



# Corporate Governance: Being a good alliance partner ... the bliss of a business marriage!

By Paul A Zaman MBA, MSC

## **Paul A. Zaman highlights key features of successful strategic alliances and the need for a champion in each of the partners.**

Why do businesses enter into alliances? Very simply because a single company does not have the critical scale and set of capabilities. So, when allied with a chosen partner, complimentary capabilities fill the gaps, and supplementary capabilities top up the business to the right critical level. Alliances are useful to any size of business to achieve the critical scale and set of capabilities needed for successful growth and competition.

Alliances usually simply mean a faster way of building capabilities for example building the desired product technology, product portfolio, or building distribution channels to access new geographic or customer segments, rather than via organic company growth. Sometimes alliances are used for joint R&D, where a company and research centre are in active collaboration.

Often alliance formation and success is made an analogy of marriage. First the courting, then the engagement, the wedding and honeymoon period, then the marriage ending in a divorce, or in successful alliances in death do we part?

Large companies understand the need for alliances whereas small companies are often fearful of sharing, or opening themselves to discussion and collaboration. Small companies would do well to remember the proverb, "A wise man surrounds himself with wise men".

Alliances can encompass any short term or long-term collaborative agreement. Some people include customers, and call them strategic customer partners. Others include suppliers, and call them strategic supplier partners. However, this is not the real meaning of business alliances, but rather the over usage of business jargon such as 'alliance' and 'strategy' to make an ordinary or even poorly managed business relationship sound more grandiose and important, without actually accomplishing anything more.

The characteristics of a business alliance will have:  
Contributions from both parties in terms of funding,

manpower, management team, financing, physical assets, intellectual property, sales and distribution channel access, and customer base access. The contribution mix and level of importance of each contribution element normally determines the alliance ownership level and the level of management control.

Alliances also usually last for more than one year or simply the duration of a big project. For example, a building developer does not claim his contractors and suppliers to be alliance partners, so why should any one else? By lasting more than one year, the alliance will straddle more than one financial year. Often the two partners will then set up a joint venture company for the alliance. By law in most countries, a company cannot enter into an alliance with a partner or an individual, but rather only another company. However, a partnership or individual can enter into alliances with one another. Therefore, an alliance will either be a co-marketing agreement, co-R&D agreement, pilot or a joint venture company. The crux is that the legal entity that is the joint venture has capabilities, resources and assets transferred into it. This means it has its own P&L and bank account. Therefore for substantial and lasting arrangements over a year, a subsidiary company is usually created, called a joint venture company.

Can a joint venture company exist without being an alliance? No, as the joint venture will have an article of association and board of Directors establishing goals and strategies, as well as the resources to achieve these goals. Therefore, firms often set up joint ventures without really realizing that they are establishing an alliance. The two firms entered into the joint venture to achieve critical scale and size. Each company knows that the joint venture fast tracks this and so they are likely to be working on building their own in-house capability. So at some point in time, a conflict of interest or parallel operations result, meaning the joint venture has fulfilled its purpose and be closed down.

Whereas, if the alliance is forged first then the joint venture, then it tends to be more sophisticated as the parent companies tend to be more sophisticated and understand the need for a long term exit. So, they build this in from the beginning therefore avoiding a value-destroying divorce. This means that there is a Board of Directors of the joint venture company for the alliance, which may have joint or rotating Chairmen, as well as Directors from the two



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companies. There will also be Senior Operational Managers from both companies.

So what is the difference between a joint venture and an alliance joint venture? The answer is only the intended timeframe for the sunset plan. Any company is set up as an eternal entity by law, including any joint venture. However in a strategic alliance, there is an expected sunset and in a good alliance a written sunset clause. This sets out how the joint venture will be terminated which may mean the dissolution of the company or perhaps the terms on which one equity holder buys out the other equity holder. Usually in an alliance, one partner already knows that after a period of time, when they have achieved the stated goals, they will either exit, or buy the joint venture. Alliances via joint ventures are not usually set up as ongoing joint business.

An alliance therefore needs to have a clear internal communication and conflict resolution process. If this process fails, then the situation is escalated to the joint venture Board with its predetermined policy on how to handle conflict. The final decision being dissolution of the joint venture on predetermined terms and conditions.

When searching for an alliance partner, the simple criteria for success are:

- Similar organization cultures or the creation of a joint venture with a new culture
- A sharing of minds at the Champion, usually CEO level and the forging of alliance goals, purpose and sunset
- Equality of power and capability contribution
- Equality of size: being roughly equal in turnover and headcount rather than a David and Goliath syndrome.
- Minimal hidden agendas
- Track record of successfully operating alliances
- Honesty, integrity and trust
- Alliance sunset clause

Why do alliances fail?

- One of the originating CEO leaves and new CEO does not like the joint venture or perhaps the other CEO
- Parties fail to contribute their agreed capabilities and contributions
- Personality and culture clash
- Lack of a conflict resolution process resulting in eventual explosive eruption
- External product and customer market changes
- Growing Conflict of interest.

Small to medium size businesses can benefit the most from alliances, and yet they often do not even try. At the simplest

level, sharing sales and distribution capability means that the customer can benefit from better service and a wider product portfolio. The companies can also minimize advertising and promotion and selling costs to reach the customer segment. Small to medium companies tend to have too much of a survival orientation and cannot risk trusting a third party. Often alliances at the small to medium business level are between family businesses for example the traditional Guanxi of business relationships between trading families, which has been in place for generations. Small to medium businesses also believe that they do not have spare management or operational capability to spin off into a new joint venture, yet they prefer to muddle through with a capability below critical mass of success.

A key component of alliances are the sunset clause when one partner is due to scale down and exit, or perhaps the joint venture is agreed to be dissolved. It is human nature, and so corporate culture, to perhaps cheat when the sunset clause timing is imminent. The honesty, trust and integrity was a firm bond at the beginning and middle, however towards the sunset cracks often appear. In the final sunset stage, it is critical for both companies to have renewed focus on the integrity of the joint venture rather than focusing upon asset and benefit stripping.

*Qualvin Advisory was founded in 2003. We provide advisory services to the Board, CEO and CFO of listed and unlisted companies in S.E.Asia. Qualvin facilitates the Board in areas such as formulating corporate goals & strategy and governance & CSR. Qualvin also formulates and executes the financial investor relations strategy to: increase shareholder value and institutional following; firm the share price and raise new capital. Contact Paul Zaman at email [pzaman@qualvin.com](mailto:pzaman@qualvin.com).*