A down-to-earth guide to alliances made in heaven

Alliances; Small firms; Larger partner; Entrepreneurs; Entrepreneurial Alliances; Market; Xerox; Fuji; IBM; Mayo Clinic; Starbucks; Pepsi

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In today's weak economy, alliances can be a quick way of giving smaller firms a leg up, helping them to grow and expand with the help of larger, more established partners.

According to Bain & Company, in 2007, 66 percent of small firms were using alliances as management tools. With today's weak economy, alliance benefits have become even more appealing for entrepreneurs.

In their book, *Entrepreneurial Alliances*, África Ariño (IESE), Jeffrey J. Reuer (Purdue University) and Paul Olk (University of Denver) explain that alliances can be natural facilitators of entrepreneurship. Yet they caution entrepreneurs to be aware of the potential pitfalls that can lead to poor-performing alliances, or worse, the demise of the company altogether.

Investing in an alliance

Xerox and Fuji, IBM and Mayo Clinic, Starbucks and Pepsi: Examples like these highlight the benefits of teaming up — to create new businesses and market space, accelerate growth and allow geographic expansion.

For smaller firms, the benefits of teaming up with a larger partner can be even greater. For

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example, entrepreneurs can overcome their liability of being a newcomer in the market and improve their chances of survival, obtain critical resources and tap into the other's financial capital.

The authors shed light on the alliance-formation process, offering the entrepreneur several useful tips, so that they are more likely to secure these promising benefits.

Avoid rushing in

For any relationship to work in the long run, getting the right partner is the first step. The process involves searching for, selecting and wooing an ideal candidate. All of these stages can be intimidating and cumbersome for an entrepreneurial company that lacks the resources and infrastructure to carry out a search.

Furthermore, because entrepreneurial companies are more dependent on an established partner, they may overlook potential problems with strategic, organizational, operational or human fit, and rush into a decision.

Generally, there are institutional mechanisms — organized markets, chambers of commerce, the Internet — and social search mechanisms — tapping into their managers' existing networks, for instance — which can help launch a search.

The most important thing at the outset is to avoid falling into what the authors call "the limited-search trap," or unduly limiting the range of alternatives to ready-made ones.

Don't underestimate yourself

After identifying the ideal partner, it's time to show what you are bringing to the table. No easy task, say the authors, when companies such as Novo Nordisk receive as many as 236 proposals for new alliances per year.

Getting noticed might take some creativity. For example, in attempting to get Kraft's attention, Filled Bagels Industry sent a box of cream-cheese-filled bagels with a business proposal.

Overall, it falls upon the entrepreneur to make the case to a larger partner.

One common pitfall in this stage for information-based companies is the information paradox. The entrepreneur may be tempted to lure a larger company with an innovative idea.

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However, if it reveals too much information, the larger partner may quickly absorb it, leaving the little guy behind.

Here, entrepreneurial firms should avoid shortsightedness about what they bring to the table. Technology companies, for example, must look beyond the one technology they offer at the moment of negotiation. Discussing instead inventive capability, with the possibility of a series of future technologies, is something much more enticing, which strengthens the entrepreneur's position in the negotiation process.

Shaping relational quality

Studies show that most alliances are dissolved within their first two years, something that is more detrimental for an entrepreneurial company than for a larger corporation. Even with the best efforts in partner search and negotiation, many unforeseen challenges arise during the actual execution of the alliance.

Entrepreneurial managers are able to shape relational quality — an aspect of trust crucial in maintaining a positive dynamic between two partners in an alliance.

One entrepreneur states, "In an alliance, you have to be able to understand and to forgive your partner, to take responsibility for your own mistakes and go further."

A counterpart is more likely to reciprocate in the same vein of understanding when the relational quality is good. Here, mechanisms for conflict resolution are more likely to be implemented for satisfactory results.

Knowing when to throw in the towel

Entrepreneurial alliances, write the authors, are dynamic. In the execution phase, many reasons may surface that require adjustments in the arrangement: partner companies may evolve strategically, the environment in which the alliance operates may change, or problems may arise in an overstructured agreement.

Renegotiation of the alliance may be beneficial for both partners if their goals and interests are still served by the agreement, and if the benefits still outweigh the costs of maintaining the relationship.

However, if one of the above is not the case, then it's time to call it quits, say the authors.

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As attractive as alliances may seem for the benefits they can yield, entrepreneurs need to be aware of the complexity of alliances throughout all the stages of their life cycle.

Small firms must be thorough in their research of partners, diligent and self-aware in alliance negotiation, and contribute to a positive relational quality while executing the relationship.

Finally, the wisest partner knows when an alliance's usefulness has run its course and it's time to cut losses and throw in the towel.

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