Collaborative Advantage: The Art of Alliances

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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.

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

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 interviews 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 human 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 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.

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

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

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**Eight I’s That Create Successful We’s**

The characteristics of effective intercompany relationships challenge many decades of Western economic and ...

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, 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.

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

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 payoffs 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 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 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.

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