



Group HR

## MANAGEMENT BRIEF



# KNOWLEDGE ALLIANCES

**TATA** MANAGEMENT TRAINING CENTRE

**TMTC Management Brief MB/2009-03**

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# .... KNOWLEDGE ALLIANCES ....

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It has been well-acknowledged that self-sufficiency is becoming increasingly difficult in a business environment that demands strategic focus, flexibility, and innovation. Knowledge alliances enable organizations to enhance their competitive advantage by leveraging their strengths with the help of partners. Therefore, alliances create the opportunity for organizations to broaden and sharpen their capabilities by acquiring knowledge associated with the partner's skills and competencies. Also, the alliance can harness the respective competencies to create new and useful findings that the partners may not have been able to accomplish individually. However, knowledge alliances have not enjoyed a high success rate. Studies show that though the number of alliances have been increasing every year and that those alliances account for nearly a third of many companies' revenue and value – yet the failure rate for alliances hovers between 60% and 70%. But the modern era is marked by dynamic strategic focus, flexibility, focused innovation. These issues have made it virtually imperative for companies to leverage the strengths of each other through mutually beneficial collaborative relationships. However, experts have pointed out that there is a need for creating a win-win situation in the alliance. So, what does it take to make a success of a knowledge alliance? First and foremost is the choice of the partner. Alliances can fail miserably if the choice of the partner is improper. 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 perhaps inevitable when the partners' values are at loggerheads.

But experts point out that 'harmony' is not the best measure to judge success of the collaboration – in fact, occasional conflict may be a good evidence of mutually beneficial collaboration. Be what it may, a due diligence of the potential partner should definitely include aspects like 'values' and 'culture'. Table 1 shows a list of issues that need to be taken into consideration while judging potential partners.

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

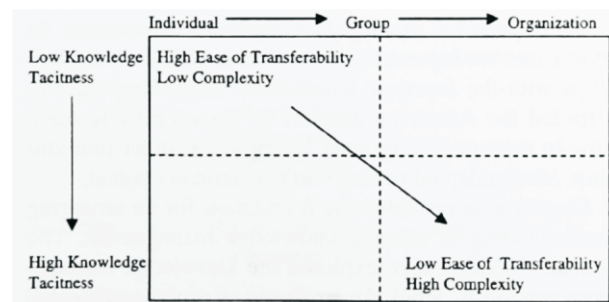
**Table 1:** Checklist for doing a due diligence of potential partners for Knowledge Alliance

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

The framework given in Table 1 can be understood by studying some illustrations of

alliances. Companies that have been successful in managing alliances are known to go through a due-diligence process for ascertaining the potential partner's characteristics with regard to the attributes mentioned in Table 1. For example, the pharmaceutical company Schering-Plough found that many of its alliances had been floundering despite the use of carefully structured business arrangements and detailed contracts through extensive documentation. The company thereafter decided to use a 'alliance relationship launch' which involved understanding the nature of the partner with regard to their values, culture, processes, decision making methods etc. through close interactions over a period of one to two months. Armed with this information, the strategy for the alliance was finalized. It was found that this process helped in improving the value generated through the alliances. Likewise, Oracle seeks extensive information from a potential partner before engaging in a dialogue for an alliance formation. On the other hand, companies like HP have formed specialized alliance function to handle all alliances and the fit is checked by the managers belonging to this function. Also, organizations need to be realistic about the kind of knowledge that they hope to gain through the alliance. For example, tacit knowledge being hard to formalize and document can be difficult to gain access to through an alliance. This is because tacit knowledge 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



**Figure 1:** Linkage between tacitness of the knowledge and transferability

(Source: *Knowledge Management Processes & International Joint Ventures* by Andrew C. Inkpen and Adva Dinur, *Organization Science*, 9(4), July – Aug 1998)

A study of the Japanese JVs in North America that were serving the automobile industry has focused on the various ways in which the knowledge was transferred. It was found that the JVs that performed well had adopted four distinct practices for sharing and transfer of knowledge. These were:

1. Sharing of technology between the parent firms and the JV
2. Regular interactions between the JV and the parents to ensure that there was lot of scope for personnel from each organization to meet and share knowledge with each other
3. Personnel transfers between the JV and the parent organizations to enable cross-fertilization of knowledge
4. Strategic integration – ensuring that the JV's strategic goals were aligned with those of the parent organizations ensured that the JV's experiences could be used for learning

### Success factors in Knowledge Alliances:

An analysis of successful knowledge alliances reveals some interesting factors. The factor that enables useful work to be carried out by the alliance is 'trust'. Unless there is mutual trust between the partners, the alliance fails to reap the benefits. This is necessary since the energies of the managers

managing the alliance can then be focused on getting maximum value out of the alliance – else it becomes a game of mistrust wherein the focus shifts to petty fights and sorting out differences. Another factor that fosters useful knowledge alliances is the use of strong internal coordination on both sides. The alliance needs to be suitably linked to the strategic goals of both organizations and the internal coordination mechanism plays a vital role in fostering the interests of the respective partners. The internal coordinators ensure that the right information through the alliance is captured and ploughed back into the organization to ensure useful benefits. This may require suitably designed organizational processes to ensure that exploitation of the acquired knowledge happens in a desirable manner. The internal coordination system must also ensure that the assets of the organization are well-protected and the alliance does not result in the loss of core skills, IP and other assets to the partner. Therefore, the internal coordination methodology must lay down the norms of communication for all members of the organizations whereby the assets are suitably protected and losses do not accrue through advertent (and inadvertent) leakages. This also requires employees at all levels to be suitably made aware of about the skills and the technologies that are off-limits for the alliance and should not be shared.

The ability to work simultaneously at the organization flows out of the organization to the alliance and ensures that the usable knowledge generated at strategic and operational levels is critical to an alliance's success. An alliance must move quickly from defining high-level strategic intent to successfully implementing new services and activities, and from performing operational tests to reformulating strategy and tactics. The knowledge alliance 'champion' and /or the internal coordinators can play a crucial role in managing the work at both the strategic and the operational level. It is important to ensure that the 'champions' identified on

both sides have common goals and KRAs 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 in the organization. As pointed out earlier, successful alliances often require the active knowledge, expertise, and involvement of people from multiple functions, geographies, and levels in both organizations. Each alliance needs a representational team composed of players from both organizations to guide the effort and navigate the challenges of working in 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." In fact, it is the senior people who need to 'show the way' for the alliance since they are able to focus on the alliance from a strategic perspective. In other words, the senior management need to perform the role of 'sponsors' for the alliance and play their role in fostering the alliance. They need to quickly get into action whenever they find stall points or conflicts that can threaten the success of the alliance. It also helps to establish the boundaries of the alliance early on to ensure clarity. The partners must establish boundaries of geography, product categories, customer segments, brands, technologies, and fixed assets of the respective partners. They must identify the areas where the alliance will engage and those activities that would be the domain of the parent companies. They must decide on how to use the parents' technology and how the new technology that will be developed will be used by each partner's companies. A word of caution on this issue – it has been seen that collaboration fails when it ends up as an 'outsourcing' opportunity and not knowledge creation for mutual benefit. Also, when both partners are intent on internalizing the other's skills, then distrust and conflict will be the result.

A truly successful alliance is one that has stood the test of time. It is necessary that an

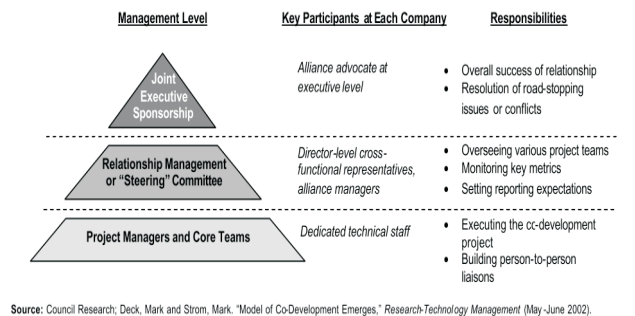
alliance sets out a long term agenda and does not focus on short term goals though some 'quick wins' may help to motivate the alliance partners and create a sense of achievement.

The ten key principles to succeed with knowledge alliances are:

1. Choose a partner who has compatible values, ethics, and with whom you share a trustworthy relationship
2. Focus less on the business plan and more on how you will work together
3. Ensure that the alliance goals are in line with your strategic goals
4. Develop metrics pegged not only to alliance goals but also to the alliance progress
5. Instead of trying to leverage on differences, leverage them to create value
6. Go beyond formal governance structure to encourage collaborative behaviour
7. Spend as much time on managing internal stakeholders as on managing the relationship with the partner
8. Set boundaries for the alliance to ensure that assets are not (even inadvertently leaked out)
9. Ensure that the internal coordination system helps to integrate the knowledge created through the alliance into the organization
10. The responsibility for the alliance can rest with the alliance champion or a dedicated knowledge alliance function.

## Managing the Knowledge Alliance

The successful management of the alliance requires the active participation and collaborative efforts of managers at various hierarchical levels. The manner in which the entire team works in a cohesive and purposeful manner decides the fate of the alliance.



Source: Council Research, Deck, Mark and Strom, Mark. "Model of Co-Development Emerges." *Research-Technology Management* (May-June 2002).

**Figure 2:** Collaborative tasks of managers at different hierarchical levels.

The Figure 2 shows the responsibilities of managers at various levels. By dividing the tasks in a relevant way, the alliance can succeed owing to the involvement of people at different levels of the respective organizations. Notwithstanding the well-intentioned efforts, a majority of knowledge alliances fail to deliver the desired results. Perhaps the truth lies in digging a little deeper before plunging into the alliance. It is possible that a deeper understanding of the partner's characteristics – the noteworthy ones are shown in Table 2. These can provide the insight into the partner's way of working, attitude towards risk, decision making methodology and most importantly philosophy towards people.

Strategic	<ol style="list-style-type: none"> <li>1. Strategic intent orientation of the partner</li> <li>2. Resource utilization and policies used by the partner for governance</li> <li>3. Risk tolerance – partner's attitude towards risk</li> </ol>
Organization structure	<ol style="list-style-type: none"> <li>1. Decision making units and methods used by the partner to arrive at decisions</li> <li>2. Power and its locus – reflected in the decision making methods adopted by the partner</li> </ol>
Management style	<ol style="list-style-type: none"> <li>1. Flow of information across the partner's organization</li> <li>2. Problem solving methods used by the partner with reference to strategic decisions</li> </ol>
HR Philosophy	<ol style="list-style-type: none"> <li>1. Compensation structure in the partner's organization</li> <li>2. Performance and incentive schemes – proportion of incentives in the income of high performers in the partner's organization</li> </ol>

**Table 2:** The partner's characteristics – understanding these can help the alliance  
*(Adapted from 'Cases in Alliance Management: Building Successful Alliances' edited by Jean-Louis Schaan and Micheal J. Kelly published by Ivey Casebook Series)*

A dedicated alliance function can help in galvanizing the organizational efforts for the alliance and also to enable suitable value creation through the alliance. The dedicated function acts as a focal point for all alliances and helps to manage the knowledge that is created and also to use the experiences of various alliances in improving the other ongoing and forthcoming alliances. The function can systematically establish a series of routine processes to articulate, document,

codify, and share the alliance know-how across the phases of the alliance life cycle. Organizations that have multiple alliances find that the dedicated function helps to ensure focus on all the alliances. A portfolio approach can help to create a string of alliances that enable fulfilment of a variety of strategic goals for the organization. The portfolio approach helps essentially because an organization usually has a number of gaps that can be fulfilled through relevant alliances with suitable partners.

Table 3 presents a checklist that can be used to create and manage knowledge alliances in an effective manner.

	Our Company	The Alliance	Our Partner
Conditions of Negotiation	<ul style="list-style-type: none"> <li>➤ What are our objectives for the alliance?</li> <li>➤ How does this alliance fit with our strategy?</li> <li>➤ What are we expecting from this alliance?</li> <li>➤ How do we measure success?</li> <li>➤ What strengths do we bring to this alliance?</li> <li>➤ What are the essential requirements for the alliance to meet our objectives?</li> <li>➤ What potential obstacles may prevent the alliance from meeting our objectives?</li> </ul>	<ul style="list-style-type: none"> <li>➤ What should be the objectives of the alliance?</li> <li>➤ What should be the alliance's strategy? What are appropriate measures for alliance success (over time)?</li> <li>➤ What will be the unique strengths of the alliance as a result?</li> <li>➤ What risk factors may hamper the likelihood of the success?</li> </ul>	<ul style="list-style-type: none"> <li>➤ What do we think are the objectives of our partner?</li> <li>➤ How does this alliance fit with its strategy?</li> <li>➤ What do we think our partner is expecting from this alliance?</li> <li>➤ How do we think our partner measures success?</li> <li>➤ What strengths does our partner bring to this alliance?</li> <li>➤ What are the essential requirements for the alliance to meet our partner's objectives?</li> <li>➤ What potential obstacles may prevent the alliance from meeting our partner's objectives?</li> </ul>
Negotiating levers	<ul style="list-style-type: none"> <li>➤ What needs to be safely guarded? (IP) what are sacred cows?</li> <li>➤ What concessions can we freely offer that we think they will want?</li> </ul>	<ul style="list-style-type: none"> <li>➤ What negotiations are in the best interest of the alliance?</li> </ul>	<ul style="list-style-type: none"> <li>➤ What concessions do we think our partner will request? How can we accommodate them?</li> <li>➤ What concessions will we want from our partner? Which ones are deal breakers?</li> </ul>

**Table 3 :**Checklist for creating and managing Knowledge Alliances

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

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 and it 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 decisions on knowledge alliances.

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