

Why Too Many Alliances End in Divorce

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Learning, Positioning and Alliance Partner Selection

What do General Motors, Norsk Hydro, Matsushita Electric Industries, AT&T, Rhône-Poulenc Rorer, Rubbermaid Inc., Olivetti, Syntex, Daewoo Motors and Coors Brewing Company all have in common? They have all participated in international strategic alliances which ended in divorce.¹ Such divorces are not uncommon² but they have failed to dampen the enthusiasm of corporations for alliances as a mode of doing business. Between 1988 and 1992 over 20 000 business alliances were formed in the USA alone, contributing to the 25% annual rate of increase in alliances since 1985.³ In surveys of its members over the last few years the Industrial Research Institute has found that, in each year surveyed, between 45% and 49% of respondents have projected increasing their alliance participation.⁴ The enthusiasm for alliances is partly driven by numbers which show, for instance, that alliances outperform more traditional forms of business activity by over 50%.⁵ Despite the enthusiasm and despite the favourable numbers, though, the incidence of expensive and messy alliance failures is surprisingly high, and a reality that alliance 'players' must consider seriously.

Although there are many reasons for alliance failures, many writers agree that poor selection of alliance partners is among the most important.⁶ A poorly chosen partner can make co-operation very difficult and, in the worst case, doom an alliance from its inception, eating up immense resources in salvage activities before finally bringing it down. In contrast, a well-chosen partner allows a synergy which blossoms into outcomes far beyond expectations. Despite the importance of partner selection, CEOs are not very positive about their firms' capabilities in this area. A

Participation in multi-firm alliances is increasingly essential for business success, and careful selection of alliance partners is a key to alliance effectiveness. Current advice on partner selection tends to focus on one prospective alliance partner at a time, on how well prospective partners fit the business strategy of the proposed alliance and on the operational workability of the alliance. This article extends that advice by giving greater attention to issues involving multiple prospective partners and issues arising from the long-term alliance strategy of the firm. With multiple prospective partners, selection issues are more complex than with just one prospective partner. The long-term alliance strategy of the firm focuses primarily on organizational learning of new technical, managerial and partnering skills and on improving organizational positioning in the evolving landscape of alliance activity. The logical connections between current advice and the extensions developed here are drawn. Learning and positioning opportunities, if seized, can contribute significantly to the long-term prosperity of the organization. © 1997 Elsevier Science Ltd

recent survey⁷ of 750 US CEOs with alliance experience found that partner assessment was the area of alliance expertise in which they felt their firms were the weakest. On average, CEOs rated their firm's performance to be merely adequate and not improved since a similar survey in 1987. In contrast, skills in



strategy development, control, implementation and contract negotiation were all perceived to have improved since 1987 and were more highly rated than partner assessment skills. This pessimism about partner assessment skills is seen despite a considerable literature proffering advice on that subject.⁶

It is the contention of this article that most of the available advice on partner selection is good as far as it goes, but that it should be extended in two areas. First, it typically focuses upon the selection of a single partner for an alliance, often after a cursory initial discussion of multi-partner alliances. Given the frequency of multi-partner alliances, multi-partner selection issues deserve more attention than they currently receive. Second, currently available advice gives almost no attention to the long-term alliance strategy of the firm (if it has one). The business strategy (e.g. manufacturing, marketing) of the firm is usually given some attention, but it is clearly focused upon a particular alliance, which is to be implemented in the near future. In contrast, the long-term alliance strategy of the firm attempts to use each alliance to improve the firm's position for participation in future alliances, for example, by developing closer relationships with certain firms. The differences between business strategy and alliance strategy will be more fully described below. If alliance partner selection is actually being practised within the confines of this framework (single partner, no long-term alliance strategy), it is not surprising that CEOs are so pessimistic about it and that there are so many alliance failures.

This article will go beyond the currently available advice on alliance partner selection. It will briefly

summarize that advice as a starting point, but will not attempt to treat it comprehensively or in detail. Such treatments are readily available in the references provided above,⁶ and are not the primary focus here. Because the available advice is valid, this article will build out from it showing how it can be extended to the multiple-partner context and to consideration of long-term alliance strategy. It is important to show the relationship between the traditional advice and the newer advice developed here because the new is not intended to replace the traditional. Both are essential for effective partner selection, and understanding their relationship to each other will improve the application of both.

There are five traditional criteria for selecting alliance partners, shown in Figure 1. The first criterion asks if the alliance has a good business strategy rationale and if the prospective partner fits that rationale. If the prospective partner is a good strategic fit, the next four criteria are considered. These criteria concern the operational workability of the proposed alliance. These criteria, called the 'Four Cs', ask:⁸ Is the prospective partner *capable* of carrying out its role in the alliance? Is the prospective partner *compatible* enough to work effectively in day-to-day collaboration? Is the prospective partner *committed* to the alliance and its strategic aims? Are the *control* mechanisms for the alliance appropriate? For each of these five criteria, this paper will briefly summarize the conventional advice, then move on to the issues that are unique to this paper, those concerning multiple partners and long-term alliance strategy. We now turn to the first of the five criteria applied in alliance partner selection, strategic business fit.

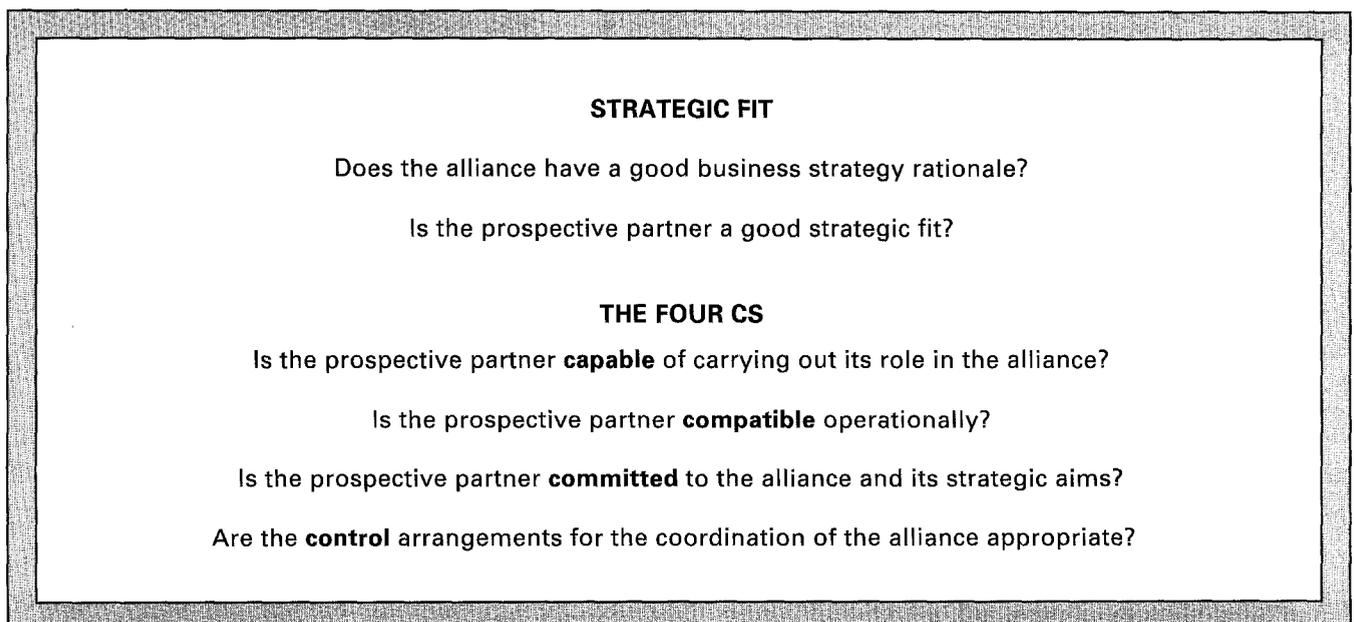


FIGURE 1. Traditional partner selection criteria.

Strategic Business Fit

A fundamental objective of any alliance is to further the strategic business objectives of the firms involved. Given this, a prime consideration in partner selection is whether prospective partners are a good strategic fit. The assessment of this fit should be based upon a shared understanding of the business rationale for the alliance. Partners should understand each other's strategic reasons for forming the alliance and the consequent strategic rationale of the alliance itself. The individual reasons do not have to be the same, but all the reasons should be clear to all concerned. Thorough discussion of these issues should take place before the alliance is formed so that a shared understanding can be developed. The establishment of good strategic fit requires as much self-examination as it does examination of prospective partners.

The usual advice on assessing strategic business fit assumes that complementarity of strengths and weaknesses is desirable. For example, Volvo and Renault were said to make a good fit because Volvo's strengths in larger cars, gasoline technology, and northern European and American markets complemented Renault's strengths in small cars, diesel engines and southern European and American markets. When a two-partner alliance is being considered, comp-

lementarity can be determined by a bilateral comparison of the characteristics of the firms, as shown in Figure 2. The Volvo-Renault example shows the limitations of the usual advice on alliance partner selection. First, there are only two partners. Second, there is no discussion of the long-term alliance strategies for the firms, although business strategy is considered. Single-partner and business strategy issues certainly need to be addressed if prospective alliances are to be properly evaluated, but focusing only upon them limits the value of the analysis, as we will now see.

Multiple-partner Selection

The question of strategic fit becomes much more complex when an organization is considering joining a multi-partner alliance. The strategic strengths and weaknesses of several prospective partners, and their interdynamics, must be considered.

First, it must be determined if each prospective partner brings something of strategic value to the alliance, and whether that value justifies the associated costs. Costs include such things as increases in coordination time that occur with each additional member. This evaluation will be complicated by the fact that most prospective partners will have more than one strategic strength. Some of those strengths

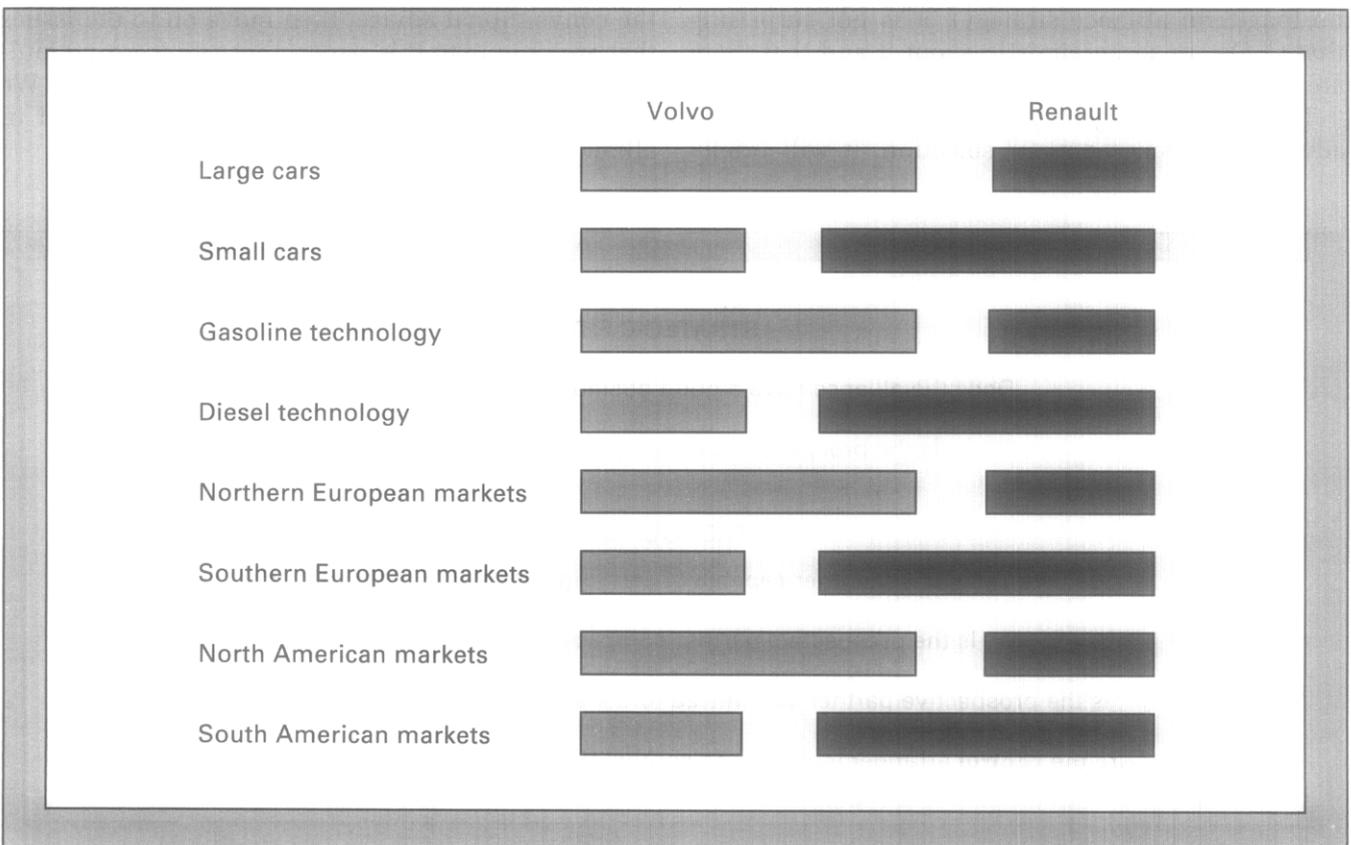


Figure 2. Complementarity in strategic fit.

will be related to alliance strategy and some will not. The strengths of the prospective partners will overlap and be complementary in various ways. They will relate to the overall alliance strategy in different ways. The larger the number of prospective partners, the more difficult it will be to sort out these strategic issues.

A second level of issues concerns the alliance as an entity. Does the alliance have a clearly articulated strategic purpose which is rationally linked to the strategic goals of each individual partner? Does the alliance have its strategic bases covered? For example, does it include the markets, technologies, capital and degree of industry leadership necessary to achieve its strategic goals? Again, the more prospective members, the more complex the issues.

These questions take on different nuances if the situation involves a firm being considered as an additional partner of an alliance that is already in existence. These nuances differ depending upon whether the perspective is that of the prospective new member or of firms which are already members of the alliance.

When a firm is being considered as an additional partner of an extant alliance, it is important to consider the ways in which the new member could disturb the current strategic balance within that alliance. For example, a prospective partner may bring a strength which would be unique and strategically important to the alliance but, in addition, have another strength which is very similar to a strength of an extant partner. In such a case, the entry of the new member could weaken the extant partner's strategic role in the alliance and, therefore, its ability to influence the alliance in ways which further its strategic interests. The strategic interests put at risk may be the very ones which motivated the extant partner to join the alliance in the first place. An extant partner put at risk in this way must seriously consider the entry of the new member. Extant partners who are not directly at risk need also to give this matter serious consideration. Although they are not directly at risk, if the new partner disrupts the current balance too greatly, the effectiveness of the alliance as a whole could be compromised. It is, therefore, in the interests of all members to consider carefully the entry of a new partner who jeopardizes the position of an individual extant member. It is also important to consider that a new partner may enhance the strategic positions of some extant members, as this can also prove disruptive.

The prospective new member should ask whether alliance membership will further its own strategic objectives. The question should be asked, not of the alliance as it now stands, but of the alliance as it will be after the new member has joined. The prospective joiner should ask whether its own presence will enhance the alliance's effectiveness or, at least, not disrupt it. The prospective member should consider

that even if the strategic fit with the alliance as a whole seems good, a conflicting relationship with even one individual member could jeopardize the venture.

This discussion of strategic fit makes it clear that questions of partner selection are more complex with multiple-partner alliances than with two-partner alliances. First, the questions of fit are made more complex by the fact that a larger number of firms, and their interdynamics, must be evaluated. Second, when a prospective partner is being considered for an extant alliance, the potentially disruptive effects of the new member must also be considered.

Long-term Alliance Strategy

Prospective alliance partners should also be evaluated in light of the long-term alliance strategy of the firm, which needs to be distinguished from the business strategy discussed above in the Volvo-Renault example. In that example, the strategy under consideration was relatively concrete and business focused. It involved clearly defined markets, manufacturing capabilities and product technologies. In contrast, long-term alliance strategy has to do with the need for an organization to strategically position itself in the evolving field of alliance activity.⁹ An example of what turned out to be poor positioning in the evolving field of alliance relationships is seen in the alliance between USAir and British Airways (BA).¹⁰ That alliance, established in 1993 with BA buying a 24.6% stake in USAir, has proven to be a hindrance to the more recent strategies of both partners. In June 1996, BA announced an alliance with American Airlines, to which USAir replied with a lawsuit seeking damages. USAir is said to have been anxious to get out of the alliance with BA anyway because the alliance has not done much for it, and other partners may now look more attractive. BA, seeing that its alliance with American Airlines is likely to be of greater advantage, and that the costs of staying with a now unwilling partner are likely to be high, has announced that it will sell its shares in USAir and thus dissolve the alliance. This has been a costly and acrimonious end to an alliance that has proved, in the longer run, to have positioned both partners badly in the battle for the crucial transatlantic market.

In the context of long-term alliance strategy, a firm must consider whether prospective partners will be influential in the evolution of alliances in the future. Will they be at the centre of important economic activity 5 or 10 years from now? Will entering a particular alliance lead to the organization being perceived as part of a winning 'team', with good prospects for the future? In the long term, will doors be opened by participation in this alliance? Will doors be closed? How damaging will such closures be? Long-term alliance strategy involves the management of relationships with other firms. It involves establishing continuing, 'friendly' relationships with a

number of other firms. These may include being alliance partners from time to time, and other mutually beneficial, informal associations. Long-term alliance strategy involves the politics of inter-organizational relations and the consideration of the needs of 'friendly' firms.

Long-term alliance strategy will be described more fully below in the discussions of the Four Cs and in the final sections of this paper. The discussion of the Four Cs will show that they all have strategic implications far beyond those usually addressed in past discussions of alliance partner selection, far beyond the direct costs and benefits of any particular alliance.

In summary, when alliance partners are being selected, whether for two-partner or multiple-partner ventures, strategic issues at two levels must be considered. At the first level, it must be established that the alliance makes good sense as business strategy for all the individual partners, and that the alliance itself is solid strategically. At a second level, the alliance must be an effective vehicle for the pursuit of the long-term alliance strategy of the firm, and its 'friends'. We now move on to the next criterion for alliance partner selection, capability.

Capability

Capability is the first of the Four Cs, those criteria which ask whether an alliance is workable operationally. The Four Cs are normally considered after it is found that a proposed alliance makes strategic sense. The capability criterion asks if prospective partners have the ability to carry out their roles in the alliance. An organization should apply the capability criterion to prospective partners and to itself.

Some of the capabilities sought in a prospective partner are generic, in that they should be present regardless of the nature of the proposed alliance. For example, the management team of the prospective partner should be good and the firm should have a reputation for delivering what it promises. It is also important to evaluate how well the prospective partner has done its homework. Has it taken the time to really understand what its role in the partnership will be, its costs and benefits, and whether it is capable of doing its part in what is proposed?

However, most strengths and weaknesses should be evaluated in light of the specifics of the proposed alliance, as alliances are often predicated upon the partners compensating for each other's weaknesses. Even the importance of something as fundamental as financial health depends upon the nature of the proposed relationship. For example, in the pharmaceutical industry, giants such as Glaxo and Merck are increasingly forming alliances with small biotech companies which do not have the financial strength

they need to compete alone.¹¹ The giants provide financial strength and other qualities such as access to markets. The small biotech companies bring their technology to the table. Some minimum level of capability is needed in all areas, but what that minimum level is depends upon the nature of the proposed alliance.

The capability question is closely related to the question of strategic business fit, which asks if the prospective partners have strategic complementarities. The Volvo-Renault example can be used to illustrate the difference between the strategy and capability questions. The strategy question asks, for instance, if the prospective partners have complementary product lines, such as small and large cars. The capability question asks if they make those cars competently. There is little point in forming an alliance with a maker of small cars if those small cars are going to cause you significant servicing difficulties in the marketplace. Put another way, the strategy question asks if the prospective partner is in the right sports league, the capability question asks if the prospective partner is good at playing its sport. The capability question came very much to the fore during the breakup of a Daewoo-GM alliance which was established to make the Pontiac LeMans in South Korea for the South Korean and American markets. During the messy divorce proceedings, GM took the position that the poor quality of the cars and their sporadic availability (two basics that any auto manufacturer should master) were responsible for poor sales performance.¹²

Multiple-partner Selection

Evaluating multiple prospective partners is more complex than evaluating one. The capabilities of each individual firm, and the interaction of those capabilities, must all be considered. A weakness in one member, which might prohibit taking on that firm as a single partner, might be more than compensated for by other members in a multi-partner alliance. In addition to asking these questions about each individual partner, it must be asked if the alliance as an entity is capable. 'Will members of the alliance meet frequently enough?' 'Will they communicate effectively?' 'Will they operate effectively as a team?' When a firm is being considered for possible membership in an already extant alliance, the same kinds of questions about disruptions as were asked above for business strategy must also be asked. For example, it may be asked whether the new member will disrupt established relationships, perhaps by possessing a secondary capability usually considered the province of one of the extant members.

Long-term Alliance Strategy

In the context of long-term alliance strategy, the capability criterion takes a tack which is somewhat dif-

ferent from that seen in the discussion above. In the preceding section, the question was whether prospective partners, and the proposed alliance itself, had the capabilities necessary to work at the operational level. In the context of long-term alliance strategy, the capability question asks whether a particular alliance presents an opportunity for the organization to acquire and/or improve capabilities that will be useful for future alliance activities. In addition, the firm should ask if this alliance might also be a learning opportunity for friendly associate firms and, if so, is it practical to have some of them join as well?

There is a considerable literature on the learning organization¹³ which is relevant to this issue but which is beyond the scope of this article to discuss in detail. However, a common theme in that literature is that there are two major categories of learning to be considered, technical and managerial. The organization should ask if a proposed alliance will provide an opportunity to acquire knowledge of commercially valuable technologies. Technologies with important long-term strategic implications are of particular interest here. The second type of learning is of business and management skills. Of particular interest here will be the skills necessary for working effectively in alliances. These are discussed more fully below. Such skills will enable the organization to participate simultaneously, successively and effectively in a number of different alliances for a number of strategic purposes.

In summary, before a firm enters an alliance it should ensure that the potential partners, including itself, have the capabilities necessary to carry out their alliance roles. It should also be established that the alliance, as an entity, is capable of its mission. In addition, it should be established that the alliance is an opportunity for the firm, and perhaps its 'friendly' associates, to acquire new capabilities which will be valuable in the long term. We now turn to the next criterion for alliance partner selection, compatibility.

Compatibility

Compatibility is the second of the Four Cs and, like the others, it has to do with whether the proposed alliance is workable on the operational level. If an alliance is to succeed, the partners must be able to work effectively together, over and above possessing the capabilities necessary to play their individual alliance roles. Given that relationships are the essence of compatibility, self-examination is as important as the examination of prospective partners.

There is broad consensus that compatibility among people is the most important type.⁶ There must be 'positive chemistry' among the people involved, particularly those at the top who initiate the alliance and keep it on track. However, effective working relation-

ships among all parts of the organizations which interface in the alliance are necessary if an alliance is to work well. Organizational culture plays a crucial role here.¹⁴ Culture includes underlying attitudes towards such fundamentals as the external versus internal focus of the organization, task versus social focus, conformity versus individuality, safety versus risk, and an *ad hoc* approach versus planning.¹⁵ Conscious and unconscious differences on these attitudes can seriously undermine an alliance. The recent infighting in the alliance between Northwest and KLM airlines is a classic example of cultural and personal incompatibilities. Although the alliance has been a moneymaker for the parties involved, some observers fear that animosities among those at the top will destroy it.¹⁶ The Dutch partners are quiet, stay out of the limelight, and focus on strong operational expertise. The US partners are more inclined to Hollywood lifestyles and a financial engineering approach to management. There is a struggle to control the airlines and the disputing factions are not hesitant to air their differences. There is a lawsuit afoot which can only cost the parties involved.

In addition to compatibility among people, there should also be compatibility among the operating procedures of the partners. Operating procedures include the methods for carrying out activities in functions such as R & D, marketing and manufacturing. Incompatibility can be a source of disruption which may sully a relationship or make it unworkable. Such difficulties can usually be overcome if the people work well together, but smoothing operational disharmonies can be frustrating and time-consuming work which detracts from more productive activity. The obvious and hidden costs of incompatibility can be high.

Multiple-partner Selection

When a multi-partner alliance is being considered, the question of compatibility is more complex. With even a few prospective partners, the odds of achieving high compatibility among all of them are remote. It is unrealistic to expect a level of compatibility among all which would be as high as might be found between two partners in a two-partner relationship. Given this, it is useful to consider how closely prospective partners will have to work with each other. The closer the expected working relationship, the more crucial is compatibility. The degree of compatibility must be high enough to sustain the type of working relationship expected between two partners. For some pairs, high compatibility will not be essential. For others, it will be absolutely necessary for the alliance to succeed. For an alliance, then, there must be some minimum level of compatibility among all the partners. In addition, there must be higher levels of compatibility among partners who will be working closely together.

In the case of a new member being considered for an extant alliance, there is the issue of the disruption of established patterns of compatibility. A prospective partner may be compatible with most alliance members and be acceptable to them on that basis. But if that prospective partner has low compatibility with a particular alliance member or two, they may be put at some risk, even if they will not be working closely with the new partner. If there is high incompatibility, the alliance positions of the current members could be put at risk, as they will no longer be capable of working co-operatively with virtually anyone else in the alliance. This compromises the position of the new member as well. Members of the alliance should consider how the alliance as a whole could be weakened by serious incompatibilities between or among the new member and particular extant members of the alliance.

Exceptionally high compatibility between a newcomer and an extant member can also be disruptive. Just as high incompatibility between two members can weaken their influence positions, high compatibility can strengthen them. If a new member has very high compatibility with some extant members, the resulting shift in influence positions can be disruptive to the alliance, and lower its effectiveness. The role of influence positions in alliances will be discussed more fully below.

Long-term Alliance Strategy

When considering compatibility in the context of long-term alliance strategy, the concept of universal compatibility is useful and important. Universal compatibility is the ability to work effectively at the operational level with any and all alliance partners. The importance of this can be seen by considering the alliance partner selection process. When evaluating prospective partners, organizations must consider a number of criteria, including strategic business fit and the Four Cs. Firms are rarely ideal on all of these criteria, so decision-makers must consider trade-offs. For example, they might consider whether the high capability of a prospective partner is sufficient to compensate for low compatibility. Or, they might consider whether a prospective partner who is a good strategic fit should be taken on despite very low operational compatibility. Such an alliance might be highly desirable but entirely unworkable. In such situations, a strategic opportunity might be foregone for operational reasons. This shows the value of being very flexible operationally, of being able to work with just about any partner. In the ideal case, a firm should be so efficiently flexible that it can work effectively with any partner that provides a good strategic opportunity. The firm should be universally compatible.

Given the strategic goal of achieving universal compatibility, any proposed alliance should be evaluated as an opportunity to improve the firm's partnering

skills.¹⁷ This may cause direct conflicts between long-term and short-term goals. A particular alliance may not make much sense to a firm on a short-term basis because of low operating compatibility. The extra time and effort needed to work around the incompatibilities may not seem worth the benefits which will accrue from this particular alliance. However, for the long term, the alliance may present an excellent opportunity for the firm to enhance its partnering skills. In addition, a track record of having worked effectively with a variety of firms will almost certainly strengthen the reputation of the firm as an alliance partner, particularly if some of those firms are generally believed to be difficult to work with. Firms should also evaluate each proposed alliance as an opportunity for friendly associate firms to work towards universal compatibility.

In summary, the operational compatibilities of prospective alliance partners need to be evaluated. Even when the prospective alliance partners are generally skilled at partnering, they need to be evaluated for the particular set of partners in this particular alliance. As part of long-term alliance strategy, each proposed alliance needs to be evaluated as an opportunity to work towards universal compatibility, for both the firm itself and its friendly associates. We now turn to the next criterion applied in alliance partner selection, commitment.

Commitment

Commitment is the third of the Four Cs and has two primary aspects. One has to do with commitment of resources and effort to the alliance on a continuing basis. In the worst case, a partner without this kind of commitment might expend only the minimum effort necessary to keep the alliance alive, opportunistically leaving it to the other partner to bear the brunt of the necessary work. The second kind of commitment has to do with how readily the partner will leave the alliance when unexpected difficulties arise. In the worst case, a partner without this kind of commitment might abandon the alliance at a crucial time, leaving its partner with significant liabilities and frustrated strategic expectations. Organizations should evaluate their own commitment as well as that of prospective partners. Self-examination should reveal whether they are truly able and prepared to commit the necessary resources and time. If they are not, they should terminate consideration of the alliance, for the benefit of themselves as well as prospective partners. When contemplating an alliance, a firm should consider both pragmatic and psychological commitment. Psychological commitment is more abstract and more difficult to evaluate than pragmatic commitment, but it is just as important.

Pragmatic commitment has to do with how badly

the prospective partners need the alliance. Will dissolution of the alliance, or even its under-performance, create significant difficulties for the firm? If the answer is 'yes', the firm is much more likely to make its contribution to the alliance on an continuing basis, and much more likely to commit extra effort and resources to sustain the alliance if it runs into difficulties. Pragmatic commitment involves the selection criteria discussed above; strategic fit, capability and compatibility. A firm will be pragmatically committed to an alliance if it has a significant strategic stake in it. Further, a firm's pragmatic commitment to an alliance will be weakened if it lacks the capabilities to play its role. For example, a partner who is weak financially might be forced to quit an alliance to put its own affairs in order. Finally, lack of compatibility among partners weakens commitment. Dealing with aggravations caused by incompatibility can cause such a drain on organizational resources, and such a psychological drain on its people, that withdrawal is the only rational choice.

Psychological commitment has to do with how strongly people believe in the alliance. Psychological commitment is intangible but it can strongly influence perceptions of pragmatic commitment. Decision-makers with low psychological commitment will be more likely to conclude that the 'facts' dictate abandonment of an alliance than those with a high level of psychological commitment. Reputation is an important consideration in psychological commitment. A firm trying to persuade another firm to make a greater contribution to a continuing alliance or to stay with an imperilled alliance, will have much greater success if it is respected by that other firm. In addition, a firm contemplating a reduced commitment to an alliance must seriously consider the possible damage to its own reputation. This is an especially serious consideration if its partner is generally well respected.

Multiple-partner Selection

If a multiple-partner alliance is being considered, issues of commitment are more complex than they are for two-partner alliances. It is unlikely that all prospective partners will have high levels of commitment to a proposed alliance. This makes it necessary to consider the strength of the commitment of each in light of its proposed role in the alliance. Those who are to have key roles must have high commitment. Those with decreasingly important roles can be tolerated with decreasingly lower levels of commitment. If a prospective partner can be easily replaced in the case of defection, tolerance for low commitment can be increased.

There are further nuances if a new partner is being considered for an already extant alliance. A single firm joining an alliance must determine how strongly extant members are committed to its joining. Prag-

matically, how badly does the alliance need the new partner? In addition to asking this question for the alliance as a whole, the joining member must consider each individual extant member. Are there any individual members who have low commitment to its membership? In the worst case, are any seriously opposed? It would be unwise to commit to an alliance, no matter how strategically valuable, if some alliance members see the newcomer as undesirable or easily expendable. Current alliance members must consider how committed the prospective member will be to the alliance as a whole and to each of them individually. Extreme lack of commitment to even a single current member must be of concern to that particular partner, and to all members of the alliance, as even narrowly focused lack of commitment weakens the alliance as a whole.

Long-term Alliance Strategy

In the context of long-term alliance strategy, the consideration of commitment is somewhat different from that in the discussion above. In long-term alliance strategy, the focus is upon building commitment that will endure well beyond the alliance currently under consideration. It is commitment for future alliances and other kinds of co-operation. It is commitment which will make it easier in the future for the firm to persuade other firms to enter into alliances with it, to make their fair contribution to it, and to stick with it in difficult times. Reputation plays an important role in commitment. A firm can enhance future commitments to itself if it can use an alliance to improve its reputation among other firms, both those involved in the alliance and those not involved.

A firm joining an alliance must ask itself if working with these partners in this context will enhance its reputation. Some of the considerations involve self-examination. A firm must ask itself if it will be able to perform its alliance role well and be seen as a strong partner which delivers its share. It must ask if partners will say good things about it in other contexts. If the answer is 'yes', this alliance is a good strategic move for the long-term development of reputation and commitment. A firm must also consider other reputational aspects of its association with the alliance partners. Will association with them enhance the perception that the firm is an important alliance 'player' which is involved with leading-edge activity? Will association with these partners stigmatize the firm as being 'in' with a certain group of firms? Will this stigmatization close doors to some future opportunities?

These questions should also be asked for friendly associate firms. A firm which finds a good opportunity for reputation enhancement in a particular alliance should explore the possibility of having friendly associates join the alliance as well. Strategic fit and the Four Cs would have to be considered, but should

be weighed in light of the long-term benefits of strengthening friends.

In summary, a firm should try to position itself and its friends in the evolving landscape of alliance activity so that future commitment and respect are strengthened. This will open the door for ever more favourable strategic opportunities in the future. This is the long-term strategy of commitment. We now turn to the next partner selection criterion, control.

Control

For control, the last of the Four Cs, the fundamental issue is whether the pattern of control which is likely to occur in an alliance will contribute to its effectiveness. For example, is it likely that one partner will be able to dominate the alliance? If so, will this be good or bad for effectiveness? In some cases, when strong, focused leadership is needed, and the interests of all members are closely related to those of the leading firm, dominance by one firm may be desirable. In other cases, if the lead firm is likely to be opportunistic, for example, dominance by that firm may be undesirable. The ultimate question when considering control is whether the system of control which is likely to occur will allow one's own firm to achieve its strategic objectives in the alliance.

It should also be borne in mind that the control arrangements formally specified on paper may not be those which are actually in effect, and that control is intimately related to issues that, on the face of it, do not have to do with control. For example, Anamartic, a small British high-technology firm, established alliances with Tandem and Fujitsu in an attempt to commercially exploit a promising technology which Anamartic owned.¹⁸ Fujitsu agreed to be the sole supplier of an important wafer memory component of a product which used Anamartic's technology. Tandem agreed to use that product as a component in its products, on the understanding that Anamartic would develop a necessary interface device. On the surface, this arrangement seems to be in Anamartic's interest. It had two strong partners who were well respected in the industry who would supply sophisticated manufacturing input and a ready market for Anamartic's product. Unfortunately, Fujitsu held firmly to a price on its component that made the sales to Tandem unprofitable for Anamartic, and Anamartic had no leverage on Fujitsu because the contract specified Fujitsu as the sole supplier. Anamartic expended all of its research resources developing the interface for Tandem, and therefore could not develop other products for other customers. In this case Anamartic was caught in a web of manufacturing and marketing agreements which deprived it of any real control in the situation. Anamartic went down.

Most advice on two-partner alliances suggests that neither party should dominate.¹⁹ There are two reasons for this, one pragmatic, one psychological.

Pragmatically, if one partner dominates, it may force a course of action which is much more in its interest than its partner's. This suggests that an organization should not join a partnership in which it will clearly be the junior partner. Junior partnership will prevent it from asserting its interests to obtain its full value from the alliance. In the worst case, a firm could become locked into an alliance in which it is clearly the weaker partner and a net loser, to the benefit of the dominant partner(s), as happened in the Anamartic case. Turning to the justification for equality based upon psychology, it has to do with the atmosphere that pervades an alliance. If it is assumed that alliances will be most effective when there is an atmosphere of co-operation among equals, then the maintenance of equality is very important for maintaining that atmosphere. A power imbalance opens the door for the conflict and competitiveness that naturally arises when one partner strives to compensate for its lesser power.

This advice goes even further. It suggests that if a firm is in a situation in which it could assume a dominant role, it should step back from that role and, as much as is possible, arrange for equality between partners. It is assumed that the benefits of co-operation and positive contribution will outweigh those that might have been gained through assertion of dominance. One of the possible costs of dominance is the bad reputation as an opportunist which a firm could acquire if it appears to unduly exploit a weaker alliance partner.

The provision of equality in an alliance may be more difficult in some cases than in others. If two firms are very discrepant in *de facto* power, it may be virtually impossible to create an artificial equality within the alliance. If the firms have naturally occurring equality, there will be no need for artificiality. The usual advice for alliance partner selection states that firms should insist that the affairs of an alliance be conducted on an equal partnership basis, and the greater the degree that this is made difficult by differences in *de facto* power, the less desirable the alliance.

Multiple-partner Selection

Despite the difficulty of achieving control balance in multi-partner situations, some writers recommend it. Hausler *et al.*,²⁰ after extensive experience in high-technology alliances, state: "Equality among partners is usually considered essential for efficient interfirm cooperation." Mason²¹ says: "Partners in an alliance must be equal in terms of risk and contribution to the alliance." Eugene Eidenberg,²² Executive Vice-President of MCI, states: "If people come to feel that they are junior partners at the table, it can be absolutely devastating to the sense of partnership and mutual commitment and mutual risk being taken."

Contrary to this viewpoint are a number of writers

who say equality is neither necessary nor desirable in many cases. Lorenzoni²³ believes that a web of partners should have a strategic centre in the form of one of the partners taking a leading or dominant role. Such a centre is necessary, in his view, to coordinate the activities of the web partners and to keep the web on strategic course. Without such a centre, the web can degenerate into an ill-coordinated entity drifting this way and that as individual firms or groups of firms successively take the upper hand. Gomes-Cassares²⁴ also suggests that one form of effective alliance is to have a dominant partner. However, even those advocating the useful role of a dominant partner stress the need for co-operative working relationships among all partners. There is no place for negative atmosphere in alliances.

A way to resolve this apparently conflicting advice may be to differentiate among different alliance types. There are two general forms of alliance, the modular type and the virtual type.²⁵ In the modular type, one organization is a central hub around which the others are clustered. In this type, the hub organization has usually outsourced its non-vital functions to the other alliance members, while retaining strategic control. In this kind of alliance it is clear that non-equality of control is desirable. In the virtual type of alliance, the alliance is made up of independent companies, which may be suppliers, customers and even competitors of each other, who have come together to share skills, costs and access to one another's markets. In this type of alliance, equality of power is clearly more appropriate. In multiple-partner alliances, then, each firm must decide upon the control issue depending upon whether it is entering a modular type, virtual type, or some hybrid of the two.

Long-term Alliance Strategy

In the long-term, as in the short, most firms are interested in increasing the control they have of their own destinies. In the context of a particular alliance, this interest takes the form of asking if the control mechanism of the alliance will allow the firm to protect and advance its own interests, during the term of this particular alliance. When this concern is translated into the context of the long-term alliance strategy, the question is whether participation in a particular alliance will enable the firm to increase its control over its affairs in the long term.

When considering whether an alliance provides an opportunity for the firm to increase its control of its own destiny, and perhaps those of other firms as well, a number of the ideas presented above should be considered. First, a firm's degree of control in almost all situations will be increased if it has a good reputation. Above, the relationship between commitment and reputation was discussed, and it was concluded that increasing respect increases future commitment from other firms. One source of respect is capability. Ano-

ther source of respect is compatibility, the ability to work smoothly with alliance partners. In short, the first three Cs—capability, compatibility and commitment—are important contributors to the fourth C—control—particularly when the long-term perspective is being considered.

Long-term control and influence enhancement for friendly associate firms needs also to be considered. If an alliance offers control enhancement opportunities, finding roles for friends may enable them to help your firm more effectively in the future.

In summary, the mechanism of control in any proposed alliance should be evaluated to determine if it will allow the firm to attain its strategic objectives. In addition, the alliance as a vehicle for advancing the firm's position of influence in the long term, on the evolving field of alliance relationships, should be evaluated. We now turn to some general consideration which arise from the above discussions of long-term alliance strategies.

The Strategic Perspective

Now that the Four Cs and their long-term strategic implications have been explored, it is appropriate to summarize some of the main points. Most of the currently available advice on selecting alliance partners can be summarized under the headings; strategic business fit, capability, compatibility, commitment and control. That advice can be improved by greater attention to multiple-partner alliances and to the long-term alliance strategy of the firm. The advice on strategic fit usually focuses upon concrete business strategy and its role in the alliance currently being considered. That advice can be extended to consider the long-term alliance strategy of a firm, with a time frame that goes beyond the current alliance. The advice based upon the Four C's usually focuses upon whether a proposed alliance will be workable operationally. That advice can also be extended to include implications for the long-term alliance strategy of the firm. There are further strategic implications arising from the Four Cs which can now be considered.

The long-term alliance strategy issues arising from the first two of the Four Cs—capability and compatibility—can be brought together under a common theme. For capability, the long-term strategic question is whether the alliance under consideration presents an opportunity for the organization to improve its capabilities, both technical and managerial. For compatibility, the question is whether the alliance under consideration presents an opportunity for the organization to move itself closer to universal compatibility. So the first two of the Four Cs have to do with the firm acquiring new skills. In the context of long-term alliance strategy, then, both capability and compatibility have to do with organizational learning.

The long-term alliance strategy issues arising from the last two of the Four Cs, commitment and control, also have a common theme. For commitment, the long-term strategy question is whether the alliance presents an opportunity for the organization to enhance the commitment it will receive from other firms, in the long term. For control, the question is whether the alliance is an opportunity for the firm to enhance its control of its own destiny. As earlier discussions implied, both of these concern the opportunity for the organization to improve its position in the evolving field of alliance relationships, over the long run. In the context of long-term alliance strategy, then, both commitment and control have to do with organizational positioning.

These two fundamental strategic themes, learning and positioning, which arise from the Four Cs, must be differentiated from the concrete business strategies which are normally considered under the heading 'strategic fit'. The identification of these two strategic themes leads to further insights into the limitations of traditional advice on alliance partner selection, which will now be discussed.

A Reframing of Selection Issues

It will now be shown that the analysis presented above can be extended to make an important shift in the cognitive framework applied to issues of partner selection. This shift can be explained by contrasting the Select and Bridge Strategy to the Select and Build Strategy.

The Select and Bridge Strategy

Traditional advice on the selection of alliance partners is framed in what can be called a Select and Bridge Strategy. It begins with the identification of prospective partners with appropriate strategic business fit. Then the Four Cs are applied to evaluate working relationships. The ideal is a partner with minimal operational difficulties. This approach recognizes, however, that perfect matches will never be found and that trade-offs among selection criteria will be made. The compromises involved in the selection of partners lead to the need to make up for discrepancies in fit during the implementation of the alliance. Working with a partner who has badly needed technology but a poor cultural fit will require hard work to bridge the cultural gap. This could include selecting good communicators to work with that partner and spending extra time on communication. If a partner has weak management, it may be necessary to watch it very carefully and to give some diplomatic but pointed advice from time to time. One fundamental trade-off is between strategic opportunity and operational workability. An excellent stra-

tegic opportunity may be foregone because the alliance is not workable operationally. In summary, the Select and Bridge Strategy says that when selecting a partner, a firm should evaluate with the available criteria, knowing that a perfect partner will never be found. When working with the inevitably imperfect partner, the firm should work hard to bridge the gaps in the fit. The more effective the selection of the partner, the less will be the bridging work which needs to be done.

There is a danger, though, in the Select and Bridge Strategy. The approach focuses upon the immediate alliance and whether the partner(s) will be able to work smoothly together. Such advice places a premium on operational harmony. A firm driven by this mind set may find itself choosing successive alliances with a narrowing set of partners, with whom it is developing increasingly smooth operational interactions. Over the long term, the push for operational compatibility engendered in the Select and Bridge Strategy may not be healthy.

The Select and Build Strategy

The above discussions make it clear that alliances should be seen as opportunities for learning and positioning, for the long-term benefit of the firm. Assuming that alliances will play an increasingly vital role in business activity, organizations should seek widening sets of alliance partners, widening sets of alliance capabilities and enlarging sets of influence relationships. This strategy views disharmonies in some alliances as a sign of learning and strategic progress, rather than just a sign of poor selection. AT & T is a case in point.²⁶ Despite its failed alliance with Olivetti, which foundered in 1988, AT & T has maintained and expanded a rich set of European partners including Italtel, Philips and Telefonica. The challenges of managing across cultures and continents have paid off for AT & T, which is now firmly established in Europe. It has positioned itself strongly in the landscape of alliances there with blue-chip partners who provide political and business influence and sophisticated technical knowledge.

Carrying the logic of the Select and Build Strategy further, it may be desirable to seek out some disharmonious relationships because of their long-term value. For example, the chance to work with a firm whose R&D operations are very different from one's own might be a good opportunity to learn the strengths and weaknesses of those operations and to adopt what works. A chance to work with a large partner which will dominate in an alliance might be an opportunity to increase one's influence among other firms, who are in awe of the large firm.

Decisions which must weigh the long-term benefits of learning and positioning against the short-term benefits of the Four Cs are never easy. As discussed earlier, decision-makers who are deciding whether or

not to enter a particular alliance must consider the trade-off between strategic business opportunity and operational workability. We now see a similar trade-off, between long-term alliance strategy and operational workability. This trade-off must be dealt with on the basis of the complexities apparent at the time of the decision. Sometimes pragmatic short-term considerations will prevail. Nevertheless, a firm that improves its alliance capabilities and positioning through carefully selected successive alliances will improve its long-term strategic prospects.

Integrated Strategy for Alliance Partner Selection

Two sets of alliance partner selection criteria are now available. The first includes the five that are available in the literature, which focus upon the business strategy of the firm and upon the operational workability of the alliance, tending to consider only one prospective partner at a time. Second, there are the criteria developed in this paper, which focus more upon the long-term alliance strategy of the firm (positioning and learning) and upon issues that arise when there are multiple prospective partners. Both these sets of criteria are valid and should be used. The use of both will be expedited if the relationship between them is clarified.

Figure 3 shows that relationship in diagrammatic form. When considering any alliance it is usual to turn to strategic considerations first. Figure 3 shows two sets of strategic questions. First, there is business strategy. Would this alliance contribute to such business goals as expanding markets geographically, gaining access to certain technologies or outsourcing manufacturing? Second, there is long-term alliance strategy. Is the alliance an opportunity to improve the firm's prospects for future alliance participation, with a variety of alliance partners? Improved prospects come from organizational learning and improved positioning in the field of alliance-making firms. When analysing learning and positioning opportunities, the Four Cs, as extended to long-term alliance strategy in this paper, can be useful. The essential questions under each of the Four Cs are shown in Figure 3. If this initial evaluation of strategy issues yields a positive answer, the firm can move on to consider the operational feasibility of the alliance. Here, the Four Cs as articulated in past literature are applicable. The essential questions for these are also shown in Figure 3.

Figure 3, then, shows the essence of the ideas presented in this paper. The Four Cs were extended to include learning and positioning in alliance strategy without destroying their validity as criteria as described in the literature. Given that learning and

positioning are already being discussed in the literature, it is now apparent that one of the benefits of the analysis presented here is that it shows the conceptual relationship between the traditional Four Cs and the literature on learning and positioning. These various literatures, which have been mainly independent until now, are seen to have definite conceptual links.

Implications for Managers

Alliances can be an effective way of doing business and the current blossoming of alliance activity is a precursor to the networked world of the future.²⁷ This article has presented some new issues for consideration during alliance partner selection, particularly those concerning alliance strategy. The discussion suggests that managers might well do the following:

- *Decide if alliance activity can make a significant contribution to the future prosperity of your firm.* There are at least three general headings under which those contributions might be considered.
 - Alliances can be considered as one way to accomplish certain business objectives, such as access to new markets.
 - Alliances can be considered as a way to acquire new technologies and to learn the tacit knowledge needed to use them to best advantage.
 - Alliances are a way to learn new management and partnering skills that will be useful for the firm in the long run. These and other possible roles for alliances must be considered in light of alternate ways of doing things, all within the framework of the long-term strategy of the firm.
- Develop a vision of how alliances will make their contribution to the firm's prosperity, over the long haul.* Bear in mind that this vision cannot be set in stone. It must be a 'working vision' which will be adjusted and revised as the highly uncertain environment evolves.
- *Develop a long-term alliance strategy for your firm that specifies which firms are desirable alliance partners and plans for achieving those alliances.* Such plans may include courtships, preliminary, minor co-operations and other stepping stones. Search for synergies among alliances.
 - *Begin thinking of alliances as political entities.* An alliance is a group of partners within a 'socio-political landscape' of other alliances and many individual firms. There are friendly players and not so

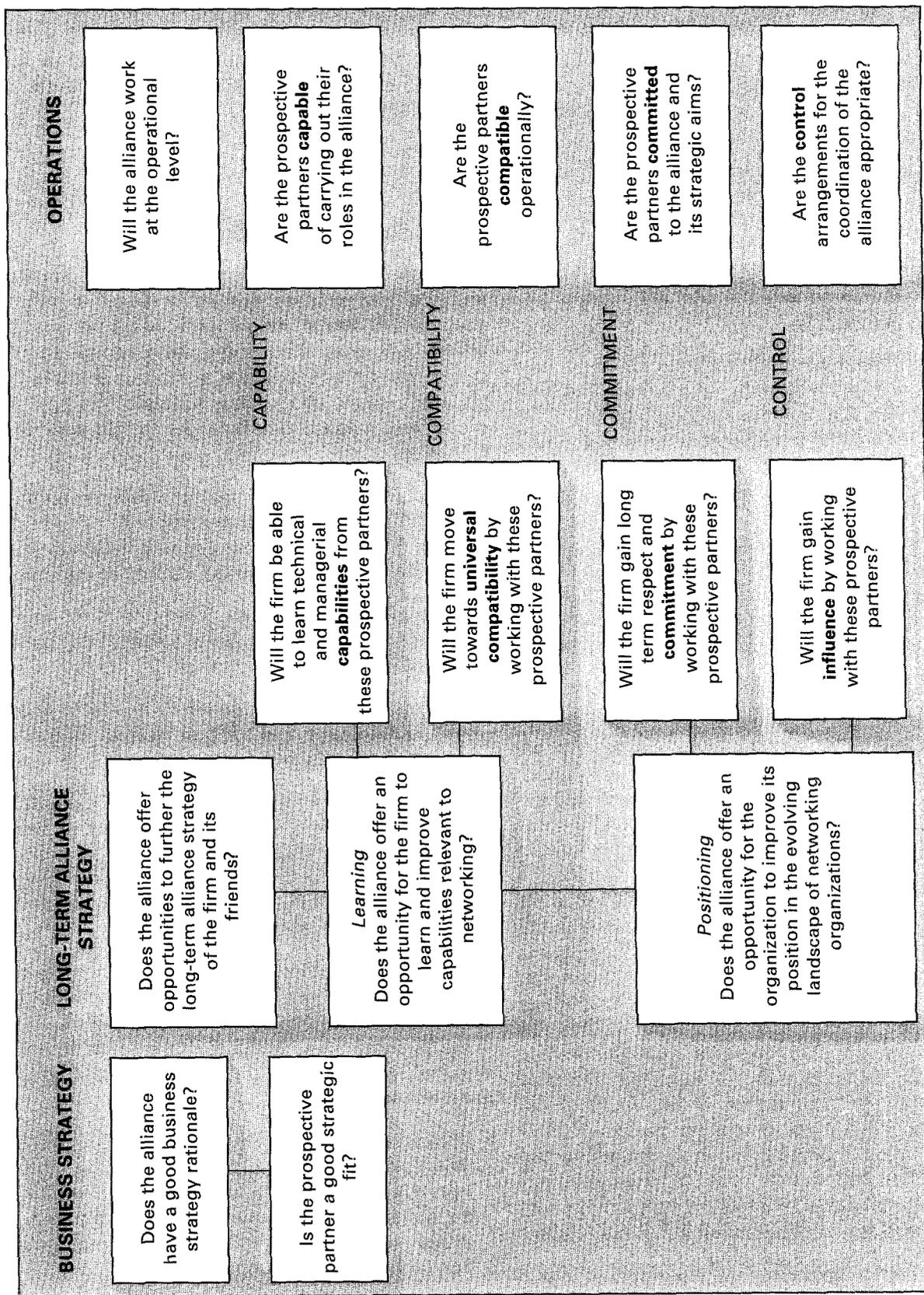


FIGURE 3. Strategic and operational criteria for partner selection.

friendly players. Positioning in that landscape is very important. Among the partners of a particular alliance, politics is just as rampant and important as it is in the executive suites of individual firms. This perspective on alliances should be given as much attention as the perspective which sees them as instruments of business strategy.

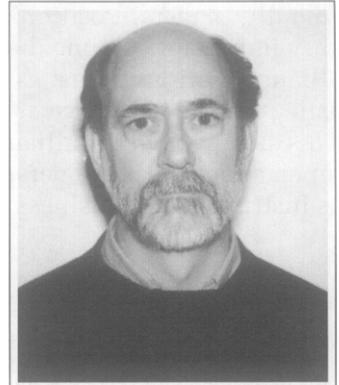
- Continue to use the traditional criteria for alliance partner selection as well as the new ones presented here. Use them in an integrated way.

Alliances can be the key to future prosperity. Do not miss that prosperity because of a failure to articulate a vision of how alliances can take you to it.

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