Executive Summary
A Special Report for Senior Executives

Building Powerful Strategic Alliances:
How Companies of All Sizes Can Increase Their ROI

Insights from a Study on Senior Executive Expectations, 2012-2013

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BUSINESS ADVANCEMENT INC.
Enabling Companies to Accelerate Growth and Profitability
Executive Summary

Why we launched this study
What are senior executives’ experiences and expectations about strategic alliances in 2012-2013? Where are the emerging trends in strategic partnering? How can companies of all sizes across every industry create more agile, innovative, and powerful strategic alliance relationships that can dramatically accelerate business growth and profitability? These are the questions we set out to answer at the beginning of 2012.

Through our own observations and experiences addressing the issues of strategic alliances over 20+ years of advising executives on issues related to accelerating company growth and profitability, we’ve seen that external relationships have become increasingly woven into the fabric of businesses of every size, from giant corporations to entrepreneurs. However, along with opening new opportunities, strategic alliances still carry challenges that can interfere with getting full value from these relationships.

A persistent paradox
Since the 1990s numerous organizations have conducted surveys about strategic alliances, many of them primarily concentrating on corporate development executives and the professionals who manage these relationships. This fueled an abundance of best practices for creating and managing alliances. Yet despite the existence and widespread sharing of these best practices, these studies report a persistent finding that 40% to 60% of strategic alliances do not meet senior executives’ expectations.

Finding clues
To gain new insights into why this success gap exists, and what can be done about it, we decided to primarily concentrate on the perspective of senior executives. Over the past few years we’ve spoken with senior executives of companies of all sizes, across a variety of industries, regarding their experiences and expectations of strategic alliances.

For a broader range of insights, we formed a research alliance with Persuadable Research Corporation which included a survey of senior executives on this subject. We also partnered with five trade and executive associations that invited their members and associate members to participate in the survey.

Whom we surveyed
Our survey focused on senior executives (i.e. CEOs, presidents, general managers, other C level executives, and Vice Presidents) of companies ranging in size from under $1 million to over $1 billion in revenue. Based upon their reported 2011 revenue, we grouped respondents into those from small companies (under $100 million) and large companies ($100 million and up).
Four primary trends emerged from our study:

**1. Strategic alliances will be even more critical for growth**
Across all company sizes and industries, strategic alliances are increasing in number and importance, up by more than half 50% from three years ago, and they are predicted to continue to grow in the future. A senior executive of a large company stated, “...with complexity and diversity increasing, only alliances will allow us to build relevant solutions for our customers.” Another large company senior executive noted, “...in a global company, alliances rarely remain limited to one country. The trend is to expand their scope, particularly geographical, to get a payback from all the efforts invested.”

**2. Future impact may be even greater for small companies**
While a senior executive of a large company noted that strategic alliances are “...vital to stay agile and at the top of the innovation game,” one of the trends to watch is how quickly even your smallest competitors may use the increased agility strategic alliances provide to become major forces in your industry.

As the senior executive of a small company told us, “...the impact, number, and scope of alliances will be driven more by proliferating new digital technologies than by anything else.” This optimism might explain our finding that 65% of small company senior executives versus 48% of large company senior executives agree that strategic alliances will “change the face of [their] industry” in the future.

**3. High success associated with perception of mutuality**
We found that senior executives reporting more alliance success perceived greater evidence of mutuality in the relationship. As the senior executive of a small company stated, “...if the initiative is important, crank up the discipline and transparency and resources to get it done... if it’s just a hobby it won’t succeed.”

In a similar vein, the senior executive of another small company emphasized that, “the value and positive impacts associated with greater transparency of strategy, intellectual property, and operations exceeds the value of other considerations combined.” The challenge is that 63% of senior executives of companies of all sizes do not perceive this transparency in their strategic alliances.

**4. “Strategic Alliance” defies consistent definition**
One of the findings that most surprised us was the substantial range of opinion regarding how to define a "strategic alliance.” Many senior executives use the term to refer to a wide variety of external relationships including outsourcing, supply chain integration, licensing, joint product and service creation, and joint ventures.

The question of how to define a “strategic alliance” goes beyond semantics, since there are fundamental differences in the strategic intent and structure of each of these external relationships. It also leads us to believe that using the term “strategic alliance” to describe many types of external relationships may be at least partly responsible for
mismatched expectations that contribute to clashes between partners and reduced success.

With differences of opinion split as much as 50/50 about whether an external relationship fits the definition of a strategic alliance, there could be a substantial risk that prospective partners are developing and managing the same relationship (e.g., outsourcing) with dramatically different perspectives and expectations about governance and return on investment. This could explain our own finding that on average, nearly 40% of strategic alliances across companies of all sizes did not meet expectations.

**Closing the Success Gap**

Strategic alliances have more financial impact than ever before, and that impact is growing. Ninety percent of all senior executives in our survey reported that their companies are currently engaged in at least one alliance, and more than 60% of them expect their companies’ alliances to increase in the next three years. This increased impact means that it’s critical to ensure that your company is realizing the full potential of these relationships. Here are three foundational guidelines that can enable you to bring your alliance portfolio to an even higher level of success.

1. **Distinguish strategic alliances from other relationships**

   The first foundational step for building truly powerful strategic alliances is determining whether a specific external relationship is in fact both “strategic” and an “alliance.”

   In our experience, successful strategic alliances are formed around an objective that is critical to each company’s vision, mission and strategy. They include elements of mutual consideration; joint decision-making; shared resources, risks, and rewards, and outcomes that neither could produce alone.

   To prevent clashes from mismatched expectations, it’s essential to reach internal clarity on how you think about and refer to your external relationships, even before reaching out to prospective partners. This will allow you to focus your time and resources and create a more powerful portfolio of external relationships of all kinds.

**Questions** for you and your management team to consider before you seek a partner or before responding to an invitation to partner include:

- How will the external relationship support our vision, mission, and strategy?
- To what extent are we willing to share control, governance, resources, revenues and other benefits?
- What level of risk are we willing to share?

Your answers to these types of questions will determine whether a strategic alliance is the best route to accomplish your objectives or whether a different type of external relationship would be more appropriate under the circumstances.
2. Align within and across organizations
Our results indicate that there is a large diversity in the degree to which senior executives of all sizes of companies delegate decision making about strategic alliances. This makes it very possible that the individuals who develop and manage opposite sides of the partnering relationship may approach the process with different levels of strategic orientation and accountability.

For example, the top executive of a company with over $1 billion in revenues noted that for joint product/service development “I delegate much of the decision making, have strong influence on decisions but no final sign off”. While the top executive of another company with over $1 billion in revenues noted that joint product/service development is an “…important decision... CEO should have the final say.”

This mix of strategic orientation and accountability can decrease the effectiveness of the relationship if one partner is primarily focused on transactional or tactical matters while the other partner is primarily focused on strategic issues. In fact, when we asked what they wished other companies would do differently or better to make alliances even more successful, over half of senior executives from all sizes of companies expressed “adopt a more strategic versus tactical orientation” as a “strong” or “very strong” wish.

To achieve an alliance’s full potential, it’s critical that both partners ensure that everyone accountable for making decisions about the alliance is well versed in how it fits with the company’s high-level strategic priorities, and has the authority, knowledge, skills and abilities to effectively lead and manage it.

A few questions to consider in the early stages of shaping an alliance relationship:

- To what extent is everyone involved in leading and managing the relationship in sync with our own and our partner’s strategic objectives?
- What knowledge, skills and abilities do people need in order to effectively lead and manage the strategic alliance?
- How must we modify our policies and procedures to increase the effectiveness of our strategic partnership?
- How will we respond if our partner’s representatives are more transactional or tactical than we need them to be?

Answering these and related questions will ensure that decisions support big picture outcomes and will increase the chance that both partners will get the most out of the relationship.

3. Develop a mutual relationship
Several aspects of our survey results indicate that when both partners act in ways that demonstrate the importance they attach to the relationship, they are far more likely to have the alliances meet or exceed their expectations. This is regardless of differences in company size or financial impact of the relationship.
Especially when strategic alliance relationships are developed and managed by company representatives with different levels of strategic accountability, ensure that both partners are committed to developing a relationship that goes beyond establishing roles, responsibilities and contracts to build a foundation for increasing trust and mutual value.

A few of the questions to ask at all stages of the strategic alliance relationship include:

- How can we increase mutuality in the leadership and governance of our relationship?
- What aspects of our culture and of our partner’s culture may need to be adjusted to promote mutuality?
- What circumstances would trigger the need for senior executives to be accessible to each other?
- How can we effectively communicate on an ongoing basis and around milestones so we can adjust the relationship when needed?

While it’s important to ask these questions, it’s even more important to jointly take action on the answers. This tangibly demonstrates that the alliance is truly important to both organizations.

**Increasing the ROI of your strategic alliances**

No matter how involved senior executives are in their company’s strategic alliances, their perceptions and assumptions strongly impact whether a strategic alliance is truly powerful and capable of reaching its full potential. This is because decisions about strategic direction, culture, resourcing and focus that affect how strategic alliances are formed, governed and executed are profoundly affected by assumptions and expectations at the top.

Uncovering assumptions about your external business relationships provides a starting point for building and developing the relationship so that it’s set up to meet the expectations of both partners. These include determining whether the external business relationship you’re entering into really is a strategic alliance with all of its implications, how aligned you and your partner really are, and the actual level of mutuality in the relationship.

Building these often underestimated considerations into your alliance process from the earliest stages on will enable you to create more agile, innovative and truly powerful strategic alliances to dramatically increase top and bottom line growth.
How We Conducted Our Study

We formed a research alliance with Persuadable Research Corporation to conduct a survey of senior executive experiences and expectations with strategic alliances in 2012-2013. The survey was available online to invited participants from March 2012 through May 2012.

We recruited respondents in collaboration with five trade and executive associations that invited their members to participate in our survey.

Selection criteria for participating stipulated that the respondents be ultimately accountable for the strategic direction and P&L of their companies or business units.

Respondent Profile
We obtained responses from 89 senior executives, 79% of whom were either CEOs, presidents, general managers, other C level executives, or Vice Presidents.

Company size of respondents disclosing their company’s 2011 revenue ranged from under $1 million to over $1 billion. Fifty five percent of respondents were from small companies (under $100 million annual revenue), and 37% were from large companies of $100 million and up.

Over 15 industry sectors were represented, representing a variety of manufacturing and service industries.
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