How to Manage Alliances Strategically

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SINCE ITS INITIAL public offering in 2010, the electric car manufacturer Tesla Motors Inc. has had some substantial successes. For example, in the summer of 2016, the company boasted a market capitalization of around $30 billion, an appreciation of more than 800% over its initial public offering price in 2010. Tesla’s leading executives (including cofounder and CEO Elon Musk, chief designer Franz von Holzhausen, and cofounder and chief technical officer J.B. Straubel) deserve much of the credit for this. However, it’s also important to recognize the role played by Tesla’s strategy of creating alliances with larger, more established companies. Two key strategic alliances in particular — one with Daimler AG and the other with Toyota Motor Corp. — were crucial to Tesla’s early success. The Daimler partnership provided a much-needed cash injection; the Toyota partnership gave Tesla access to a world-class automobile manufacturing facility located near its headquarters in Palo Alto, California.

Initially, Tesla, which began selling its all-electric Roadster model in 2008, had neither a market nor legitimacy. Moreover, it was plagued with both thorny technical problems and cost overruns. Yet it managed to overcome these early challenges, in part by turning prospective rivals into alliance partners. In 2009, the year before its IPO, Tesla worked out the alliance with Daimler, whose roots in automobile engineering extend back to the early days of the automobile powered by an internal combustion engine about 130 years ago. The deal provided Tesla with access to superior engineering expertise and a cash infusion of $50 million, helping to save the company from potential bankruptcy.

The alliance with Toyota, signed the following year, brought other benefits. It enabled Tesla to buy the former New United Motor Manufacturing, Inc. (NUMMI) factory in Fremont, California — created as a joint venture between Toyota and General Motors Corp. in 1984 — and to learn large-scale, high-quality manufacturing from a pioneer of lean manufacturing. As it happened, the NUMMI plant was the only remaining large-scale car manufacturing plant in California, and some 25 miles from Tesla’s Palo Alto
headquarters. Without this factory, Tesla would not have been able to initiate production planning for its recently announced Model 3, which received more than 350,000 preorders within three months of its announcement.1

In 2014, Tesla Motors signed another strategic alliance — this one with Osaka, Japan-based Panasonic Corp., the consumer electronics company and a world leader in battery technology. As Tesla tries to position itself in the business of sustainable and decentralized energy, the relationship with Panasonic is significant. The two companies are jointly investing in a new $5 billion lithium-ion battery plant in Nevada. Tesla’s ability to attract and manage leading companies in the automotive and other key industries as strategic alliance partners is an important part of its formula for success.

The decisions by Daimler, Toyota, and Panasonic to collaborate with Tesla highlight that individual companies may not need to own all of the resources, skills, and knowledge necessary to undertake key strategic growth initiatives. When conditions are uncertain and the stakes are high, partnerships can be an attractive alternative to going it alone or to mergers and acquisitions.2 Accordingly, many companies now maintain alliance portfolios. As a result, executives must manage multiple alliances with diverse partners across the globe simultaneously.3 However, the skills required to develop and manage alliances are still not well understood. Prescriptions for how to achieve effective alliance management are frequently too condensed, piecemeal, and static — and don’t pay adequate attention to the strategic element. In this article, we attempt to address these shortcomings by offering an integrative and holistic framework of alliance management along with practical guidance.

Taking a Strategic Approach
The Tesla example illustrates the potential benefits of a carefully crafted and well-executed alliance strategy. Although strategic alliances are often viewed as a critical tool for pursuing growth opportunities, survey data suggests that roughly one half of all alliance portfolios underperform.4 These assessments of alliance performance are subjective; however, it is fair to say that many alliances fail to live up to expectations. Why? In theory, growth in the number of alliances should mean that companies are able to develop alliance capabilities through learning-by-doing.

Our research on the factors driving alliance performance, however, shows that companies move down the learning curve at different rates.5 (See “About the Research.”) Smaller companies may have advantages in this relative to larger partners because they are usually less complex internally and have stronger incentives to learn. We found that the benefits of alliance experience do not come automatically but depend on the extent to which the organization can actively capture and leverage its experience (for instance, one partner may be able to draw additional benefits from an alliance, while the other may continue to make the same old mistakes).6 Hence, a company’s alliance portfolio — the combination of all of its alliances — requires a holistic and strategic approach. Tesla, for instance, doesn’t view its alliances as individual deals but as part of an overall strategy to establish a new standard in automotive technology and, along the way, to gain a competitive advantage.7

In the face of the comparatively low success rate of alliances, it’s worth asking: Why is the rate so low? And more important: What can managers do about it? In attempting to answer these questions, we found that managers are frequently ill-prepared to handle the key stages of the alliance process. Instead, they tend to make three misguided assumptions that sow the seeds for failure: (1) that they will find good partners, (2) that they will be able to capture an adequate amount of economic value, and (3) that the alliances will continue to serve the company’s needs over time.

ASSUMPTION 1: The company will find good partners. The assumption that you will be able to line up the best partners available ignores the broader context in which alliances are formed. The market for alliance partners is often crowded and competitive. Moreover, managers often don’t have complete information to identify the best matches. During the biotechnology revolution, for example, some 2,000 new ventures burst onto the market. Many of them sought to attract the attention of the big pharma companies on the theory that an alliance would be an endorsement of quality and pave the way to a faster IPO with a high valuation.8 However,
四十年后，生物技术产业的开始，只有一小部分生物技术公司已经取得了成功。大多数都失败了。在四十年后的生物技术革命中，它们的发展，除了从进入下关系的贡献，绝对的学习贡献从每个额外的联盟关系中减少。一些有趣且出乎意料的结果来自我们的研究。首先，一般联盟经验的生物技术伙伴在随后的R&D项目中的表现。第二，与我们的预测相反，特定联盟经验实际上对随后的R&D项目的表现产生了负面影响。表现下降了。我们发现，不同的联盟类型对不同的联盟管理能力有要求，而这些公司在更多联盟中取得的业绩更多。在另一项研究中，我们考察了不同的联盟类型如何在联盟经验中发挥作用。根据这些结果，我们开发了一套联盟与业绩相关的联盟经验。联盟管理的性能。我们聚焦的经验如何影响公司。我们注意到，联盟管理的性能，随着联盟的持续发展，实际上是不可持续的。在这种情况下，公司与其合作伙伴的关系表现出了递减的边际收益。第二，联盟管理的性能在随后的联盟中。性能下降了。这表明，对于大型公司来说，很难管理联盟。在另一项研究中，我们发现，正在管理大型公司联盟的管理者很少能在未来的工作中找到合适的解决方案，或者适当地处理联盟结构中没有被考虑到的问题。缺乏沟通和不信任。作为临时和随意的联盟，由于它们没有被认可和考虑，误解和负面的感知迅速蔓延。

关于研究
我们进行了几项研究，探讨了公司如何学习和管理联盟。在第一项研究中，我们深入研究了近300个R&D联盟项目，这些项目涉及大型制药公司和小型生物技术合作伙伴。我们重点研究了两个联盟的类型：一般联盟经验和特定联盟经验（分别来自于联盟伙伴的联盟经验）以及在不同合作伙伴之间的联盟活动。基于经验曲线，我们预测联盟之间的联盟表现和联盟性能将有显著差异。如果联盟会保持积极但联盟会持续递减的边际收益。这种情况意味着，尽管额外的学习可能在随后的联盟关系中被获得，但联盟至少为联盟经验带来的绝对学习贡献而有所降低。一些有趣且意料之外的结果来自于我们的研究。首先，一般联盟经验的生物技术伙伴在随后的R&D项目中表现。其次，与我们的预期相反，特定联盟经验实际上对随后的R&D项目的表现产生了负面影响。表现下降了。我们发现，不同的联盟类型对不同的联盟管理能力有要求，而这些公司在更多的联盟中取得的业绩更多。在另一项研究中，我们考察了不同的联盟类型如何在联盟经验中发挥作用。根据这些结果，我们开发了一套联盟与业绩相关的联盟经验。联盟管理的性能。我们聚焦的经验如何影响公司。我们注意到，联盟管理的性能，随着联盟的持续发展，实际上是不可持续的。在这种情况下，公司与其合作伙伴的关系表现出了递减的边际收益。第二，联盟管理的性能在随后的联盟中。性能下降了。这表明，对于大型公司来说，很难管理联盟。在另一项研究中，我们发现，正在管理大型公司联盟的管理者很少能在未来的工作中找到合适的解决方案，或者适当地处理联盟结构中没有被考虑到的问题。缺乏沟通和不信任。作为临时和随意的联盟，由于它们没有被认可和考虑，误解和负面的感知迅速蔓延。由于联盟管理的性能，这些公司的决定性结构没有被正确认知。由于不同公司的差异，假设问题可以被解决。然而，由于联盟管理的性能，这些公司的决定性结构没有被正确认知。由于不同公司的差异，假设问题可以被解决。然而，由于联盟管理的性能，这些公司的决定性结构没有被正确认知。由于不同公司的差异，假设问题可以被解决。然而，由于联盟管理的性能，这些公司的决定性结构没有被正确认知。由于不同公司的差异，假设问题可以被解决。然而，由于联盟管理的性能，这些公司的决定性结构没有被正确认知。由于不同公司的差异，假设问题可以被解决。
understanding of the relevant issues and remedies. Given factors such as globalization, technological change, and business model innovations, executives frequently need to manage multiple alliances at once with partners in different geographies and at different stages of the alliance life cycle. This requires a number of different, interrelated activities, with many opportunities for missteps. Based on our experience, we have developed a process framework and a set of critical questions that can help managers undertake alliances more effectively.

The framework acknowledges the complexity of generating benefits from alliances and the vigilance required to extract their benefits fully. For example, even if a company executes its alliances exceptionally well, the overall returns may be low because inappropriate partners were selected, too much value was ceded in negotiations, or the alliance contributes little to the company’s alliance portfolio. We offer a holistic approach to alliance management, organized around five distinct steps: partner selection, deal negotiation, execution, exit, and portfolio management. (See “Managing Alliances Effectively.”) To illustrate how the framework works, consider the example of Lego A/S, the privately held toy company based in Billund, Denmark. After facing financial difficulties in the early 2000s, Lego has been able to rebound, in part based on how it used alliances to leverage and extend its core competence. Between 2005 and 2015, Lego grew significantly, from about $1 billion in revenues to more than $5 billion.

**STEP 1: Partner Selection** Strategic alliances are voluntary arrangements between two or more organizations to develop new processes, products, or services. There are important distinctions between alliances in which partners access existing knowledge, resources, and capabilities and those that lead to the development of new knowledge, resources, and competencies. Our research suggests that partner selection should account for potential partners’ experiences gained through collaborations, since they shed light on the partner’s ability to contribute to the success of an alliance. Since external experience can be combined in complementary ways with internal competencies, potential partners should be evaluated in part on the bundles of relevant experiences they are able to bring to the alliance.

When managers take the time to conduct thorough evaluations of this kind, they can increase the odds of successful negotiations by using the information to communicate alliance benefits to potential partners. The analysis can be used as a tool for internal communication as well, ensuring that a promising alliance can get the resources and managerial attention it requires. Potential partners shouldn’t be evaluated in a vacuum but need to be examined in terms of value-creation potential and strategic fit with the overall alliance portfolio.

Previously, Lego had selected its alliance partners based on a limited set of criteria, with the implicit assumption that if the partnerships leveraged and extended the company’s brand, they must be creating value. The company obtained licenses for intellectual property (characters and brands) such as Star Wars, Indiana Jones, Harry Potter, Lord of the Rings, Batman, the Simpsons, and Iron Man. Because Lego didn’t own the intellectual property but had to invest in the manufacturing, global distribution, and promotion of the licensed products, the benefits accrued mainly to the partners.

Recently, Lego has become more selective in assessing and working with partners, attempting to achieve both a strategic and an operational fit. The Lego Movie, which grossed more than $450 million on a $60 million budget in the year following its 2014 release, offers a good example of its new approach. To produce the movie, Lego negotiated partnerships with several companies to obtain key resources and capabilities that it lacked. For example, the animation and visual effects for the movie were developed by the digital animation and design studio Animal Logic Pty Ltd, based in New South Wales, Australia, while Warner Bros. Pictures provided financing and distribution. The movie attracted audiences well beyond Lego’s traditional market of children between 5 and 12 years old.

**STEP 2: Deal Negotiation** This stage of the process, where the parties define the terms of the partnership and their mutual responsibilities and rewards, is fraught with challenges. Negotiators who focus on capturing the lion’s share of the potential value at the expense of their partner run the risk of
undermining the alliance and seeing little in actual gains. Negotiations between small and large companies are particularly susceptible to poor outcomes due to differences in the partners’ negotiating power. Negotiators for small companies warn that one-sided deal terms that result in the smaller partner assuming most of the risks can have consequences down the line, causing the small company to focus on preventing losses in the execution stage. Such responses to poorly negotiated deals can leave alliance teams less willing and less able to realize the value-creating potential of the partnership.18

A successful deal negotiation should set the stage for the execution stage and support knowledge sharing between the negotiators and the individuals who will be taking over the day-to-day execution. Corporate development teams that move through this process too quickly miss out on the opportunity to receive the feedback they need to improve future negotiations. To this end, the composition of the steering committee should be optimized to facilitate information exchange and improve coordination.19 The handoff from those negotiating the agreement to those who will manage the execution stage provides an opportunity for companies to hone their alliance capabilities.20

Although discussing the details of an exit from the relationship as it is being formed may be uncomfortable, beginning to plan for contingencies and wind-down procedures as part of the front-end negotiation is nevertheless helpful.21 Without such discussions, there is a tendency toward inertia that can mean a company’s alliance portfolio fails to reflect changing strategic and environmental conditions. For instance, when negotiating the various strategic partnerships needed for The Lego Movie, Lego was more explicit about defining the scope of the project than it had been in past partnerships. While some of its old alliances had been on the books for years and were becoming stale, relationships involving The Lego Movie were clearly defined and limited to a single project, with an option for future collaboration.

**STEP 3: Execution** To achieve the strategic goals of the individual partners, it’s necessary to have collaboration between people from different organizations that have their own ways of doing things.
Many alliances involve collaboration across geographic, industry, and sector boundaries. Successful execution requires working through the inevitable frictions to achieve new solutions and shared understanding.

With *The Lego Movie*, for example, Lego saw the need to combine detailed alliance negotiations with strong execution. It sought contractual safeguards to maintain the integrity of its brand and ensure adequate returns. At the same time, there was an understanding on the part of management that creativity — both in terms of the storyline and the visual quality — was essential. This required partners to be flexible and to maintain open communication. With this in mind, Lego wanted agreements that allowed different partners to bring their best ideas to the movie project. For its part, Lego shared core intellectual property, including software and data related to its virtual brick-building system, collaborated on new characters and set designs, and provided input to key decisions during the three-year movie-making process.

In smaller organizations, alliance experience is often limited to a few key employees. Larger companies have the opportunity to create structures, processes, and incentives to proactively harness and store their alliance experience for future use. Companies such as pharmaceutical giant Eli Lilly and Company have invested heavily in this area, creating specialized roles that bring together the strategic commitment and internal operational know-how needed to succeed at alliances. Senior-level alliance champions and on-the-ground alliance leaders are, in turn, complemented by specially trained alliance managers who are able to transmit knowledge and best practices to the rest of the organization. In order to identify and overcome problems early on, it is important to deploy alliance managers, create shared tools, and conduct regular assessments of alliance health. It’s also helpful to establish conflict-resolution procedures in advance to have a road map for how specific issues will be resolved and by whom. Best practice calls for establishing a dedicated alliance function, which coordinates all alliance-related activities while creating systems, processes, and structures to centralize and share accumulated alliance experience.

**STEP 4: Exit** Although some alliances end in bitter conflict, dissolving an alliance is not always a sign of failure. Since alliances can be vehicles for exploring new opportunities, it shouldn’t be surprising that some will prove to be less fruitful than initially expected. By negotiating exit triggers, partners can determine in advance when the dissolution process should begin. At Lego, for example, the purpose of many of its partnerships was to inject novelty into its product line and boost sales. However, everyone knew they weren’t meant to last forever and that most would reach a point of diminishing returns. This didn’t seem to sour companies on the idea of working with Lego. In fact, Warner Bros. was so pleased with the results of its involvement with *The Lego Movie* that it signed an agreement to produce a sequel and other spin-off movies.

Terminating an alliance should follow a process that clearly stipulates the responsibilities of the partners and the various stakeholders. Among other things, partners should agree up front about how gains and losses will be shared. The reasons for exit should be communicated clearly to both partners’ other alliance partners so as not to damage either company’s reputation. One executive we interviewed admitted that the lack of an exit plan left his company at a loss for what to do when a larger partner terminated their four-year partnership. The uncertainty and confusion that ensued led to a significant drop in his company’s stock price and a loss in shareholder value.

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**STEP 5: Portfolio Management** The combination of partners and deal structures that comprise a company’s alliance portfolio can yield additional value. At a minimum, having multiple partners reduces a company’s reliance on any single partner. A focus on lowering risk and increasing bargaining power, however, shouldn’t come at the cost of too much redundancy lest scarce resources (including managerial resources and attention) be spread thin. New partners should add complementary strengths and increase the company’s strategic flexibility rather than reducing it. At the corporate level, alliances should also complement the company’s acquisition strategy and internal development choices.

Companies should conduct regular assessments of their alliance portfolios in order to ensure that future alliances fill important gaps. In the interests of advancing its ability to innovate, Lego, for example, recognizes that partnerships that are primarily about leveraging existing resources and knowledge, such as licensing agreements, need to be balanced with relationships that are higher-risk and exploratory — but also more likely to lead to new generations of products. For example, a partnership with the MIT Media Lab in the 1990s gave rise to Lego’s MindStorms, build-and-program robot kits that produced a large, loyal following of both teenagers and adults. This collaboration has in turn inspired new products that mix Lego’s physical toys with digital interaction.

As a whole, our framework assists companies in managing their alliances throughout their entire life cycle. While each stage of an alliance process raises distinct issues, the stages are interconnected and can contribute to a valuable alliance portfolio. Companies can begin by assessing their existing and potential alliances with a set of questions to reveal whether the value creation and capture potential of each alliance — and the resulting alliance portfolio as whole — is being fully realized.

Ha Hoang is a professor of management at ESSEC Business School in Cergy-Pontoise, France. Frank T. Rothaermel is the Russell and Nancy McDonough Professor of Business at the Georgia Institute of Technology’s Scheller College of Business in Atlanta, Georgia. Comment on this article at http://sloanreview.mit.edu/x/58119, or contact the authors at smrfeedback@mit.edu.

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4. Recent survey data estimates the failure of alliance portfolios to be about 50%, and Benjamin Gomes-Casseres estimates that 33%-66% of all alliances break up within 10 years. In 2001, Jeffrey H. Dyer, Prashant Kale, and Harbir Singh estimated that almost half of alliances fail. See, respectively, The Association of Strategic Alliance Professionals, “Fourth State of Alliance Management Survey,” 2012, www.strategic-alliances.org; B. Gomes-Casseres, “Remix Strategy: The Three Laws of Business Combinations” (Boston, Massachusetts: Harvard Business School Press, 2015), 12; and J.H. Dyer, P. Kale, and H. Singh, “How to Make Strategic Alliances Work,” MIT Sloan Management Review 42, no. 4 (summer 2001): 37-43. While alliances may be terminated for a host of reasons, including the achievement of the intended alliance goals, the estimates above suggest that many alliance portfolios do not deliver the expected strategic benefits. There are several explanations of why the estimated alliance failure rate has not improved over time. As the business environment has become more uncertain (due to technology change, regulatory changes, political factors, financial crises, etc.), a greater variety of external factors can limit alliance benefits. Alliances also tend to be more complex today and thus are more challenging to manage at the alliance-portfolio level. However, although the average failure rate does not appear to have changed much, if any, over time, individual companies may improve their alliance performance, as we detail in this article.


12. Jonathan Hughes and Jeff Weiss provide fresh insights but focus on the effective management of a specific alliance. In a similar vein, Ranjay Gulati, Maxim Sytch, and Parth Mehrotra provide a helpful framework on how to plan an exit from a specific alliance. Other authors highlight the importance of a dedicated alliance function. By contrast, we focus on the entire alliance process from initiation to termination in a holistic fashion, as well as providing guidance pertaining to alliance portfolio management. In sum, our approach is more strategic in nature, and thus more likely to help companies gain and sustain a competitive advantage. See J. Hughes and J. Weiss, “Simple Rules for Making Alliances Work,” Harvard Business Review 85, no. 11 (November 2007): 122-131; R. Gulati, M. Sytch, and P. Mehrotra, “Breaking Up Is Never Easy: Planning for Exit in a Strategic Alliance,” California Management Review 50, no. 4 (summer 2008): 147-163; and Dyer, Kale, and Singh, “How To Make Strategic Alliances Work.” For a complementary treatment on how to create and capture value from broader corporate development activities including alliances, joint ventures, and acquisitions, see Gomes-Casseres, “Remix Strategy.”


15. Hoang and Rothaermel, “Leveraging Internal and External Experience.”


20. An extensive literature dissectses these challenges and offers strategies and tactics to boost the likelihood of a successful negotiation. See, for example, D.A. Lax and J.K. Sebenius, “3-D Negotiation: Powerful Tools to Change the Game in Your Most Important Deals” (Boston, Massachusetts: Harvard Business Review Press, 2006).


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