

A marriage of ideas

Knowledge alliances harness competencies and create mutually beneficial relationships, says **Kaushik Mukerjee**, senior practice consultant, Tata Management Training Centre

Self-sufficiency is becoming increasingly difficult in a business environment that demands focus, flexibility and innovation. Knowledge alliances allow organisations to enhance their competitive advantage by leveraging their strengths with the help of partners. Alliances create the opportunity for organisations to broaden their capabilities by acquiring knowledge associated with the partner's skills and competencies.

However, knowledge alliances have not always enjoyed a high success rate. Though the number of alliances is increasing every year and account for nearly a third of many companies' revenue, the failure rate hovers between 60 and 70 per cent.

What does it take to make a successful knowledge alliance? Firstly, it is the choice of the partner. The most critical factor in choosing the partner is perhaps the aspect of values. The partners' values need to be synergistic and compatible. Conflict is inevitable when the partners' values are at loggerheads. Table 1 shows a list of issues to be taken into consideration while judging potential partners.

Table 1: Checklist for due diligence of potential partners for a knowledge alliance

Partner's characteristics	1. Vision and mission 2. Values
Partner's competencies	1. Products 2. IP 3. Infrastructure 4. Skills of people
Core competency areas	1. Industry domains 2. Verticals
Size and structure	1. Size of the organisation 2. Structure – functions and roles
Key relationships	1. Partner's key customers 2. Partner's key alliances

(Adapted from Cases in Alliance Management: Building Successful Alliances, edited by Jean-Louis Schaan and Micheal J Kelly)

Strength in union

Companies successful in managing alliances go through a due diligence process to ascertain the potential partner's competencies (See Table 1). The

pharmaceutical company Schering-Plough found many of its alliances floundering despite using carefully-structured business arrangements and detailed contracts. So, the company decided to use an 'alliance relationship launch', which involved understanding the partner with regard to their values, culture, processes, decision-making methods, etc through close interactions. Armed with this information, the strategy for the alliance was finalised. The process helped in improving the value generated through the alliance.

Likewise, Oracle seeks extensive information from a potential partner before engaging in a dialogue for an alliance formation. Companies like HP have formed a specialised alliance function to handle alliances and the fit is checked by the managers belonging to this function.

Organisations need to be realistic about the kind of knowledge they hope to gain through alliances. For example, tacit knowledge can be difficult to gain as it involves intangible factors embedded in personal beliefs, experiences and values. On the other hand, explicit knowledge is systematic and easily codified. However, there could be a strong tacit dimension associated with how to use and implement explicit knowledge.

Some examples:

- ▶ Tacit knowledge: Human resource skills and practices; innate knowledge possessed by workers.
- ▶ Explicit knowledge: Product designs; quality control processes.

A study of the Japanese joint ventures (JVs) in the North American automobile industry has found that the JVs that performed well had adopted four distinct practices for sharing and transfer of knowledge.

- ▶ Sharing of technology between the parent firms and the JV.
- ▶ Regular interactions between the JV and the parent firms to ensure that there is scope for personnel from each organisation to meet and share knowledge.
- ▶ Personnel transfers between the JV and the parent firms to enable cross-fertilisation of knowledge.
- ▶ Aligning the strategic goals of the JV with those of the parent organisation ensured that the JV experiences could be used for learning.

Table 2: Checklist for creating and managing knowledge alliances

	Our company	The alliance	Our partner
Conditions of negotiation	<ul style="list-style-type: none"> Objectives for the alliance. How does this alliance fit with our strategy? Expectation from this alliance. Measurement of success. Strengths we bring to this alliance. Essential requirements for the alliance to meet our objectives. Potential obstacles that may prevent the alliance from meeting our objectives. 	<ul style="list-style-type: none"> Objectives of the alliance. The alliance's strategy. Appropriate measures for the success of the alliance. Unique strengths of the alliance. Risk factors that hamper the likelihood of success. 	<ul style="list-style-type: none"> Partner's objectives. How does this alliance fit with its strategy? Partner's expectation. Partner's measurement of success. Partner's strengths. Essential requirements to meet the partner's objectives. Potential obstacles that prevent the alliance from meeting the partner's objectives.
Negotiating levers	<ul style="list-style-type: none"> What needs to be safely guarded? What are sacred cows? What concessions can we freely offer that we think they will want? 	<ul style="list-style-type: none"> What negotiations are in the best interest of the alliance? 	<ul style="list-style-type: none"> What concessions do we think our partner will request? How can we accommodate them? What concessions will we want from our partner? Which ones are deal breakers?

(Adapted from *Cases in Alliance Management: Building Successful Alliances*, edited by Jean-Louis Schaan and Micheal J Kelly and published by Ivey Casebook Series)

Success factors

An analysis of successful knowledge alliances reveals that the factor that enables useful work is trust. Unless there is mutual trust between the partners, the alliance fails to reap the benefits.

Another factor that fosters useful knowledge alliances is the use of strong internal coordination. The alliance needs to be suitably linked to the strategic goals of both organisations. Internal coordinators ensure that the right information flows out of the organisation to the alliance and that the usable knowledge generated is captured and ploughed back into the organisation. This requires suitably designed organisational processes so that exploitation of the acquired knowledge happens in a desirable manner.

The internal coordination system ensures that the assets of the organisation are well-protected and the alliance does not result in the loss of core skills, IP and other assets to the partner. This requires employees at all levels to know which skills and technologies are off-limits for the alliance.

The ability to work simultaneously at the strategic and operational levels is critical to an alliance's success. An alliance must move quickly from defining the strategic intent to successfully implementing new services and activities, and from performing operational tests to reformulating strategy and tactics. The knowledge alliance champions and / or the internal coordinators play a crucial role in managing the work at both strategic and operational levels. It is important to ensure that the champions have common goals and key result areas to ensure that the alliance moves towards a common goal.

While an alliance may be championed by an individual, the management of an alliance cannot be

delegated to one person. Successful alliances require the active knowledge, expertise and involvement of people from multiple functions, geographies and levels. Each alliance needs a representational team composed of players from both organisations to guide the effort and navigate the challenges of working in a new and unfamiliar territory. The team should include people who are senior enough to have decision-making authority, as well as others tactical enough to be hands-on.

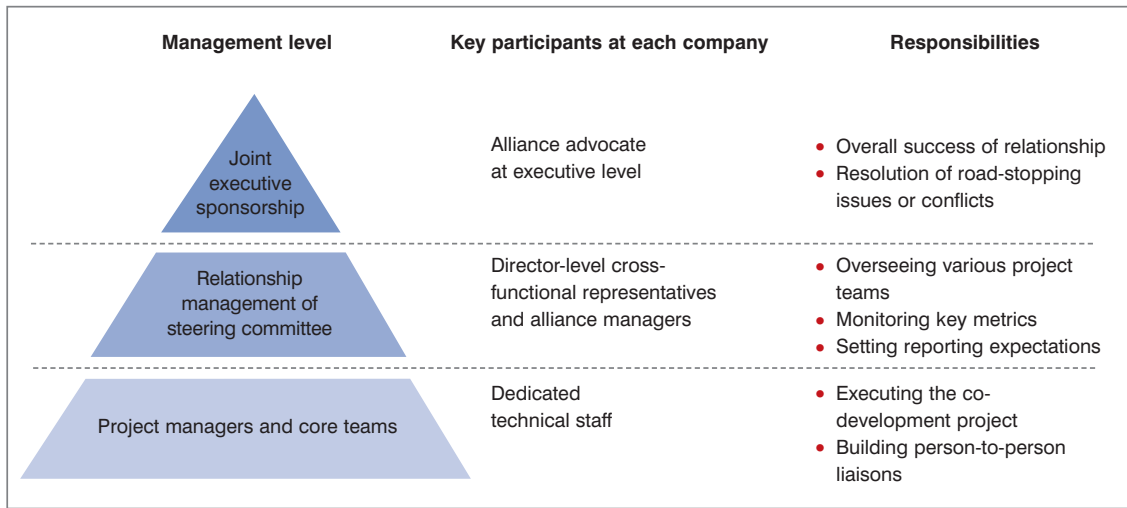
Boundaries of geography, product categories, customer segments, brands, technologies and fixed assets of the respective partners must be established early on to ensure clarity. The areas where the alliance will engage and those activities that would be the domain of the parent companies must be identified. The organisations must decide on how to use the parent company's technology and for what. It has been seen that the collaboration fails when it ends up as an outsourcing opportunity and not knowledge creation for mutual benefit.

A truly successful alliance is one that has stood the test of time. It is necessary that an alliance sets out a long-term agenda and does not focus on short-term goals, though some quick wins may help to motivate the alliance partners and create a sense of achievement.

The 10 key principles for successful knowledge alliances are:

- ▶ Choose a partner with compatible values, ethics and with whom you share a trustworthy relationship.
- ▶ Focus less on the business plan and more on how to work together.
- ▶ Ensure that the alliance goals are in line with your strategic goals.
- ▶ Develop metrics pegged to alliance goals and progress.
- ▶ Leverage differences to create value.

Figure 1: Collaborative tasks of managers at different hierarchical levels



Source: Council research; Deck, Mark and Strom, Mark. Model of Co-development Emerges, Research-Technology Management (May-June 2002).

- ▶ Encourage collaborative behaviour.
- ▶ Spend as much time on internal stakeholders as on managing the relationship with the partner.
- ▶ Set boundaries so that assets are not inadvertently leaked out.
- ▶ Ensure that the internal coordination system integrates the knowledge created.
- ▶ The responsibility can rest with the alliance champion or a dedicated knowledge alliance function.

Managing the alliance

The successful management of the alliance requires the active participation and collaborative efforts of managers at various hierarchical levels. The manner in

Table 2: The partner's characteristics – understanding these can help the alliance

Strategic orientation	<ol style="list-style-type: none"> 1. Strategic intent 2. Resource utilisation and policies 3. Risk tolerance
Organisation structure	<ol style="list-style-type: none"> 1. Decision making units and methods 2. Power and its locus – reflected in the decision making methods adopted by the partner
Management style	<ol style="list-style-type: none"> 1. Flow of information across the organisation 2. Problem-solving methods with reference to strategic decisions
HR philosophy	<ol style="list-style-type: none"> 1. Compensation structure 2. Performance and incentive schemes – proportion of incentives in the income of high performers

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which the entire team works in a cohesive and purposeful manner decides the fate of the alliance. By dividing the tasks in a relevant way, the alliance can succeed owing to the involvement of people at different levels (as shown in Figure 1) of the respective organisations.

A majority of knowledge alliances fail to deliver the desired results. A deeper understanding of the partner's characteristics (as shown in Table 2) can provide an insight into the partner's way of working, attitude towards risk, decision-making methodology and most importantly, philosophy towards people.

The power of knowledge

A dedicated alliance function can help in galvanising the organisational efforts and enable suitable value creation. The dedicated function helps manage the knowledge created and uses the experience to improve ongoing and forthcoming alliances. The function can establish a series of processes to articulate, document, codify and share the know-how across the phases of the alliance life cycle. A portfolio approach helps create a string of alliances that fulfils a variety of strategic goals for the organisation. The portfolio approach helps because an organisation usually has a number of gaps that can be fulfilled through alliances with suitable partners.

Table 2 presents a checklist that can be used to create and manage knowledge alliances in an effective manner. It is noteworthy that successful alliances do not necessarily happen by following the checklists and to-do strategies. There is a strong intuitive element that senior leaders possess, which proves very useful while choosing partners and managing the alliance. Perhaps this intuition guides them based on past experiences and enables making right judgment while making knowledge alliances. ●