

Building Trust in Strategic Alliances: enabling greater value

In order to stay competitive companies increasingly focus their limited resources and attention on a few core competencies. This leads to product disaggregation, resulting in complex value-delivery chains. Interdependency between companies is increasingly important in order to provide the complete solutions customers demand. More and more, business growth is dependent upon the development and management of long-term, value-producing, multidimensional business relationships; at times a company's very existence may be at stake.

But, the vast majority of strategic business alliances do not achieve the incremental value that management expects. There is untapped value potential in every business relationship. The root cause for alliance failure is a lack of respect, confidence and trust in the other partner or the alliance itself. Trust is affected by the degree of openness in communication; and a lack in trust is also a root cause for poor communication. Therefore trust is a fundamental issue, being both cause and effect. Even in the best of times creating truly collaborative, value-producing alliances is hard work. With bad 'chemistry' they are impossible.

Here we are presented with both monumental challenges as well as significant opportunities. Done well, alliances reap huge rewards for customers, employees, partners and stakeholders; done poorly, there is individual and organizational frustration, unproductive resource investment and they are emotionally draining on both sides of the alliance. With the success or failure of alliances, the success or failure of individual careers and businesses often swing in the balance. And, the health of an industry rests on a healthy ecosystem (the web of inter-company alliances).

How can we create healthier alliances or transform unhealthy ones?

This whitepaper was selected as a Best Practice by the Association of Strategic Alliance Professionals (www.strategic-alliances.org).



What is meant by “Strategic Alliance”?

In this article, a “strategic alliance” is defined as an inter-company or intra-company business relationship with the following key attributes:

- **multidimensional** - more than a simple sell to (sales), or buy from (procurement) relationship; and, often beyond a sell with (co-selling) relationship. Strategic alliances are complex, often spanning numerous functional areas of a product/service lifecycle from development through marketing and into sales. Also, these business relationships often affect many business units within an enterprise.
- **significant incremental strategic value** - more than simply incremental sales revenue or cost-reduction. Jointly- and individually-produced incremental value often takes on a wide range of forms (both tangible as well as intangible value).
- **long-term** - these relationships extend beyond the typical planning horizon of most businesses. In order to realize their full value producing potential, healthy strategic alliances often last many years (5 years or more).

Strategic alliances are the business relationships which are most demanding, and are the most critical for the success of a company and the larger ecosystem.

Business relationships which do not meet the above attributes can still be critically-important business relationships, but they are not “strategic alliances” - they are considered “tactical relationships”. Strategic alliances are the business relationships which are most demanding, and are the most critical for the success of a company and the larger ecosystem.

This Article

This article is not intended to address the critical mechanisms or science of alliance management: strategic alignment around objectives & interests, legal contracts, governance processes, executive relations, metrics, escalation processes, dispute resolution, reviews, decision-making processes, etc. This article is discussing the more subtle and difficult aspects of the alliance spirit - open, trustful communication. Why do some alliances fail to produce their expected value when all of the above mechanisms are in place? Why do some alliances succeed even though they lack many of these formal structures and processes?

As the pervading atmosphere in an alliance grows healthier, more value is discovered and developed - natural creativity occurs. This growth in the artful side of an alliance, in effect feeds into the mechanisms and processes - the science side.



Success or Failure - a subtle, simple and difficult shift in perspective may be the answer

Obviously the foundation of a business alliance is relationships between people. This may be obvious when we stop to think about it; but, very often the actual behavior of individuals or organizations does not reflect that understanding. How we end up relating to each other is fundamentally dependent upon the perspectives we choose to hold when we look at, think about or consider various situations and people. Admittedly this may seem simplistic, and therefore irrelevant in the complex, tough world of business, but consider some of the concepts below. How are they affected by and how do they affect the health of business relationships - between companies and between people? How do these concepts affect the value-producing potential of an alliance? Could perspective be a root cause issue - how we choose to see people and situations?

Expanding vs. Dividing the Pie

Years ago much was written about the importance of establishing 'win/win' business relationships. The point was that the best relationships were ones where both parties benefited, or won something. This philosophy is good but insufficient; it takes us only part way towards a healthier mindset. As applied in the increasingly competitive, fast-paced world of business 'win/win' quickly becomes 'win/don't-care' behavior, meaning "I'll take care of my wins and I assume you are mature enough to take care of your own wins". To care nothing about the other party is not part of a collaborative mindset.

Establishing "win/win" business relationships is insufficient.

A more collaborative perspective is to think about the creation of collective incremental value - think about that value as being a 'pie' jointly created or expanded. This pie may represent a new market, or a new area of technology. If not a new pie, perhaps you are collaborating to expand today's pie, growing the market. With over 20 years of research The Program on Negotiating at Harvard Law School, MIT and Tufts universities has proven the subtle but fundamentally important concepts of creating/expanding a pie vs. dividing a pie. The healthiest, most value-producing approach in an alliance is to first and foremost (perhaps exclusively) focus on expanding the pie, only much later is pie division considered. Furthermore it was found that once a negotiation (an alliance discussion) starts focusing on dividing the pie it was extraordinarily difficult to shift back to a pie-expanding mindset.

In other words it is easy to switch from a pie-expanding or an abundance mindset to a pie-dividing or scarcity mindset, but very difficult to switch back to pie-expanding. In strategic alliances the most productive environments are ones which are continually based in pie-expansion or pie-creation. Pie-dividing mindsets and behaviors are a sure sign of an unhealthy alliance, doomed to failure or stagnation. Pie division is focused on me; pie expansion/creation is focused on we (the alliance).



Needs-based vs. Opportunity-discovery

A purely needs-based relationship is not a strategic alliance (see definition), because business needs are generally one-dimensional. For example, a company may need a product channel or it needs to reduce costs (e.g., outsource). A strict focus on needs is me-oriented and self-serving, rather than being we-oriented and looking at producing net-new incremental value in the overall relationship (which can include, but is not limited to, needs). Need-based relationships are time-bound - when my company's needs are being met the relationship changes to a state where the strategic attention of the organization is no longer required (the relationship is in execution mode, we are simply 'turning the crank'). If and when needs are no longer being met, the business relationship is over. Whether or not my company's needs are met there is a lack of long-term strategic perspective and sustained organizational commitment.

A non-collaborative needs-based relationship is based on a scarcity mindset - "your win is my lose" or, "you have something I need". These are needy relationships. Each partner is looking to get from the other partner what is lacking in their own organization. Effectively they have come together to make themselves whole by, in a sense, taking from their partner. They keep working together until their needs are met, or until their needs are no longer being met - either way this alliance is time-bound. Sooner or later they part ways; with minimal incremental value produced there is not much need for a strategic alliance.

With a pie-expanding mindset, grounded in abundance rather than scarcity, opportunities become more apparent. In fact I contend that until the mindset or the environment of an alliance becomes abundant, opportunities cannot even be seen by either partner. When there is this subtle but significant shift in perspective, opportunities literally start to present themselves. A truly strategic, long-term alliance sees beyond simple needs, it is focused on creating incremental value through healthy abundance-oriented collaboration.

Perspective of Time

Time is a crucial factor in business and alliancing. In negotiations time is often seen as 'the ultimate weapon' (admittedly not a very collaborative label); the use of time-based leverage and milestones is crucial to understand. The use of time fundamentally affects negotiating outcome and alliance progress.

How one views time is an indicator of whether there is an abundance or a scarcity mindset - pie-dividing vs. pie-expanding. Impatience leads to an inability to accept as meaningful, milestones on the path toward long-term strategic objectives. This inability to see progress, leads to impatience. Impatient managers will often prematurely shift strategic direction before expected results are realized. This ever-changing strategy then circles back becoming self-fulfilling, reinforcing the legitimacy of a scarcity mindset - incremental value is unfound. With an abundance perspective comes patience, with patience comes more value-creation opportunity - long-term as well as near-term. Time is admittedly very critical in business, but it may be singularly over-emphasized in some situations.

***Infinite patience
produces immediate
results.***



Perspective of Value

When one is needy, impatient, and in a scarcity mentality, the notion of value (or producing good) naturally becomes limited. Alternatively consider Maslow's triangle, at its highest abundance-oriented levels the need actually is to create value. In business, fear or basic survival will often evident itself as a singularly obsessive focus on immediate incremental sales revenue as the only measure of alliance value. This is not to minimize the importance of growing a business' revenue, but in a strategic alliance focusing only on incremental revenue is self-limiting from the very outset.

Assessing an alliance's value, based solely on incremental revenue, is like counting the number of children in order to determine the health of the marriage. Some of the healthiest marriages have no children, while a marriage with many children may be quite dysfunctional and unhealthy for all.

Potential areas of value created in an alliance: beyond sales revenue or cost-reduction	
<ul style="list-style-type: none"> ■ Increased market share ■ Access to new markets ■ Development of new markets ■ Improved time-to-market ■ Business process innovation ■ Knowledge transfer and organizational learning ■ New organizational capabilities 	<ul style="list-style-type: none"> ■ Reduction or neutralization of competitive threat ■ Risk mitigation/sharing ■ Diversification of product portfolio ■ Increased brand recognition ■ Improved customer satisfaction ■ Improved strategic plans - additional options and other forms of value

Conflict vs. Confrontation

At a professional conference on strategic alliances I heard a presenter say, "A healthy alliance is one where there is never any conflict, where the partners always get along". Depending on what was meant I might agree or disagree with this statement. This statement sounds like what we often hear from newly married couples, "Oh, we always get along, we never fight or disagree on anything"; there may be a similar 'honeymoon phase' early in business alliances - such periods in relationships are often artificial and superficial.

When people or organizations attempt to work together there are always differences - differences of opinion, differences of perspective, different strategies, cultural differences or decision-making differences. If two individuals completely agree all the time, one of them is redundant. As individuals collaborate in alliances, as relationships deepen over an extended period of time, significant differences (often viewed as 'problems') will inevitably surface. The question is: "How do we choose to look at and leverage off of those differences?"

Conflict -
open warfare, difference - a clash between people, unconscious opposition

Confrontation -
encounter - jointly face a clash of ideas, conscious benefit from difference



In an unhealthy alliance (having a 'me vs. you' perspective, and a scarcity mentality based in fear) differences are seen as problems that need to be prevented. Given there is poor communication in such unhealthy alliances, any communication about these differences is accompanied by unproductive emotion - blame, accusations, anger, etc. Given an unhealthy desire to keep differences to a minimum, as they are seen as 'problems', there can be an unconscious and unproductive attitude of fault-finding, with individuals thinking, "We need to be on the look out for problems before they further deteriorate this alliance". In parallel there is also an attempt at problem avoidance, saying "Things are already bad, let us not make it worse by talking about these problems". Paradoxically problems are sought out, but not dealt with; now this dichotomy is the real conflict.

A healthier perspective is to view differences not as problems but as opportunities. This may sound trite, but it has been my experience that whenever there are problem situations, they always hide within themselves significant opportunity. The challenge is to figure out a way to look at differences or problems from a positive perspective - without blame, judgment, shame or guilt. This requires great trust. Paradoxically, as open communications occurs, especially discussions focused on the most challenging problems, trust grows. As trust grows discussions become healthier, they become less loaded with counter-productive emotion.

Even more profound has been the realization that as partners engage in such open, intense discussions, focused on their most challenging problems, they do not have to bring answers to discussions in order for the conversation to be beneficial. Often managers in business say "Do not bring me a problem unless you also have a solution." Repeatedly I have seen that just the simple but difficult act of having open, unemotional, intense discussions can itself be the solution. As we jointly shed some light on a difficult situation, that situation is often transformed - just by the process of intensely and thoroughly sharing perspectives. As the partners experience this illuminating quality of shared perspective with the accompany surfacing of new opportunity, they may start to actually become enthused whenever any new problem surfaces - they no longer avoid problems, they can grow to even embrace problems and they may actually start to focus their attention on the most difficult problems (not to fault-find, but because they know they hold meaningful opportunity and growth).

The opportunity that is concealed within every problem does not manifest until all the facts of any given situation are openly acknowledged and fully accepted. This requires there to be no negative emotion (e.g., fault-finding or blame) which create defensiveness. As long as you deny that these problems exist, as long as you try to escape from them or wish that things were different, this window of opportunity will not open up, and you remain stuck in the problematic situation, which will either stagnate or further deteriorate.

Eckhart Tolle (paraphrased)



Two Perspectives

The table below summarizes the five concepts previously discussed - comparing and contrasting a 'fear & me' perspective with a 'trust & we' perspective. If you reflect upon your own experiences you may begin to realize that there is a linkage between an obsession on me (me vs. you, scarcity mentality) and fear. Likewise when there is true, healthy open discussion (a we-based relationship), trust has to be there too.

You may think that these concepts are simplistic; they are simple but not simplistic. These healthier perspectives are valuable when revitalizing an existing alliance, or establishing a new one. They are useful for alliances with outside companies as well as intra-business relationships.

When we choose to change the way we look at things, those things we choose to look at change.

Fear & Me	Trust & We
Scarcity mindset – we are simply dividing the 'pie'; your gain must be my loss; we are dealing with a fixed amount of resources	Abundance mindset – let us create a new 'pie', or grow today's 'pie'; jointly we can both increase our wins; we can expand the available resources
Needs-based – make me whole, address my needs	Opportunity-based – let us discover and produce net-new value
Impatient – I cannot see progress, therefore there is ever-changing strategy; organizational angst; lack of results leading to greater impatience	Patient – we can see end-point goals & progress-indicating milestones; we know that near- and longer-term success will be realized
Simplistic perspective on value – only looking at my immediate incremental revenue, or cost-reduction	Customer- / Strategic - perspective on value – looking at what we can do long-term, holistically
Conflict-avoidance – let's not make things even more negative; but, be on the lookout, fault-find	Confront 'problems' – we accept and overcome challenges, discovering 'hidden' opportunities

It is a simple matter of perspective, of how we personally choose to look at situations, people and the alliance itself.

Which Path are we Always On?

Each of these perspectives - 'fear & me' or 'trust & we' - are constantly taking us down one of two fundamentally different paths; we are always on one path or the other, there is no in between. This illustrates the power of perspective - perspectives which we individually choose to hold, and perspectives we choose to openly share.



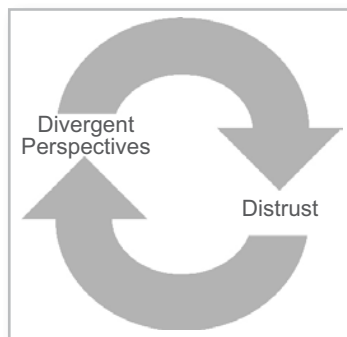
Spiraling Out *Out-of-control - Out-of-sync - Out-of-value*

Whenever the partners have significantly differing and unshared perspectives, whether it be different corporate cultures or differences of opinion on a specific topic; whenever perspectives diverge, this nearly always leads to a view of the other side as: (a) devious (“they are out to get me”); (b) incompetent (“they are idiots”); or, (c) both.

When there is a lack of trust there is a lack in communications. Open dialogue cannot occur. How can perspectives converge on the truth (healthy learning) which lies between two individuals or between two organizations? No one has a monopoly on the truth - it is only when perspectives are openly shared that we can draw closer to seeing the truth in any situation. Without an increase in trust, perspectives continue to diverge. In such situations there is little confidence in the either side, there is even low confidence in self, individuals and your own organizations (we ask ourselves, “why are we doing this?”). Problems are ever-present - the whole relationship is the problem. It is impossible to discover and capitalize on opportunities.

Spiraling Out

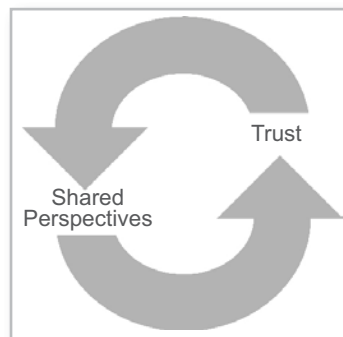
Out-of-control - Out-of-sync - Out-of-value



- Poor/No Communications
- Low Confidence
- Problems & Disillusionment

Spiraling In

In-control - In-sync - In-value



- Open & Effective Communications
- High Confidence
- Opportunities & Healthy Learning

Spiraling In *In-control - In-sync - In-value*

Whenever the allies have shared & openly understood perspectives, there is naturally an increase in trust. And, when there is trust there is increasingly open & effective, non-emotional communications. As communication improves trust increases - on-and-on - the allies now come to a greater understanding of truth.

In such situations there is great confidence in both sides - in self, individuals and your own organizations (instead of questioning, there is now a deep knowing, “now I know why we are doing this!”) ...opportunities surface and become self-evident.

Perspective is both cause & effect.



Summary

Strategic alliances are hard – they currently fail far more often than they succeed, always leaving huge untapped and even unseen value potential. The creation of incremental value requires a balanced investment approach covering both the necessary science (mechanisms, processes, analysis) and the subtle art aspects of alliances (people, relations, environment).

Companies often under-invest in their alliances – not only do they not invest in the incremental people and program resources required to go beyond traditional product and services in order to start obtaining the strategic value possible between companies – in the alliance. Most importantly they under-invest in the human relation aspect of alliances, they don't invest in establishing, maintaining and growing the right mindset, a healthy environment where value can be discovered and developed. Incremental value creation is dependent upon an environment grounded in trust. Trust and shared perspective are inter-linked – they are both cause and effect – you cannot have open dialogue without trust, and open dialogue (done rightly) builds greater trust, leading to more openness. Therefore, a deepened and shared perspective builds trust, leading you to increased incremental value.

Companies need to invest in the human relation aspect of alliances.

Again, when we choose to change the way we look at things, those things we choose to look at change.

Is the answer really as simple as changing perspective, changing how we choose to look at situations and people? Given alliances are composed of interpersonal relationships, the attitude or mindset we choose to hold affects not only our behaviors, but more importantly our attitude gets communicated in nonverbal means – via body language and other subtle mechanisms.

This is simple, but don't confuse simplicity with ease. Making these core changes is difficult, requiring persistence and vigilance on our part – we need to be ever-mindful of our internal perspectives.

What is the evidence or proof for these concepts? The existence or absence of open, trustful, interpersonal communications is difficult to prove. These concepts are experiential at a personal level. Reflect upon your past experiences – do these ideas ring true for you?

Experiment upon these ideas and see if they affect positive change.



If we wanted to prescribe the process needed to create healthier strategic business alliances they might look something like the following:

1. Openly share perspectives - paradoxically it is often best to start with the most difficult, the most vexing problem you see. A willingness to fearlessly examine the 'elephant in the room' can be a bold move which empowers the alliance. Be willing to unemotionally examine as much detail as feasible - be fearlessly thorough.

2. Neutralize the problem - notice that as you build sufficient trust with others involved in the alliance - as you start to thoroughly examine a difficult problem - the magnitude of that problem is lessened in the process. The process of openly and thoroughly sharing perspective, without negative emotion, eliminates most of the problem. Done right, this process reduces the negative emotions linked with the problem, which often is the problem. I have heard this process compared to shining light on a contaminated object - intense light, by itself, cleanses (and, light has no emotion).

3. Find the opportunity - as the problem gets neutralized, as negative emotion is removed, we begin to see the other side of the situation. It has been said that problem and opportunity are simply two sides of the same situation.

4. Find new opportunities - stay open in your communication. As trust is built and more open communication occurs, other opportunities naturally surface in such positive and healthy discussions.

5. Be mindful of the spiral - which path are you on? Divergent perspectives, distrust, me, and fear; or, shared perspective, healthy learning, trust, and we? Moment to moment it's your choice.

6. Be patient - with yourself and others. Remember "infinite patience produces immediate results". Realize that you are always on one path or another. It takes time to change the most fundamental aspects of a strategic business alliance. It takes time to build trustful, open communications. But, as you start making these changes you will see immediate success.

As you start making these changes you will see immediate success.

What we are really talking about in this paper is the possibility to transform an alliance from good to great - it starts with transforming alliance practitioners themselves from good to great.



About the Author - Joe Kittel

If you have made it this far in the article, you might want to know more about the author. Below is a brief biography, especially as it relates to the craft (the art and science) of corporate strategic alliance development and management.

First the science – my formal schooling is in electrical engineering, focused on ‘quantum electronics’ (semiconductor physics studied to the level of electromagnetic field propagation within channels, transistor state change and the design layout of integrated circuits) – Magna Cum Laude.

The art – for over 15 years I have been exclusively focused on the development and management of strategic business alliances; amongst such corporate name brands as Adobe, Fujitsu, Hitachi, HP, i2, IBM, Microsoft, SAP, Siemens Nixdorf and many others (even the UN); with alliances taking the form of joint development, R&D outsourcing, co-marketing/-selling, market-making, software source licensing, patent cross-licensing and acquisition. I have learned from much coursework (esp. Program on Negotiation – Harvard Law, MIT & Tufts) and numerous books. I have helped develop alliance training at Hewlett-Packard and presented on academic panels (Wharton School of Business). After briefly developing software for HP, I then worked in most of their major business areas, developing and managing strategic alliances at the corporate level as well as enterprise sales, telecom industry business unit, enterprise systems, software development tools & environments, hosting & outsourcing services and imaging & printing.

Back to science – as in science and math, are there fundamental principles in alliancing? Especially over the past 5-6 years I have been seeking to understand if there are such principles at work in the craft of alliancing (such principles would coalesce prior learning, inspire and even have some predictive attributes). In addition to tools, processes and methodologies, I have begun to realize what might be labeled the artful science of alliancing, briefly suggested in this article.

If you are interested in this topic I would love to hear from you,

Joe Kittel

~~joe@webaccess.net~~ joe@spibr.org

About Gerlach, Porst & Steiner GmbH (GP&S)

This paper was written in collaboration with GP&S, an alliance-oriented business development consultancy with headquarters in Bad Homburg, Germany. GP&S is focused on growing businesses of high-tech companies: Key service areas of GP&S are: market research, marketing & sales strategy, program implementation and organizational development. For many years, GP&S is working successfully for the alliance management units of large and also smaller enterprises, supporting in planning and implementing alliance initiatives and programs in marketing and sales: GP&S is located in Europe, in the U.S. and in China.

info@gps-consulting.com

Gerlach, Porst & Steiner GmbH
Germany
Kaiser-Friedrich-Promenade 105
61348 Bad Homburg v.d.H.
Phone: +49 (0) 6172 – 49 55 620

Gerlach, Porst & Steiner, Inc.
USA
Loveland, CO
1416 Antero Drive
Phone: +1 970 227-6238

Gerlach, Porst & Steiner
China
Lakeside Ville 178#
Hu Qing Ping Road 1517
201702 Shanghai
Phone: +86 21 5988-7014

www.gps-consulting.com

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