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# Collaborative Advantage: The Art of Alliances

by Rosabeth Moss Kanter



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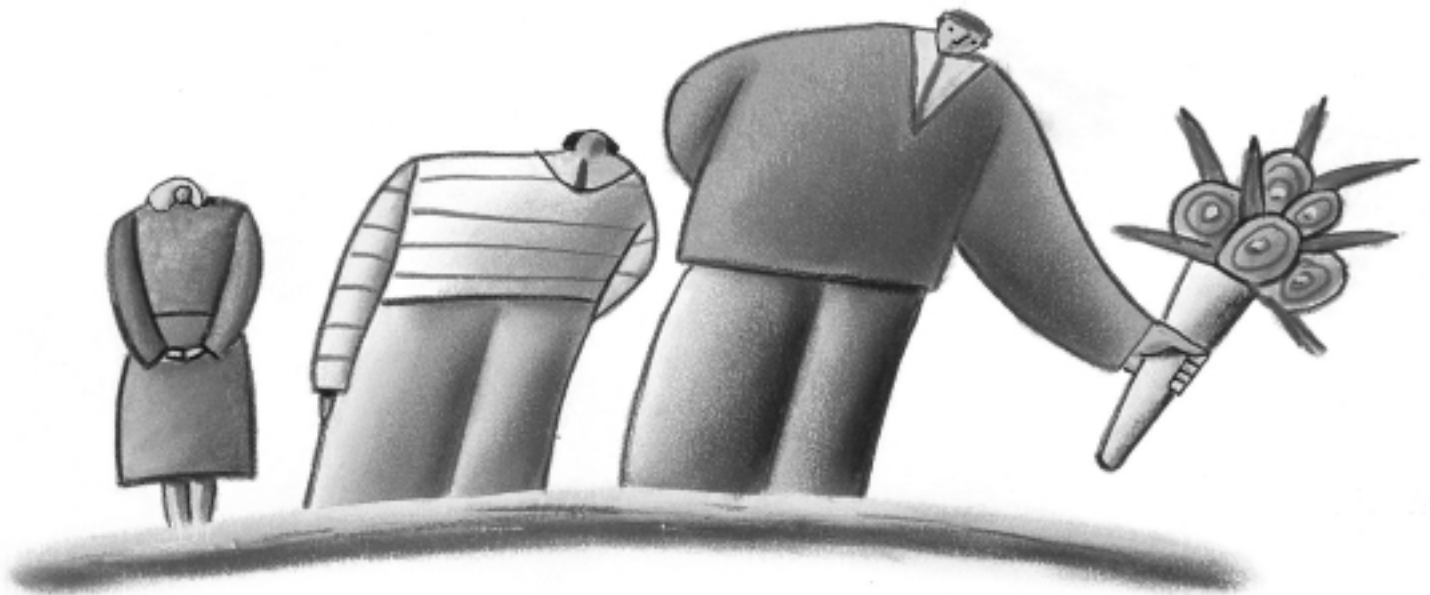
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*Successful partnerships manage the relationship, not just the deal.*

# Collaborative Advantage:



by Rosabeth Moss Kanter

Alliances between companies, whether they are from different parts of the world or different ends of the supply chain, are a fact of life in business today. Some alliances are no more than fleeting encounters, lasting only as long as it takes one partner to establish a beachhead in a new market. Others are the prelude to a full merger of two or more companies' technologies and capabilities. Whatever the duration and objectives of business alliances, being a good partner has become a key corporate asset. I call it a company's *collaborative advantage*. In the global economy, a well-developed ability to create and sustain fruitful collaborations gives companies a significant competitive leg up.

Yet, too often, top executives devote more time to screening potential partners in financial terms than to managing the partnership in human terms. They tout the future benefits of the alliance to their shareholders but don't help their managers create those benefits. They worry more about controlling the relationship than about nurturing it. In short, they fail to develop their company's collaborative advantage and thereby neglect a key resource.

Three years ago, I began a worldwide quest for lessons about productive partnerships, especially

but not exclusively those intercompany relationships that spanned two or more countries and cultures. My research group and I observed more than 37 companies and their partners from 11 parts of the world (the United States, Canada, France, Germany, the United Kingdom, the Netherlands, Turkey, China, Hong Kong, Indonesia, and Japan). We included large and small companies in both manufacturing and service industries that were involved in many kinds of alliances. To ensure that the lessons were widely applicable, we sought companies less prominent in the business press than giants like IBM, Corning, Motorola, or Ford. Several of the relationships that we studied were more than 20 years old; others had formed only recently in response to industry and geopolitical changes. In multiple visits, we conducted more than 500 inter-

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views with leaders and staffs of both partners. Over time, we saw relationships blossom after good or rocky starts; change goals or structures; and wither or dissolve – amicably or contentiously. Our research uncovered three fundamental aspects of business alliances:

□ They must yield benefits for the partners, but they are more than just the deal. They are living systems that evolve progressively in their possibilities. Beyond the immediate reasons they have for entering into a relationship, the connection offers the parties an option on the future, opening new doors and unforeseen opportunities.

□ Alliances that both partners ultimately deem successful involve *collaboration* (creating new value together) rather than mere *exchange* (getting something back for what you put in). Partners value the skills each brings to the alliance.

□ They cannot be “controlled” by formal systems but require a dense web of interpersonal connections and internal infrastructures that enhance learning.

Moreover, we observed that North American companies, more than others in the world, take a narrow, opportunistic view of relationships, evaluating them strictly in financial terms or seeing them as barely tolerable alternatives to outright acquisition. Preoccupied with the economics of the deal, North American companies frequently neglect the political, cultural, organizational, and hu-

## Business alliances are living systems, evolving progressively in their possibilities.

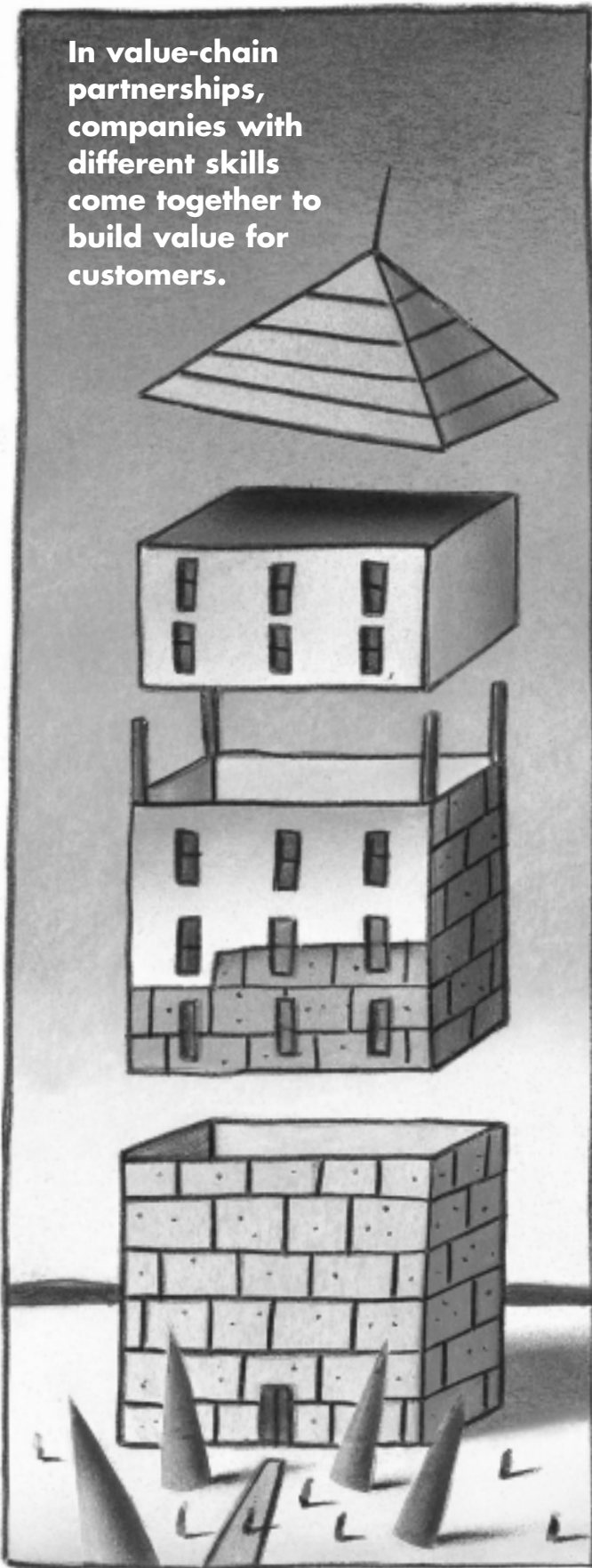
man aspects of the partnership. Asian companies are the most comfortable with relationships, and therefore they are the most adept at using and exploiting them. European companies fall somewhere in the middle.

Exploring the different outcomes of the business relationships of other companies can help companies manage their own. Successful alliances build

# The Art of Alliances



In value-chain partnerships, companies with different skills come together to build value for customers.



and improve a collaborative advantage by first acknowledging and then effectively managing the human aspects of their alliances.

## Varieties of Relationships

Cooperative arrangements between companies range along a continuum from weak and distant to strong and close. At one extreme, in *mutual service consortia*, similar companies in similar industries pool their resources to gain a benefit too expensive to acquire alone—access to an advanced technology, for example. At mid-range, in *joint ventures*, companies pursue an opportunity that needs a capability from each of them—the technology of one and the market access of the other, for example. The joint venture might operate independently, or it might link the partners' operations. The strongest and closest collaborations are *value-chain partnerships*, such as supplier-customer relationships. Companies in different industries with different but complementary skills link their capabilities to create value for ultimate users. Commitments in those relationships tend to be high, the partners tend to develop joint activities in many functions, operations often overlap, and the relationship thus creates substantial change within each partner's organization.

Companies can participate simultaneously in many kinds of relationships, and partners in any relationship may play a variety of roles. The 65 partners in Inmarsat, a consortium that operates a telecommunications satellite, are simultaneously *owners* investing capital, *customers* routing calls through the satellites, *suppliers* of technology to the venture, *regulators* setting policy, and *competitors* offering services similar to Inmarsat's. Netaş, Northern Telecom's joint venture with local investors in Turkey, is simultaneously an *investment asset* for Northern, a *customer* for Northern equipment, a *supplier* of new software and systems, and a *gatekeeper* to other relationships.

In every case, a business relationship is more than just the deal. It is a connection between otherwise independent organizations that can take many forms and contains the potential for additional collaboration. It is a mutual agreement to continue to get together; thus its value includes the potential for a stream of opportunities.

## Selection and Courtship

Relationships between companies begin, grow, and develop—or fail—in ways similar to relationships between people. (See the insert, "Eight I's That Create Successful We's.") No two relation-

ships travel the same path, but successful alliances generally unfold in five overlapping phases.

In the first—courtship—two companies meet, are attracted, and discover their compatibility. During the second—engagement—they draw up plans and close the deal. In phase three, the newly partnered companies, like couples setting up housekeeping,

## Relationships between companies begin, grow, and develop—or fail—much like relationships between people.

discover they have different ideas about how the business should operate. In phase four, the partners devise mechanisms for bridging those differences and develop techniques for getting along. And in phase five, as old-marrieds, each company discovers that it has changed internally as a result of its accommodation to the ongoing collaboration.

“Love at first sight?” “The company of our dreams?” In fact, many executives use romantic analogies to describe the enthusiasm that accompanies their discovery of a new corporate partner. “One of the reasons our alliance was consummated so quickly,” reports a Foote, Cone & Belding executive about the Chicago ad agency’s partnership with Paris-based Publicis SA, “was that it was...love at first sight.”

Such analogies are appropriate because business pairings aren’t entirely cold-blooded. Indeed, successful company relationships nearly always depend on the creation and maintenance of a comfortable personal relationship between the senior executives.

Alliances and partnerships are initially romantic in another sense: their formation rests largely on hopes and dreams—what might be possible if certain opportunities are pursued. Strategic and financial analyses contribute a level of confidence, but, like all new business ventures, collaborative relationships draw energy largely from the optimistic ambition of their creators. COMCO, a Swiss diversified services company, seeing a big demand for environmental cleanup in Eastern Europe, touted enthusiastically the benefits of its joint venture with the U.S. expert, Martech. COMCO optimistically made the

Martech joint venture a linchpin of its future growth strategy and assumed Martech felt the same way. Only later, when a cash infusion was needed and Martech backed off, did COMCO realize that its infatuation had been one-sided. Eastern Europe was less important to Martech than it was to COMCO, and more remote; also, Martech had wanted quick returns.

The risk of missing a rare opportunity also motivates company leaders to enter into relationships with open-ended possibilities beyond just clear financial payoffs. For example, newly privatized telecommunications businesses in Europe, Latin America, and Asia often find many foreign companies bidding for their affections, even when financial pay-

offs are uncertain and venture strategies confusing. Those companies offer a rare chance for outsiders to acquire inside positions in country markets.

Furthermore, distance lends enchantment. Company leaders often don’t know each other well enough to be aware of, never mind bothered by, a potential partner’s subtle differences. Selective perceptions reinforce the dreams, not the dangers. Leaders see in the other what they want to see and believe what they want to believe, often realizing only later that infatuation blinded them to early warning signs. One leader on the European side of an alliance with a U.S. company blamed himself for believing that his country unit would become the lead center for both companies’ products worldwide. “I was ignoring the fact that we were two separate companies,” he says, “and that our partner

## Like romances, alliances are built on hopes and dreams—what might happen if certain opportunities are pursued.

would never accept part of its business being run by an outsider.”

The selection process may go better if companies look for three key criteria:

1. *Self-analysis.* Relationships get off to a good start when partners know themselves and their industry, when they have assessed changing industry conditions and decided to seek an alliance. It also helps if executives have experience in evaluating

## Eight I's That Create Successful We's

The characteristics of effective intercompany relationships challenge many decades of Western economic and managerial assumptions. For example, most Westerners assume that modern industrial companies are run best by professional managers operating within limited, contractual Western obligations. And most Westerners assume that any person with the requisite knowledge, skills, and talents can be a manager in the modern corporation. Although smaller companies, family businesses, and companies that are operating in developing countries have retained "premodern" characteristics, the "rational" model has been considered the ideal to which all organizations would eventually conform.

Intercompany relationships are different. They seem to work best when they are more familylike and less rational. Obligations are more diffuse, the scope for collaboration is more open, understanding grows between specific individuals, communication is frequent and intensive, and the interpersonal context is rich. The best intercompany relationships are frequently messy and emotional, involving feelings like chemistry or trust. And they should not be entered into lightly. Only relationships with full commitment on all sides endure long enough to create value for the partners.

Indeed, the best organizational relationships, like the best marriages, are true partnerships that tend to meet certain criteria:

**Individual Excellence.** Both partners are strong and have something of value to contribute to the relationship. Their motives for entering into the relationship are positive (to pursue future oppor-

tunities), not negative (to mask weaknesses or escape a difficult situation).

**Importance.** The relationship fits major strategic objectives of the partners, so they want to make it work. Partners have long-term goals in which the relationship plays a key role.

**Interdependence.** The partners need each other. They have complementary assets and skills. Neither can accomplish alone what both can together.

**Investment.** The partners invest in each other (for example, through equity swaps, cross-ownership, or mutual board service) to demonstrate their respective stakes in the relationship and each other. They show tangible signs of long-term commitment by devoting financial and other resources to the relationship.

**Information.** Communication is reasonably open. Partners share information required to make the relationship work, including their objectives and goals, technical data, and knowledge of conflicts, trouble spots, or changing situations.

**Integration.** The partners develop linkages and shared ways of operating so they can work together smoothly. They build broad connections between many people at many organizational levels. Partners become both teachers and learners.

**Institutionalization.** The relationship is given a formal status, with clear responsibilities and decision processes. It extends beyond the particular people who formed it, and it cannot be broken on a whim.

**Integrity.** The partners behave toward each other in honorable ways that justify and enhance mutual trust. They do not abuse the information they gain, nor do they undermine each other.



potential partners. They won't be easily dazzled by the first good-looking prospect that comes along.

2. *Chemistry.* To highlight the personal side of business relationships is not to deny the importance of sound financial and strategic analyses. But deals often turn on rapport between chief executives. And the feelings between them that clinch or negate a relationship transcend business to include personal and social interests. Also, a good personal

rapport between executives creates a well of goodwill to draw on later if tensions develop.

Northern Telecom was not even on the list when Matra Hachette of France began to seek partners for its Matra Communication subsidiary. In late 1991, negotiations with Philips, Siemens, and AT&T were well under way when Northern chairman Paul Stern asked Matra chairman Jean-Luc Lagardère to consider his company. Eventually Matra



executives flew to North America to meet Stern and other senior staff. Two weeks later, Stern flew to France to dine with Lagardère. Skeptical at first, Lagardère was won over. "Our views on business," Stern says, "were similar: speed, disdain for bureaucracy, a willingness to make decisions. We hit it off socially; we share an interest in the arts and fast cars." Northern also impressed Lagardère and other Matra managers because Stern got personally involved; CEOs from other companies had left all contact to lower functionaries. In July 1992, Northern and Matra closed the deal.

Signs of the leader's interest, commitment, and respect are especially important in certain countries. In China, as well as in Chinese-dominated businesses throughout Asia, company suitors should give "face" (honor and respect) to a potential partner's decision makers by investing the personal time of their own leaders.

3. *Compatibility.* The courtship period tests compatibility on broad historical, philosophical, and strategic grounds: common experiences, values and principles, and hopes for the future. While analysts examine financial viability, leaders can assess the less tangible aspects of compatibility. When British retailer BHS decided to form partnerships with a small number of key suppliers instead of continuing its "promiscuity" with many suppliers, to use one executive's term, then CEO David Dworkin met with the head of each prospective partner to explore business philosophies—not products and finances.

The initial relationship building between ad agencies Foote, Cone & Belding and Publicis involved the discovery of many commonalities. Publicis, operating in 39 major European cities by 1987, was twentieth in the world in billings. FCB, also with an extensive international presence, ranked fifteenth. Both agencies shared the same industry imperative—to improve their international reach—and the same important catalyst, the announcement by Nestlé, a leading client of both, that it would reduce its ad agencies from 100 to 5.

FCB and Publicis both brought humility to their growth plans, which made them open to sharing control; each believed that it could not grow alone and that industry globalization was blunting its competitive edge. Both had searched for several years without finding the right partner, so they had sufficient experience with other potential partners to be satisfied with what they found in each other. Each company was strong in territories that the other was not, but there was reasonable equiva-

lence in the strengths each brought to the relationship. The companies had similar creative principles and operating philosophies, similar experiences with common clients, and few areas of direct business conflict.

In 1987, "Nestlé told us it wanted five global agencies and that, unless we did something, we would not be one of them," Publicis managing di-

## FCB and Publicis had common goals: expand internationally and retain Nestlé as a client.

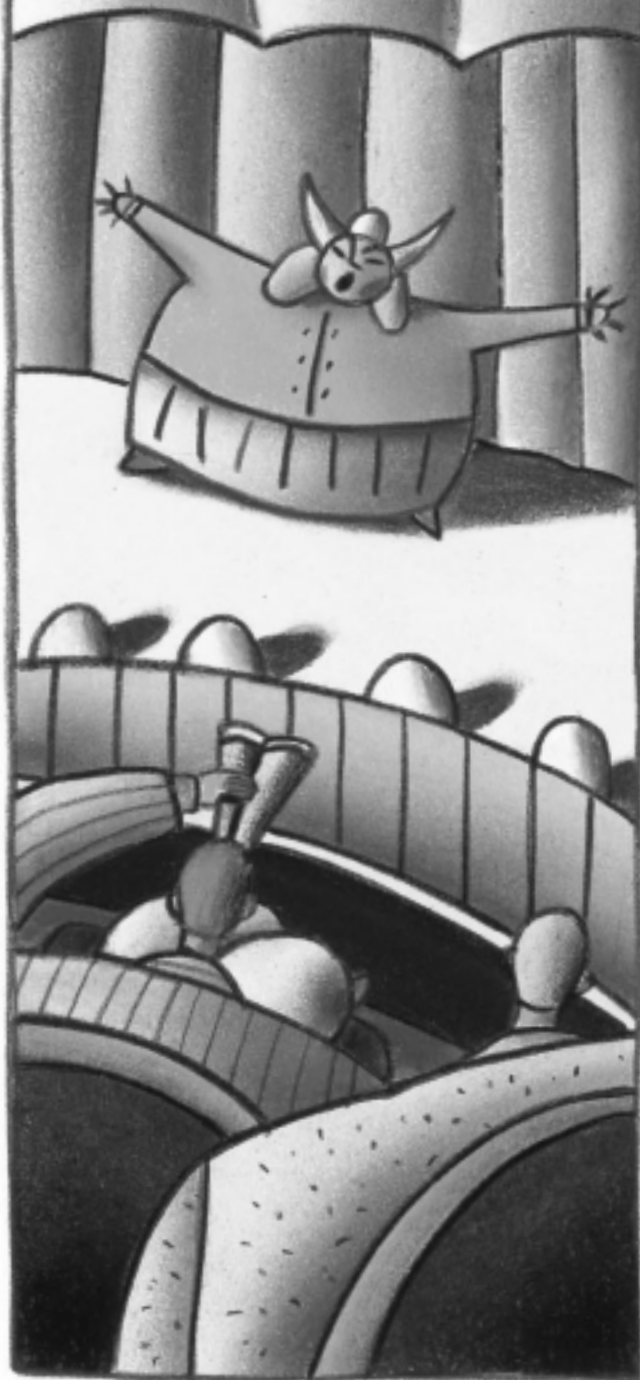
rector Gerard Pedraglio recalls. Meanwhile, he had tried to hire Antonio Beja to manage the company's Spanish operations. Though Beja did not take the offer, the two men stayed in touch. Beja eventually became head of Asian and Latin American operations for FCB. In December 1987, Beja and Pedraglio met for dinner, and in the course of their conversation, Beja described his chairman's strategy for FCB. Pedraglio interrupted. "Now, Antonio," he said, "You stop, and I will finish." He did, and Beja was astounded. "How did you know?" he asked. "That's our plan too," Pedraglio replied.

Beja told FCB chairman Norman Brown about his dinner discussion with Pedraglio, and soon after that, Publicis representatives were on a plane to Chicago. Six months and five meetings later, having seen in each other a fulfillment of their needs, Publicis and FCB announced their alliance. "We found early on a remarkable degree of similarity in our creative and operating philosophies," an FCB executive explains.

The results of their collaboration confirm those findings. Since 1988, Publicis and FCB have operated an innovative global alliance and built a network of 173 agencies in 43 countries. Together the partners constitute the second largest agency in Europe, the second largest in North America, and the eighth largest in the world.

The FCB-Publicis alliance is evidence that, especially in fast-moving industries, potential partners must find compatibility in legacy, philosophy, and desires, because specific opportunities are often short-lived and won't sustain a long-term relationship. A relationship that falters or fails as soon as the first project is concluded precludes other opportunities from developing. Moreover, side deals can quickly become significant in a sustained relationship. The potential to tap Matra Communication's

**A relationship between CEOs that includes personal and social interests can make or break a business deal.**



cellular radio technologies was a side benefit of Northern Telecom's alliance with Matra Hachette. Within a year, the side benefit had become the most important and productive piece of the alliance.

Powersoft entered into an alliance with Lotus to share manufacturing space and soon discovered that sharing Lotus's new packaging technology was even more valuable. Inmarsat's original maritime communications venture, which joined partners such as Comsat, British Telecom, Teleglobe, and Japan's KDD, has been dwarfed in growth potential by newer activities in aeronautical and land mobile communications. For TechRidge, a small manufacturer of specialized cameras for identification card photos, a long-standing relationship with Polaroid took a new turn when a Polaroid ally included Polaroid in a large contract in Mexico, and Polaroid brought along TechRidge. This unanticipated opportunity gave TechRidge a platform for further globalization.

Sometimes, particularly in Asia, partners are selected more for their potential to open future doors than for immediate benefits. Lippo Group, a rapidly growing financial conglomerate, has tapped a network of Japanese, European, and U.S. partners to expand from its Indonesian home base to Hong Kong and China. Founder and chairman Mochtar Riady believes that promising relationships should be nurtured for their future value, even when initial joint ventures are not very profitable.

Many relationships die an early death when they are scrutinized for quick returns. COMCO's alliance with Martech for environmental cleanup services in Eastern Europe dissolved in less than two years because of disputes over slower-than-expected returns and the need for new investment, even though the market potential was still great.

## Getting Engaged

What starts out as personal rapport, philosophical and strategic compatibility, and shared vision between two companies' top executives eventually must be institutionalized and made public. Other stakeholders get involved, and the relationship begins to become depersonalized. But success in the engagement phase of a new alliance still depends on maintaining a careful balance between the personal and the institutional.

**Meeting the Family.** The rapport between chief executives and a handful of company leaders must be supplemented by the approval, formal or informal, of other people in the companies and of other stakeholders. Also, each partner has other outside relationships that need to approve of the new tie:

government ministries, major customers and suppliers, other partners, and investors. Sometimes those meetings don't go well.

In the early stages of an alliance in Europe, a French company representative took his U.S. counterpart to meet with a French government official in a ministry that had partial oversight of the deal. The U.S. manager proceeded to lecture the French official, a socialist, about the virtues of free-market capitalism. French leaders pride themselves on their intellect, so both the form and the substance of the meeting created significant problems. Later, the French managers had to smooth things over at the ministry and educate the American on appropriate behavior.

**The Vows.** Third-party professionals – lawyers, investment bankers, and their staffs – play their most important roles at this point in the process. But if they dominate, the relationship can become too depersonalized and lose the leaders' vision. It is important to remember that outside professionals don't have to live with the results of their work. Also, because of their professional bias, they are less likely to be interested in the symbolic substance of relationship building: the gestures of respect or the mutual give-and-take that cement a relationship.

One alliance between a U.S. company and a French company in the North Sea oil fields involved a few perfunctory meetings between the chief executives. Then the legal, financial, and strategy staffs took over under the guidance of external law firms. The alliance collapsed in just three years. The professionals were savvy about finance and contracts but not about what it would take to operate the joint venture or whether the two companies were operationally compatible. When the U.S. company later formed a productive alliance with a Dutch company, executives and key managers spent a great deal of time together discussing principles as well as specific agreements; lawyers' and analysts' roles were minimized.

The best agreements between companies contain three important components. First, they incorporate a specific joint activity, a first-step venture or project. This project makes the relationship real in practice, helps the partners learn to work together, and provides a basis for measuring performance. Having real work to do makes it possible to get the relationship started; the longer a courtship drags on without consummation, the more likely conditions or minds or both can change and jeopardize it.

Second, the vows should include a commitment to expand the relationship through side bets such as equity swaps or personnel exchanges. Such a commitment reflects a willingness to connect the fates

of the companies, as in the European Retail Alliance, formed in 1989 by three large food retailers: Ahold in the Netherlands, Argyll in the United Kingdom, and Groupe Casino in France. The ERA collaboration gives partners low-cost opportunities for scale efficiencies and innovation. To cement the relationship, the partners bought modest amounts of one another's stock. The three ERA partners sell products to one another and collaborate in joint projects in insurance, data processing, hardware purchasing, quality assurance, and personnel development. They have also developed an 11-company marketing association based in Switzerland that works closely with manufacturers on product development.

ERA has enlarged each member's international supply base by sharing relationships already tested by another ERA company. These new alliances, in turn, provide new product offerings that enhance the companies' reputations as taste leaders in their home markets. For example, Argyll's Safeway stores bought 320,000 cases of wine from Casino for their 1992 Christmas promotion; Casino used Safeway suppliers in the United Kingdom to introduce Scottish smoked salmon products and other high-quality U.K. fresh foods to French consumers. Safeway's store-of-the-future, which opened in Edinburgh in November 1993, features ERA-derived concepts new to the U.K. market – French-style delis, for example. ERA also helps its partners test future opportunities that might emerge as Europe integrates further. Argyll's chairman, Sir Alistair Grant, stresses ERA's long-term benefits: "Perhaps above all, the Retail Alliance has helped our team to become serious about Europe. I believe that our successors will be grateful for this." Externally, ERA opens borders. Inside member companies, it opens minds.

Third, the vows should incorporate clear signs of continuing independence for all partners. The FCB-Publicis alliance appointed an American as chairman of the European joint venture, so FCB's European staff and clients wouldn't think FCB was ceding its European operations to its French partner. When Matra allied with Northern Telecom, it preserved continuity in its product lines, even at the price of duplication with Northern products, to show customers that it would continue to upgrade and service installed machines.

## Setting Up Housekeeping

The romance of courtship quickly gives way to day-to-day reality as partners begin to live together. Joint ventures are also new ventures and are thus

fraught with uncertainty and unanticipated roadblocks. Now more than just the upper echelons of management must work together to make the partnership succeed.

**Problems of Broader Involvement.** As actual projects get under way, many more people filling many more roles must work with members of the other organization. This broader involvement threatens to undermine the commitment forged at the top, for four reasons:

1. People in other positions may not experience the same attraction and rapport as the chief executives did. For example, during their alliance's early years, Publicis and FCB top executives maintained close contact, traveling often to each other's headquarters. They spent a lot of time together both informally and formally. Other employees had not been in touch with one another, however, and in some cases had to be pushed to work with their overseas counterparts.

2. Employees at other levels in the organization may be less visionary and cosmopolitan than top managers and less experienced in working with people from different cultures. They may lack knowledge of the strategic context in which the relationship makes sense and see only the operational ways in which it does not. For example, a member of the team developing a new financial product to be launched with a foreign partner complained repeatedly to his boss about the risks inherent in the product and the difficulties in introducing it, even recommending termination of the venture. He didn't realize that the foreign partner was a key gatekeeper for a lucrative development deal in another country. Senior managers were tolerating this risky venture in the hope of a larger payoff elsewhere.

3. Usually only a few staff people are dedicated full-time to the relationship. Others are evaluated on the performance of their primary responsibilities and therefore often neglect duties relating to the new alliance. Venture managers, more concerned about their future in the parent company that appointed them, often give priority to their own company's events or executives and subordinate those of the partner.

4. People just one or two tiers from the top might oppose the relationship and fight to undermine it. This is especially true in organizations that have strong independent business units or among professional groups whose incentives aren't aligned with the interests of the organization as a whole. For example, a health care services company formed an alliance with a group of hospitals to create a single new facility to replace duplicate capacity in the

hospitals. All the hospitals invested in the alliance, and the services company assumed they would bring enough business to make the venture profitable quickly. But that assumption proved wrong. While the hospital heads had committed to the relationship, they had ignored the views and needs—and the power—of the staff at the units to be closed. The staffs fought back. They cited issues about quality for not sending business to the new venture, and because it was having start-up problems, their claims were plausible. They also cut the transfer prices to internal customers to win their backing in keeping their units alive. And they neglected to send their people to work with the venture, which began to hemorrhage money badly. Eventually the alliance folded.

**Discovery of Difference.** Operational and cultural differences emerge after collaboration is under way. They often come as a surprise to those who created the alliance. That failure could reflect blind spots on the part of the legal and financial analysts who dominate the engagement period, but even operating people see the similarities more often than the dissimilarities in potential partners. Experience has a way of opening their eyes.

Differences in authority, reporting, and decision-making styles become noticeable at this stage in the new alliance: what people get involved in decisions; how quickly decisions are made; how much reporting and documentation are expected; what authority comes with a position; and which functions work together.

Before the alliance, for example, Publicis was a 75% privately held company whose chief executive dominated strategic decisions. FCB was a public company with a large number of senior managers trying to operate by consensus and generating a lot of paperwork: reports, financial statements, and lengthy meeting minutes. One key U.S. manager, who worked slowly through others according to a philosophy of empowerment, was regarded as weak by the French, who were used to a more directive style. Early in the relationship, some U.S. managers found Publicis too hierarchical, but some French managers found FCB's frequent meetings and paperwork too bureaucratic. And the French managers' abstractions and penchant for theory contrasted with the Americans' desire for concrete empirical facts.

Differences in structuring authority can have immediate practical consequences. In China, a chief engineer reports typically to the chief executive, whereas in Canada, at Northern Telecom, he or she reports to the manufacturing director. Numerous other logistical and operational differences are soon

discovered to be hiding behind the assumed compatibility: different product development schedules, views of the sales process, or technical standards, for example. Also, when the partners extend their areas of collaboration, the relationship becomes more difficult to govern and to evaluate on a purely financial basis.

The most common conflicts in relationships occur over money: capital infusions, transfer pricing,

## Operational dissimilarities require working out – more communication than anyone could have anticipated.

licensing fees, compensation levels, and management fees. Also, the complexity of roles each partner has with respect to the other can make economic decisions difficult. Remember, the relationship is larger than any one venture.

All operational dissimilarities require working out. More communication than anyone anticipated is necessary, and different languages make things even harder. In a Franco-American joint venture, meetings were conducted in both languages and thus took twice as long. Differences between companies do not disappear because of an alliance, but they can be handled so they don't jeopardize it. Companies that are good at partnering take the time to learn about the differences early and take them into account as events unfold.

**Respect Versus Resentment.** People will take the time to understand and work through partnership differences to the extent that they feel valued and respected for what they bring to the relationship. Using stereotypes to explain people's behavior – the French always do this, or the Germans always do that, for example – denigrates individuals and therefore diminishes their incentive to bridge troubling differences.

Stereotyping polarizes the partners, setting up us-versus-them dynamics that undermine the desire to collaborate. One North American manager observed soon after forming an alliance with a European company, "You're an ugly American to them, backwater folks from across the pond, here to purchase, steal, whatever." A cynical countryman wondered whether the European partner's motive was to push the North American company out of the market.

Mistrust, once introduced, sets off a vicious cycle. It makes success harder to attain, which means someone has to be blamed for the lack of success. Because of their differences, outsiders are the most suspect – a fact that only increases mistrust. Respect that builds trust begins with an assumption of equality: all parties bring something valuable to the relationship and deserve to be heard. In one alliance, tension began to build after the local partner felt shut out of decisions, even though local knowledge was vital to the venture's success. A Chinese manager commented on the resentment that Western companies create when they assume that their superior technology gives them the right to make all the decisions. "The focus here," the manager said, "is on face, reputation. Even if people are poor, you need to give them face. North

Americans feel that because they gave us jobs, we can't argue. But the Chinese people don't need their jobs. We can replace them with another foreign company; we can import from another place."

## Learning to Collaborate

Active collaboration takes place when companies develop mechanisms – structures, processes, and skills – for bridging organizational and interpersonal differences and achieving real value from the partnership. Multiple ties at multiple levels ensure communication, coordination, and control. Deploying more rather than fewer people to relationship activities helps ensure that both partners' resources are tapped and that both companies' own needs and goals are represented.

The most productive relationships achieve five levels of integration:

1. *Strategic integration*, which involves continuing contact among top leaders to discuss broad goals or changes in each company. Leaders should not form an alliance and then abandon its nurturing to others. The more contact top executives have, the more changes they will hear about, the more chances they will have to work things out, the more information they will be able to turn into benefits, and the greater the possibility that the companies will evolve in complementary rather than conflicting directions.

Often, new governance forums evolve after the relationship is under way. The chief executives in the European Retail Alliance devote a day a month to their meetings, rotating among the three countries. Investment bankers Wertheim of the United

States and Schroders of the United Kingdom began their alliance in 1986 with infrequent board meetings but soon saw the need for broader and more frequent contact. FCB and Publicis built their Alliance Operating Committee after realizing that having the CEOs sit on each other's boards didn't produce enough communication.

2. *Tactical integration*, which brings middle managers or professionals together to develop plans for specific projects or joint activities, to identify organizational or system changes that will link the companies better, or to transfer knowledge.

The ERA developed projects in insurance, information technology, and transportation that involved staff from member companies. Leadership for each project came from the company with the most experience or the best practices in that area. Northern Telecom and Matra Communication pinpointed four product domains in which potential synergies existed. Then they created four working groups of eight to ten people that met monthly to define specific ways of cooperating in each area. Members of all four groups convened in a general assembly every three months to report progress and problems to management. The small British apparel supplier Cohen & Wilks and its large retail partner, BhS, developed joint planning projects, including team efforts to improve computer linkups and financing mechanisms, such as a proposed retrospective discount scheme. BhS buying director Liz Broughan meets frequently with Cohen & Wilks staff members to plan product designs.

Establishing formal integrator roles is another way to ensure tactical integration. Lotus, PowerSoft, and other partner-rich software companies have senior executives dedicated to alliance management, equivalent in status to the heads of finance or human resources. Worldwide account directors (WWADs) at FCB and Publicis work to make the best use of all resources of both partners on behalf of major clients. That task is complicated by another dynamic, the fact that each client relationship is very different. Some have highly centralized global marketing efforts; others give companies or regions autonomy to develop their own. Salomon Salto, WWAD for the FCB-Publicis relationship with Nestlé, communicates ideas to all parties but also intervenes in local conflicts. He is viewed as an impartial observer with experience in many countries and brands. "My job is more diplomacy and negotiation than power," he observes. His ability to speak French, Spanish, English, and German helps a lot.

3. *Operational integration*, which provides ways for people carrying out the day-to-day work to have

timely access to the information, resources, or people they need to accomplish their tasks. Participation in each other's training programs helped two companies in a technology-based relationship develop a common vocabulary and product development standards. Computer connections between Cohen & Wilks and BhS provide direct data interchange, which speeds product development and delivery cycles. Inmarsat engineers in London share a technical vocabulary and systems with counterparts at the earth stations where partners receive satellite signals.

4. *Interpersonal integration*, which builds a necessary foundation for creating future value. As relationships mature beyond the early days of scrambling to create initial projects and erect structural scaffolding to manage them, the network of interpersonal ties between members of the separate companies grows in extent and density. Leaders soon feel the need to bring people together to share information. FCB and Publicis first expanded their initial Alliance Operating Committee to include more people. They then initiated worldwide conferences for executives and country managers. Next, they brought creative directors and account managers from both companies and many countries together to make recommendations for business development, creative excellence, and international client management.

Broad synergies born on paper do not develop in practice until many people in both organizations know one another personally and become willing to make the effort to exchange technology, refer clients, or participate on joint teams. Lippo Group, which has many partners involved in its network of banks and property development ventures, uses senior management conferences to sell the concept of synergy, identify cross-unit business opportunities, and build personal ties among managers.

Many strong interpersonal relationships help resolve small conflicts before they escalate. "There really is no good system for working out problems except through personal relationships," observes a European manager experienced in transatlantic relationships. "If you don't establish good rapport with your counterparts, you haven't got a prayer of making it work. Formal structures of decision making don't do anything for you unless you've got the relationship to start with."

5. *Cultural integration*, which requires people involved in the relationship to have the communication skills and cultural awareness to bridge their differences. Northern Telecom and Matra picked executives for their Matra Northern Cellular joint venture who had shared a similar foreign assign-

ment. Chief executive Émile Gratton is a bilingual Canadian who had worked in the United States, South America, and Saudi Arabia. Chief operating officer Olivier de Pazzis, deployed by Matra in France, had run a joint venture with a U.S. company in Saudi Arabia.

Managers from both partners or affiliated companies must become teachers as well as learners. Managers at Tong Guang Nortel, the successful venture in China between Tong Guang Electronics and Northern Telecom, have committed themselves to teaching and learning. TGNT managing director Gerry Jones, deployed from the Northern side, arranged for Chinese deputy managing director Frank Yong to participate in a three-month training program in Canada to become familiar with Western business practices. That experience enabled Yong to raise questions with Northern managers in China and educate them about how situations appeared from the Chinese side of the venture. In turn, Yong arranged for his Western partners to visit important Chinese historic sites, such as the Great Wall and the Summer Palace, and invited them to Chinese weddings and to employees' homes.

When managers accept teaching and learning roles, they demonstrate interest and respect, which helps build the goodwill that's so useful in smoothing over cultural and organizational differences. TGNT's Canadian manufacturing director learned to speak Mandarin. Although he could hold only a simple conversation in Chinese, the enthusiastic applause he received at quarterly meetings in Shekou attested to his popularity. An American expatriate heading part of Lippo Group's insurance joint ventures knew that his primary job was to teach local managers analytic skills, but he also took the time to set up classes for himself and other expatriates to learn the local language and customs.

Integration in all five of these dimensions – strategic, tactical, operational, interpersonal, and cultural – requires that each party be willing to let the other parties inside, which entails a risk: the risk of change.

## Changing Within

Productive relationships usually require and often stimulate changes within the partners, changes that they may not anticipate at the outset of the collaboration. When two companies place themselves in intimate contact with each other through

an alliance, it is almost inevitable that each will compare itself with the other: How do we measure up to our partner in systems sophistication or operational efficiency? What lessons can we learn from our partner? In fact, learning and borrowing ideas from partners is part of realizing the full value of the relationship. FCB and Publicis used the formation of their alliance as the occasion to rethink the nature of an advertising agency and to create new roles for regional and country managers as well as for worldwide account directors.

**Empowerment of Relationship Managers.** Because collaborative ventures often make new demands, managers involved in the relationship must be able to vary their own companies' procedures to make venture-specific decisions. Staff involved in alliance activities often need more knowledge and skills. When British retailer B&S established partnerships with suppliers like Cohen & Wilks, buyers on both sides needed new strategic and financial information and negotiating skills to work effectively with one another. One success factor in Northern Telecom's joint ventures in Turkey and China is the autonomy of each venture's board of directors and expatriate managers, an autonomy that allows them to depart from the practices the company follows in North American markets. In China, the ability to adapt to local markets—for example, in ac-

# Establishing many interpersonal relationships between partners helps resolve small conflicts before they escalate.

counts receivable policies or incentive schemes for sales personnel – helped TGNT succeed. Developing flexibility – “letting go,” as one manager describes it – may be difficult for tightly managed companies with detail-oriented managers.

**Infrastructure for Learning.** Companies with strong communications across functions and widely shared information tend to have more productive external relationships. Thus other desirable internal changes include greater cross-functional teamwork and exchange of ideas. At B&S, cross-functional teamwork is crucial for achieving the speed, innovation, and quality the company seeks from supplier partnerships. Liz Broughan had to build bridges to marketing director Helena Packshaw and trading manager Sandee Springer.

Many businesses fail to realize the full potential from their relationships because internal barriers to communication limit learning to the small set of people directly involved in the relationship. One large U.S. company's highest award for quality went to a joint venture operating in a developing country, yet managers in that venture had a hard time convincing their colleagues in other countries that they had anything to teach them.

The company's systems are usually the culprit in such situations, not its people. In the early stages of its relationship with Northern Telecom, Matra learned that Northern put designs into production earlier than Matra did. Despite a common stereotype that speed is less important in France, the French engineers rose quickly to the challenge and proudly demonstrated a new capability several months ahead of schedule.

Specific forums to exchange ideas can help companies import lessons from their partners. In addition to top management's participation in the ERA, Argyll's Safeway stores have created a regional managers' forum and a senior executive development program. Cross-functional projects, such as offering discounts to customers who buy combinations of products, link marketing, information technology, and stores.

## Managing the Trade-offs

There are limits to how much a company should change to accommodate the demands of an alliance. The potential value of the relationship must be weighed against the value of all the other company activities, which also make demands on its resources – including the time and energy of executives. Even when relationships have high value, an organization can handle only so many before demands begin to conflict and investment requirements (management time, partner-specific learning, capital, and the like) outweigh perceived benefits. (See Benjamin Gomes-Casseres, "Group Versus Group: How Alliance Networks Compete," HBR July-August 1994.)

Sometimes companies must face the challenge of terminating an alliance. Relationships can end for a number of reasons. A partner may be suitable for one purpose and not another. Managers or other venture participants may be needed for more urgent tasks. Shifts in business conditions or strategy can mean that a particular relationship no longer fits as well as it once did. For whatever reason, ending a partnership properly is difficult to do and requires much skill and diplomacy. Partners should be fully informed and treated with integrity. If they are not, future relationships will be jeopardized – especially in Asian countries, where business and government leaders have long memories.

Like all living systems, relationships are complex. While they are simpler to manage when they are narrow in scope and the partners remain at arm's length, relationships like these yield fewer long-term benefits. Tighter control by one partner or development of a single command center might reduce conflicts and increase the manageability of a relationship. Many benefits, however, derive from flexibility and being open to new possibilities. Alliances benefit from establishing multiple, independent centers of competence and innovation. Each center can pursue different paths, creating in turn new networks that go off in new directions. Flexibility and openness bring particular advantages at business frontiers – in rapidly changing or new markets or in new technology fields.

The effective management of relationships to build collaborative advantage requires managers to be sensitive to political, cultural, organizational, and human issues. In the global economy today, companies are known by the company they keep. As the saying goes, success comes not just from what you know but from who you know. Intercompany relationships are a key business asset, and knowing how to nurture them is an essential managerial skill.

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