A Network Approach to Alliance Management

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In this article, three managerial challenges for managing networks are described. They involve a different view on strategic choice, managing alliances as a portfolio (and not as dyadic relationships) and new tasks for top management. Finally, some practical tools are presented which firms use to manage their networks. ©1999 Elsevier Science Ltd. All rights reserved

Introduction

In traditional management literature, firms are typically described as independent self-contained units (Contractor and Lorange, 1988). More recently, as authors and practitioners are slowly becoming aware of the advantages associated with strategic alliances, inter-firm co-operation has become an important and recurrent issue in (strategic) management literature. With a few notable exceptions (for an overview see Gulati, 1998) agreements have been studied from a dyadic or firm level perspective. In this paper we will, however, argue that the strategic value of alliances can only be fully exploited by paying attention to the overall network in which a firm is embedded. In other words, a network perspective on alliances contributes more to competitive advantage than a dyadic perspective.

Since the 1970s we have seen a rapid increase in the number of newly established alliances (see Figure 1). The rapid growth in alliances reflects fundamental shifts in the structure of the global business environment and in the process of technological change. Fierce competition, the homogenisation of markets and ongoing globalisation tendencies account for most of the changes in the business environment. Rapidly growing capital and R&D costs, the ever-increasing complexity of products and a significant increase in the speed of technological development, are important drivers from a technological point of view.

The increase in the number of alliances led to the emergence of complex inter-organisational networks in which almost all firms are linked to each other by means of direct or indirect ties. Figure 2 provides an example of a typical inter-organisational network in the micro-electronics sector. In such an environment, characterised by a mix of co-operation and competition, it is not sufficient to manage alliances at a dyadic level. The real strategic potential of alliances can only be realised when the network as a whole is managed. For example, smart network management can enable a company to get access to a combination of complementary resources. Therefore, we will argue that strategic network management is an important source of competitive advantage, alongside the traditional company-based competencies.

From a network perspective the dyadic links of a particular company are only part of a much broader picture. Knoke and Kuklinski (1982, p. 13) for example note that ‘...the structure of relations among actors and the location of individual actors in the network have important behavioural, perceptual and attitudinal consequences for the individual units and for the system as a whole.’ As a consequence, the position of an organisation in its network is an important variable in determining the firm’s ability to compete. The nature of the network surrounding a company determines its ability to control information flows, knowledge flows and financial flows. Building the right relationships with the right partners thus becomes a key managerial challenge. This is only one of many examples of how networks change the nature of management. In the following sections other examples of this are presented. In the final section we present some tools for managing networks.

New Challenges in the Network Economy

Most management tools are based on the assumption that a company acts autonomously. In a network
economy, however, this view becomes increasingly inadequate. Managing a portfolio of inter-firm relationships becomes the key to strategy and requires a re-orientation of managerial principles. In Table 1 two alliance management approaches are compared: the dyadic perspective and the network perspective. The network perspective requires a different view on strategy, on alliance management and on the role of top management.

Strategic Choice

Regarding strategy, firms should realise that they are no longer able to make strategic choices based exclusively on their self-interest. The network of partners surrounding firms constrains the firm in the kind of actions it can take. Take for example the three-way alliance between Coca Cola, McDonald’s and the Disney Corporation (The Economist, 1998). Coke is the exclusive supplier to McDonald’s and the Disney parks and helps its partners in setting up new operations all over the world. McDonald’s and Coke use the Disney cartoon characters in their marketing and advertising efforts. McDonald’s, in its turn, is a marketing and sales channel for Disney and Coke. New Disney film releases are often heavily promoted by McDonald’s. This relationship is mutually reinforcing: higher sales at McDonald’s increase the exposure of Coke and Disney and the other way around. The
Table 1 Two Alliance Management Perspectives Compared

<table>
<thead>
<tr>
<th>Dyadic perspective</th>
<th>Network perspective</th>
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<tr>
<td>• Strategic choice based on:</td>
<td>• Strategic choice based on:</td>
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<tr>
<td>— autonomy</td>
<td>— dependence</td>
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<tr>
<td>— the interest of the individual partners</td>
<td>— the firm’s interest in its network</td>
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<td>— the firm’s function in the market</td>
<td>— the firm’s function in the network</td>
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<tr>
<td>• Alliances are managed as dyads:</td>
<td>• Alliances are managed as a portfolio:</td>
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<tr>
<td>— partner selection based on individual fit</td>
<td>— partner selection based on network fit</td>
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<tr>
<td>— bilateral knowledge exchange</td>
<td>— knowledge leverage across partners</td>
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<tr>
<td>— manage alliances as separate contracts; ownership</td>
<td>— manage alliances as a set of competences; access</td>
</tr>
<tr>
<td>• Top management initiates and evaluates (manage at arms’ length)</td>
<td>• Top management moderates, prioritises (involvement)</td>
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Binding forces behind this alliance are that all three companies focus on families and are the market leaders in their respective businesses. The agreements between the firms however, are of a different nature. Disney and McDonald’s have concluded a formal alliance and so have Coke and Disney. Between Coke and McDonald’s on the other hand, a formal agreement is absent (see Figure 3). Nonetheless, the ties between these firms are strong, because of the considerable amount of business that is connected with the alliance. This is in line with Granovetter’s assumption that once a strong relationship between two partners in a triadic relationship is in place, it is likely that the relationship with the third partner is also strong (Granovetter, 1973; see also Brass et al., 1998).

The strength of these relationships also has its price. It constrains the firms in making choices: if Disney were to decide to switch to Pepsi, this would put pressure on the relationship with McDonald’s as well, thereby possibly ruining a profitable alliance. Hence, next to its self-interest, Disney should also consider the interest it has in its network. The strategic choice has become dependent on its relation with its partners (Gomes-Casseres, 1994). Failing to recognise this can bring considerable cost, because losing one alliance partner can cause the loss of other partners.

A final difference connected to strategic choice is that companies have to make a choice about their role in the network. In the dyadic perspective, firms make a choice as to the function they perform in the market (their distinctive position vis-a-vis competitors). In the network perspective a firm also has to decide on its function in the network. Essentially, a firm can choose between a position as an integrator or as a specialist. An integrator combines various products into a complete offering for the client. Firms like Toyota and Benetton are examples of this. Specialists supply a limited range of products to the network. Examples include Intel and Goodyear. Clarity of the position in a network makes a firm an attractive partner, because it is easier to see which contribution the firm can make.

Portfolio Management

The second characteristic of the network perspective is that alliances are managed in such a way that their total set of alliances benefits. Traditional alliance management was confined to managing the relationship between the partners directly involved in the alliance. In the network perspective the individual alliances have to be managed as being part of a portfolio of alliances.

This has its consequences for partner selection. Traditional partner selection focuses on researching the fit between two parties. In the network economy this bilateral fit remains important. It is however not sufficient: the fit in the alliance portfolio should be looked into as well. A relevant question in this respect is whether a prospective partner improves the mix of the network. Partner selection from a network perspective involves finding key strategic partners (elephants) and browsing for short-term partnerships focused on narrow scope objectives (fruit flies). In this way, access to different kinds of resources can be gained. To make sure the optimal set of partners is assembled, it needs to be investigated what a new partner can contribute to the network. The most successful companies establish a ‘radar function’ which ensures that new developments are identified and innovative companies are approached. Partner selection therefore, should not only include an analysis of
bilateral fit, but should also inquire into the prospected partner's contribution to a healthy mix of the network. This in addition to the traditional elements of partner selection (organizational, cultural and personal fit), which remain valid.

A second aspect of alliance management in a network perspective is leveraging knowledge. In traditional dyadic relationships knowledge is exchanged between partners. In a portfolio approach knowledge leverage can take place across partners (Lorenzoni and Baden-Fuller, 1995). The diffusion of knowledge over various partners improves the quality of the entire network and thereby the competitive strength of the individual firms. An example of a firm which explicitly manages knowledge transfer in its network is ASM Lithography, a producer of wafersteppers (Roest and Schuurmans, 1997). ASML has appointed 'cultural ambassadors', whose task it is to act as interpreters between people from various industries, who co-operate in ASML's network. In this network highly specialised researchers work on product development. In order to bring forth an optimal product these researchers have to co-operate. Because of the fact that they are specialised and work in different scientific disciplines, communication between researchers is difficult. It is the task of the ambassadors to bridge the gap between these researchers. This greatly enhances the diffusion of knowledge in the network, thereby improving the speed of product development.

Leveraging knowledge is not just confined to one's own network. It is also possible to make use of the knowledge of a partner's partner. Clusters within inter-organisational networks are often formed by similar companies. Similarity is generally considered to be a stimulus for interaction as well as for attraction (Brass et al., 1998). This results in the formation of strong densely connected clusters consisting of firms that are all mutually connected. As argued by Krackhardt (1992, p. 218) these '... strong ties constitute a base of trust that can reduce resistance and provide comfort in the face of uncertainty'. Trust and comfort (Wildeman, 1998; KPMG Alliances, 1998) tend to facilitate information sharing and therefore can be seen as a stimulus for successful alliances. However, the similarity among partners seems to hamper creativity and innovation. Because most new developments in the market come about as a result of new combinations of knowledge it seems to be important to link up with other clusters in the network as well. Firms may decide to act as a bridge between different clusters of the network. By teaming up with a competent partner from another cluster, firms can benefit from the know how of the partner's complete cluster. The lack of 'social capital' in such a case (trust, comfort) is however likely to fuel opportunism and a lack of commitment among the alliance partners. Therefore alliances between companies from different clusters require special management attention and relationship management.

A third aspect of alliance management lies in the difference between managing alliances as contracts and managing alliances as a set of competences. In dyadic relationships the emphasis of alliance management lies on managing the contractual obligations. Contracts usually contain well circumscribed definitions of resources brought into the partnership. They also deal with property rights elaborately.

In the network perspective the emphasis is not so much on managing the contract as it is on managing alliances as a set of competences. Managing a single contract is not sufficient to realise the full potential of a partnership. It is the combination of a partners' competences with other partners' competences that provides the real benefit from a particular partnership. Combining competences in a network to satisfy a client's need lies at the core of portfolio thinking.

In this regard the trend towards offering solutions instead of individual products is illustrative. Banks for example are moving towards offering complete financial packages to individuals, including saving, investing, mortgage and insurance. Formerly, these products would have been offered separately. Traditional banks however have no competence in insurance. One way to offer a complete package is to set up alliances with firms which can offer these competences. For solutions which cross industry boundaries alliances are even more important. A manufacturer of copiers which aims at offering clients an integrated approach to managing their paper flows will also have to offer faxes, printers and connected software. As the competences for offering these products will not all be available inside the firm it will have to forge alliances with firms who can deliver them.

Whether a partner lives up to his contractual obligations in one transaction may be less important than the partner's ability to repeatedly being able to add value for a client. Access to a partner's competences becomes more important than the ownership of certain knowledge or assets. Combining competences with those of other partners creates competitive advantage.

Top Management Roles

A third major difference between the dyadic and the network perspective lies in the role managers fulfil. Because the strategic choices in a network approach differ so much from those in a dyadic approach, top management has to deal differently with partnerships as well. New strategic challenges have to be met by top management. To be successful, this requires a different attitude towards alliances.

In the dyadic approach the top manager is the initiator of the alliance and the evaluator. After the top has concluded the alliance, the operational affairs
are left to managers lower in the hierarchy. Regular evaluation may take place, but generally the top is no longer involved. Only when the alliance has to be disbanded, will the top manager reappear to manage the process of break-up.

Network management requires two additional roles for top management: moderator and prioritis er. The large number of alliances in a network, causes two managerial problems. The first one is that conflicts emerge in the network. As a network consists of legally separate entities with their own business goals, conflicts are likely to happen. Top managers will have a role in moderating them. The second managerial problem is that in a network a large number of inter-firm relations can come into being, which will all make their demands on network resources. Setting the priorities on which relations have to precede over other ones is a top management task, because it is inextricably intertwined with firm strategy.

**Tools for Network Management**

To meet the new demands of the network perspective, practitioners have developed a number of new managerial tools for managing networks. Three of these tools seem to be particularly useful from an alliance network perspective: portfolio analysis, partner programmes and databases. They help managers in optimising networks, in maintaining an overview and in learning from their network. This strengthens their ability to make the right strategic choices, to manage their alliance portfolio successfully and to moderate and prioritise in the network.

**Portfolio Analysis**

Portfolio analysis aims at supporting strategic choice and provides input for partner selection. The starting point of portfolio analysis is firm strategy. From the strategy follows that some competences are to be developed in-house whereas access to other competences should be realised by ally ing. By analysing an existing portfolio of alliances, a firm can determine whether this portfolio contains all required competences. If not, new alliances can fill the gaps. This serves as a basis for partner search and selection.

Competences, which may be required in the future, should be part of the portfolio as well. Through alliances a firm can hedge against future technological developments. By forging alliances with innovative companies, a firm can obtain access to innovations, which may be important in a later phase. Hence a firm can hedge against technological discontinuities by building the right portfolio.

Portfolio analysis can also clarify the effects of alliances on each other. A firm can have various alliances with one partner which can be conflicting or synergetic. Making an inventory of these relationships and relating them to each other can aid in finding ways to avoid conflict or exploit possible synergies. Of course relations between partners are to be analysed as well. Possibilities for inter-partner conflict and inter-partner learning can be identified. This facilitates an optimisation of the portfolio.

**Partner Programmes**

Partner programmes can be helpful in alliance management. Firms like FedEx (Alliance Analyst, 1998) classify their partners in various groups. The benefit of partner programmes is that they help a firm in keeping an overview over a large number of partners. Classifying partners reduces the complexity.

Partner programmes set rules regarding the way a group of partners should be dealt with. Some groups can be given extensive access to technology, information, managers or clients. Other groups may be more at a distance. The most important partners may receive regular visits from top management, whereas lower management may take care of the less important partners.

A prerequisite for the success of a partner programme is that it is also beneficial for the partners. For each group of partners it should be clear what the benefit for being in the programme is. A final success factor is that partners must be able to move between groups. Rules for moving a partner from one group to another should be clear to all parties. Changes in the business environment or in the alliance itself may make it necessary to forge closer ties with some partners and loosen ties with others. This must be accommodated in the partner programme.

**Databases**

Few firms are aware of the amount of partners they have. Registration of partnerships in a database can help firms to keep an overview over their networks. But the most important function of a database is that it allows intra-corporate knowledge sharing about alliance partners and best practices. Experiences with individual partners, their performance and the deals made can be made accessible to alliance managers in the field.

Formally registering best practice in alliance management in a database can help in spreading alliance knowledge in the organisation. A database containing cases and tools allows the individual to tap into corporate alliance knowledge. This contributes to organisational learning about managing alliances. The building up of an alliance capability will enable a firm to improve its management of the network.
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Summary

In this article we emphasised the need to go beyond the traditional dyadic alliance management perspective. We proposed a network management perspective, in which individual alliances are seen as part of a much broader picture of network relationships. In the present network economy we argue that firms need to abandon their traditional views in which they deal with alliances as isolated links, in favour of the adoption of a network approach to alliances. Because of the increasing importance of networks, firms face a number of new managerial challenges. Moving from a dyadic to a network perspective requires extensive changes in the areas of strategy, alliance management and top management roles. In order to facilitate these changes we offered a number of management tools which seem to be essential to meet these challenges in practice.

References


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