. These alliance lessons can then be documented and shared with the entire alliance team.
The strategic alliance defined

Despite the variety of partnership arrangements, academics and industry practitioners agree on those characteristics that differentiate strategic alliances from mergers and other forms of inter-organizational collaboration. Strategic alliances are co-operative relationships between two or more independent organizations, designed to achieve mutually beneficial business goals for as long as is economically viable. They carry uncertainties that are not manageable in a contractual arrangement.

The recent partnership between Nortel Networks and Accenture is one example of a strategic alliance. These two independent organizations are co-operating to offer service providers networking solutions, software, equipment and necessary skills for building emerging internet protocol networks and service and business strategies. Nortel Networks brings a rich portfolio of networking products and services to the alliance, while Accenture offers business and systems integration consulting services. Using complementary skills and capabilities, both companies benefit by improving their ability to respond to clients’ needs.

The multi-year alliance between Intel and Hewlett-Packard to develop a next-generation computer chip, which began in the mid-1990s, is an example of a very complex alliance. The two companies had to learn to integrate and coordinate not only their respective technologies, but also teams of chip designers working together to develop and validate a very complex product.

We want to emphasize that the strategic alliance is usually a long-term endeavor that consists of multi-projects, is mutually dependent and beneficial, and integrates people, process, technologies or products. Unlike shorter-term partnerships or arrangements between companies that are highly contractual, the strategic alliance provides the companies involved with the opportunity to learn and acquire know-how.
Phases of an alliance

Creating a typical strategic alliance is a process that occurs in three major phases, Find, Design and Manage. Each phase requires different types of relevant knowledge and information for success. Figure 1 summarizes the phases along with their critical information requirements.

<table>
<thead>
<tr>
<th>Alliance phases</th>
<th>Find phase</th>
<th>Design phase</th>
<th>Manage phase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Critical information requirements</strong></td>
<td><strong>Alliance strategy development and proactive partner screening process</strong></td>
<td><strong>Structuring of alliance activities</strong></td>
<td><strong>Relational components of an alliance including trust, collaboration and learning</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Identify internal gaps with respect to capabilities, resources and skills</strong></td>
<td><strong>Evaluate and align partners’ strategic objectives</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Develop, evaluate and communicate internal alliance objectives</strong></td>
<td><strong>Identify and align required alliance skills with partners’ skills</strong></td>
<td><strong>Develop an effective working environment</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Understand legal ramifications of partnering</strong></td>
<td><strong>Make staffing decisions using best personnel with long-term commitment to the alliance</strong></td>
<td><strong>Manage relationships and maintain trust</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Access partner-specific and industry-specific information</strong></td>
<td></td>
<td><strong>Evaluate alliance performance and implement feedback mechanism</strong></td>
</tr>
</tbody>
</table>

Figure 1. Information requirements for the alliance process.

1. **Find phase**

The first phase involves making alliance strategy decisions as well as screening and selecting potential partners. Having information and knowledge about your own organization’s objectives in the alliance, and its capability resources and gaps, are critical before beginning the partner screening process. Without first understanding and articulating the alliance strategy issues internally, decisions about whom to partner with are uninformed.

At this stage, a record of past and current alliance projects is important for senior leadership to understand the resource capabilities or gaps. Corporate strategy documents and vision statements are also useful for developing alliance goals. As these internal objectives are developed and evaluated, it is equally important that they are communicated to the appropriate people in the organization, such as alliance managers and team members.
Successful companies have a proactive screening process, as opposed to an ad-hoc approach, for selecting partners. Ideal partners have compatible objectives, complementary resources and skills, organizational fit in terms of culture and processes and a willingness to ally with each other. When alliance managers in our study were asked what critical information for alliance success was currently not available, nearly all responded that they needed more partner-specific information. Thus, to facilitate a proactive screening process, decision makers must have information and knowledge about a potential partner’s objectives, financials, resources and skills, processes and culture.

During the Find phase, legal knowledge is needed to understand the ramifications of aligning with a particular organization. This knowledge is particularly useful when forming an alliance with one organization that may affect a relationship with an existing partner. For instance, in the pharmaceutical arena, where competition is fierce and R&D costs are high, joining forces with one company may leave another partner feeling uneasy; it may also breach existing contracts with that partner.

In the Find phase, industry knowledge is also important when selecting partners. For instance, one financial services organization always examines various industries such as telecommunications and retail to identify key e-commerce strategies in those areas. By identifying the key players and strategies in these spaces, the organization is better able to target compatible and complementary partners.

2. **Design phase**

The Design phase includes structuring and negotiating an agreement with the partner. During negotiations, successful partners evaluate and align the strategic objectives for the alliance. Knowledge about a partner’s strategic objectives, products and services is important at this point in the alliance process. In our study, we found that one large software company used information about a potential software partner’s strategic objectives to entice that partner into joining a strategic alliance. By accessing information about the targeted partner’s strategic objectives, the large software company was able to identify one of the targeted company’s
Strategic alliances

key strategic partners. The large software company used this information and built a relationship with the targeted company's strategic partner. As a result, the large software company developed a partnership with the originally targeted software company.

Staffing decisions are usually made during the Design phase. In successful alliances, partners strive for a reasonable share of control that encourages equal involvement from both sides. Another key success factor in the Design phase is to commit the best personnel to the alliance and to strive for long-term resource placement rather than high turnover. When alliance personnel change too often, it is difficult to establish a commitment to an alliance partner. Relationships take time to build, and frequently changing alliance personnel disrupts this trust-building process.

Knowledge about your own company's skills is particularly important for defining work roles and support requirements with your partner. One alliance manager in our study explained why it was important to have the right people in the alliance: “Since a lot of folks that I'm dealing with are entrepreneurs and CEOs of start-up companies, I've got to be able to work with them and convince them that I carry a little bit of weight in my organization. Otherwise they don't have time for me. They want to work with people who can really help them do something.”

3. Manage phase

In the last, or Manage phase, organizations develop an effective working environment with the partner to facilitate the completion of the actual work. The types of information and knowledge that are critical at this stage include performance measures as well as feedback from both partners on how they think the alliance is progressing.

At this point in the alliance, the social aspects of the partnership become important, since team members from both partners are communicating and interacting with each other. Managing relationships and maintaining trust are critical during this phase. Often associated with alliance success, trust between partners reduces the need for the strict monitoring of the alliance and time-consuming contract renegotiations. Many companies involved in
Strategic alliances

alliances organize non-work-related activities for alliance teams on both sides. Providing an outlet for developing personal relationships among alliance team members is important for increasing trust between partners. For instance, one leading pharmaceutical company offered tickets to a local sporting event. Another technology company organized a golf event, while other companies provided after-work social gatherings. These examples offer team members from both organizations an opportunity to get to know one another outside their daily work environment.

During the Manage phase, it is extremely important to promote and maintain open communication about both organizations’ performance in the alliance and to incorporate this feedback formally. Successful alliances often have feedback and learning mechanisms. For example, one leading pharmaceutical company known for its reputation as a preferred alliance partner, asks all partners a set of specific questions concerning its alliance performance. Using this survey mechanism is a useful way of improving alliance performance in the Manage phase.

Successful alliance partners also learn to manage the termination of the partnership. Maintaining a positive bond with the partner even after the project is complete is useful, since new opportunities will ultimately arise. Also critical is a company’s willingness to capture and disseminate lessons learned after a project is complete. This enables the company to build an organizational memory and competency around alliance management.

Applying knowledge management solutions

Knowledge management principles and techniques play an important part in the success of an alliance. Some basic principles include: a systematic approach for capturing, codifying and sharing information and knowledge, a focus on building social capital to enable collaboration among people and communities, an emphasis on learning and training, and a priority on leveraging knowledge and expertise in work practices. Our study indicates that easy access to information and knowledge is a recurring theme in successful alliances. While our understanding of the exact nature of these knowledge-management techniques is still limited, companies need to recognize the importance of building these techniques into their alliance processes.
The building blocks of alliance management

Repository
An alliance repository is an important component, particularly during the Find phase. A record of past and current alliances, relevant strategy documents, existing legal contracts and industry-specific information are all critical when developing an alliance strategy and when screening and selecting alliance partners. While some companies may invest in sophisticated alliance portal technologies that offer relationship management and collaboration tools, as well as search and retrieval capabilities, other organizations have succeeded by using their organization’s existing IT infrastructure. For example, alliance managers in one leading software company developed a Lotus® Notes® database to store information on internal alliance history, meeting minutes, strategy documents, vision statements, lessons learned, existing contracts and partner-specific and industry-specific information. Alliance managers and senior leadership use the database when developing internal alliance objectives.

Knowledge management intermediaries
However, lessons from first-generation knowledge management initiatives have shown that technology alone will not ensure the success of a knowledge management program. Human support is needed to ensure that the information in a repository remains current and is of high quality. Hiring a “knowledge steward” is a useful step to achieve this goal. Knowledge stewards typically capture, codify and disseminate relevant knowledge for a given project. For strategic alliances, stewards capture detailed information on existing alliance contracts, which is critical when deciding whether or not to partner with a particular organization. Stewards should also capture, codify and disseminate industry-specific information so that strategy developers are equipped with the knowledge to identify key players and strategies in a given industry. Due to the nature of their work and the type of knowledge being captured (i.e., contracts and industry-specific information), alliance knowledge stewards should have strong writing and communication skills as well as a good understanding of both the legal terminology and the industry.
Strategic alliances

**Profiler**

One knowledge management technology that is particularly useful in the Design phase is an alliance expertise location system. A profiler is typically an expertise location system that finds people with the relevant skill sets in your organization. Descriptions of previous partner work experience as well as work title, job area and contact information should be included in employee profiles. Knowledge stewards share an important role in updating and maintaining employee profiles for expertise location systems.

**Director**

As discussed earlier, companies often manage a portfolio of partners at any given time. Understanding the interdependencies, synergies and constraints between partners is a very challenging task. Whereas alliance managers might understand the individual partnerships they manage very well, they often cannot see the bigger picture that includes all the partners in the portfolio. An alliance director's role should be created to oversee and manage the complexity a portfolio implies. Ideally, this person should also be closely linked with the company's business strategy development team so the company's business strategy and its alliance strategy are aligned.

**Social capital**

Knowledge creation and sharing in an alliance is very much a social activity. To appreciate how knowledge is created effectively in an alliance requires an understanding of the social relationships among the individuals in the partnership. As discussed previously, building trust and effective communication with the partner are necessary ingredients for an effective relationship. First impressions are critical, and the way companies interact during the Design phase of an alliance goes a long way to building a trusting relationship. Negotiations in which both partners act in good faith and strive for a “win-win” outcome will result in trust being established quickly. Also, both partners should be clear about the process and norms of interaction (e.g., frequency of review meetings). Informal, non-alliance-related events are another way of building social capital with the partner.
Communities
Communities of practice allow for the sharing of personal experiences and tacit knowledge based on a common interest or practice. Alliance communities should be established to allow managers and team members to share their personal experiences and to help each other with challenging problems. Communities of practice can also serve as a mechanism for developing tools and intellectual capital that alliance managers can leverage. These communities can take several forms, such as electronic meeting rooms and forums or more formal alliance committees.

Training
Companies that rely heavily on strategic alliances should have formal training for managers and team members. Formal training not only enables learning, but also ensures that practices in the alliances are consistent and that they use standard processes. Mentoring is an effective learning mechanism that allows personnel to provide guidance to inexperienced alliance team members. Also, rotating experienced alliance managers across different alliance teams or alliance groups within the company allows for alliance know-how to be shared.

Formal processes and programs
Finally, companies should institutionalize their alliance know-how by creating formal alliance processes and programs. While some companies may opt for a more grass roots, community-based approach, others may choose to implement dedicated alliance organizations. Such decisions depend on an organization's context and culture. Companies who have reached this level of maturity are often viewed as preferred partners, and enjoy the benefits of a preferred partner. IBM, for example, has established their PartnerWorld program for software partners, which includes co-marketing, education and certification, technical support, incentives and relationship management. IBM has also documented an alliance process by outlining the 40 steps or criteria that precede reaching an agreement with a partner. Eli Lilly, a leading pharmaceutical firm, has created a dedicated organization, called the Office of Alliance Management, responsible for alliance management.

Given the importance of alliances, it is unfortunate that companies still approach forming them as “closing the deal” or a series of “one-offs.” There is also the perception that managing alliances is more an art form than a skill that can be learned. Also, alliance management
Strategic alliances

is often treated as a support function, and as a result, is not assigned the necessary or most effective resources. As we have discussed, alliance management can become a capability created by employing a knowledge-based approach. Most importantly, leveraging knowledge management across your company’s strategic alliances is both a critical success factor and a differentiator among partnering companies.

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