Capabilities generation mechanisms in alliances: Case based analysis *Desarrollo de mecanismos de capacidades en alianzas: análisis de casos*

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Abstract: Alliances are nowadays a key pillar for company's strategy, allowing them to create strategic advantages over competitors. This study aims to identify mechanisms used by three large multinational companies (Cisco, Philips and Eli Lilly) - leaders in their respective large industries- to develop their alliance capabilities as a key competitive tool. Alliance capability development allows them to get successfully involved in a higher number of alliances and it is being used by these companies to become more agile and competitive in the market. This study attempts to infer a set of "Best Practices" on alliance management based on these three company practices

Keywords: alliances capabilities development, alliances mechanisms, alliances, alliances cases

Resumen: Las alianzas son en la actualidad un pilar de la estrategia empresarial, permitiendo a las empresas crear ventajas competitivas sobre sus competidores. En este trabajo se busca la identificación de los mecanismos usados por tres grandes compañías multinacionales (Cisco, Philips y Eli Lilly) – líderes en sus respectivos importantes sectores industriales – para desarrollar sus capacidades en alianzas como una herramienta estratégica clave. El desarrollo de capacidades en alianzas les permite involucrarse en un cada vez mayor número de alianzas que son utilizadas por estas compañías para conseguir ser más ágiles y competitivas en el mercado. Este estudio trata de inferir un conjunto de "Buenas Prácticas" en la dirección de alianzas a partir de las prácticas de estas compañías.

Palabras clave: desarrollo de capacidades en alianzas, mecanismos en alianzas, alianzas, casos en alianzas.

1. Introduction

Use of alliances as a strategic tool, in the most dynamic companies, has increased during the last decades (Kale et al, 2009) and it is a source of company competitiveness (Tallman, 2013).

Although the current crisis has led to a significant deterioration in the economic activity in the world, the interest in collaborative relationships, like alliances, has not ceased to grow and it is one of the practices that allow companies to carry on innovative projects in many areas and to increase their integral sustainability (Shymko and Diaz, 2012).

Many collaborative relationships have been started during the last decade in areas unpredictable before. For instance, new projects developed to improve energy management, by applying collaboration models between companies, to significantly reduce energy costs (Hansen, 2009) through energy process management integration between a company and its dedicated specialized supplier.

Collaboration between organizations is not a new phenomenon, but it is since the 1980's that the development of the different types of relationships that we consider alliances has accelerated.

Factors such as: i) market globalization and technological development (Porter and Fuller, 1986), ii) the need to fulfill new customer requirements (Ohmae, 1989), iii) difficulties in being competitive on the entire organization value chain (García Ochoa, 2003) and iv) also relevant, scarcity and limited access to resources (Williamson, 1985; Cobiainchi, 1994) are main launching factors for fast alliance growth.

Spanish economy has not been an exception in this growing alliance relevance as shown in the studies developed by Menguzzato (1992), Casani (1995), García Canal et al (1998), Rialp and Rialp (1996) and García-Ochoa (2010).

However, despite alliances high relevance, studies have shown that between 30% to 70% alliances fail (Bamford et al, 2004); in other words, they do not

achieve the objectives they were created for. Authors like Das and Kumar (2011) have tried to understand its root causes.

Identification of alliance capability mechanisms which are able to support alliance success will be the main objective of this study. These mechanisms should create conditions enabling a higher alliances success rate that will lead to extra value creation for stakeholders.

Along the study, several points have been analyzed: alliance capabilities development concept, how three leading successful alliances companies have tried to develop their own mechanisms to improve alliance success rate and finally some conclusions and recommendations.

2. Methodology

Within current business environment, alliances are a valuable tool, widely used to improve competitiveness. However, there is a very significant alliances failure rate. That is why it is so important to identify organization's mechanisms which allow a few companies to get high alliances success rates far different from the ratios achieved by other organizations and totally unachievable for most of organizations which decide to enter into this kind of relationship. The main objective of this study is to identify these mechanisms, through a deep study of real practices in those companies that apply them to be successful in a myriad of alliances.

That is the reason why it is particularly relevant to study cases involving companies that have developed a successful "way to manage alliances" and whose strategy is supported by a large number of these relations, most of them successful. The objective is to identify the mechanisms underlying their alliance management, in such a way that may be possible to induce and propose some specific practices leading to a higher success rate in future alliances. However, their eventual adoption by other companies would require a specific analysis of their suitability for their specific circumstances and it would need a process of adaptation/dissemination (Duran et al, 1998).

Case studies, according to Eisenhardt (1989) and Rialp (1998), are suitable to aspects that have to do with strategic corporate governance decisions. In fact, Yin advises to use cases where there are not obvious limits between the context and the phenomenon to

be observed (1994). Since this paper describes the initial prospective phase of a wider research the case-based approach is particularly appropriate.

Therefore, this study is based on analysis of alliance management mechanisms in three cases: Philips, Cisco, and Eli Lilly. All three companies are leaders in their respective sectors and they are working on numerous alliances, which they consider as a pillar of their strategy. Therefore, determining the mechanisms they use may be highly valuable, considering its potential application to other companies, after checking proper applicability context.

The practices of these three companies (Philips, Cisco and Lilly) have been deeply studied, combining direct and personal involvement in several company projects (action research) during some years with secondary data analysis. This secondary data analysis was based mainly on published research studies, own company information available in the web site and a large number of articles also published during last decade.

During personal direct project involvement, company's top level management has been accessed using both semi-structured surveys and informal conversations that could help to get inside information for this kind of subjects. Information collected from the field, data used during the projects and direct feedback from executives were treated as consolidated information within the study, no individual personal opinion or data is disclosed.

Thus, the study of these cases combines direct project involvement in some of the projects (action research) (Coghlan and Coughlan, 2008), with personal interviews and review of the published information.

3. Development of alliance capabilities

As mentioned before, different authors have studied alliances failure rate (Day, 1995; Lunnan and Haugland, 2008). A 2010 McKinsey study estimates failure rate at 51%, and it concludes that global results have not improved during the last two decades. Many studies try to identify key factors which influence alliances performance and success probability. Some of these studies were focused on analyzing partner differences while others were more oriented to alliance formation process. As result of many previous studies, a term has been coined (alliance capabilities) which tries to include elements that could be

linked to the existence of better conditions for alliance success. This term is relatively new and it suggests that when an organization develops further its competences or capabilities through accumulative learning and process improvement practices, it reinforces its competitiveness (Draulans et al., 2003). Organizations try to survive in a competitive environment; if they can get capabilities to develop successful alliances, it could be an important competitive advantage (Kale et al., 2009). According to Kale et al (2002), alliance capabilities are defined as mechanisms or routines designed to accumulate, integrate and disseminate relevant information from current alliances to improve the efficiency and success of the future partnerships. For Draulans et al (2003), those capabilities are defined as the generation of structures within an organization that establishing objectives, plan, control and evaluate each alliance, so that future alliances can be improved based on previous experiences.

Some authors like Kale and Singh (2007), emphasize the learning and knowledge process formation and recommend to organizations the implementation of specific processes to identify good practices, learn, accumulate and use information, data and knowledge from their own alliances to be used in future alliances. All these elements could be transformed into norms, procedures and good practices and it could be called "alliance capability development process".

A study conducted by De Man (2005) - based on 1,390 companies both American and European - concludes that there were some very specific features in companies with the highest level of success in alliances, as indicated in Fig 1:

For this paper's authors, the comparison between American and European companies leads to the conclusion that the first ones are more successful as a result of the availability of formal systems for alliance capability development.

4. Philips, Eli Lilly and Cisco case studies

It is worth highlighting the important number of alliances developed by the three companies considered in this study. According to De Man (2005), just in the period 1998-2002, they carried out: Philips (61), Cisco (56) and Eli Lilly (40). Philips entered into alliances with companies as diverse as those indicated in table 1:

Table 1

Philips alliances examples. Source: compiled by authors

Partner	Alliance
ASML	Semi-conductors for innovative applications/products
LG Electronics	Joint venture to develop LCD technology
Nike	Sportive range of products
Douwe Egberg	Coffee machines (new range)
Beiersdorf (Nivea)	New electric shaver range
TPV	Joint venture for television integral business

An analysis of the wide range of alliances set up by this company shows that alliances encompass most of its value chain, from new product development to searching for partners to enter into new markets or

Fig 1.

Characteristics of successful companies regarding alliances. Source: De Man (2005)

alliances to reduce its exposure to low profit businesses.

An example of this would be its joint venture with the Chinese company TPV on television sets, where both have contributed with their assets and human teams - Philips also provided the brand - with the common goal of achieving a higher profitability through a very efficient approach in a very competitive market. Both are convinced that results will be better than those achievable acting independently, as they did in the past.

In 2003, Philips decided to create its Corporate Alliances Office with the aim of achieving a more efficient management in order to improve alliance results. With this purpose, three levels of alliances were identified: corporate, strategic and business unit alliances, depending on the magnitude and impact in the organization. Thus, a strategic alliance involves several business units while a business unit alliance involves only one specific business within the whole organization, leaving the other business units unaffected. Those considered as corporate alliances involve the whole company.

Corporate Office was created to support all types of alliances; it takes an executive role in those which are considered as strategic and corporate. When the company decides to enter into an alliance, a specific team is appointed and involved from the very beginning. This team coordinates all the contacts between organization and partner - or partners - in the alliance. Among others, its main activities are: i) to select the right partner; ii) initiate contacts for assessing the interest on the deal by the partner; iii) formalize agreements; iv) appoint the head of the team; v) support and control the alliance.

Alliances are so relevant to the company that the Corporate Office reports to a member of the Board of Management. For each alliance, a full time coordinator is appointed, who leads a team of specialists including people from all business areas related to the alliance activity. As for the case of Eli Lilly, a leader in innovation in the pharmaceutical area, the company itself indicates that a large part of its success is based on their alliances, having helped to improve their competitiveness through lower development and research costs and having shorter and faster development cycles than the competition.

As in the case of Philips, they carried out alliances with organizations all around the world. Table 2 shows some alliances which are particularly relevant for Eli Lilly:

Table 2
Some Eli Lilly alliances. Source: compiled by authors

Partner	Alliance
Research Group, Toronto University	Insuline (initial product)
Genentech inc.	New insuline (humalog)
Takeda Chemical Industries	Pioglitazone
Alkermes Inc.	Inhaled insuline
UK National Research and Development Council	Antibiotics

In order to efficiently manage alliances, Eli Lilly had decided to create its Partnerships Office in 1999, which is proactively in charge of: i) identifying areas in which alliances could be desirable, always in close cooperation with the people directly responsible for the specific business unit within the company; ii) finding potential partners with high strategic and cultural fit (versus Eli Lilly); iii) developing agreements iv) monitoring results and taking corrective actions, if needed.

This alliance process is supported by certain tools:

- a) 3D analysis: a tool used to analyze compatibility with potential partners through three pillars: partner strategic focus, working practices and cultural fit.
- b) Comprehensive analysis of the alliance: many items are analyzed and discussed, with the future partner; mainly those having relevance in the future relationship, ranging from the operating procedures to who takes decisions on each issue.
- c) Strategic analysis of the future alliance (supported by a specific tool): develops key alliance strategic plans, identifies predictable obstacles and establishes rules that will govern solutions to problems - or conflicts- in the future
- d) Voice of the alliance (VOA): this tool audits periodically the alliance situation adjusting any deviations and realigning it towards its objectives

The primary objective of all this is to increase the likelihood of success on each alliance, reducing the risks that occur both in the start-up phase and in the day to day alliances management. All of the above tools, plus others, have been integrated into a capabilities management model called LAMP (Lilly Alliances Management Process).

Eli Lilly believes that systematization is necessary for partnership improvement and that these management principles can be applied in all kinds of agreements, from those with large pharmaceutical companies to those carried out with small biotechnology companies.

According to Eli Lilly's director for alliances, most alliances fail because they involve a lot of people from two or more organizations, with different experiences and expectations, which tend to interpret agreements/objectives and the way to achieve them in a very different way. Eli Lilly considers that only a highly structured organization can handle a virtual scientific collaborators network comprising hundreds of people around the world.

To avoid these problems, Eli Lilly has clearly set out functions and responsibilities within the alliances, as shown in Table 3:

Table 3
Functions on Eli Lilly alliances. Source: compiled by authors

Function	Responsibilities
Global Alliance leader	Manager, from any of partners, with a results improvement target
Functional leader	Specialized people who works on specific areas
Alliance Director	Manager acting as supervisor and "alliance lawyer", reporting to Alliance Office

With regard to the Cisco case study, as the company itself indicates, "collaborative services" provide to their customers a wide range of excellent services, combining Cisco's know-how with their partners strengths and resources. Customers benefit from a wide alliances network, all under Cisco's coordination and control.

The main argument Cisco uses in support of this approach is its business vision of "extended enterprise" or supply chain network. It argues that final results achieved in a specific project depend, not only on the company's resources, but also on those from customers and suppliers.

Cisco therefore believes that its competitive advantage is strongly based on its ability to build teams that collaborate as an extended enterprise in an efficient manner thus solving their customer's needs.

This new paradigm is allowing Cisco to develop - for its clients- strategic technology projects related to IT and communications integration. In the past, these areas were independently managed and now, in Cisco's view, they should be integrated with the aim of improving the productivity and reducing costs.

Among its strategic partners, some significant alliances are indicated in table 4:

Table 4
Some Cisco's alliances references. Source: compiled by authors

Partner	Alliance
Accenture	Accenture Cisco Business Group, to develop process engineering turn key projects. It can include sub-contracting solutions
IBM	Integrated solutions for specific sectors such as financial services and telemedicine
Microsoft	Security, mobility and unified communications projects
Accenture & Personeta	Joint venture to offer added value services to communications companies

According to Cisco, no competitor is currently able to offer a range of solutions as broad and complete as theirs, because they have made alliances with the best partners in the market, thus establishing a competitive edge over the rest.

The company has established a top level organization (lead by Alliance Vice-President), who has the mission to identify, organize, manage and control all sorts of alliances.

To carry out its daily work, Cisco set up as many multidisciplinary teams as existing partnerships. Those teams, supervised by the Alliance Director, work intensely on each project ensuring performance and identifying deviations, conflicts or risk areas. These teams are specifically trained on alliance management techniques and count on support from the central alliances group, which supervises, supports and controls the set of projects

In summary, it is possible to identify similarities and differences between these companies in the way they manage alliances and mechanisms used to obtain successful results (see Table 5).

All three companies has a strong "alliance capability development process" in place which has been run-

Table 5
Similarities and differences in alliances. Source: compiled by authors

Company	Formal alliances procedures	Internal good practices use	Alliance Office (AO)	AO Executive role
Philips	In place	Very often	From 2003	Executive role
Lilly	In place	Always. Promote internal/external information	From 1.999	Executive role
Cisco	In place	Very often Promote internal/external diffusion of projects	From 2002	Executive role

ning for many years. Perhaps the main difference between them is how they use alliance good practice communication internally and externally to promote and leverage the use of alliance. Lilly and specially Cisco have a formal communication process that allows everyone, from employees to customers, to be fully informed and motivate on alliances formation and results.

5. Conclusions

The three companies have established a structure within their own organizations whose specific mission is to identify, evaluate, negotiate, manage and control current and future alliances, and this could be considered as an "alliance capabilities development" process fully in place. Process's objectives are fully aligned with business targets and their results are evaluated according to partnership's success.

To manage and support this process they set up a formal structure known as "alliance Office". This structure reports to top management and has broad responsibilities in alliance management, from identification of alliance needs - along with the responsible person from the related business area - to its implementation and results monitoring during the alliance life cycle.

The three companies have developed, with small differences probably attributable to their own corporate culture, a set of procedures and activities that have proved their added value in alliance generation and management. In addition the structure has been endowed with a strict process control system.

Whenever an alliance opportunity is identified, it is evaluated by the above mentioned structure and when advisable - if it fits the strategy and culture of

the company- a negotiation process is started with the potential partner.

The three companies have developed some mechanisms that support alliance capability development and they are applied with a similar methodology, perhaps the only small difference is related to the way Cisco and Lilly use to communicate and spread alliance information to internal and external users.

This is the usual way of working in all these three companies, allowing them to carry out alliances without requiring an additional organizational effort, which may stress the organization and distract organic business resources, thus endangering current ordinary business.

The remarkable parallelism and similarity observed in the approach adopted for alliance management by the three companies analyzed, selected as "Best of Breed" in their respective sectors and specifically in alliance development, suggests that the common practices described here could be considered as Best Practices in this area. They could therefore be potential candidates for adoption by others firms, however companies considering adopting them should carefully assess their proper fit with their specific characteristics and circumstances. Some characteristics and factors to be considered before applying them in other companies could be as company's size, rivalry level in the sector, resource scarcity, company's capital ownership, etc.

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