Partner selection:

A source of alliance success

Danielle Twardy

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Introduction

This report describes the results of a study into the partner selection processes companies use to select their alliance partners. This research project is carried out by the Eindhoven University of Technology and Zuyd University of Applied Science on behalf of Alliance Best Practice. In the period June-October 2008, 86 global alliance managers participated in this study. The objective was to understand which steps, criteria and tools are critical for the partner selection process.

The most important findings of the study are:

- The more formal a company's partner selection process, the higher the success rate of alliances;
- In 39% of the cases alliance success could benefit from an improved partner selection process;
- Regarding the partner selection criteria companies use, financial resources of the partner (ROI, financial health) is the criterion that is most important for alliance success. Companies that use this criterion are more successful than companies that do not use it.
- 46% of the respondents use a formal, structured partner selection process;
- Defining a company's objectives for an alliance is the step in the partner selection process that increases alliance success most.
- Standardized governance of the partner selection is another important success factor for partner selection. Companies need to clarify who is to be responsible, accountable, consulted, informed in each partnering phase.

I would like to thank all respondents and Geert Duysters, Ard-Pieter de Man and Jimme Keizer for their help. Special thanks to Mike Nevin of ABP. By using the ABP database, alliance managers could be addressed, who were in charge of corporate alliance management and could give key information on partner selection processes and criteria. Also special thanks to Zuyd University who sponsored this report.

Danielle Twardy- Duisters
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1. The study

Partner selection is one of the most critical alliance capabilities in the establishment of alliances. The right choice of partner has been identified in numerous studies as a precondition for alliance success. Designing a partner selection process including steps, criteria, tools and success factors, appears to be vital for alliance success. The application of analytic and systematic methods in partner selection could increase the success rate of partnerships. This study suggests that partner selection process is an important alliance capability and has a significant influence on alliance performance.

This study analyzes the partner selection process of international companies, from a variety of sectors. Alliance managers analyzed their most important alliances in their alliance portfolio and in total the dataset reports on 810 alliances. On average the respondents were involved in 11 important alliances over the last 5 years.

With regard to the number of employees, 39.7% of the respondents work for a firm having between 1 and 500 employees; 56.4% of the respondents have over 1000 employees. With respect to total worldwide sales volume, the largest group of respondents (30.8%) is in the 1-50 billion Euros category. In general the sample contains a relatively good spread across different firm sizes.
The study provides interesting data on the importance of alliances to realize a company's strategy as well as on alliance success rates. Results indicate that 46.3% of all respondents state that alliances are very important to realize the strategy of their company (see figure 1).

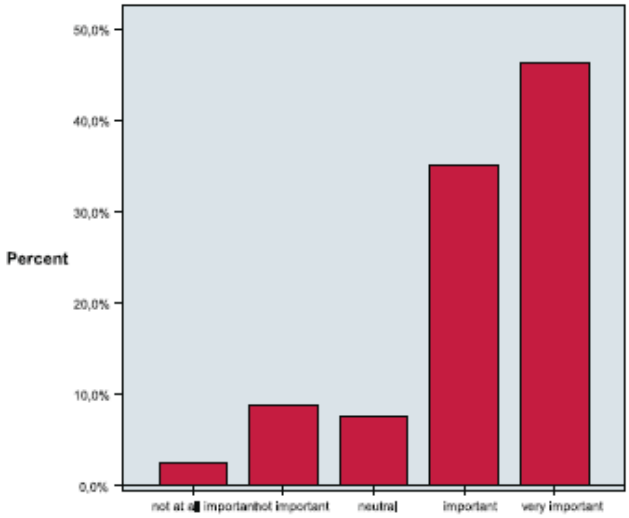

Figure 1: Importance of alliances to realize company strategy

Results also indicate that on average the success rate of alliances is 56.8%. The success rate of alliances is defined as the percentage of alliances that realized the initial goals. Although the average success rate is pretty high, it is also remarkable that 20% of respondents state that the success rate is only 30.6% or less indicating high failure rates of alliances are still common.

2. The role of a partner selection process in alliance capability building

Two basic elements need to be realized when considering alliance capability: experience with alliances and mechanisms to profit from that experience. High failure rates are not uncommon for alliances, despite the fact that the need to partner is often high. It is not a matter of luck whether an alliance will fail or succeed. By building up alliance capabilities, alliance performance will increase. As depicted in figure 2 according to previous research, there are five main reasons for alliance failure.

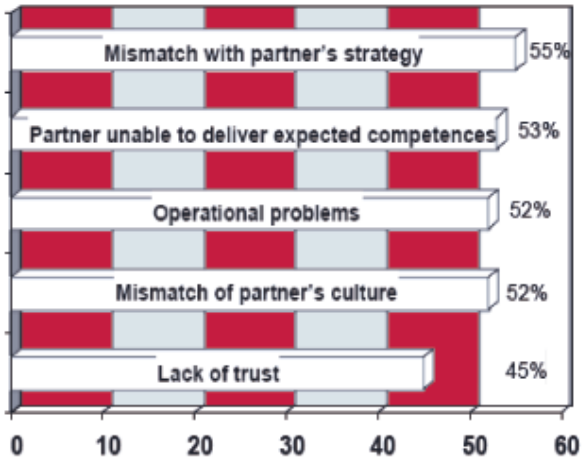

Figure 2: Five main reasons for alliance failure
(Source: De Man & Duysters, 2002).

Four out of those five reasons are related to partner selection. A thorough standard partner selection process may therefore help to avoid selecting the wrong partner. Accordingly, when selecting a partner companies should at least deal with each other's culture, trust, strategy, competencies/capabilities and expectations. Not all companies have an adequate partner selection process, though. In the perception of 38.8 % of all respondents, the process of partner selection can be (much) improved (see figure 3).

	Percent
could do much better to help increase alliance success	7.5
could do better to help increase alliance success	31.3
has no negative or positive influence on alliance success	15.0
contributes to alliance success	36.3
contributes significantly to alliance success	10.0

Figure 3: Managers view on their current partner selection process

To investigate the relationship between the use of a formal process and the success rate, a comparison was made between the partner selection processes that were implemented by the companies showing success rates of 60% and higher and those that were implemented by companies reporting success rates of 40% or less. Data represent a moderately strong relationship between a more formal partner selection process and a higher alliance success rate.

3. Which steps are used in partner selection processes?

Companies may include many steps in their partner selection process. Theoretically, the most elaborate partner selection process may involve no less than 16 steps. Figure 4 shows this detailed and highly formalized selection process. Naturally, few companies will use all these steps. This research project identified the steps they do use most often. In addition, it studied the question which steps are most important for alliance success.

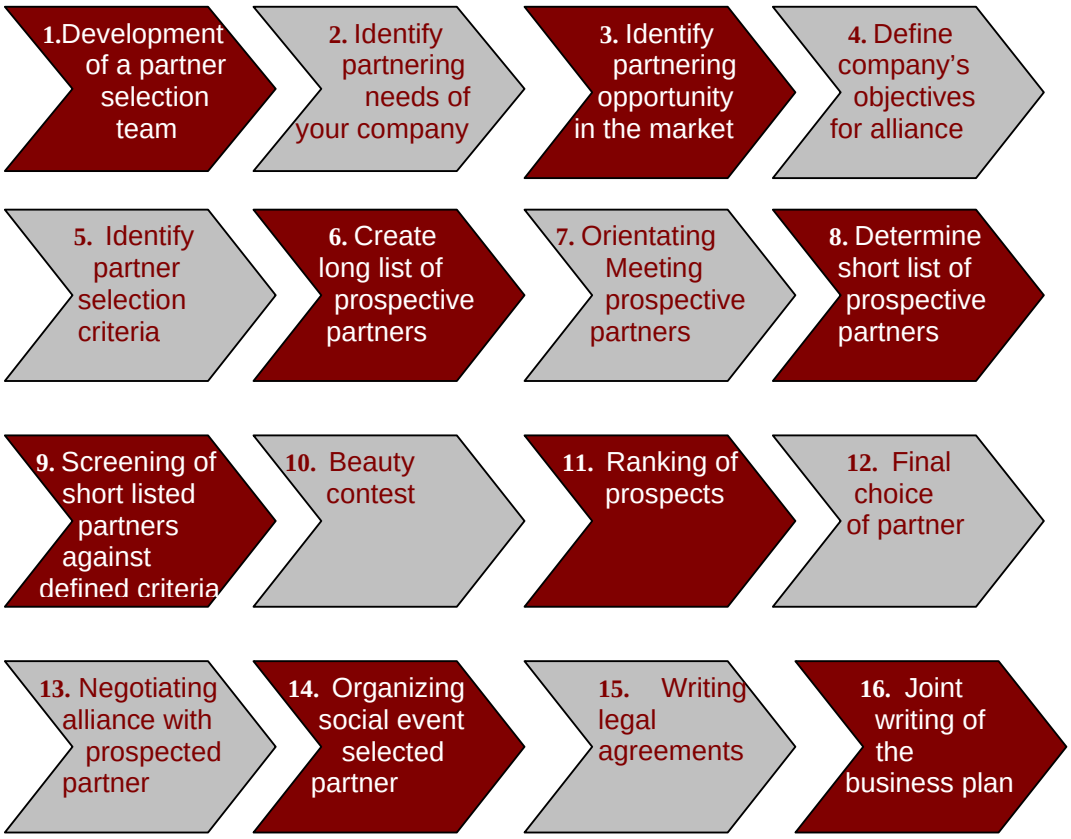

Figure 4: Theoretical steps in a formal, structured partner selection process

Figure 5 shows the five steps that are used most and the five steps that are used least often by companies. Most of the steps are used by more than half of the companies; only a few steps are used by a small minority. This indicates that most companies have a relatively structured partner selection process.

Steps most often used		Steps least often used	
1. Identify partnering opportunities in the market	86.3%	1. Beauty contest (you invite several possible partners to present themselves and their ideas about the alliance to you)	15.2%
2. Define your company's objectives for the alliance	83.8%	2. Create long list of prospective partners	33.8%
3. Negotiating the alliance with the prospected partner	83.5%	3. Ranking of prospects	41.8%
4. Identify partnering needs of your company	78.8%	4. Organizing social event with selected partner	45.6%
5. Writing legal agreements	75.9%	5. Screening of short listed partners against defined partnering criteria	50.6%

Figure 5: Most and least frequently used steps

It is interesting to see which steps are more effective than others in raising alliance success rates. Therefore, a comparison was made between the steps that were implemented by the companies showing success rates of 60% and higher and those that were implemented by companies reporting success rates of 40% or less. Our data indicate that more successful companies have more steps in the partner selection process than unsuccessful firms (i.e. 13 versus 11). Surprisingly, both successful and unsuccessful alliances companies use the same steps most often. However unsuccessful companies make their final choice of partner mostly without including the writing of a legal agreement. Although there are only moderate, positive relationships, we find that there are some other steps that contribute significantly to alliance success. Successful companies specifically put more emphasis on the steps listed in figure 6 than did unsuccessful companies.

Success rate 60%>	Rank
Define company's objectives for alliance	1
Writing legal agreements	2
Negotiating the alliance with the prospected partner	3
Development of partner selection team	4
Identify partnering needs of your company	5
Screening of short listed partners against defined partnering criteria	6

Figure 6: Steps in the partner selection process that contribute most to alliance success

4. Which criteria are used to select partners?

When selecting a partner, companies use criteria to evaluate the possible fit between them and prospective partners. Based on previous research, this study analyzed four groups of criteria: criteria measuring strategic fit, partner related criteria, task related criteria and criteria regarding the influence selecting a specific partner may have on future alliance possibilities. Figure 7 depicts the 5 criteria that are used most and least often by the respondents.

Criteria most often used		Criteria least often used	
1. Knowledge of the partner	89.6%	1. Relations with unions	9%
2. Top management support	88.5%	2. Legal culture (does the business drive the alliance process or do the lawyers?)	16.9%
3. Added-value for customer	88.5%	3. Legal structure (rules, regulations and legal form of the partner)	24.4%
4. Commitment	87.2%	4. Organizational structure (governance model)	25.6%
5. Strategic value for the future	87.0%	5. National culture	25.6%

Figure 7: Most and least frequently used criteria

It is interesting to see which criteria are more effective than others in raising alliance success rates. Therefore, a comparison was made between the criteria that were implemented by the companies showing success rates of 60% and higher and those that were implemented by companies reporting success rates of 40% or less. It is remarkable that unsuccessful alliances **always** include knowledge as a selection criterion and that they hardly use strategic compatibility as a selection criterion. Although there are only moderate, positive relationships, some criteria contribute significantly more to alliance success than others. Successful companies specifically put more emphasis on the criteria listed in figure 8 than did unsuccessful companies.

Success rate 60%>	Rank
financial resources (ROI, financial health)	1
effect on stakeholders (will the alliance be accepted by the market, stakeholders)	2
strategic vision of the partner (do the alliance partners have a shared vision on developments in the business environment)	3
decision-making procedures (centralized or decentralized decision-making, the way decisions are made, communication channels, how many people have to be involved, are they optimal for the alliance)	4
complementarity (are the partners mutually dependent for achieving their objectives)	5

Figure 8: Criteria in the partner selection process that contribute most to alliance success

5. Which tools are used to support the partner selection process?

When selecting a partner, companies use tools to evaluate the possible fit between them and prospective partners. Figure 9 depicts the three tools that are used most and least often by the respondents.

Tools most often used		Tools least often used	
1. Agreement of confidentiality	83.1%	1. Network consequence analysis (an approach to gain insights in the existing relationships of prospective partners)	5.2%
2. Memorandum of understanding/letter of intent/heads of agreement	68.8%	2. Cases to screen prospective partners (partners have to react to a case study, to screen their response)	13.0%
3. Partner training (educating your partner about your company and its' way of doing business)	61.0 %	3. Culture diagnosis Online mechanisms for partner selection (databanks, internet,social networking sites e.g. linkedin)	19.5%

Figure 9: Most and least frequently used tools

It is interesting to see which tools are more effective than others in raising alliance success rates. Therefore, successful and unsuccessful companies were compared. It appears that unsuccessful companies make more use of a joint business planning workshop and pay less attention to writing a memorandum of understanding. Although there are only moderate, positive relationships, further research shows that there are some tools that contribute significantly more to alliance success than others. Successful companies specifically put more emphasis on the tools listed in figure 10 than did unsuccessful companies.

Success rate 60%>	Rank
Standard governance of the partner selection process	1
Alliance launch event (event to kick off the alliance with all staff involved)	2
Cases to screen prospective partners (partners have to react to a case study, to screen their response)	3
An alliance office (a central, specific office related to alliance development supports the alliance process)	4
A standardized ranking system to evaluate prospective partners (system to prioritize potential partners on selection criteria)	5

Figure 10: Most important tools for Partner Selection process

Conclusion

Partner selection is one of the most critical alliance capabilities for the establishment of successful alliances. The right choice of partner is a precondition for alliance success. By studying the steps in the partner selection process, partner selection criteria and the tools used to support the partner selection process this study aims to provide an integral account of partner selection. Many companies use a relatively structured partner selection process, but the majority also recognizes that their partner selection process can be improved.

Based on this research, improvement should focus on:

- Paying more attention to defining objectives for alliances. Without a clear alliance objective it is difficult to decide which partner to choose.
- Using financial criteria to select partners. Surprisingly, a considerable number of companies do not look at this basic criterion. In particular, the less successful companies do not check the financial strength of their prospective partners.
- Developing a clear governance process for the partner selection process. It needs to be clear who is responsible and accountable for the various phases in the partner selection process.