Analyzing alliances: What to look at and how

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Five tools, ranging from the "telescope" to the "microscope," to analyze alliances in the IT industry, hopefully leading to fewer failures.

An alliance, or an arrangement for cooperation between businesses, is a mix of market transaction and merger or takeover among companies. Though allied, each party retains its own independent governing body, separate balance sheet and some degree of autonomy in decision making.

Such cooperations offer lucrative opportunities, leading many entrepreneurs to regard alliances as a 21st century necessity. However, with so many alliance failures, businesspeople are right to be edgy, especially as the reasons behind the success or failure of an alliance remain unclear.

Experts use various approaches to explain alliances - resource theory, transaction cost theory, social exchange theory - which are all true to a certain extent. In his paper, "Cinco ópticas para analizar alianzas estratégicas" ("Five Perspectives for Analyzing Strategic Alliances"), IESE Prof. Lluís Renart provides an important new guide for a comprehensive study of the phenomenon.

Telescope and binoculars

Sets or constellations of alliances, known as networks, must be studied "with a telescope," says Renart, or in other words, from a distance, based on an overall impression. This is the only way that their full impact can be assessed - and the findings may be eye-opening. For example, it is estimated that 80 percent of the international passenger transport market is dominated by just four major alliances.

When looking at constellations of alliances within a particular sector, one needs to look at how many agreements there are in a market and the number of agreements per business. These two variables show the density of the network. It is also wise to ascertain whether these alliances are competing with each other or if they only make pre-competitive agreements for R&D or joint purchases.

A second approach is to look at the range of alliances in which a single business participates. Some companies, such as IBM, Toshiba and Philips, are involved in so many agreements at the same time that people start talking about "alliance portfolios." It is interesting to look at which factors modulate a company's propensity to cooperate and what its attitude is.

Another level of analysis involves examining a specific alliance in its entirety, i.e., the unit formed by all the allied businesses, plus their central management or core coordination. Renart refers to this as looking "with binoculars." Most people focus on this perspective, though they tend to zoom in on the design of the alliance itself, rather than try to identify the keys to good governance or potential causes of its dissolution.

Analyzing a company in an alliance

Sometimes it is better to set aside the binoculars and take a look with the naked eye. This is the third level of observation, which involves a separate focus on each of the businesses that make up the alliance.

This level is important because each business may have different objectives: one company's failure may be another's success. In reality, the quality or quantity of results is usually different for each partner, especially in terms of learning. The "bus effect" is seen in some alliances: different businesses come and go over a period of time, but the basic agreement or alliance endures.

Three types of considerations arise at this level.

First, when a company is considering participation in an alliance, what are its alternatives? What other choices are left?

Next, what does the company expect to obtain? The agreement will have benefits, but also costs, both in terms of finance and the work involved. When setting objectives, it's important not to take too limited an approach: an alliance is not just a matter of making more money by means of operational advantages. For example, if a company allies itself with another business in order to enter a new market, the privileged information to which it will potentially have access is just as important as any increase in sales.

Finally, what phases will a company's participation in an alliance go through? An agreement of this type is conceived, formalized and matures over a period of time, in a life cycle that may or may not be synchronized for the partners involved. The final phase, in which the agreement starts to disintegrate, is particularly interesting. Can a company, as such, lose its motivation? Or is motivation something that only applies to individuals?

Magnifying glass and microscope

The last two perspectives involve going into detail. Normally, the partners in an alliance designate a group or a specific director to manage the agreement. The "magnifying glass" involves detailed observation of the behavior of each individual who will be making the decisions.

Personal behavior is usually framed in terms of several variables or parameters: the level of trust among the other partners; their level of sincerity; their level and quality of motivation; their intellectual capacity; and their skill in seeking and proposing compromise solutions for all the participants in the alliance. These variables may explain the success or failure of the agreement.

A meeting of the alliance's board of directors can change any of these variables - for better or worse. For example, it can change opinions regarding the other partners, the confidence they inspire, or expectations of the alliance continuing to work well in the future. These changes will become apparent in two areas: the level of effort that representatives of allied companies put into managing the alliance, and the message that they pass on to their superiors regarding their business partner.

The final level of observation, "the microscope," focuses precisely on the reasons for each of these changes in each of the variables. Many place a great deal of importance on this, saying that an alliance cannot exist if the various parties involved do not trust each other. Trust is essential. In each case, the observer must determine how this feeling is generated or destroyed in a specific person.

According to some authors, the people in whom trust is placed must combine the rights and interests of those who trust them with their own rights and interests. Trust is defined as "the expectation by a person, group or company of ethically justifiable conduct by another person, group or company in a joint task or during economic exchange."

The existence of trust should generate three behavior patterns: willingness to invest in the relationship, to communicate freely and to refrain from opportunistic behavior.

According to Renart, these five levels of observation complement each other. There are many relationships, and what happens in one may affect the others, but it is vital to acknowledge that these five levels of analysis exist.

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