

**DAVID GOLDSMITH**  
with **LORRIE GOLDSMITH**

# Paid to **THINK**

**A leader's toolkit for redefining your future.**

***TOOL: SIX FORMS OF ALLIANCES (From CHAPTER 5)***



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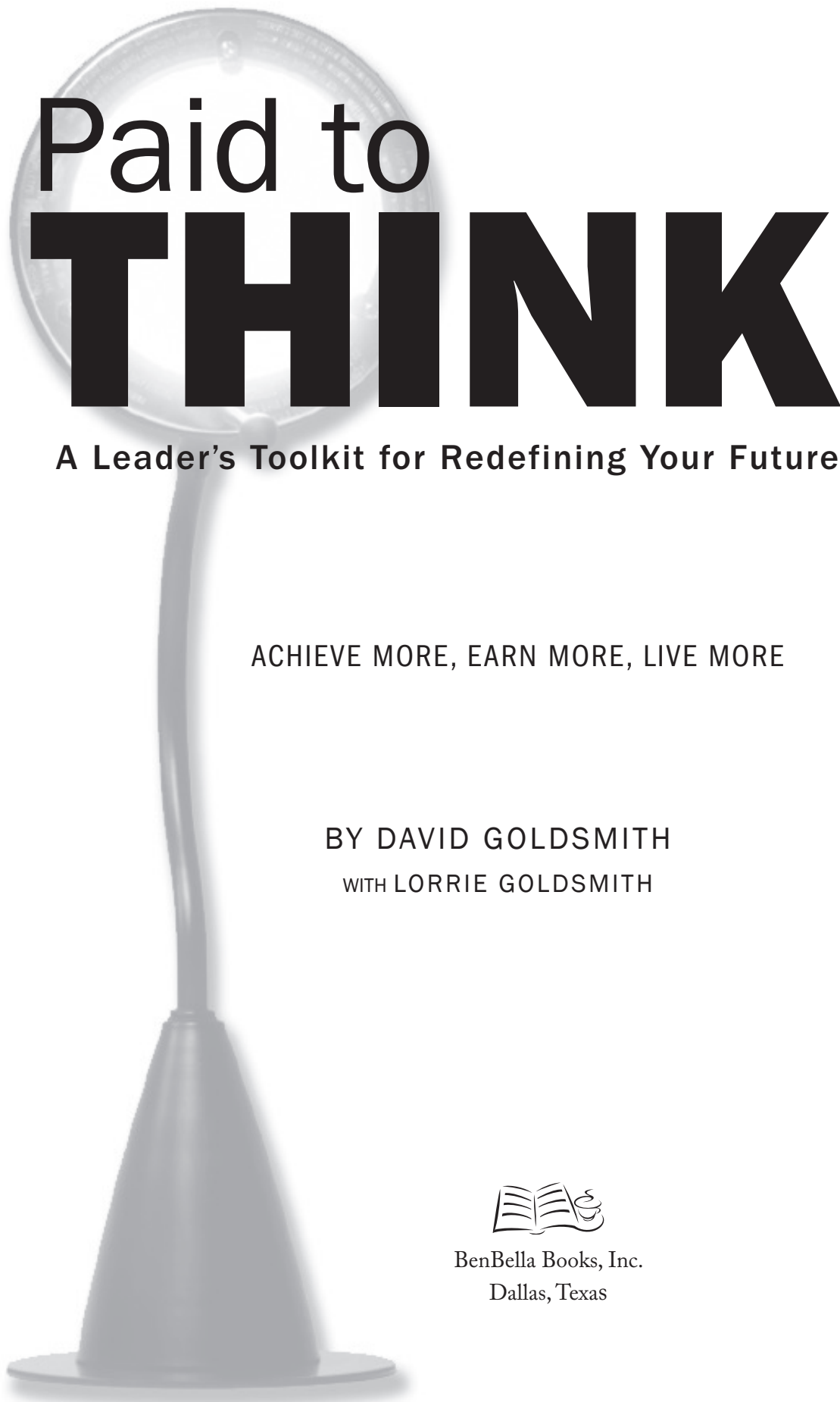
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ACHIEVE MORE, EARN MORE, LIVE MORE

BY DAVID GOLDSMITH

WITH LORRIE GOLDSMITH



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To my wife, Lorrie, my love of 26 years,  
thank you for everything. There are no words to describe  
what you mean to me.

∞ DAVID

To my sons, Adam and Jake,  
I wish for you love, happiness, and experiences  
that will enrich your lives as much as you have mine.

∞ DAD



allowed the allies to shave operating expenses and maintain services to their members. In October 2009, the governors of Alabama, Mississippi, and Louisiana<sup>50</sup> looked at creating an alliance to bring jobs and development to their states. They were the initial allies (who were later joined by Florida) in an alliance called the Aerospace Alliance, an aerospace and aviation corridor stretching from Louisiana to Panama City, Florida. The region, hard hit by Hurricane Katrina and the recession was expected to gain nearly 50,000 jobs from the pooling of economic development, government, and business resources. While decision makers did not move forward with the alliance in the end, this is an example of the types of options that are available to you.

Now that we’ve touched on the reasons why leaders establish alliances, let’s take a closer look at the types of alliances that you can establish to strengthen your organization and create a better future for it.

Six Forms of Alliances

As I mentioned earlier, there are six forms of alliances. Let’s take a look at the details of each form.

The six basic forms of alliances are:

- 1. Ad Hoc
- 2. Consortium
- 3. Project Joint Venture
- 4. Joint Venture
- 5. Merger
- 6. Acquisitions

The following chart lists the alliances, along with their typical lifespan and resource requirements. Some of what you learn here comes from the respected research teams of Peter Lorange and Dick Roos, as well as that of Fred Kuglin and Jeff Hook.

Six Forms of Alliances (internal & external)		
Alliance Type	Duration	Resources
Ad Hoc	Short Term	Low Resources
Consortium	Long Term	Low Resources
Project Joint Venture	Short Term	Medium Resources
Joint Venture	Long Term	High Resources
Merger	Long Term	High Resources
Acquisition	Long Term	High Resources

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Figure 5.3--Six Forms of Alliances (internal & external)

Take some time to review the chart, and then read the descriptions and examples that follow for each category. Although the categories may appear simple at first, they're not. There are nuances and in some comparisons, slight differences that distinguish one form from another. Once you understand the characteristics of each of alliance, you will be able to select the one that aligns most appropriately with your Strategy, Macro Tactics, and Tactics.

## **Ad Hoc**

An ad hoc alliance is an impromptu committee or group that you pull together when you need to fulfill a specific purpose. As soon as your ad hoc alliance has completed what it has set out to do, it is disbanded. Ad hoc alliance members work together under their own authority. Most ad hoc alliances are short-lived and require minimum resources.

An ad hoc alliance would be a committee of educators that comes together to review the opening of a new tutoring center, and then disassembles once the group has served its purpose. A legal team aimed at researching court records for a short period of time would also be an ad hoc alliance. Consider, too, the county parks group and university that have banded together to explore options for landing a government grant, or a community development group united for determining local interest in a mall project.

## **Consortium**

A consortium is a band of groups or individuals who pool a limited amount of their resources in the pursuit of some type of leverage and shared desired outcomes. When you join a consortium, you expect that your resources combined with the resources of others will produce greater value than your individual contributions. You also invest a smaller fee or contribution than you would if you were working on your own in order to gain access to some type of benefit, such as educational programs, social events, professional discounts, legal representation, news updates, client leads, lobbying, capital, technologies, and/or research, depending on the purpose of the consortium.

If you're a member of a consortium and your Desired Outcome changes, you are likely to leave the consortium. For instance, when a dues-paying member no longer needs the services of a professional association, they opt not to renew their members, or when a country encounters a conflict with other countries in a consortium, that country decides to pull out of a worldwide initiative.

Consortiums can be large or small. The Avaya Users Group, the Society of Thoracic Surgeons, the Association for Corporate Growth, the Wallcoverings Association, the United Nations, and chambers of commerce are all consortiums.



A collaborative consortium based in Switzerland, the European Organization for Nuclear Research, or CERN, is a \$9 billion, 20-year project involving 10,000 scientists from more than 100 countries, 38 participating countries, and 150 universities. CERN's purpose in creating the world's largest and highest-energy particle accelerator, the Large Hadron Collider (LHC),<sup>51</sup> is to test predictions of high-energy and particle physics. The value derived from these consortiums could never be produced by any one research group, firm, or university alone.

Perhaps you know of other organizations—noncompeting entities that are located outside your geographic area, earn a greater or lesser volume of gross annual sales, or service different customers or communities—who could benefit from joining forces with you to address a specific cause or challenge. For instance, if you're a Latin American cocoa producer whose crops are threatened by the fungal disease frosty pod rot, you could form a worldwide consortium with cocoa producers within your region as well as with Africa and Southeast Asia to combat a variety of fungal diseases in ways that you could never do on your own. Or say that you need a particular technology that costs \$250,000, but you can't foot the investment on your own. Ally with other organizations that can each contribute \$25,000 and share the technology with you.

The opportunities are there; you just have to reach out and make them happen.

### **Project Joint Venture**

A project joint venture (PJV) is an alliance formed between two or more parties for the duration of a specific project. Although most PJVs are short-lived, some last longer than others depending on the project and the industry: one industry would consider "long" to be two months, while another would consider "short" to be two years. When you're involved in a PJV, both you and your ally maintain your own management structure and operation control throughout the PJV. Then, when you've completed the project, you part ways.

Regardless of your industry or sector, a PJV is advantageous when you need help on a project but don't want to be "married" to your ally. In 2009, a team of doctors allied in a PJV to help a patient regain her sight. The alliance, which was formed in Florida, brought doctors together from<sup>52</sup> the dental, ophthalmological, and general medical fields to perform different functions within the project: a dentist removed the woman's eyetooth and reshaped it, and then an ophthalmologist implanted the tooth into her eye as a structure to hold a new lens in place. Once the patient, who was blind for nine years, could see again, the doctors disbanded and went about work as usual in their individual practices just as they did before the PJV.

Earlier we talked about vendor-customer relationships, and I cautioned you not to mistake general transactions for alliances. However, there are times when the

vendor-customer relationship—those where the customer is paying for a service—is typically a PJV type of alliance. When an advertising agency creates a campaign, an engineer creates a new product design, a videographer shoots a training film, or a landscaper spruces up a yard, the party that does the work and the one that does the paying are allied for the specified period of time. Think no further than your utility or phone companies, for they are PJVs. In a vendor-customer relationship where the terms of the PJV that are set beforehand have been fulfilled, the allies conclude the alliance and part ways.

PJVs exist for a period of time and utilize fixed resources to achieve a very specific purpose and a shared desired outcome, much like how the film industry approaches the making of numerous Hollywood movies, which I call the Hollywood Model.<sup>53</sup> An organization decides to make a film. It hires filmmakers, directors, casting agents, actors, makeup artists, composers, and computer-generated-imagery experts, who come together for the project. After the work has been completed, these people disband and part ways. These groups then reform within a new production. Most companies supporting the film industry are small firms of fewer than twenty people. That's why when you see the credits for a movie, you'll notice one company logo after another roll across the screen.

PJVs can be created internally among individuals, departments, and business units, too. If you were to host an open house at your company, and you decided to secure a purchase order with your food and beverage department for its catering services, you would, in essence, be establishing a PJV for the event. Once the event ends, the PJV ends as well. The next time you're selecting Macro Tactics and Tactics for a project or special event, strategize on how a PJV might expand your potential to do more with less, to capture new markets, to secure a new role within an organization, and so on.

## Joint Venture

A joint venture (JV) is an alliance where two or more parties share resources and risks and invest some form of equity during a longer-term alliance than they would in a PJV. Although the allies in a JV tend to share management decisions (with legal parameters), they also retain their individual ownership and management structures. All parties are tied to the risks and responsibilities of the JV, and their investment tends to be significant.

Like local U.S. television stations who are allied with NBC, ABC, or CBS, affiliates are a type of JV. Affiliate is an old term that's taken on new meanings over the years. An organization that's owned by a much larger organization can be called an affiliate. Two organizations owned by a third organization also can be called affiliates. Affiliates tend to be looser alliances than mergers or acquisitions, and require fewer resources.

When Lockheed Martin and Boeing created the United Space Alliance<sup>54</sup> in 1996 with offices in Florida, Alabama, California, and D.C., its mission was to provide NASA with services related to the human space-travel industry: designing and planning flight operations, logistics, vehicle processing, payload integration, astronaut flight control and training, software development, launch and recovery, and so on. The JV was formed to leverage both parties' joint capabilities to handle a job that would be difficult for either party to take on alone. By pooling their resources, both organizations were able to take on this enormous task and still pursue other independent strategies.

Because the wording is similar between PJVs and JVs, some people are inclined to confuse them, so here's an example you can recall if you find yourself doing the same. Say you want to build a casino. You first form a JV by investing money in the building costs of the structure and the start-up costs of initial operations, while your ally contributes the expertise to develop and run the casino. The two of you are in this casino together for the long haul.

At the same time, you enter into a PJV with a developer who builds the casino. You hire the developer and work with him until the casino has been built. Once you cut the final check to him for his services, the building project is complete and your alliance terminates.

## Mergers

Oftentimes, people talk about mergers and acquisitions as though they are the same, but when I ask them, "Would you rather be merged or acquired?" they express strong opinions for or against either, depending on their point of view. If you're being acquired, and you're the owner, you could be in for a windfall. If you're being merged, and you're the leader of a company, you have advantages. The point is mergers and acquisitions, while they can be similar, are separate and different.

A merger unites two or more groups into a single legal entity. The parties share ownership, leadership, and management structure, and they join their assets and resources. A merger is highly resources driven and considered to be long term. You might merge two development teams or two marketing departments or even two administrative pools. A marriage is a merger of sorts, and there would be some pretty upset spouses out there if they learned that their ally considered the alliance to be a PJV.

Governments may use internal mergers to leverage efficiencies, save manpower, and reduce costs. Around the world, you'll often hear about local government officials who are seemingly in continual talks about merging several districts' fire and police departments for these reasons. Washington State water district mergers<sup>55</sup> have reduced 800 districts to 171 over many years, enabling the state government to

reduce head count, consolidate resources, improve services, and make more efficient use of the taxpayers' money.

Mergers carry a certain level of complexity to them, because parties must address legal issues such as conditions, representations, warranties, covenants, and operations and termination. In addition, if you're a decision maker who must manage the merger process and the ensuing daily responsibilities, you need to develop the new framework so that the merged alliance runs optimally. Determining the day to day responsibilities and functions of the merger will vary based on several different factors: the industry, the parties involved, and the size of the merger.

If you believe that a merger is the best alliance choice for you, it is important that you understand fully what you're getting into before you take action. This is a measure that many people fail to take, putting themselves and the merger at risk for failure.

Be careful that you don't let the popularity of mergers fool you into thinking that a merger is right for you until you have made certain that it actually is. Then choose your tactics carefully and detail them so that they are executed properly. One great decision can make everything work well, while one bad decision could impact your future for years to come. Seek expert legal representation when you enter into a merger to be sure that due diligence is performed and that all loose ends are tied up.

## Acquisitions

Acquisitions, also known as takeovers or buyouts, occur when one entity takes complete control over another, either by purchasing it outright or by buying up more than 50% of its shares. Most acquisitions tend to be long-term alliances that demand a great deal of resources from those involved. When Chairman and CEO Michael Dell of Dell, Inc., the world's second-largest manufacturer of personal computers, shifted strategy to expand the firm's offerings, he acquired Perot Systems,<sup>56</sup> which provides computer services. The alliance was a logical one, because it afforded Dell the ability to add new services quicker and more cost effectively than if the computer giant had set out to build an entirely new company from scratch.

Like other forms of alliances, acquisitions occur for many reasons. Sometimes, decision makers need technologies and find that an acquisition allows them to accomplish the task easily, as was the case when Prime View International purchased E Ink,<sup>57</sup> the cutting-edge electronic paper technology used in the Kindle and other e-readers. Other acquisitions occur to gain personnel, with one organization headhunting to lure a talented employee away from a competitor. Still others take place to allow an organization to grow rapidly without expending the time to build a second organization from the ground up. Acquisitions involve the transfer of all kinds of assets.

Although acquisitions can be friendly, the types that make for juicy headlines are

hostile takeovers, which occur when one firm loses control (possibly through a board vote to sell the organization), and an outside entity buys up a large number of shares of a public entity. However, most acquisitions, both public and private, are mutually agreed upon redistributions of equity.

Again, be sure that you work with legal representation and that due diligence is performed to avoid problems down the road.

## Two Tools for Building Alliances

You are about to add two new tools to your ET tool kit. The first is the Alliance Pillars Checklist, a simple and informal tool that you can use as a guide when you want to build an alliance. The second is a version of the ET Development Funnel that has been modified for use as an alliance-building process. It gives you a structured approach to building alliances to ensure that you don't overlook important components. Both tools offer advantages, and having two tools means that you can select the one that best fits your needs at any given time.

### TOOL #1: ALLIANCE PILLARS CHECKLIST

Just as buildings require a framework of timbers or steel beams to keep them standing, alliances need a framework of pillars shoring them up over a span of time. When you think about the Alliance Pillars Checklist, consider its pillars as the wooden-timber framework of your next alliance.

#### Alliance Pillars Checklist

<input type="checkbox"/> Form	Identify the form of alliance that best meets Desired Outcome and Strategy
<input type="checkbox"/> Risk	Evaluate risk assessment thereby deciding if the alliance is worth the effort
<input type="checkbox"/> Ally	Select the right ally by using the "Development Funnel"
<input type="checkbox"/> Objectives	Set clear objectives and commitment levels for all parties
<input type="checkbox"/> Financials	Agree on financial contributions and draws for all parties
<input type="checkbox"/> Budgets	Outline the budget and develop a financial management plan
<input type="checkbox"/> Controls	Establish controls, metrics, and milestones along with how this will be developed
<input type="checkbox"/> Human Resources	Determine human resources requirements including the who, what, and where

\* Establishing alliances requires Cyclonic Thinking and all the activities of Enterprise Thinking.

\* No one activity is more important than another: they all influence an alliance's ability to perform and succeed.

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Figure 5.4—Alliance Pillars Checklist

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## ABOUT THE AUTHORS

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