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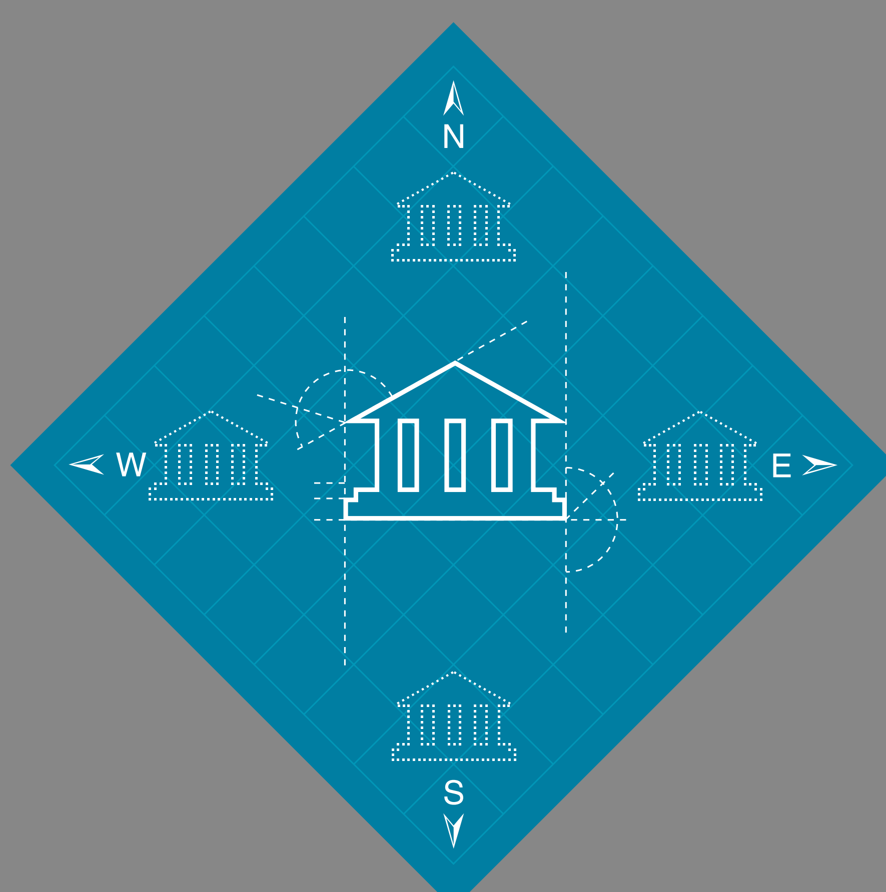
Institutionalizing Alliance Skills: Secrets of Repeatable Success



Third in a Series of Viewpoints on Alliances

Institutionalizing Alliance Skills: Secrets of Repeatable Success

by John R. Harbison
Peter Pekar, Jr.

We are witnessing an explosion in alliance activity, driven by the combined forces of rapid technological innovation, globalization, intensifying competition and the blurring of industry lines. In the past two years, more than 20,000 alliances have been formed worldwide—more than half of them between competitors. No company has the time or resources to fill critical capability gaps entirely through internal development, and acquisitions are often too costly an alternative. We are convinced that alliances are a central, essential and permanent engine to achieve growth and profitability.

The need is so pervasive that few companies can truly prosper without a large number of alliances. Yet many companies are struggling with alliances because little or no institutional learning is taking place. Rather, what learning takes place is limited to individuals. This leads to delayed access to important capabilities and to failed ventures.

In our viewpoints "A Practical Guide to Alliances: Leapfrogging the Learning Curve" (1993) and "Cross-Border Alliances in the Age of Collaboration" (1997), we demonstrated that alliances can produce superior returns, even as we acknowledged how difficult it is to do alliances correctly. Through a series of surveys covering more than 500 companies worldwide and 5,500 alliances, we have found that alliances achieve returns on investment that are 50 percent higher than those of the same companies' base businesses. We also have shown that ROI improves dramatically with experience, and that in some industries the experienced alliance companies are earning more than five times the ROI of the less-experienced companies.

The challenge, then, is to institutionalize that learning process and "leapfrog the learning curve." Some companies in the forefront of multiple-alliance building (Hewlett-Packard, Xerox, IBM, BellSouth and Ford) are also in the vanguard of companies creating an institutional alliance capability.

In 1997, we decided to launch a survey of the specific tools and techniques that contribute to a successful institutionalized alliance capability. The findings of that survey of 40 major companies are summarized in this viewpoint.

"Does an Institutional Alliance Capability Yield Improved Results or Become Yet Another Bureaucratic Dead End?"

The answer to this fundamental question is a resounding *yes, it improves results.* Drawing on our recent research and our work with clients, we will demonstrate that the most successful alliance companies take a more rigorous and disciplined approach to building an alliance institutional capability. As a result, they achieve significantly higher returns on their alliances and higher growth rates than those companies that do not take such a rigorous approach.

Rationale for Institutionalizing

We all struggle with learning. Most learning is experience-based, and in most cases we accumulate it as individuals. As adolescents, we did not have much interest in learning from our elders, and now as managers in corporations, many of us continue to learn by making our own mistakes. In the alliance area, our research shows that learning-by-doing has been the traditional method. Indeed, practical executives will tell you that there is no substitute for learning-by-doing—and rightly so. When the stakes are not high, there is no better way than to get one's hands dirty. As the importance of alliances surges, however, we will demonstrate that the executives involved should not be left to find their own way.

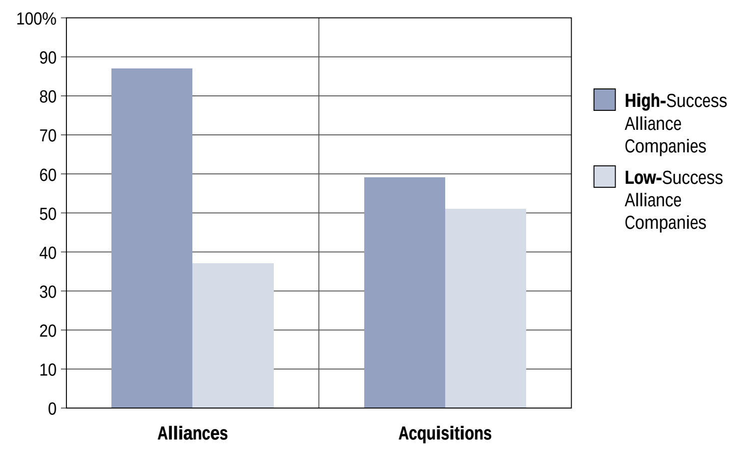
For example, successful alliance-building companies average a 90 percent success rate on alliances, compared with less-successful companies, which average only 37 percent (Exhibit 1). Yet these successful alliance companies have yet to achieve similarly successful results with acquisitions. Both groups of companies are successful on only about half their acquisitions. The successful alliance companies also enjoy higher profitability on their alliances—20 percent vs. 11 percent for the less successful companies (Exhibit 2). This differential is consistent with our earlier surveys.

Success in alliances also translates into superior growth. On average, the successful companies see alliances contributing more to current revenues (Exhibit 3), but more importantly, their alliance capability positions them for faster growth over the next five years. The successful companies expect about 35 percent of their future revenues to come from alliances, compared with 21 percent in 1996 and 15 percent in 1995. Successful companies are also more than twice as likely to be engaged in a longer-lasting, deeper and broader strategic alliance rather than a more limited transactional one. The linkage between the strategic nature of these alliances and the higher growth anticipated by the more successful companies is clear to see.

CEOs recognize this. Five years ago, 20 percent of CEOs in the United States gave a favorable rating to alliances, far lower than the level of acceptance among European and Asian CEOs. Today we find that more than 60 percent of CEOs in the United States approve of alliances, approaching the acceptance rate in Europe and Asia. Yet newcomers to the world of multiple alliances find managing the arrangements the most frustrating element. Armed with an understanding of the rewards and motivations for institutionalizing an alliance capability process, companies will find it easier to plunge ahead.

Exhibit 1
High-Success Alliance Companies Average 90% Success Rate, but Fare Worse in Acquisitions

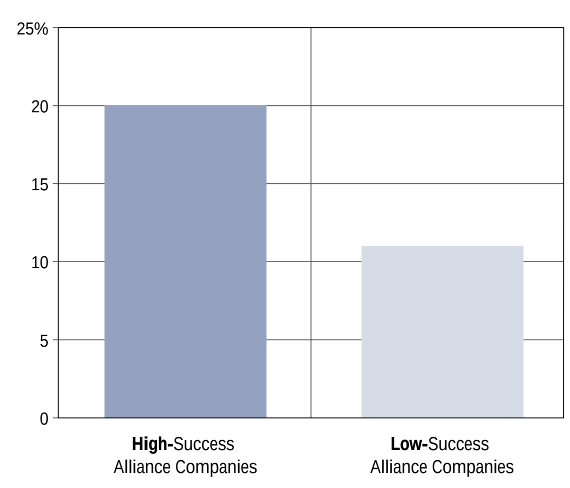
Success Rates for Alliances vs. Acquisitions



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Exhibit 2
Successful Alliance Companies Earn More Profits on their Alliances

Alliance Profitability



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Avoiding Roads to Nowhere

Battle-tested alliance executives are often suspicious, and rightly so, of bureaucratic management processes. Some executives maintain that “ad hoc management” and “pure luck” play an important role. Luck certainly helps any alliance succeed. However, we will show that the “luckiest” and most successful companies are those that learn from others. As Albert Einstein once said, “90 percent perspiration and 10 percent inspiration equals success.”

In our examination of scores of failed and failing institutional alliance capability approaches, we have identified a number of traps to avoid:

1) Ad Hoc Improvisation— *learning through trial-by-fire*

We have observed that most companies evolve their alliance approach and capability over time. We call the beginning of this path the ad hoc improvisation approach. Most companies in the United States are at this level today, with little knowledge capture and few best practices. Essentially, people are on their own, learning how to do alliances based on their own experiences. Given the increasing importance of alliances, this approach usually produces frustrating and probably unsatisfactory results.

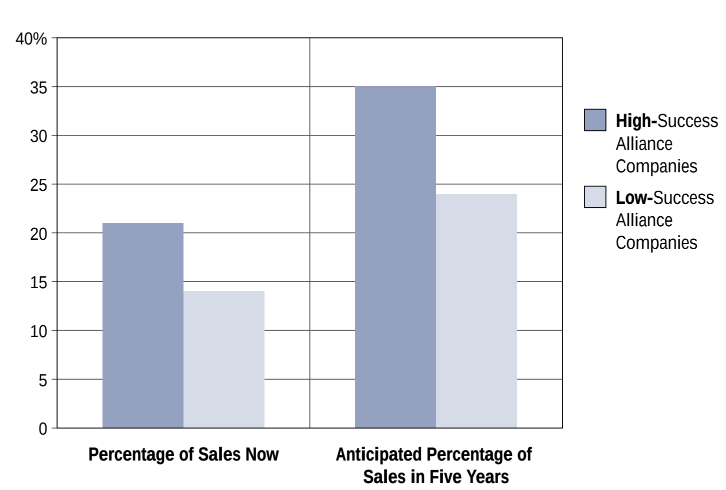
Yet most organizations are culturally resistant to change. Starting a strategic alliance process without recognizing this and without an approach to overcoming it is like playing Russian roulette. While most U.S. auto manufacturers chose the ad hoc approach in answering the Japanese assault on their domestic market, Ford was an exception: it marshaled its strengths and resources in a focused manner and formed a historical alliance with Mazda. Today, Ford and Mazda are so intertwined that it is sometimes difficult to know where one starts and the other finishes. We see Ford and Mazda building an alliance institutionalization capability skill base to extend their reach across the globe.

2) Send for the Lone Ranger and Tonto— *relying on deputies*

The next level of evolution includes companies where alliance learning resides in one or two specialists who are called in during negotiations to act as the gunslingers of alliance knowledge. This is an improvement over the ad hoc approach but has two drawbacks. First, with the surge in the number of alliances, the Lone Ranger and Tonto are quickly overtaxed, even if the Lone Ranger evolves into a small group of Texas Rangers. Second, the Ranger, given the demands on his time,

Exhibit 3
Successful Alliance Companies Depend More on Alliances for Growth

Alliance Contribution to Revenue



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

is usually involved only in the formation of the alliance and not in its management—or in the institutionalization of alliance skills.

That leaves the operating entities and managers without the guidance and ownership they need. Sometimes "action fever" grows so swiftly that it threatens to sweep away good strategic sense. This problem often stems from the traditional ad hoc and anti-bureaucratic thinking of many senior managers. Without clear commitment to best-practice development, training, monitoring and rigorous analysis—and to open communications—many strategic alliance processes breed tension, frustrations and suspicion. It is not surprising that executives who are hired for the Long Ranger role often become frustrated and leave the company within five years, taking their knowledge and experience with them.

3) Ivory Tower Syndrome— *creating a citadel of alliance thinkers*

Some companies view alliance management as an academic art, which can be mastered only by specialists who are steeped in theories, grids and frameworks. We have seen outsiders (that is, consultants) and corporate staff specialists hired to work in splendid isolation, divorced from the realities of the corporate strategic direction and operational requirements. In these situations, the chief alliance executive has very little impact on the strategic nature of alliances and usually plays the role of critical reviewer or sounding board for senior management alliance ideas.

One of our clients recognized that its strategic alliance process was falling into the Ivory Tower Syndrome—paying more attention to the review process than to increasing business value and filling the capability gaps in corporate and strategic business unit strategy. Operating managers learned how to submit plans that would satisfy the elaborate alliance review process so they could get on with their businesses. The CEO responded by overhauling the alliance structure. One change was to shift reviews from a ritual process to a variable interval, reflecting the pace of change in the industry and the significance of the issues confronting alliance formation and management.

4) Not-Invented-Here Complex— *failing to keep an open mind*

The inability to learn from others generally produces disastrous consequences. Strategic alliance management and processes in these companies often stagnate. The successful alliance companies don't allow this to happen: They make periodic and thoughtful assessments of their capabilities and priorities. They use alliances to fill key capability gaps where acquisitions and in-house development are not appropriate approaches. They also understand their company culture and how it influences behavior, both inside and outside their organization.

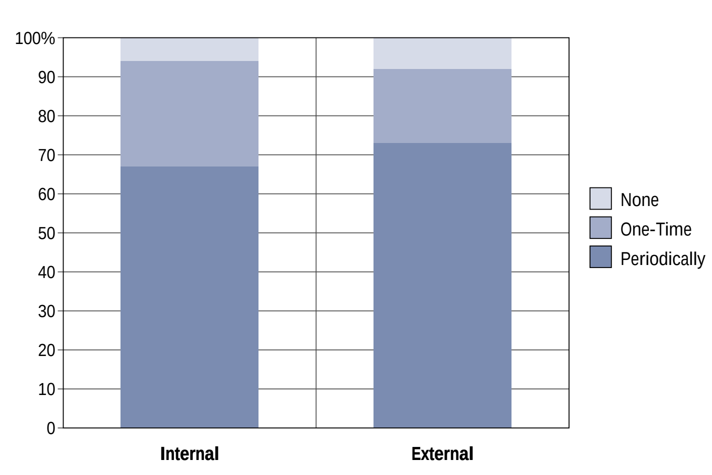
These companies recognize the importance of alliances to their success, and reach out for knowledge and expertise to create a well-oiled alliance capability. They know from experience that learning counts—and counts big. They set up systems and processes to transfer alliance learning and experience to key managers; they hold training sessions and workshops. They create repositories of knowledge that employees can tap into. They understand that managing multiple alliances takes more than in-house efforts. Not surprisingly, the most forward-looking companies—including Oracle, Xerox, IBM, H-P, Motorola, Merck and Johnson & Johnson—have formed well over 100 alliances each.

5) One Flavor Fits All— *failing to select the right structure*

The alliance management structure needs to be tailored for each company, because the critical issues, challenges and degrees of freedom differ significantly from one opportunity to the next. Xerox, for example, has chosen the corporate route, creating a corporate group to be relationship managers for key alliances such as Fuji Xerox. The job of the relationship manager is to coordinate across the alliance partners. Many issues need to be examined before choosing an organization—including impact on value creation, conflict with other functions, implementation power and leverage across strategic business units.

Similarly, having the ability to select the right kind of alliance manager is critical. As we have shown in earlier viewpoints, Americans are seen by the Asians and Europeans as weaker in alliance integration and implementation. When an alliance objective is to create a new market, for example, the alliance operating manager should be a confident change-handler, able to judge risks. A manager who is more of an evaluator, control-oriented and measurement-driven, is a formula for failure in a growth situation. Yet too many companies do not match the individual to the strategy. Relying on an alliance management structure that does not yield the flexibility to deal with these issues places the alliance option in peril before it can achieve anything.

Exhibit 4
Many Companies Are Moving to Capture Alliance Best Practices, with More Focus Externally



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

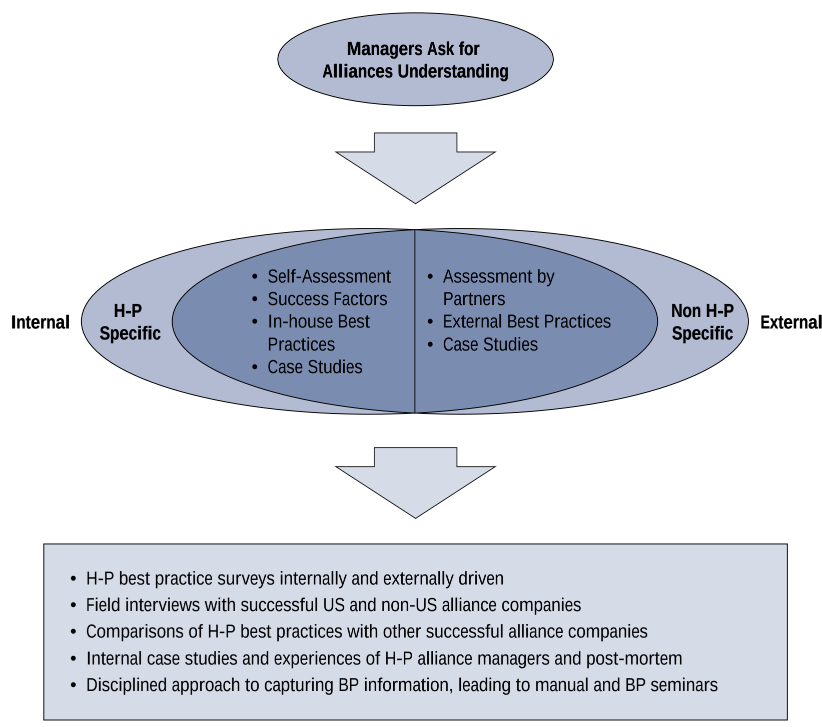
Institutionalizing an Alliance Capability: Building Blocks of Success

While it is important to avoid the "Roads to Nowhere," that alone will not ensure success. Most companies evolve their alliance approach and capability over time, moving from the "ad hoc" stage through the "Lone Ranger" stage and finally into the most-skilled level, which we call the "institutionalized" stage. In companies that have embraced an institutionalized approach, procedures are normalized, there is often a dedicated staff with a high degree of sharing, and in general, some repository of knowledge has been built for future use. There are many variations to how companies have sought to build such an institutional alliance capability.

Best Practice Capture

In "Leapfrogging the Learning Curve," we showed that alliance profitability improves as a company gains experience with alliances. More recently, many companies are attempting to jump start the alliance process by developing a set of best practices (Exhibit 4). More than 90 percent of companies have some sort of process in place to capture best practices. About 60 percent attempt periodically to capture internal best practices; about 70 percent do the same with external best practices.

Exhibit 5
H-P Recognized the Importance of Capturing Strategic Alliance Best Practices



Source: Alliance Analyst; BA&H Interviews

This is a remarkable improvement over where companies were just five years ago. Let's look at Hewlett-Packard—a company that recognized early the importance of best-practice capture to alliance success. H-P always recognized that alliances were an important element in its value-creation strategy. Through the late 1980s and into the 1990s it formed scores of alliances. Senior management assumed that managers were getting up to speed by attending seminars taught by academics and business schools. No one at the corporate level was really thinking about technology leakage, exit mechanisms, governance issues, equity commitments or other major alliance issues.

That all changed after H-P surveyed its managers and found that an overwhelming number ranked "strategic alliances" as the area where they most wanted more training. The managers said external seminars, while interesting, were not H-P specific, and no best practices or specifics were provided to follow. This came as a shock to corporate executives who thought everything was fine.

H-P responded in various ways (Exhibit 5). Its best-practice development is internally and externally driven. Internally an in-house best-practice program offers training sessions, case histories, tool kits, checklists and more. The material is reinforced with assessments by partners and by studying the best practices of other successful companies and outside case studies. In short, H-P has adopted a disciplined approach to best-practice development and sees it as a success differentiator.

Process Discipline

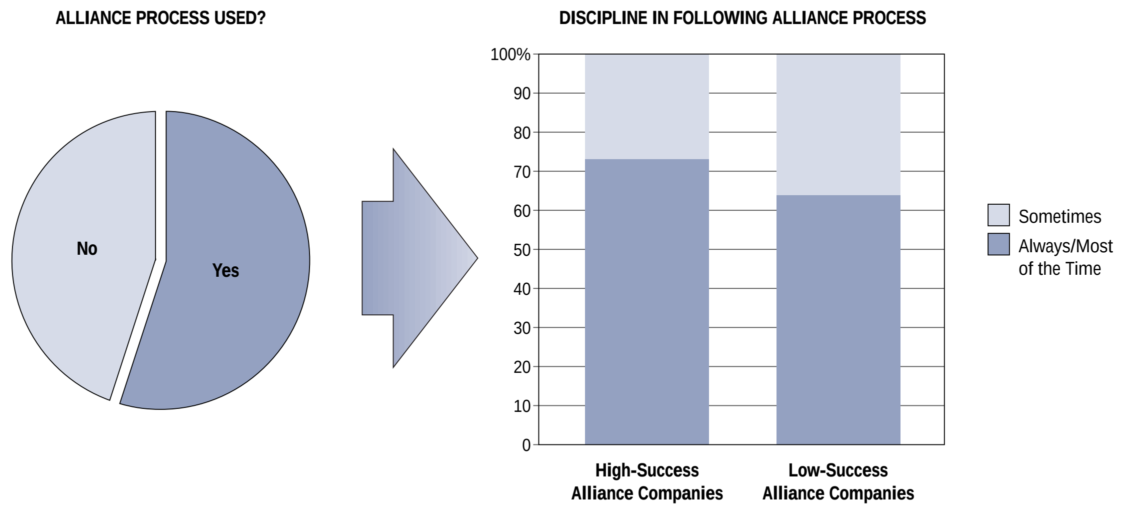
Two-thirds of the respondents in our recent survey said they have an alliance process — but strikingly, almost a third of them report they do not follow it. Yet our survey makes clear that successful companies are more disciplined in following a process (Exhibit 6). Successful alliance companies do better than their less successful rivals at integration planning, bargaining-power assessment and leverage assessment (Exhibit 7).

Similarly, almost every company incorporates some aspect of understanding strategy and objectives, as well as opportunity identification. But, only 50 percent incorporate the other individual elements in alliance-building methodology (described in "The Practical Guide to Alliances: Leapfrogging the Learning Curve").

It is important to note about half the companies use an alliance database, but few (surprisingly, less than 20 percent) use it to capture lessons learned. Almost all companies that have a database include a description, date formed and list all active alliances. The successful companies are slightly more likely to use a database, but the more significant difference is in the elements incorporated in the database. Successful companies are more likely to include lessons learned, key contacts, negotiations under way (to avoid stumbling into each other in a potential partner's lobby), active and inactive alliances. In short, their databases are much richer in content than the databases of the less successful companies.

Another key element of instilling institutional learning is doing self-assessments and asking one's partners for their evaluations too. About two-thirds of the companies surveyed do self-assessments, but less than half ask their partners for assessments (Exhibit 8). This is a big area of potential improvement for companies, because partner feedback can be an important source of lessons learned and ideas on how to improve. The

Exhibit 6
Successful Alliance Companies Are More Disciplined in Following a Process



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

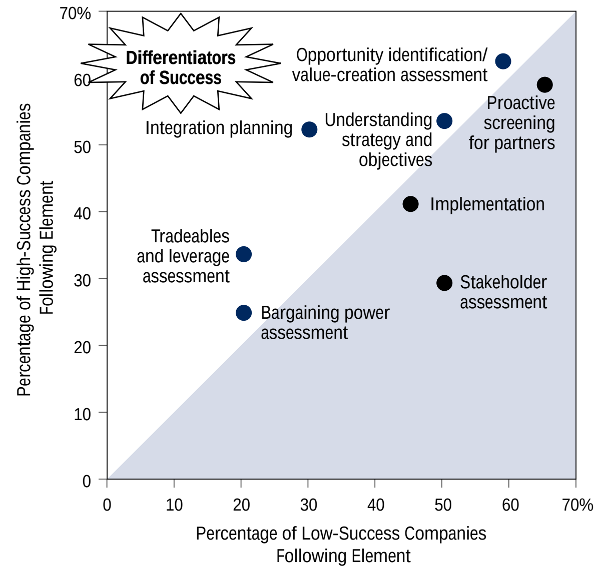
feedback can be substantive ("You are not staffing the right people in our venture") or less earth-shattering ("You do not keep us adequately informed" or "You do not respond quickly enough to our phone calls"). Both kinds of feedback can be important.

As expected, successful companies do more of both kinds of assessments, but the gap in seeking partner assessments is particularly remarkable—successful companies are twice as likely to do partner assessments than less successful companies.

Motorola recognized early how alliances could play an important role in achieving its goals. After having been through a number of alliances, management realized that having a disciplined process was a key to achieving alliance success. One part in the Motorola process is selecting strategic partners. The company starts with a clear alliance strategy and objectives, which are linked to the overall corporate or business strategic objectives. The next steps include partner criteria such as alliance experience and the fit with value-creation capabilities, as well as the willingness of a potential partner to ally. For first-time partners, Motorola goes a step farther and offers an alliance-training seminar to

Exhibit 7
Successful Alliance Companies Do Better at Integration Planning, Bargaining Power and Leverage Assessment

Elements Followed in Alliance Process



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Exhibit 8
Successful Companies Do More Self Assessments and Partner Assessments

Periodic Assessment of Alliance Performance

Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Exhibit 9
Alliance Framework — Best Practice Diagnostic

Human Resources — Sample Best Practice Template

	OTHER WIDESPREAD PRACTICES			CURRENT BEST PRACTICE	WORLD BEST PRACTICE
ELEMENT	**Level 1**	**Level 2**	**Level 3**	**Level 4**	**Level 5**
Creative Plan to Bridge Management Styles of Partners	No plan to bridge partners' management style in alliance	Knowledge of partners' management style and culture, little understanding of impact on alliance	Executive profiles, organizational structure, cultural and working environment, reward and promotion programs matched with alliance needs and priorities	Interactive planning highlighting partners' organizational structure, cultural and working environment, reward and promotion programs compared with alliance needs and priorities	Impact on future attractive opportunities
Example/Client		X			
All Industries	50%	20%	20%	10%	

	Low →				High
Importance					X

Source: BA&H Best Practices Methodology

help them understand Motorola's alliance requirements and process.

Many clients have used our best-practice framework in developing a disciplined approach to alliance formation and building an institutionalized alliance capability skill base. One major international client (Exhibit 9) is in the telecommunications industry, which is going through rapid change. Alliances are seen as a way to increase competitive strength and to create value for customers. Senior management rated itself at level 2 for the best-practice element "Creative Plan to Bridge Management Styles of Partners." Our database showed that 50 percent of all companies were positioned in level 1 and only 20 percent in level 2. When we examined how important this particular best practice was in achieving alliance success, it rated the highest. Today this company is building this capability in a disciplined manner. (The complete set of 100 best practices is a proprietary tool that Booz•Allen & Hamilton uses with clients to help them focus on what they need to do to improve.)

Dissemination of Best Practices

The most successful alliance companies have learned that merely teaching managers bureaucratic rules does not suffice. Alliances cover a wide waterfront. We see our clients adopting various disciplined approaches and channels in an effort to disseminate best-practice knowledge and experience. The three most popular approaches are:

- Electronic networks, such as Xerox's TAA Web site.
- Periodic education seminars. H-P, for example, is conducting 50 two-day seminars for its top 1,000 executives.
- Repositories of alliance knowledge, where managers can go to acquire alliance knowledge and assistance. A number of companies, including Ford, IBM and Dun & Bradstreet, are in various stages of creating such repositories.

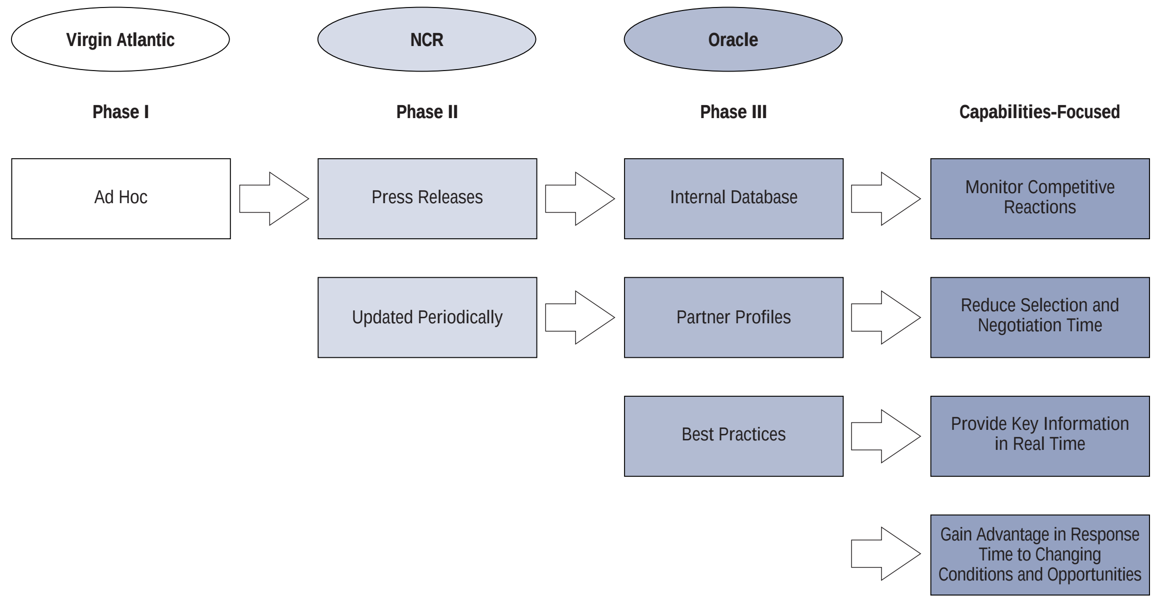
These approaches are not "either/or." Some clients are in the process of developing all three capabilities.

One of the most popular approaches to disseminating alliance knowledge is through a Web site. Our work with clients shows (Exhibit 10) that companies usually start in Phase 1: the system acts in an ad hoc fashion, where only major alliances are mentioned and loosely presented. Once alliances are recognized as a major force in an industry, companies move into Phase 2. This is where news announcements are captured, updated periodically and maintained somewhere in the organization.

As more and more alliances enter into a company's portfolio, Web site capabilities expand rapidly, covering such elements as internal alliance and partner databases, partner profiles and news releases. A company's ability to monitor competitive reaction to its alliances, to reduce partner selection and negotiation time and to provide key information is enhanced by a Web site.

Oracle spent $1 million, for example, to get its Web site on-line and another $1 million each year to keep it running. Our research clearly shows the value successful alliance companies place on the management and dissemination of alliance knowledge. Successful companies make better use of Web sites
and alliance repositories. They

Exhibit 10
Evolution of Web Sites



Source: Alliance Analyst; BA&H Interviews are twice as likely to have an alliance Web site or repository, or both, and the content is dramatically richer. This appears to be one of the biggest differentiators between successful alliance companies.

Xerox, with TAA, and Booz•Allen & Hamilton with its Knowledge on Line, are examples of companies that are using Web sites to transmit knowledge electronically (Exhibit 11). Xerox and Booz•Allen & Hamilton decided some time ago that having the knowledge available in real-time yields distinct competitive advantages. Xerox's TAA, positioned in its corporate alliance group, contains best practices, policies and lists of alliance experts—internal and external—and is available to full-time employees. Booz•Allen & Hamilton's KOL is managed by the firm's intellectual capital group and is available across the company. It contains case studies, best practices, presentations and external and internal sources.

Emphasis on Training

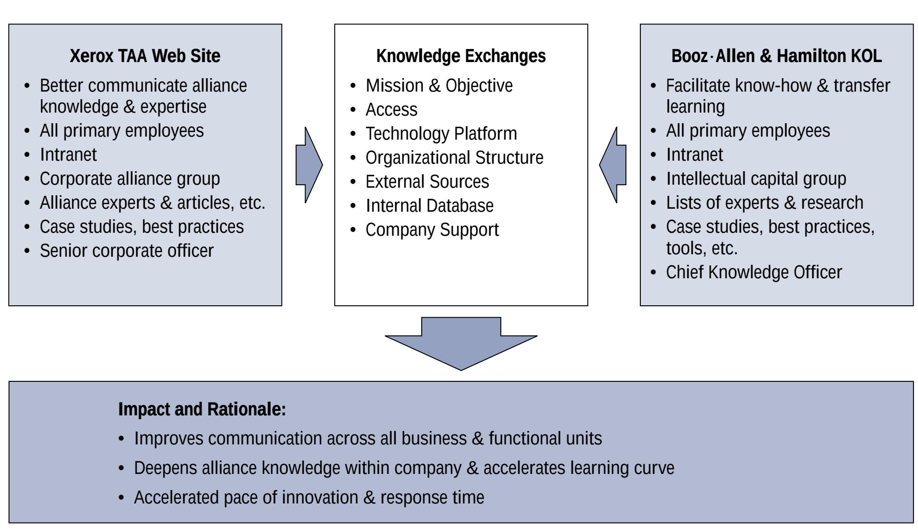
Our survey found that only 45 percent of the companies offer alliance training and less than 20 percent have developed their own curriculum (Exhibit 12). Successful alliance companies, however, have recognized that alliances are fundamentally different from acquisitions and from procurement and that they require special programs to bring managers up to speed.

BellSouth, for example, recognized the phenomenal growth of alliances in the telecommunications industry. After trying a number of different training approaches, BellSouth decided to put 150 senior managers through an alliance workshop for two days, and it learned some intriguing lessons:

- Learning does not happen naturally—people learn from each other
- Seminar content must be specific to the company and industry
- Definitions and processes work.

Northern Telecom also decided after a failed alliance that training should become part of its alliance program. It built

Exhibit 11
Examples of Electronic Knowledge Exchanges



Source: Alliance Analyst; BA&H Interviews a program on three legs: organizational planning, three-day workshops and networking. Like most companies, BellSouth and Northern Telecom are also learning by doing — disregarding what doesn't work, embracing what does.

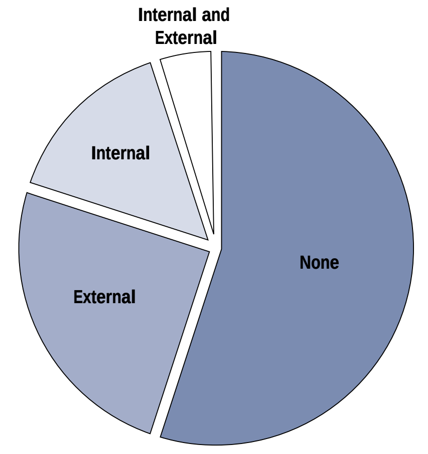
Organizational Solutions and Embedding

One question in our recent survey was where the alliance functional resources reside in the corporation. We found the models were innumerable, with about a third of the companies focusing on the corporate level, a quarter focusing on the operating unit and the rest a mixture of the two.

Successful alliance companies are more likely to have corporate functional groups (Exhibit 13). Almost 60 percent of successful companies have alliance functional groups only at the corporate level, compared with less than 40 percent of the less-successful companies. And 95 percent of the successful companies have some functional alliance expertise somewhere. Finally, less-successful companies are twice as likely to duplicate their alliance functional expertise at the corporate and operating units. Our interpretation is that

Exhibit 12
Less than Half of the Companies Offer Alliance Training

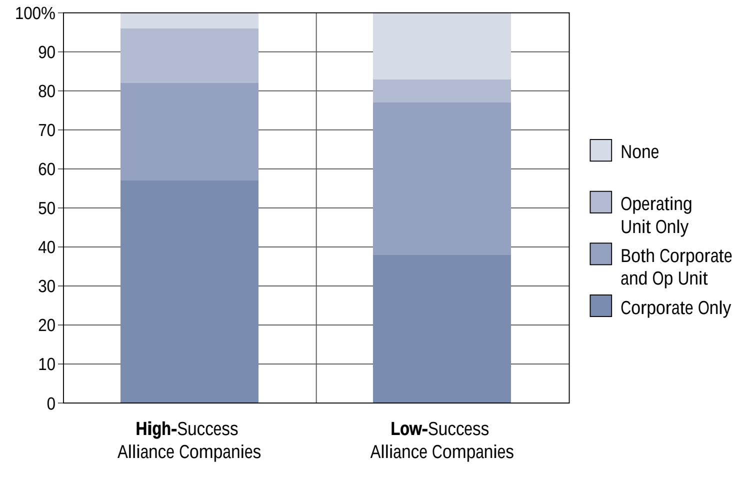
Alliance Training Courses



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Exhibit 13
Successful Companies Are More Likely to Have Only Corporate Functional Alliance Groups

Alliance Functional Organizations



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Exhibit 14
Companies Are Choosing Different Alliance Organization Solutions

COMPARATIVE DIMENSIONS	Corporate Alliance Group (Xerox)	Business Development Group (H-P)	Business Unit Alliance Groups (Unisys)
Characteristics	• Senior executive champion • Relationship managers • Defined tools and policies • Knowledge repository • Advisory council overseer • Assistance to SBUs • Coordination across alliance partners	• Report to business development • Clearing house for information • Best practice development • Monitoring of alliances • Exposure to finance expertise • Part of corporate • Seminars for executives	• Activity in SBUs • SBU manager reports to corporate advisory council • Alliances drive from SBU • Informal cross-SBU communication • No formal organization required
Advantages	• Knowledge and staff available to SBUs • Monitoring key alliances	• Limited staff and broad view • Center of expertise	• Limited bureaucracy • Fast decision-making
Challenges	• Not to be seen as no impact on value creation	• Conflict with M&A activity • No clear implementation of power • Limited linkage to corporate strategy development	• Little knowledge capture • No learning transfer • No cross-SBU leverage

by placing alliance functional capability in both corporate and operating units, the less-successful companies dilute their efforts: less learning is captured and transferred. In terms of reporting relationships we also saw that alliance reporting is moving into the executive suite.

Xerox, for example, has chosen the corporate route, creating a corporate group to be relationship managers for key alliances such as Fuji Xerox. There are many advantages to this system and some unique challenges (Exhibit 14). Some companies, like H-P, have embedded the alliance capability in the business-development group. The advantages are that alliances are grounded in a known and respected area within the company and the staff involved is limited. The challenges of this option are a potential conflict in culture with M&A activities, no clear implementation power and limited linkage to corporate strategy.

Other companies, including Unisys, have opted to place alliance activity within each appropriate business unit. Such a structure yields fast decision-making and limited bureaucracy, but with a potential downside of limited knowledge capture, learning transfer and leverage across SBUs. We recommend that the right structure be the one that meets your company's needs and objectives. There is no right or wrong—just the goal of value creation. The chosen structure needs to be clearly consistent with your company's culture and mode of decision-making.

Successful companies are also more likely to have their alliance functional groups report directly to top management—reinforcing the commitment to building an alliance capability (Exhibit 15).

Implications for Management: Building Centers of Alliance Excellence

Global managers must question the adequacy of the way they do business today. A new language of cooperation has emerged. Many companies have already begun to position themselves in this new environment, but they need to “raise the level of their game” in the area of alliance execution by an order of magnitude. Otherwise, without the benefit of experience in alliance-building, they will find themselves facing a consortium of competitors.

The important question is no longer “Should we form a strategic alliance?” Now the questions are:

- “What types of arrangements are most appropriate?”
- “How do we successfully manage these alliances?”
- “Are we learning from the experience of ourselves and others?”

Judging from the many recently announced partnerships, an increasing number of global enterprises recognize that strategic alliances can provide growth at a fraction of the cost of going it alone. In addition to sharing risks and investment, a well-structured, well-managed approach to alliance formation can support other goals, such as efficiency and productivity. Alliances provide a way for organizations to leverage resources.

With the new emphasis on capability access, industry lines are blurring, and markets are becoming global. In these newly defined competitive arenas, positional assets are not enough and new capabilities are required to succeed. The name of the game is to maximize delivered value, to minimize total cost and to gain advantage.

To meet this challenge and take advantage of the many advantages emanating from alliances, successful alliance companies are moving toward “Centers of Alliance Excellence.” Sophisticated alliance companies quickly observe that alliance learning yields big results.

To capture this learning and transfer it to key employees, these companies are building best-practice databases augmented by case studies and external expertise, incorporating their partners’ assessment into the process, developing learning-transfer channels, holding workshops and developing role-playing programs. As companies depend more on alliances as an engine for growth, we expect to see more and more resources devoted to creating centers of excellence. Much of our recent client work has been to help companies reorganize their business-development function to take advantage of alliance learning and best practices.

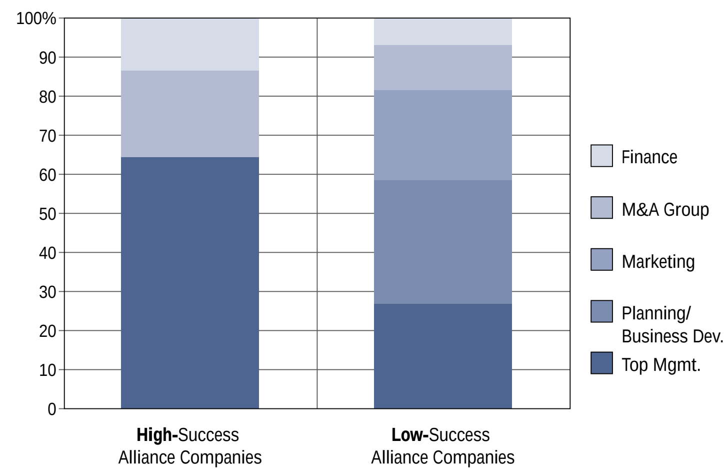
In summary, we recommend a disciplined approach to the management of alliances in order to help propel companies to achieve superior results. We believe that less-experienced companies can accelerate their learning and achieve superior returns by actively embracing our alliance best-practice approach. Through such a disciplined approach, managers can successfully fill critical capability gaps, as well as extend their firm’s footprint while enhancing its competitive position.

- *Alliances are an essential*

Exhibit 15

Alliance Functional Group at Successful Companies More Likely to Report to Top Management

Alliance Organizational Reporting Relationship



Source: BA&H 1997 Survey on Institutionalizing Alliance Capabilities

Booz·Allen & Hamilton is a global management and technology consulting firm, privately owned by its partners, all of whom are officers in the firm and actively engaged in client service. As world markets mature, and competition on an international scale quickens, our global perspective on business issues grows increasingly critical. In more than 75 countries, our 7,000 staff members serve the world's leading industrial, service, and government organizations. Each member of our multinational team has a single, common goal — to help every client we serve achieve and maintain success.

Our broad experience in the world's major business and industrial sectors includes aerospace, agriculture, automotive, banking, basic metals, chemicals, construction, consumer goods, defense, electronics, energy, engineering, food service, health care, heavy industry, insurance, oil and gas, pharmaceuticals, publishing, railways, steel, telecommunications, textiles, tourism, transportation and utilities.

With our in-depth understanding of industry issues and our expertise in strategy, systems, operations and technology, we assist our clients in developing the capabilities they need to compete and thrive in the global marketplace.

We judge the quality of our work just as our clients do — by the results. Their confidence in our abilities is reflected in the fact that more than 85 percent of the work we do is for clients we have served before. Since our founding in 1914, we have always considered client satisfaction our most important measure of success.

Booz·Allen & Hamilton has extensive experience assisting clients throughout the process of strategic alliance formulation, including vision definition, identification of critical capabilities, screening for partners, evaluating priority partners, negotiating and implementing alliances. We work together with our clients in three ways to help them improve their performance in alliances:

- **Process (Institutionalizing Alliance Capabilities):** Assisting clients build/improve their underlying capabilities in identifying, evaluating, negotiating, implementing and managing alliances — based on our best practices frameworks and methodology.
- **Content (Transactions):** Working together with a client on a specific alliance, at individual stages in the process or throughout the process.
- **Alliance Portfolio Renewal:** Revitalizing a client's portfolio of existing alliances by involving the client's current partners in an effort to improve performance of those alliances, by tuning them up and reinvigorating them.

We couple the understanding from our industry practices with our functional expertise in alliances and our geographical footprint to help our clients achieve superior results in their alliance efforts.

John R. Harbison, Vice President for Booz·Allen based in Los Angeles, specializes in strategic alliances, acquisitions and post-merger integration.

Peter Pekar, Jr., Ph.D., Visiting Associate Professor at the London Business School, is a recognized expert in the area of strategic alliance, with 30 years of business experience in forming and managing alliances. He has authored more than forty articles on alliances and related subjects and is Senior Advisor to Booz·Allen.

Other related *Viewpoints* in our Alliance series:

A Practical Guide to Alliances: Leapfrogging the Learning Curve
(1993)

Cross-Border Alliances in the Age of Collaboration
(1997)

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