Harvard Business Review
www.hbrreprints.org

BEST PRACTICE

Conventional advice about alliances hasn't reduced their dismal failure rate. Success requires shifting your focus to a complementary set of principles.

Simple Rules for Making Alliances Work

by Jonathan Hughes and Jeff Weiss

Included with this full-text *Harvard Business Review* article:

Reprint R0711H

Simple Rules for Making Alliances Work

The Idea in Brief

The number of corporate alliances soars 25% a year. And those partnerships account for nearly 33% of many companies' revenue and value. Yet the failure rate for alliances hovers at 60%–70%. According to Hughes and Weiss, that's because too many firms rely too much on conventional advice for managing alliances—such as "Focus on defining a business plan" or "Minimize conflict."

Alliances pose special challenges that make traditional management practices irrelevant. Consider: These partnerships require two companies to cooperate with one another while simultaneously competing in the same market. And the participants must navigate often-maddening differences in operating styles.

To bolster their alliance success rates, companies need to apply five counterintuitive practices. These include focusing less on the business plan and more on the partnership's working relationship and, rather than suppressing disagreements, exploring conflicts to find sources of value in partner companies' differences.

The Idea in Practice

Hughes and Weiss recommend these practices for managing your alliances:

Develop the right working relationship. Define exactly how you'll work together. For example, clarify what "mutual trust and respect" mean to each of you. Articulate how you'll make decisions, allocate resources, and share information.

▶ Example:
Pharmaceutical giant Schering-Plough initiated "alliance relationship launches." At these meetings, the partners identified potential challenges of working together as well as mechanisms for handling day-to-day tasks and making key decisions. The resulting clarity accelerated decision making, eased frustration, and improved decision follow-up.

Peg metrics to progress. Alliances require time to pay off financially. So, augment "ends" metrics (financial performance indicators) with "means" metrics assessing factors that will affect the alliance's ultimate performance (such as information sharing and new-idea development).

▶ Example:
In its alliances with other health insurers to develop new services for members, Blue Cross and Blue Shield of Florida tracked issues "escalated" to a joint alliance oversight committee for resolution. Tracking revealed an unspoken clash over strategic direction that had spawned disagreements on how to prioritize efforts.

Leverage differences. Companies ally to take advantage of partners' different know-how, markets, customers, and suppliers. Yet other types of differences (such as contrasting cultures) can lead to uncomfortable conflict. Instead of driving conflict underground, surface it and find ways to use your differences to create value.

Encourage collaboration. When a problem arises (such as a missed milestone), replace finger-pointing with dispassionate analysis of how both parties contributed to it and what each can do to improve it.

▶ Example:
When drug manufacturer Aventis and biotechnology company Millennium Pharmaceuticals formed an alliance, the companies jointly created a list of problem-solving protocols, including "When discussing challenges, we'll present possible solutions, not just problems." Adhering to the protocols helped the partners quickly achieve their objective.

Manage internal stakeholders. Most external alliances depend on cooperation from internal units in each partner company. Ensure that all internal players involved in supporting the alliance are committed to its success.

▶ Example:
Prior to any joint governance meetings with partners, Aventis meets with inside stakeholders to discuss and resolve internal disagreements, so that issues can be resolved without the awkwardness of doing so in front of partners. Since this practice began, partner companies have noticed that Aventis is more consistent and reliable in delivering resources and meeting deadlines—thus a more attractive ally.

Conventional advice about alliances hasn't reduced their dismal failure rate. Success requires shifting your focus to a complementary set of principles.

BEST PRACTICE

Simple Rules for Making Alliances Work

by Jonathan Hughes and Jeff Weiss

It's a remarkable paradox: Studies show that the number of corporate alliances increases by some 25% a year and that those alliances account for nearly a third of many companies' revenue and value—yet the failure rate for alliances hovers between 60% and 70%. And despite an abundance of advice on how to make alliances work, that dismal record hasn't improved in the past decade.

The conventional advice from the experts is quite consistent: Create a solid business plan backed up by a detailed contract. Define metrics for assessing the value your alliance delivers. Seek common ground with partners and pay close attention to managing your interface with them. Establish formal systems and structures. The recommendations are all sensible; you'd apply them to any business arrangement.

Alliances, however, are not just any business arrangement. They demand a high degree of interdependence between companies that may continue to compete against each other in the marketplace. They require the ability to navigate—and often to actively leverage—significant differences between partners' strengths and operating styles. These characteristics make the common wisdom about alliance management both incomplete and misleading, causing companies to ignore or underemphasize other, potentially more important drivers of success.

To begin achieving reliably higher success rates with their alliances, companies need to shift their focus to five principles that complement the conventional advice. This means:

PLACING LESS EMPHASIS ON . . .	. . . AND MORE EMPHASIS ON
defining the right *business arrangement*	developing the right *working relationship*
creating *ends* metrics	creating *means* metrics
eliminating differences	*embracing* differences
establishing formal alliance management *systems and structures*	enabling collaborative *behavior*
managing the *external* relationship with partners	managing your own *internal* stakeholders

When companies can make such a shift in emphasis, they improve their chances for success tremendously—a conclusion based on our 20 years of experience working with both successful and failed alliances and on systematic research we have conducted over the past six years. In this article we will illustrate the five key principles of this approach to alliance management, using several companies we have worked with as examples.

Principle 1

Focus less on defining the business plan and more on how you'll work together.

Companies have learned the hard way not to enter into an alliance without a detailed business plan and contract. But sound business planning is only half the battle. Dwelling on a formal plan can obscure the critical need to explore and clarify up front the nature of the partners' working relationship—not just what they will do but how they will interact.

People involved in the hundreds of failed alliances we have seen over the years have consistently pointed to breakdowns in trust and communication and the inability to resolve an inevitable succession of disagreements as the most common causes of failure. Better business planning was cited rarely—and more carefully crafted contracts almost never—as something that could have saved those alliances.

Successful alliances depend on the ability of individuals on both sides to work almost as if they were employed by the same company. For this kind of collaboration to occur, team members must know how their counterparts operate: how they make decisions, how they allocate resources, how they share information. That, in turn, requires a clear understanding of each partner's organizational structure, policies and procedures, and culture and norms. The partners should use that understanding to establish guidelines for working together.

Usually, if partners discuss the kind of relationship they want at all, they do so in such abstract terms that it produces little benefit. Laudable guiding principles are bandied about, but what they mean for each side is typically undetermined. For example, two companies may agree that a good relationship is characterized by mutual trust and respect for each other's strengths. But unspoken assumptions about what that means in practice may differ sharply. One partner may think that acting with trust and respect means being direct and challenging decisions that seem not to make sense. The other may think it means that each side will defer to its partner's judgment when the partner says it can't do something. Such assumptions lie in wait ready to sabotage the relationship.

Schering-Plough, like other pharmaceutical companies, is critically dependent on alliances. Recently, during a rigorous analysis of the company's alliance portfolio, executives discovered that although they had carefully structured their business arrangements and documented them in detailed contracts, many of their alliances were failing to live up to their full potential. So Schering-Plough sought ways to establish a stronger foundation for collaboration with partners from the start of alliances.

Once an agreement is reached, the company engages in a systematic "alliance relationship launch." This process, which typically takes four to six weeks, involves meetings at which the partners explore the potential challenges of working together, examine differences, develop shared protocols for managing those differences, and establish mechanisms for their day-to-day work. Time is spent on how each company makes decisions: What approval steps are needed for different kinds of decisions? Are there formal review committees that make certain decisions, and if so, how often do they meet? Is the day-to-day decision-making culture consensual or hierarchical? Such conversations are valuable in preventing frustration and conflict later on, but Schering-Plough takes the discussion even further: Among other things, it maps out in detail the key decisions that are likely to arise and specifies who on the alliance team will make them; who those people should consult with; which ones will need to be separately approved by senior executives at the partner companies; and so on. The resulting clarity has led to faster decision making, reduced frustration, and better follow-through once decisions have been made.

Schering-Plough is not alone. In a recent study we conducted involving 93 companies from a cross-section of industries, we found that when partners invest time up front to

Jonathan Hughes (jhughes@vantagepartners.com) and **Jeff Weiss** (jweiss@vantagepartners.com) are principals at Vantage Partners, a Boston-based management consulting firm that focuses on alliance strategy and relationship management.

jointly define the relationship they want, the alliance generates significantly greater value than when they focus exclusively on business goals, contract terms, and formal governance structures.

Principle 2

Develop metrics pegged not only to alliance goals but also to alliance progress.

When partners sit down to create alliance scorecards, they typically choose such goals as increased revenue, reduced costs, gains in market share, and the like. They then immediately begin to measure alliance performance against those goals, often as frequently as once a month.

Rarely, however, does an alliance yield significant results in the first months or even in the first year or two. By their nature, alliances usually require considerable investment and effort before a substantial payoff is realized. Confronted with reports that show an absence of payoff, partners often lose confidence in the venture. Senior executives' attention wanes, resources are redeployed elsewhere, and morale slumps, all too frequently leading to the alliance's demise.

Instead of focusing exclusively on "ends" measurements of financial value, companies need to establish "means" measurements of the factors that will affect the alliance's ultimate performance—leading indicators, if you will, of its success (or failure). Good results on these interim metrics can sustain corporate commitment precisely when it is needed most.

In the first months of an alliance these metrics may focus on things like information sharing between the partners, the development of new ideas, and the speed of decision making. Such measures may seem soft, but they are important—and the simple act of defining them is beneficial, because it can highlight differing expectations of how the partners will work together.

Blue Cross and Blue Shield of Florida (BCBSF) has formed alliances with other health insurers and with technology and financial services companies to cost-effectively develop new services for members. It includes metrics in its alliance scorecards that gauge progress toward the ultimate objectives and identify problems that might undermine them.

For example, the company tracks the number of issues that are sent up, or escalated, to a joint alliance oversight committee for resolution. In the case of one important alliance, tracking this figure uncovered major differences between the partners over whether the alliance should focus on consolidating its position in the Florida market or on expanding rapidly into other states. The number and pattern of escalated issues helped senior executives on both sides see that this unspoken clash over strategic direction was leading to daily disagreements on the alliance interface about how to prioritize efforts and allocate resources. The executives realized they needed to resolve their differences before uncertainty undermined the effective functioning of the alliance in the marketplace.

BCBSF also generates qualitative measures of alliance progress through regular surveys that are completed by staff members from each partner. At the outset of an alliance the company and its partner jointly define behavior they consider indicative of a good relationship. BCBSF has developed a survey workbook from which alliance managers at both partners can select those questions that are relevant to their situation. One question designed to measure trust and communication asks personnel to respond, on a 1-to-5 scale, to "How often are we surprised to learn of an action our partner has taken that affects us?"

These surveys provide an audit of the company's alliance relationships. They also ensure that partners regularly and explicitly discuss their mutual expectations, thus helping to prevent alliance failure.

Principle 3

Instead of trying to eliminate differences, leverage them to create value.

Companies ally because they have key differences they want to leverage—different markets, customers, know-how, processes, and cultures. It takes most managers in a new alliance about two months to forget this.

In fact, in the majority of alliances a tremendous amount of time and attention is spent in efforts to minimize conflict and reach agreement on what should be done and how to do it. This practice reflects more than a commendable focus on execution: It arises from a deep discomfort with differences and conflict and a mistaken belief that the same management strategies that (sometimes) work within a company will work equally

Because spending a lot of time and attention on reaching agreement sends the message that differences are bad, it tends to drive conflict underground.

well in collaboration with external partners. "Our differences are slowing us down; let's just figure out one way of getting things done and move on" is a common refrain—though what is usually meant is "you need to accept our way of doing things." Unfortunately, because these efforts send a message that differences are bad, they tend to drive conflict underground. They erode the partners' ability to make use of the very differences that prompted formation of the alliance in the first place.

Consider the partnership between a leading regional health insurance carrier in the United States and the U.S. subsidiary of a major international diversified insurance company. On paper the alliance had all the markings of success. One partner had innovative high-deductible plans coupled with unique wellness incentives; an entrepreneurial culture that rolled out product improvements fast and worked out wrinkles later if necessary; and systems for gathering customer input that could be used to rapidly adapt products to changing market conditions. The other partner had a large and loyal customer base; a culture focused on strong customer service; and sophisticated product management and quality assurance processes. The companies were confident that by leveraging their complementary strengths and assets, they could develop innovative insurance products and quickly scale their distribution without experiencing the service lapses common to new product rollouts.

Within months, however, each company's unique competencies had become sources of resentment rather than enablers of success. A year into the alliance the partners were barely speaking to each other. The company valued for being "nimble" was now viewed as "sloppy and reckless." Its partner was no longer "process driven and quality focused" but a "bureaucratic dinosaur" unable to make a decision. Within two years the alliance had been dissolved.

Contrast this with the alliance between Hewlett-Packard and Microsoft under which HP hosted Microsoft's Exchange messaging and collaboration software at its data centers, so that customers wouldn't have to install and maintain it themselves. These companies, like the two insurance carriers, had different but complementary strengths in the areas of technical expertise, culture, business model, and knowledge of market segments—differences that both inspired the alliance and created significant challenges.

Each side was regularly baffled by the behavior of the other, which by turns seemed incompetent, untrustworthy, or downright crazy. For example, Microsoft often interpreted HP's consultative approach to the sales process as a lack of enthusiasm for its NT operating system. All the work at the outset of the alliance to define shared goals and rules of engagement became increasingly irrelevant. Indeed, the mantra of shared goals and rules had made the very acknowledgment, much less the discussion, of differences between the partners almost impossible.

A turning point came when some alliance executives began systematically documenting differences between the companies and then held working sessions with team members to discuss how those differences were being perceived and whether they might benefit the alliance if they weren't ignored or suppressed. Because many of the differences touched on sensitive issues concerning competencies and culture, people were initially reluctant to address them, preferring to focus on imagined or desired commonality. When the teams finally overcame their reluctance, frustration that had built up over many months came pouring out, and perceptions of each other were often expressed in negative or even inflammatory language.

Over time, though, the partners were better able to view each other's qualities in a positive light. (See the exhibit "The Eye of the Beholder.") Once the air had been cleared and the differences discussed in a productive fashion, both sides also became somewhat more willing to acknowledge their own weaknesses and limitations—which, not surprisingly, were often the flip side of their strengths.

Ultimately, HP and Microsoft were able not only to respect differences that earlier had been a source of frustration and suspicion but also to actively leverage them. For example, they began to vary their approaches to sales opportunities rather than always following the standard approach led by the same balance of HP and Microsoft sales and technical staffs. Sometimes HP would take a clear lead, relying on help from Microsoft colleagues but employing strategies and tactics that HP had honed in

The Eye of the Beholder

An alliance between Hewlett-Packard and Microsoft, under which HP would host Microsoft's Exchange messaging and collaboration software, was foundering because of clashes sparked by differences in the two companies' business models, cultures, and expertise. A systematic attempt to document the partners' differing perceptions of themselves and each other led to acknowledgment of both sides' strengths and to strategies that played to them.

HOW HP PERCEIVED ITSELF	HOW MICROSOFT PERCEIVED HP
Collaborative partnering mind-set—looks for the greater good	A nonplayer in services
Reinventing—trying to get more focused under new CEO's leadership	Falling behind its competitors
Disciplined—takes a long-term, mature approach to evaluating market opportunities	Slow, bureaucratic—a laggard
Win-win partnering—actively seeks the other company's wins	Unable to execute consistently and predictably
Flexible—looks for creative deals	Conflicted sales strategies in the field
HOW MICROSOFT PERCEIVED ITSELF	**HOW HP PERCEIVED MICROSOFT**
Competitive, fast-moving, and entrepreneurial	Excessively competitive and confrontational
Oűr products are changing the world in profoundly positive ways"	Controlling, paranoid, and greedy
Center of the new economy	"Win–don't care" partnering mind-set
Focuses on objectives and assumes others do the same	Focused only on the deal
Misunderstood: The world doesn't realize what positive things the company does for everyone	Packaged-software mentality—commoditizes everything, even partnering
Brings partners into deals, expecting they will be grateful and go get the business without continued hand-holding	Doesn't get it—doesn't know what it takes to sell professional services to an enterprise customer

Through the joint exploration of differences, a more constructive and valuable view emerged:

HP'S STRENGTHS	MICROSOFT'S STRENGTHS
General expertise related to complex-solution selling to enterprise customers	Technical and product knowledge about Exchange, which is essential to successful enterprise solution sales
Tends to focus on long-term objectives and opportunities	Disciplined focus on short-term objectives (without which there may be no long term)
Good at minimizing risk in complex situations through careful analysis	Good at capitalizing on opportunities by making decisions quickly
In difficult circumstances, likely to find the creative solution that others might miss	Unlikely to waste time and effort when the "standard" answer or solution provides the optimal balance of performance and value
Good at understanding and focusing on customer needs and building close, durable relationships	Good at identifying and responding to competitive threats

similar market contexts. Sometimes the partners would agree that Microsoft's particular technical strengths and sales tactics made sense for a particular customer. Sales accelerated. Today more than 14 million Microsoft Exchange Server 2000/2003 user seats are under contract through HP Services.

Principle 4

Go beyond formal governance structures to encourage collaborative behavior.

Just as partners need to focus on building a strong working relationship at the start of an alliance, so they need to nurture that relationship throughout the life of the partnership. This means leaders must actively foster collaborative behavior among all the people who work on the alliance. Although effective governance structures, such as joint steering committees charged with providing oversight and direction to alliance teams, can facilitate collaboration between individuals, they cannot guarantee it.

Dispensing with finger-pointing helps prevent alliance partners from defensively withholding information from each other for fear that it will be used as evidence of incompetence or poor performance.

Perhaps the most difficult behavior to overcome in alliance teams is a tendency to assign blame the minute something goes wrong. This very human propensity needs to be replaced with something that doesn't come naturally to most people: a dispassionate analysis of how both parties contributed to a problematic situation and what each can do to improve it. An emphasis on inquiry rather than judgment acknowledges that in a complex and interdependent relationship, difficulties usually result from the actions (or inaction) of both sides.

Adopting this mind-set frees up time and energy (otherwise devoted to figuring out who is at fault or to fending off blame) for productively diagnosing problems, such as to what extent a missed milestone resulted from the diversion of resources by intervening priorities. Dispensing with finger-pointing also helps prevent the alliance partners from defensively withholding information from each other—information, such as significant testing data, that may be important to their mutual success—for fear that it will be used as evidence of incompetence or poor performance. This does not mean that issues of accountability will never arise—only that they will be dealt with more effectively after the parties have together explored all the factors that contributed to the problem.

Many companies provide training in relationship skills to their alliance managers, but Aventis (now part of Sanofi-Aventis) and Millennium Pharmaceuticals went a step beyond that: To encourage collaboration at the individual level, they jointly created a list of behavioral protocols (see the sidebar "Working Rules"). Although these protocols weren't incorporated into the formal agreement governing the alliance, managers at the two companies regularly checked to see that they were being followed. As the protocols took root, consistently collaborative behavior became the norm.

The end result was an alliance characterized by innovation and efficient execution. Complex technologies, equipment, and operating procedures were successfully transferred from Millennium to Aventis within a tight time frame. The Aventis staff was able to begin quickly generating data to support clinical research projects. (Speed is crucial in a business where every day of delay in bringing a drug to market can mean a million dollars in lost revenue that can't be recouped once patent protection expires.)

The need to cultivate collaborative behavior between alliance partners may seem obvious, but it's often not met. According to our study of alliance management success factors, more than 70% of companies have developed formal management systems for at least some of their alliances, but fewer than 10% have initiatives to promote the type of collaborative behavior we have described. This is all the more surprising given that 90% of alliance managers cite a collaborative mind-set and behaviors as critical to success.

Principle 5

Spend as much time on managing internal stakeholders as on managing the relationship with your partner.

This last principle may sound heretical. Managers set out to maintain a laserlike focus on their alliance partners and the customers they jointly serve. Indeed, they sometimes strive with such fervor to make the partnership work that they are accused of overidentifying with "the other side."

But again, though eminently reasonable, the conventional advice—to serve the partnership at all costs—is insufficient. Equally important, and often more difficult, is maintaining commitment from and alignment among the business units and functions (finance, legal, R&D, sales) in your own company that are affected by the alliance or on whose contributions its success depends.

Companies are not monolithic, yet alliance advice tends to gloss over this basic reality and treat partners as if they were simple, homogeneous entities. Although most counsel on alliances highlights the fundamental importance of trust, it rarely delves into what our research and experience indicate are the biggest barriers to trust: mixed messages, broken commitments, and unpredictable, inconsistent behavior from different segments of a partner organization.

In the late 1990s two financial services companies formed an alliance to exploit technological developments enabling electronic payments. A few years into the alliance the partners found themselves struggling. They had developed an excellent product and international distribution channels. Each had put a top-notch alliance management team into place. The companies had devoted a great deal of time to learning about each other and had invested heavily in defining rules of engagement to guide interactions between them. People from the two sides worked well together. Furthermore, the companies developed common approaches to managing interactions with the alliance's target customers. In the words of one senior manager, "We were advised to be 'maniacally focused' on our partner and our customers—and we were."

But as the alliance managers focused on interactions with their counterparts, they lost control of what was happening within their own organizations. While the partners were marketing and selling the new product, executives at one of the companies began to move in multiple directions. The heads of four divisions—international sales, marketing, business development, and finance—started to express differing levels of willingness to invest in the alliance. Some questioned the original rationale for it, while others criticized its performance. The two camps began weighing in with conflicting opinions about how to make the alliance more successful.

Not surprisingly, members of the four divisions began to send mixed messages to the partner company, where people became frustrated by their inability to get definitive answers. Some reported that they felt as if they were managing an alliance with four different partners rather than one.

The managers tried their best to get their respective companies' executives realigned in support of the partnership, but it was too little too late. Looking back, they realized that the alliance had been driven, shaped, and negotiated by executives from only two of the affected divisions; true buy-in from other parts of the enterprise had never been secured. Things went smoothly until the other divisions were asked to invest time and money in the alliance and to adjust well-established processes and policies to facilitate collaboration with the partner.

The alliance management team started focusing most of its efforts on damage control. Even its members began to lose faith in a venture that had once held great promise. A majority of senior executives at each company declared that the relationship was not meeting its now unclear—and certainly not mutually accepted—goals and decided to dismantle the alliance.

Similar experiences have led some companies to make ongoing management of internal constituents a central part of their alliance management process. For example, Aventis,

Working Rules

To encourage behavior that would further the goals of their alliance, the drug manufacturer Aventis and the biotechnology company Millennium Pharmaceuticals created a list of formal protocols to be followed by people working on the alliance. Here are some of them:

"We agree to escalate issues [communicate them to senior executives for resolution] jointly, rather than unilaterally up our own management chains."

"We agree to share information regarding internal strategic [and] business environment changes, so we can discuss their potential impact on the alliance."

"[When discussing challenges] we will present possible solutions, not just problems."

"We will use objective criteria to decide among multiple possible options—criteria that set good precedent for solving problems going forward."

"We will strive to generate multiple, creative options for mutual gain."

"We will share with one another complaints we hear from internal constituents [people within our own company] with the understanding that a) we are not defending or accusing but sharing information, b) we agree that we will jointly decide when something is significant enough to take action, c) we will collect data together about the situation, analyze and draw joint conclusions, and develop jointly any actions or plans in response to the problem."

"We will hold regular weekly phone calls even if there are not critical issues at hand."

drawing on its own experience with the undermining effects of insufficient internal alignment, formalized a series of meetings with internal stakeholders—prior to all joint governance meetings with partners—during which internal disagreements were brought to the surface and then wrestled to the ground, without the awkwardness of doing so in front of partners.

Various constituencies at Aventis that were affected by alliances no longer felt shut out of planning and decision making that might have an impact on them. Consequently, alliance managers began to notice significantly more support from internal business units and functional groups. Resources were easier to get, milestones were more regularly achieved on time, and partners reported that Aventis was more consistent and reliable—all of which contributed to making it an attractive alliance partner.

• • •

It is time for executives to realize that alliance management is facing a crisis. Companies are making huge investments in alliances and are increasingly reliant upon them as vehicles for growth, yet more than half of them fail. The advice managers have been following is not so much wrong as it is incomplete. As Fred Hassan, the CEO of Schering-Plough, told us recently, "Alliances require ways of working with partners that are very different from what is required in traditional business relationships. The future will belong to those companies that embed alliance management capabilities into the fabric of their culture and how they do business."

The good news is that companies have radically improved their alliance success rates by incorporating the practices described in this article. According to one company, they have helped it achieve or exceed the goals in 90% of its alliances. Clearly, the rewards of rethinking your alliance practices can be great. The risks of not doing so may be even greater.

Reprint R0711H
To order, see the next page
or call 800-988-0886 or 617-783-7500
or go to www.hbrreprints.org

Simple Rules for Making Alliances Work

Further Reading

ARTICLES

Your Alliances Are Too Stable
by David Ernst and James Bamford
Harvard Business Review
June 2005
Product no. R0506J

If your company has already established alliances, you need to look critically at them to see whether they're delivering their promised value. If they're not, you may need to restructure them or intervene to correct performance problems. Evaluate your ventures on these dimensions: ownership and financials, strategy, operations, governance, and organization and talent. Identify root causes of problems in any of these dimensions, not just the symptoms. Decide whether to fix, grow, or exit the arrangement. If you're going to fix or grow, assemble 3–4 restructuring options, test them with shareholders, and get parent companies' approval. Execute the changes, assigning accountability to specific groups or individuals.

When to Ally and When to Acquire
by Jeffrey H. Dyer, Prashant Kale, and Harpreet Singh
Harvard Business Review
July 2004
Product no. R0407H

Sometimes the problem with an alliance is that it should have been an acquisition. The authors explain how to weigh the relative merits and demerits of alliances and acquisitions before choosing which is best suited to the situation at hand. To decide between acquisition and alliance, companies need to analyze three sets of factors: the resources and synergies they desire, the marketplaces where they compete, and their competencies at collaborating. Understand how the two strategies differ: Acquisition deals are competitive, based on market prices, and risky. Alliances are cooperative, negotiated, and not so risky. Use the two strategies appropriately, and you'll grow faster than your rivals do.

Collaborate with Your Competitors—and Win
by Gary Hamel, Yves L. Doz, and C. K. Prahalad
Harvard Business Review
January 1989
Product no. 89104

When you ally with a competitor, take steps to ensure that the arrangement won't have fatal downsides. Never forget that your partners may be out to disarm you. Accept that harmony is not the most important measure of success; indeed, occasional conflict may be the best evidence of mutually beneficial collaboration. Also, guard against competitive compromise by informing employees at all levels what skills and technologies are off-limits to the alliance partner. Finally, learn from each of your partners, viewing every alliance as a window onto the other company's broad capabilities.

Harvard Business Review
www.hbrreprints.org

U.S. and Canada
800-988-0886
617-783-7500
617-783-7555 fax

Harvard Business Review
OnPoint
SELECTED ARTICLES FROM HBR

SPRING 2014 HBR.ORG

Want Collaboration?
Accept—and Actively Manage—Conflict

by Jeff Weiss and Jonathan Hughes

Collaboration That Works

The quest for harmony and common goals can actually obstruct teamwork. Managers get truly effective collaboration only when they realize that conflict is natural and necessary.

Want Collaboration?

Accept—and Actively Manage—Conflict

by Jeff Weiss and Jonathan Hughes

The challenge is a long-standing one for senior managers: How do you get people in your organization to work together across internal boundaries? But the question has taken on urgency in today's global and fast-changing business environment. To service multinational accounts, you increasingly need seamless collaboration across geographic boundaries. To improve customer satisfaction, you increasingly need collaboration among functions ranging from R&D to distribution. To offer solutions tailored to customers' needs, you increasingly need collaboration between product and service groups.

Meanwhile, as competitive pressures continually force companies to find ways to do more with less, few managers have the luxury of relying on their own dedicated staffs to accomplish their objectives. Instead, most must work with and through people across the organization, many of whom have different priorities, incentives, and ways of doing things.

Getting collaboration right promises tremendous benefits: a unified face to customers, faster internal decision making, reduced costs through shared resources, and the development of more innovative products. But despite the billions of dollars spent on initiatives to improve collaboration, few companies are happy with the results. Time and again we have seen management teams employ the same few strategies to boost internal cooperation. They restructure their organizations and reengineer their business processes. They create cross-unit incentives. They offer teamwork training. While such initiatives yield the occasional success story, most of them have only limited impact in dismantling organizational silos and fostering collaboration—and many are total failures. (See the sidebar "The Three Myths of Collaboration.")

So what's the problem? Most companies respond to the challenge of improving collaboration in entirely the wrong way. They focus on the symptoms ("Sales and delivery do not work together as closely as they should") rather than on the root cause of failures in cooperation: conflict. The fact is, you can't improve collaboration until you've addressed the issue of conflict.

This can come as a surprise to even the most experienced executives, who generally don't fully appreciate the inevitability of conflict in complex organizations. And even if they do recognize this, many mistakenly assume that efforts to increase collaboration will significantly reduce that conflict, when in fact some of these efforts—for example, restructuring initiatives—actually produce more of it.

Executives underestimate not only the inevitability of conflict but also—and this is key—its importance to the organization. The disagreements sparked by differences in perspective, competencies, access to information, and strategic focus within a company actually generate much of the value that can come from collaboration across organizational boundaries. Clashes between parties are the crucibles in which creative solutions are developed and wise trade-offs among competing objectives are made. So instead of trying simply to reduce disagreements, senior executives need to embrace conflict and, just as important, institutionalize mechanisms for managing it.

Even though most people lack an innate understanding of how to deal with conflict effectively, there are a number of straightforward ways that executives can help their people—and their organizations—constructively manage it. These can be divided into two main areas: strategies for managing disagreements at the point of conflict and strategies for managing conflict upon escalation up the management chain. These methods can help a company move through the conflict that is a necessary precursor to truly effective collaboration and, more important, extract the value that often lies latent in intra-organizational differences. When companies are able to do both, conflict is transformed from a major liability into a significant asset.

Strategies for Managing Disagreements at the Point of Conflict

Conflict management works best when the parties involved in a disagreement are equipped to manage it themselves. The aim is to get people to resolve issues on their own through a process that improves—or at least does not damage—their relationships. The following strategies help produce decisions that are better informed and more likely to be implemented.

Devise and implement a common method for resolving conflict. Consider for a moment the hypothetical Matrix Corporation, a composite of many organizations we've worked with whose challenges will likely be familiar to managers. Over the past few years, salespeople from nearly a dozen of Matrix's product and service groups have been called on to design and sell integrated solutions to their customers. For any given sale, five or more lead salespeople and their teams have to agree on issues of resource allocation, solution design, pricing, and sales strategy. Not surprisingly, the teams are finding this difficult. Who should contribute the most resources to a particular customer's offering? Who should reduce the scope of their participation or discount their pricing to meet a customer's budget? Who should defer when disagreements arise about account strategy? Who should manage key relationships within the customer account? Indeed, given these thorny questions, Matrix is finding that a single large sale typically generates far more conflict inside the company than it does with the customer. The resulting wasted time and damaged relationships among sales teams are making it increasingly difficult to close sales.

Most companies face similar sorts of problems. And, like Matrix, they leave employees to find their own ways of resolving them. But without a structured method for dealing with these issues, people get bogged down not only in what the right result should be but also in how to arrive at it. Often, they will avoid or work around conflict, thereby forgoing important opportunities to collaborate. And when people do decide to confront their differences, they usually default to the approach they know best: debating about who's right and who's wrong or haggling over small concessions. Among the negative consequences of such approaches are suboptimal, "split-the-difference" resolutions—if not outright deadlock.

Establishing a companywide process for resolving disagreements can alter this familiar scenario. At the very least, a well-defined, well-designed conflict resolution method will reduce transaction costs, such as wasted time and the accumulation of ill will, that often come with the struggle to work though differences. At best, it will yield the innovative outcomes

Jonathan Hughes (jhughes@vantagepartners.com) and **Jeff Weiss** (jweiss@vantagepartners.com) are partners at Vantage Partners, a Boston-based consulting firm focused on strategic relationship management. Hughes heads the Sourcing and Supplier Management Practice, and Weiss heads the firm's Alliance Management Practice. The authors have had consulting relationships with a number of the companies mentioned in this article.

The Three Myths of Collaboration

Companies attempt to foster collaboration among different parts of their organizations through a variety of methods, many based on a number of seemingly sensible but ultimately misguided assumptions:

Effective collaboration means "teaming."
Many companies think that teamwork training is the way to promote collaboration across an organization. So they'll get the HR department to run hundreds of managers and their subordinates through intensive two- or three-day training programs. Workshops will offer techniques for getting groups aligned around common goals, for clarifying roles and responsibilities, for operating according to a shared set of behavioral norms, and so on.

Unfortunately, such workshops are usually the right solution to the wrong problems. First, the most critical breakdowns in collaboration typically occur not on actual teams but in the rapid and unstructured interactions between different groups within the organization. For example, someone from R&D will spend weeks unsuccessfully trying to get help from manufacturing to run a few tests on a new prototype. Meanwhile, people in manufacturing begin to complain about arrogant engineers from R&D expecting them to drop everything to help with another one of R&D's pet projects. Clearly, the need for collaboration extends to areas other than a formal team.

The second problem is that breakdowns in collaboration almost always result from fundamental differences among business functions and divisions. Teamwork training offers little guidance on how to work together in the context of competing objectives and limited resources. Indeed, the frequent emphasis on common goals further stigmatizes the idea of conflict in organizations where an emphasis on "polite" behavior regularly prevents effective problem solving. People who need to collaborate more effectively usually don't need to align around and work toward a common goal. They need to quickly and creatively solve problems by managing the inevitable conflict so that it works in their favor.

An effective incentive system will ensure collaboration.
It's a tantalizing proposition: You can hardwire collaboration into your organization by rewarding collaborative behavior. Salespeople receive bonuses not only for hitting targets for their own division's products but also for hitting cross-selling targets. Staff in corporate support functions like IT and procurement have part of their bonuses determined by positive feedback from their internal clients.

Unfortunately, the results of such programs are usually disappointing. Despite greater financial incentives, for example, salespeople continue to focus on the sales of their own products to the detriment of selling integrated solutions. Employees continue to perceive the IT and procurement departments as difficult to work with, too focused on their own priorities. Why such poor results? To some extent, it's because individuals think—for the most part correctly—that if they perform well in their own operation they will be "taken care of" by their bosses. In addition, many people find that the costs of working with individuals in other parts of the organization—the extra time required, the aggravation—greatly outweigh the rewards for doing so.

Certainly, misaligned incentives can be a tremendous obstacle to cross-boundary collaboration. But even the most carefully constructed incentives won't eliminate tensions between people with competing business objectives. An incentive is too blunt an instrument to enable optimal resolution of the hundreds of different tradeoffs that need to be made in a complex organization. What's more, overemphasis on incentives can create a culture in which people say, "If the company wanted me to do that, they would build it into my comp plan." Ironically, focusing on incentives as a means to encourage collaboration can end up undermining it.

Organizations can be structured for collaboration.
Many managers look for structural and procedural solutions—cross-functional task forces, collaborative "groupware," complex webs of dotted reporting lines on the organization chart—to create greater internal collaboration. But bringing people together is very different from getting them to collaborate.

Consider the following scenario. Individual information technology departments have been stripped out of a company's business units and moved to a corporatewide, shared-services IT organization. Senior managers rightly recognize that this kind of change is a recipe for conflict because various groups will now essentially compete with one another for scarce IT resources. So managers try mightily to design conflict out of, and collaboration into, the new organization. For example, to enable collaborative decision making within IT and between IT and the business units, business units are required to enter requests for IT support into a computerized tracking system. The system is designed to enable managers within the IT organization to prioritize projects and optimally deploy resources to meet the various requests.

Despite painstaking process design, results are disappointing. To avoid the inevitable conflicts between business units and IT over project prioritization, managers in the business units quickly learn to bring their requests to those they know in the IT organization rather than entering the requests into the new system. Consequently, IT professionals assume that any project in the system is a lower priority—further discouraging use of the system. People's inability to deal effectively with conflict has undermined a new process specifically designed to foster organizational collaboration.

that are likely to emerge from discussions that draw on a multitude of objectives and perspectives. There is an array of conflict resolution methods a company can use. But to be effective, they should offer a clear, step-by-step process for parties to follow. They should also be made an integral part of existing business activities—account planning, sourcing, R&D budgeting, and the like. If conflict resolution is set up as a separate, exception-based process—a kind of organizational appeals court—it will likely wither away once initial managerial enthusiasm wanes.

At Intel, new employees learn a common method and language for decision making and conflict resolution. The company puts them through training in which they learn to use a variety of tools for handling discord. Not only does the training show that top management sees disagreements as an inevitable aspect of doing business, it also provides a common framework that expedites conflict resolution. Little time is wasted in figuring out the best way to handle a disagreement or trading accusations about "not being a team player"; guided by this clearly defined process, people can devote their time and energy to exploring and constructively evaluating a variety of options for how to move forward. Intel's systematic method for working through differences has helped sustain some of the company's hallmark qualities: innovation, operational efficiency, and the ability to make and implement hard decisions in the face of complex strategic choices.

Provide people with criteria for making trade-offs. At our hypothetical Matrix Corporation, senior managers overseeing cross-unit sales teams often admonish those teams to "do what's right for the customer." Unfortunately, this exhortation isn't much help when conflict arises. Given Matrix's ability to offer numerous combinations of products and services, company managers—each with different training and experience and access to different information, not to mention different unit priorities—have, not surprisingly, different opinions about how best to meet customers' needs. Similar clashes in perspective result when exasperated senior managers tell squabbling team members to set aside their differences and "put Matrix's interests first." That's because it isn't always clear what's best for the company given the complex interplay among Matrix's objectives for revenue, profitability, market share, and long-term growth.

Even when companies equip people with a common method for resolving conflict, employees often will still need to make zero-sum trade-offs between competing priorities. That task is made much easier and less contentious when top management can clearly articulate the criteria for making such choices. Obviously, it's not easy to reduce a company's strategy to clearly defined trade-offs, but it's worth trying. For example, salespeople who know that five points of market share are more important than a ten point increase on a customer satisfaction scale are much better equipped to make strategic concessions when the needs and priorities of different parts of the business conflict. And even when the criteria do not lead to a straightforward answer, the guidelines can at least foster productive conversations by providing an objective focus. Establishing such criteria also sends a clear signal from management that it views conflict as an inevitable result of managing a complex business.

At Blue Cross and Blue Shield of Florida, the strategic decision to rely more and more on alliances with other organizations has significantly increased the potential for disagreement in an organization long accustomed to developing capabilities in-house. Decisions about whether to build new capabilities, buy them outright, or gain access to them through alliances are natural flashpoints for conflict among internal groups. The health insurer might have tried to minimize such conflict through a structural solution, giving a particular group the authority to make decisions concerning whether, for instance, to develop a new claims-processing system in-house, to do so jointly with an alliance partner, or to license or acquire an existing system from a third party. Instead, the company established a set of criteria designed to help various groups within the organization—for example, the enterprise alliance group, IT, and marketing—to collectively make such decisions.

The criteria are embodied in a spreadsheet-type tool that guides people in assessing the trade-offs involved—say, between speed in getting a new process up and running versus ensuring its seamless integration with existing ones—when deciding whether to build, buy, or ally. People no longer debate back and forth across a table, advocating their preferred outcomes. Instead, they sit around the table and together apply a common set of trade-off criteria to the decision at hand. The resulting insights into the pros and cons of each approach enable more effective execution, no matter which path is chosen. (For a simplified version of the trade-off tool, see the exhibit "Blue Cross and Blue Shield: Build, Buy, or Ally?")

Use the escalation of conflict as an opportunity for coaching. Managers at Matrix spend much of their time playing the organizational equivalent of hot potato. Even people who are new to the company learn within weeks that the best thing to do with cross-unit conflict is to toss it up the management chain. Immediate supervisors take a quick pass at resolving the dispute but, being busy themselves, usually pass it up to *their* supervisors. Those supervisors do the same, and before long the problem lands in the lap of a senior-level manager, who then spends much of his time resolving disagreements. Clearly, this isn't ideal. Because the senior managers are a number of steps removed from the source of the controversy, they rarely have a good understanding of the situation. Furthermore, the more time they spend resolving internal clashes, the less time they spend engaged in the business, and the more isolated they are from the very information they need to resolve the disputes dumped in their laps. Mean-

Blue Cross and Blue Shield: Build, Buy, or Ally?

One of the most effective ways senior managers can help resolve cross-unit conflict is by giving people the criteria for making trade-offs when the needs of different parts of the business are at odds with one another. At Blue Cross and Blue Shield of Florida, there are often conflicting perspectives over whether to build new capabilities (for example, a new claims-processing system, as in the hypothetical example below), acquire them, or gain access to them through an alliance. The company uses a grid-like poster (a simplified version of which is shown here) that helps multiple parties analyze the trade-offs associated with these three options. By checking various boxes in the grid using personalized markers, participants indicate how they assess a particular option against a variety of criteria: for example, the date by which the new capability needs to be implemented; the availability of internal resources such as capital and staff needed to develop the capability; and the degree of integration required with existing products and processes. The table format makes criteria and trade-offs easy to compare. The visual depiction of people's "votes" and the ensuing discussion help individuals see how their differences often arise from such factors as access to different data or different prioritizing of objectives. As debate unfolds—and as people move their markers in response to new information—they can see where they are aligned and where and why they separate into significant factions of disagreement. Eventually, the criteria-based dialogue tends to produce a preponderance of markers in one of the three rows, thus yielding operational consensus around a decision.

New Claims-Processing System

Required Implementation Time Frame	Organizational Experience Level	Availability of Internal Resources	Volatility of Environment	Complexity of Solution	Availability of External Resources	Required Degree of Integration	Required Control	
>12 months	High	High	Low	Low	Low	High	High	BUILD
<6 months	Low	High to moderate	Medium	High	High	Medium	Medium	BUY
6–12 months	Medium	Moderate to low	High	Moderate	Moderate	Low	Low	ALLY

Participant 1 = Participant 2 = Participant 3 = Participant 4 = Participant 5 =

Source: Blue Cross and Blue Shield of Florida while, Matrix employees get so little opportunity to learn about how to deal with conflict that it becomes not only expedient but almost necessary for them to quickly bump conflict up the management chain.

While Matrix's story may sound extreme, we can hardly count the number of companies we've seen that operate this way. And even in the best of situations—for example, where a companywide conflict-management process is in place and where trade-off criteria are well understood—there is still a natural tendency for people to let their bosses sort out disputes. Senior managers contribute to this tendency by quickly resolving the problems presented to them. While this may be the fastest and easiest way to fix the problems, it encourages people to punt issues upstairs at the first sign of difficulty. Instead, managers should treat escalations as opportunities to help employees become better at resolving conflict. (For an example of how managers can help their employees improve their conflict resolution skills, see the exhibit "IBM: Coaching for Conflict.")

At KLA-Tencor, a major manufacturer of semiconductor production equipment, a materials executive in each division oversees a number of buyers who procure the materials and component parts for machines that the division makes. When negotiating a companywide contract with a supplier, a buyer often must work with the company commodity manager, as well as with buyers from other divisions who deal with the same supplier. There is often conflict, for example, over the delivery terms for components supplied to two or more

IBM: Coaching for Conflict

Managers can reduce the repeated escalation of conflict up the management chain by helping employees learn how to resolve disputes themselves. At IBM, executives get training in conflict management and are offered online resources to help them coach others. One tool on the corporate intranet (an edited excerpt of which is shown here) walks managers through a variety of conversations they might have with a direct report who is struggling to resolve a dispute with people from one or more groups in the company—some of whom, by design, will be consulted to get their views but won't be involved in negotiating the final decision.

If you hear from someone reporting to you that . . .	The problem could be that . . .	And you could help your report by saying something like. . .
"Everyone still insists on being a decision maker."	The people your report is dealing with remain concerned that unless they have a formal voice in making the decision—or a key piece of the decision—their needs and interests won't be taken into account.	**"You might want to explain why people are being consulted and how this information will be used."** **"Are there ways to break this decision apart into a series of subissues and assign decision-making roles around those subissues?"** **"Consider talking to the group about the costs of having everyone involved in the final decision."**
"If I consult with this person up front, he might try to force an answer on me or create roadblocks to my efforts to move forward."	The person you are coaching may be overlooking the risks of not asking for input—mainly, that any decision arrived at without input could be sabotaged later on.	**"How would you ask someone for input? What would you tell her about your purpose in seeking it? What questions would you ask? What would you say if she put forth a solution and resisted discussing other options?"** **"Is there a way to manage the risk that she will try to block your efforts other than by not consulting her at all? If you consult with her now, might that in fact lower the risk that she will try to derail your efforts later?"**
"I have consulted with all the right parties and have crafted, by all accounts, a good plan. But the decision makers cannot settle on a final decision."	The right people were included in the negotiating group, but the process for negotiating a final decision was not determined.	**"What are the ground rules for how decisions will be made? Do all those in the group need to agree? Must the majority agree? Or just those with the greatest competence?"** **"What interests underlie the objective of having everyone agree? Is there another decision-making process that would meet those interests?"**

divisions under the contract. In such cases, the commodity manager and the division materials executive will push the division buyer to consider the needs of the other divisions, alternatives that might best address the collective needs of the different divisions, and the standards to be applied in assessing the trade-offs between alternatives. The aim is to help the buyer see solutions that haven't yet been considered and to resolve the conflict with the buyer in the other division.

Initially, this approach required more time from managers than if they had simply made the decisions themselves. But it has paid off in fewer disputes that senior managers need to resolve, speedier contract negotiation, and improved contract terms both for the company as a whole and for multiple divisions. For example, the buyers from three KLA-Tencor product divisions recently locked horns over a global contract with a key supplier. At issue was the trade-off between two variables: one, the supplier's level of liability for materials it needs to purchase in order to fulfill orders and, two, the flexibility granted the KLA-Tencor divisions in modifying the size of the orders and their required lead times. Each division demanded a different balance between these two factors, and the buyers took the conflict to their managers, wondering if they should try to negotiate each of the different trade-offs into the contract or pick among them. After being coached to consider how each division's business model shaped its preference—and using this understanding to jointly brainstorm alternatives—the buyers and commodity manager arrived at a creative solution that worked for everyone: They would request a clause in the contract that allowed them to increase and decrease flexibility in order volume and lead time, with corresponding changes in supplier liability, as required by changing market conditions.

Strategies for Managing Conflict upon Escalation

Equipped with common conflict resolution methods and trade-off criteria, and supported by systematic coaching, people are better able to resolve conflict on their own. But certain complex disputes will inevitably need to be decided by superiors. Consequently, managers must ensure that, upon escalation, conflict is resolved constructively and efficiently—and in ways that model desired behaviors.

Establish and enforce a requirement of joint escalation. Let's again consider the situation at Matrix. In a typical conflict, three salespeople from different divisions become involved in a dispute over pricing. Frustrated, one of them decides to hand the problem up to his boss, explaining the situation in a short voice-mail message. The message offers little more than bare acknowledgment of the other salespeoples' viewpoints. The manager then determines, on the basis of what he knows about the situation, the solution to the problem. The salesperson, armed with his boss's decision, returns to his counterparts and shares with them the verdict—which, given the process, is simply a stronger version of the solution the salesperson had put forward in the first place. But wait! The other two salespeople have also gone to *their* managers and carried back stronger versions of *their* solutions. At this point, each salesperson is locked into what is now "my manager's view" of the right pricing scheme. The problem, already thorny, has become even more intractable.

The best way to avoid this kind of debilitating deadlock is for people to present a disagreement jointly to their boss or bosses. This will reduce or even eliminate the suspicion, surprises, and damaged personal relationships ordinarily associated with unilateral escalation. It will also guarantee that the ultimate decision maker has access to a wide array of perspectives on the conflict, its causes, and the various ways it might be resolved. Furthermore, companies that require people to share responsibility for the escalation of a conflict often see a decrease in the number of problems that are pushed up the management chain. Joint escalation helps create the kind of accountability that is lacking when people know they can provide their side of an issue to their own manager and blame others when things don't work out.

A few years ago, after a merger that resulted in a much larger and more complex organization, senior managers at the Canadian telecommunications company Telus found themselves virtually paralyzed by a daily barrage of unilateral escalations. Just determining who was dealing with what and who should be talking to whom took up huge amounts of senior management's time. So the company made joint escalation a central tenet of its new organizationwide protocols for conflict resolution—a requirement given teeth by managers' refusal to respond to unilateral escalation. When a conflict occurred among managers in different departments concerning, say, the allocation of resources among the departments, the managers were required to jointly describe the problem, what had been done so far to resolve it, and its possible solutions. Then they had to send a joint write-up of the situation to each of their bosses and stand ready to appear together and answer questions when those bosses met to work through a solution. In many cases, the requirement of systematically documenting the conflict and efforts to resolve it—because it forced people to make such efforts—led to a problem being resolved on the spot, without having to be kicked upstairs. Within weeks, this process resulted in the resolution of hundreds of issues that had been stalled for months in the newly merged organization.

Ensure that managers resolve escalated conflicts directly with *their* counterparts. Let's return to the three salespeople at Matrix who took their dispute over pricing to their respective bosses and then met again, only to find themselves further from agreement than before. So what did they do at that point? They sent the problem *back* to their bosses. These three bosses, each of whom thought he'd already resolved the issue, decided the easiest thing to do would be to escalate it themselves. This would save them time and put the conflict before senior managers with the broad view seemingly needed to make a decision. Unfortunately, by doing this, the three bosses simply perpetuated the situation their salespeople had created, putting forward a biased viewpoint and leaving it to their own managers to come up with an answer. In the end, the decision was made unilaterally by the senior manager with the most organizational clout. This result bred resentment back down the management chain. A sense of "we'll win next time" took hold, ensuring that future conflict would be even more difficult to resolve.

It's not unusual to see managers react to escalations from their employees by simply passing conflicts up their own functional or divisional chains until they reach a senior executive involved with all the affected functions or divisions. Besides providing a poor example for others in the organization, this can be disastrous for a company that needs to move quickly. To avoid wasting time, a manager somewhere along the chain might try to resolve the problem swiftly and decisively by herself. But this, too, has its costs. In a complex organization, where many issues have significant implications for numerous parts of the business, unilateral responses to unilateral escalations are a recipe for inefficiency, bad decisions, and ill feelings.

The solution to these problems is a commitment by managers—a commitment codified in a formal policy—to deal with escalated conflict directly with their counterparts. Of course, doing this can feel cumbersome, especially when an issue is time-sensitive. But resolving the problem early on is ultimately more efficient than trying to sort it out later, after a decision becomes known because it has negatively affected some part of the business.

In the 1990s, IBM's sales and delivery organization became increasingly complex as the company reintegrated previously independent divisions and reorganized itself to provide customers with full solutions of bundled products and services. Senior executives soon recognized that managers were not dealing with escalated conflicts and that relationships among them were strained because they failed to consult and coordinate around cross-unit issues. This led to the creation of a forum called the Market Growth Workshop (a name carefully chosen to send a message throughout the company that getting cross-unit conflict resolved was critical to meeting customer needs and, in turn, growing market share). These monthly conference calls brought together managers, salespeople, and frontline product specialists from across the company to discuss and resolve cross-unit conflicts that were hindering important sales—for example, the difficulty salespeople faced in getting needed technical resources from overstretched product groups.

The Market Growth Workshops weren't successful right away. In the beginning, busy senior managers, reluctant to spend time on issues that often hadn't been carefully thought through, began sending their subordinates to the meetings—which made it even more difficult to resolve the problems discussed. So the company developed a simple preparation template that forced people to document and analyze disputes before the conference calls. Senior managers, realizing the problems created by their absence, recommitted themselves to attending the meetings. Over time, as complex conflicts were resolved during these sessions and significant sales were closed, attendees began to see these meetings as an opportunity to be involved in the resolution of high-stakes, high-visibility issues.

Make the process for escalated conflict resolution transparent. When a sales conflict is resolved by a Matrix senior manager, the word comes down the management chain in the form of an action item: Put together an offering with this particular mix of products and services at these prices. The only elaboration may be an admonishment to "get the sales team together, work up a proposal, and get back to the customer as quickly as possible." The problem is solved, at least for the time being. But the salespeople—unless they have been able to divine themes from the patterns of decisions made over time—are left with little guidance on how to resolve similar issues in the future. They may justifiably wonder: How was the decision made? Based on what kinds of assumptions? With what kinds of trade-offs? How might the reasoning change if the situation were different?

In most companies, once managers have resolved a conflict, they announce the decision and move on. The resolution process and rationale behind the decision are left inside a managerial black box. While it's rarely helpful for managers to share all the gory details of their deliberations around contentious issues, failing to take the time to explain how a decision was reached and the factors that went into it squanders a major opportunity. A frank discussion of the trade-offs involved in decisions would provide guidance to people trying to resolve conflicts in the future and would help nip in the bud the kind of speculation—who won and who lost, which managers or units have the most power—that breeds mistrust, sparks turf battles, and otherwise impedes cross-organizational collaboration. In general, clear communication about the resolution of the conflict can increase people's willingness and ability to implement decisions.

During the past two years, IBM's Market Growth Workshops have evolved into a more structured approach to managing escalated conflict, known as Cross-Team Workouts. Designed to make conflict resolution more transparent, the workouts are weekly meetings of people across the organization who work together on sales and delivery issues for specific accounts. The meetings provide a public forum for resolving conflicts over account strategy, solution configuration, pricing, and delivery. Those issues that cannot be resolved at the local level are escalated to regional workout sessions attended by managers from product groups, services, sales, and finance. Attendees then communicate and explain meeting resolutions to their reports. Issues that cannot be resolved at the regional level are escalated to an even higher-level workout meeting attended by cross-unit executives from a larger geographic region—like the Americas or Asia Pacific—and chaired by the general manager of the region presenting the issue. The most complex and strategic issues reach this global forum. The overlapping attendance at these sessions—in which the managers who chair one level of meeting attend sessions at the next level up, thereby observing the decision-making process at that stage—further enhances the transparency of the system among different levels of the company. IBM has further formalized the process for the direct resolution of conflicts between services and product sales on large accounts by designating a managing director in sales and a global relationship partner in IBM global services as the ultimate point of resolution for escalated conflicts. By explicitly making the resolution of complex conflicts part of the job descriptions for both managing director and global relationship partner—and by making that clear to others in the organization—IBM has reduced ambiguity, increased transparency, and increased the efficiency with which conflicts are resolved.

Tapping the Learning Latent in Conflict

The six strategies we have discussed constitute a framework for effectively managing organizational discord, one that integrates conflict resolution into day-to-day decision-making processes, thereby removing a critical barrier to cross-organizational collaboration. But the strategies also hint at something else: that conflict can be more than a necessary antecedent to collaboration.

Let's return briefly to Matrix. More than three-quarters of all cross-unit sales at the company trigger disputes about pricing. Roughly half of the sales lead to clashes over account control. A substantial number of sales also produce disagreements over the design of customer solutions, with the conflict often rooted in divisions' incompatible measurement systems and the concerns of some people about the quality of the solutions being assembled. But managers are so busy trying to resolve these almost daily disputes that they don't see the patterns or sources of conflict. Interestingly, if they ever wanted to identify patterns like these, Matrix managers might find few signs of them. That's because salespeople, who regularly hear their bosses complain about all the disagreements in the organization, have concluded that they'd better start shielding their superiors from discord.

The situation at Matrix is not unusual—most companies view conflict as an unnecessary nuisance—but that view is unfortunate. When a company begins to see conflict as a valuable resource that should be managed and exploited, it is likely to gain insight into problems that senior managers may not have known existed. Because internal friction is often caused by unaddressed strains within an organization or between an organization and its environment, setting up methods to track conflict and examine its causes can provide an interesting new perspective on a variety of issues. In the case of Matrix, taking the time to aggregate the experiences of individual salespeople involved in recurring disputes would likely lead to better approaches to setting prices, establishing incentives for salespeople, and monitoring the company's quality control process.

At Johnson & Johnson, an organization that has a highly decentralized structure, conflict is recognized as a positive aspect of cross-company collaboration. For example, a small internal group charged with facilitating sourcing collaboration among J&J's independent operating companies—particularly their outsourcing of clinical research services—actively works to extract lessons from conflicts. The group tracks and analyzes disagreements about issues such as what to outsource, whether and how to shift spending among suppliers, and what supplier capabilities to invest in. It hosts a council, comprising representatives from the various operating companies, that meets regularly to discuss these differences and explore their strategic implications. As a result, trends in clinical research outsourcing are spotted and information about them is disseminated throughout J&J more quickly. The operating companies benefit from insights about new offshoring opportunities, technologies, and ways of structuring collaboration with suppliers. And J&J, which can now piece together an accurate and global view of its suppliers, is better able to partner with them. Furthermore, the company realizes more value from its relationship with suppliers—yet another example of how the effective management of conflict can ultimately lead to fruitful collaboration.

J&J's approach is unusual but not unique. The benefits it offers provide further evidence that conflict—so often viewed as a liability to be avoided whenever possible—can be valuable to a company that knows how to manage it.

Reprint R0503F
To order, see the next page
or call 800-988-0886 or 617-783-7500
or go to www.hbr.org

Harvard Business Review OnPoint

Harvard Business Review OnPoint articles enhance the full-text article with a summary of its key points and a selection of its company examples to help you quickly absorb and apply the concepts. *Harvard Business Review* OnPoint collections include three OnPoint articles and an overview comparing the various perspectives on a specific topic.

Further Reading

The *Harvard Business Review* Paperback Series

Here are the landmark ideas—both contemporary and classic—that have established *Harvard Business Review* as required reading for businesspeople around the globe. Each paperback includes eight of the leading articles on a particular business topic. The series includes over thirty titles, including the following best-sellers:

Harvard Business Review on Brand Management
Product no. 1445

Harvard Business Review on Change
Product no. 8842

Harvard Business Review on Leadership
Product no. 8834

Harvard Business Review on Managing People
Product no. 9075

Harvard Business Review on Measuring Corporate Performance
Product no. 8826

For a complete list of the *Harvard Business Review* paperback series, go to www.hbr.org.

Harvard Business Review
www.hbr.org

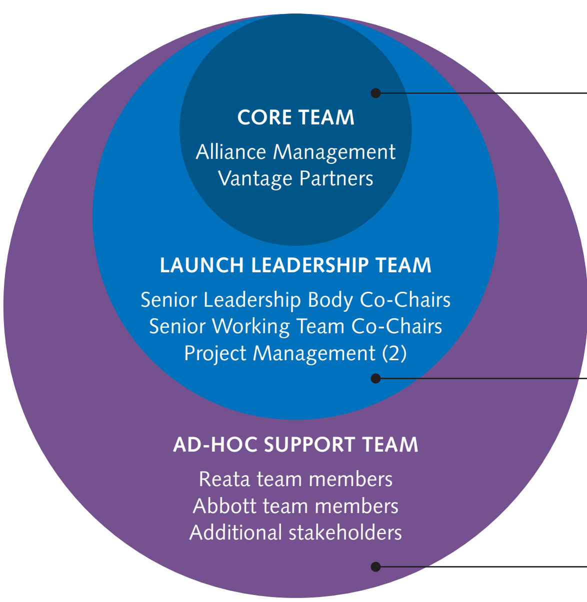
U.S. and Canada
800-988-0886
617-783-7500
617-783-7555 fax

Planning for and Implementing a New Alliance Launch Process for a Worldwide Collaboration

An interview with Alliance Managers John Larson, Abbott, and Troy Windt, Reata Pharmaceuticals

In 2011 Abbott and Reata Pharmaceuticals entered into a 50/50 cost and revenue sharing collaboration agreement to jointly develop and commercialize preclinical drug candidates from a set of approximately 450 molecules that Reata calls anti-inflammatory modulators (AIMs). This deal came on the heels of a previous 2010 agreement in which Reata granted Abbott the rights to develop and commercialize Reata's lead compound, bardoxolone methyl, outside of the United States, Japan, and certain other Asian markets. Given the alliance's broad scope and importance to both companies, the partners decided to take a careful and structured approach to launching the new collaboration — to engage in a New Alliance Launch Process. The ultimate purpose of a New Alliance Launch Process is to ensure that a new relationship is systematically set up in a way that enables effective execution. Thus, Abbott and Reata formed a New Alliance Launch Core Team, supplemented that team with senior leadership from both organizations (creating a Launch Leadership Team), discussed and agreed to a set of 100 Day New Alliance Launch Plan Deliverables, and then created and implemented a defined plan to drive toward and meet those goals.

In this interview, John Larson, a General Manager of the Global Alliance Management Group at Abbott, and Troy Windt, a Director in the Alliance Management and Business Development Group at Reata, talk about the process they went (and are still going) through, some of the challenges that they have run into, and some of the key lessons they have learned as they have looked to create as effective and efficient an alliance as possible.



Assume full accountability for the Launch

- Draft, iterate, drive the plan
- Prioritize deliverables and keep stakeholders involved and informed
- Drive the day-to-day development and implementation of deliverables
- Ensure all key stakeholders are kept informed of alliance launch activities along the way

Provide oversight and support to the Core Team

- Endorse all key deliverables
- Provide assistance in overcoming roadblocks and challenges that the Core Team might encounter
- Act as champions for the Launch Process and send key messages to appropriate team members as needed

Provide support as needed

- Assume responsibility for specific deliverables (e.g., IT infrastructure)
- Provide feedback on key deliverables

Can you provide some background on the New Collaboration? When and how did it start?

John Larson (Abbott): As you know, we had an existing collaboration to develop bardoxolone methyl. The confidence, trust, and good track record that had developed since the first deal were important for the new collaboration. Most exciting is the technology; people at Abbott are very excited about it and excited to partner with Reata. This is a very significant alliance for us.

Troy Windt (Reata): For Reata, it was clear that Abbott — with its impressive size and experience — would be a great partner for us as we take the AIMs platform to the next level. In particular, our existing relationship with Abbott provided us with a great deal of comfort and made us confident that we were choosing the right partner.

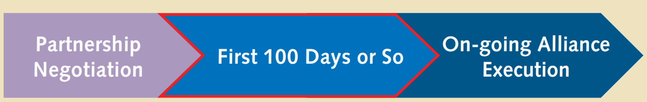
What about the New Collaboration makes it particularly complex and challenging?

John (Abbott): The collaboration is built around a suite of molecules with multiple product possibilities, in many therapeutic areas, with work that ranges from discovery to preclinical to clinical to commercial. It also draws on people across different functions and therapeutic areas, making clear and effective communication and decision-making both challenging and critical.

How did you make the decision to operationalize the New Collaboration in a structured way — to engage in a New Alliance Launch Process?

Troy (Reata): As John mentioned, there are a lot of moving pieces, with a fair bit of ambiguity about how best to operationalize the partnership. Also, it is our Executive Management Team's desire to make Alliance Management one of our core competencies. To do this effectively on the New Collaboration, we really needed a structured approach to launching the alliance.

Focus of the Abbott-Reata New Alliance Process



You started out by clarifying a specific set of launch deliverables. How was that useful?

John (Abbott): When you launch a complex alliance, you quickly realize that you're following two simultaneous paths: one focused on getting the work done and achieving specific milestones, and the other focused on setting things up (e.g., establishing decision-making processes, communication plans, and governance structures). So there needs to be a pretty deliberate focus on both progressing the alliance in terms of its productivity and simultaneously ensuring that the alliance is set up going forward. For that, we really needed to start out by clarifying what we needed to have in place to ensure that the alliance was set up for good execution.

Troy (Reata): The natural tendency is to immediately jump to the "whats" — the work that needs to be done. The difficulty is that in order to complete all of the work and meet your milestones time and time again, you have to put in place the "how" — how the teams will make decisions, communicate, and work together. The biggest piece about our list of launch process deliverables is that they help us ensure we answer the "how" questions. Once John and I and the whole team agreed on those deliverables, we could then construct a plan that we could drive and manage ourselves to.

Abbott-Reata 100 Day Plan Deliverables

- Diagnostic Report with a set of going-forward recommendations
- Agreed upon vision and goals for the alliance
- A joint scorecard based on the alliance goals
- Fully defined, staffed, and operationalized alliance committee and team structure
  - Charters (including mission, purpose, goals, key decisions, meeting norms, etc.)
  - Identified goals, challenges to meeting them, and plans for managing each challenge
  - Working together norms and rules of engagement
  - Commitment tracking mechanisms, within and across
- Key business processes rearticulated as working-together processes
- A map of key decisions, with clarity around how each is made and which internal and/or joint committees/ stakeholders should be consulted before and informed after
- Key internal stakeholder understanding of the partnership
- External and internal communication plans
- IT infrastructure and enabled information sharing/data exchange
- A set of Alliance Behavioral Principles and a plan for embedding them
- Enhanced alliance management skills across the alliance
- Agreed inclusion of alliance accountabilities in personal objectives
- Process for tracking contractual commitments
- An integrated calendar to strategically plan milestones and committee meetings

Which launch process deliverables have proven to be most useful? Why would you say that these have been particularly impactful?

Troy (Reata): Three come to mind: behavioral principles, decision-making matrices, and comprehensive charters. Our behavioral principles are designed to be universal across the alliance and to form the foundation of where to bring conversations back to when things start to become unproductive. They can be used both by sub-team members working on a tactical part of

Abbott-Reata Behavioral Principles

The overall objective is to encourage our teams to work together. Remember to…

Go deeper. When in disagreement, ask questions to understand your partner's perspective, and explain yours. Talk about underlying interests — not just positions.

Enthusiastically celebrate. Celebrate achievements together.

Talk before email. Pick up the phone and regularly reach out to your colleagues and partners.

Focus on the "how." Clarify how we will collaborate, communicate, and make decisions before moving on to what needs to be done and decided.

Assume positive intent. Always assume the best intent from your partner.

Consult and collaborate. When in doubt, consult. Assume collaboration unless explicitly agreed otherwise. Respect your partner's expertise.

Take extra time to step in. Intervene on unhealthy interactions in a timely manner.

Share. Make it a habit to share information with your partner.

the program and by senior leaders. We are now in the process of determining how best to embed those principles into the fabric of the relationship. This requires ensuring that the principles are integrated into our key business processes, providing training on them, and thinking about how they might form the basis for some alliance awards program.

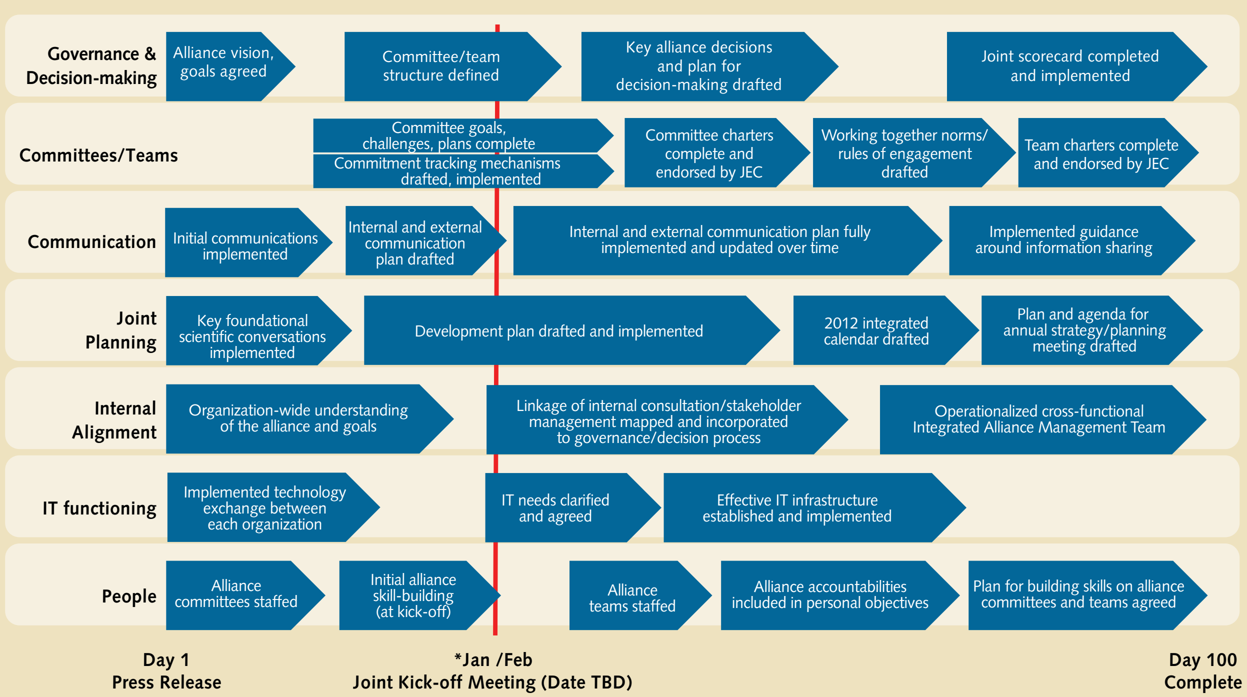
John (Abbott): For me, the chartering process and how you organize teams has been really important. When you have a smaller and larger company, there can be a perception that both *companies* are combining, when in fact the two project teams are really the ones coming together. Chartering lays out team member responsibilities, working-together expectations, and decision-making roles. Also, the core working teams drive the alliance, so it is important that they understand the agreement and how the alliance works.

As part of this effort, you asked Vantage to conduct a set of interviews in order to diagnose, describe, and raise awareness of key execution challenges. Can you talk a little about what you learned from that effort?

John (Abbott): It was a good tool that enabled us to hear perspectives from the bardoxolone methyl team and from new members. We heard what some of the preconceived notions around the new collaboration were, and this enabled us to have a good baseline around what biases some people might be starting with. We then came up with some specific tactics for dealing with those. It was also a really good way to ensure that the senior governance teams could have some good conversations about how best to work together to overcome any challenges.

Troy (Reata): The diagnostic is an outstanding and necessary tool, but it is also important to be aware that unless you clearly communicate its purpose to those being interviewed, there is a danger that it can be seen as a negative exercise focused solely on problem areas. In that case, you tend to seek out challenges so that they can be identified and then have procedures and tools put in place to minimize them. Overall, it is a terrific tool and exercise;

High Level Timeline and Key Milestones for the Abbott-Reata Alliance Launch



it certainly helped us prioritize activities while simultaneously allowing people to express what they might have been thinking but not saying. You just need to make sure it's framed appropriately.

John (Abbott): I think it formed the basis for why we need to have joint alliance training on partisan perceptions, decision-making processes, and tools. I also think that it's a chance to change the way that people think about a lot of the working situations.

As you have been working together to launch the alliance, what are some challenges that have come up as the teams have started to work together? How have you worked to manage those challenges?

Troy (Reata): One big challenge of launching an alliance of this magnitude is the multitude of things that you have to get up off the ground. You need lots of good insight, good experiential thinking, and simply bodies to help with it. One challenge is being able to give the appropriate mindshare to the launch pieces while still managing other alliances. Another is being part of the day-to-day activities in parallel with helping to form how the activities happen.

John (Abbott): Time management is a big issue. A key role of the Alliance Manager is to decide when to involve people in various pieces of the launch effort and when to take ownership of building it myself and consulting with key stakeholders. It really accentuates the need to determine how teams should work together upfront so that when they're faced with a key activity people know who should be involved and how they'll do the work.

The two of you, as the Alliance Managers from each organization, seem to have worked incredibly well together. What has that been like, and to what do you attribute that success?

Troy (Reata): Alliance Managers are cut from similar cloths. John and I are usually on the same wavelength, which has strengthened our relationship. To be effective, you have to go with the flow and also be influential within your organization. We are always seeking that collaborative effort internally and between both companies.

John (Abbott): We both share a common approach to alliance management, and one of our strengths is that we each represent our company and can also appreciate the partners' different perspective. There are many different personalities on alliances, and you need to recognize that individuality and how it works as a team.

What are the most important lessons you've learned from this experience about launching a new alliance?

John (Abbott): Take the time to launch the new alliance, and don't just dive into the work. In addition, once the agreement is signed, the Alliance Manager needs to ensure that there is a common understanding across both teams around what is and isn't in the agreement. It takes time and isn't easy, but it pays dividends.

Troy (Reata): Both companies recognize the importance and uniqueness of this alliance and also how hard partnerships can be. It is about understanding, recognizing, and planning for how you and your partners will proactively manage the differences that happen every day, and being ready to roll up your sleeves.

If you could give one final piece of advice to your alliance management colleagues out there, what would it be?

John (Abbott): Get excited about the launch of a new alliance! Sometimes the details can overshadow the excitement and great possibilities, so it's important to remember this excitement. Have the governance teams and extended teams spend time building relationships so that when they are faced with a stressful situation, they have those relationships to rely on.

Troy (Reata): Prepare well for the times when the inevitable challenges of the "what" can only be resolved by addressing the "how." Those are the times when the long-term value of working on the "how" is most evident and impactful to the alliance. There are lots of moving parts, so you just need to be patient and keep at it.

vantage partners

Engagement Model Due Diligence: Early Identification of Alliance Challenges To Support Contract Negotiation and Enable Execution

By Stuart Kliman and Adam Kornetsky

Alliance Managers often talk about wanting to get involved as early as possible in the formation of a new alliance. The opportunity prior to the finalization of a deal to learn about a partner, assess likely challenges, and make recommendations about the contract is an optimal start to a relationship from an alliance management perspective. However, many Alliance Managers face a big challenge in determining *how* to accomplish this goal. Said another way, many Alliance Managers want to be involved early in the process but quite appropriately struggle with questions such as: What steps do I take to get involved? What exactly do I do and how exactly am I going to add value? What are the outputs of any early involvement in the process and what exactly will be done with those? How do I not further complicate the alliance formation process? Without a clear, well thought out methodology, it can feel almost impossible to answer these questions.

Typical pre-contract due diligence processes are focused on assessing technical abilities, evaluating partner finances, and projecting potential risks; they do not, however, attempt to identify challenges that are likely to stand in the way of the partners' working together effectively. Recognizing this need, more and more organizations are exploring if and how to best enhance the classic due diligence process with steps that can indeed meet this added goal. To differentiate those steps from those focused on the more classic process, Vantage has coined the term *Engagement Model Due Diligence* — called such because ultimately its focus is on how the two partners will engage to achieve their separate and joint objectives.

An Engagement Model Due Diligence process yields three primary outputs that can be summarized as follows:

I. Broad awareness of key alliance challenges

- Determining key potential challenges ahead of time helps sensitize the organization to potential issues that may impede alliance success so that they can be anticipated and managed more proactively.

II. Input into contract

- By identifying and exploring key organizational differences and/or likely execution challenges early in the process (prior to signing the deal), potential partners can ensure that their agreements have taken those issues into account — ensuring that the negotiation effort is as much focused on creating a deal that is implementable and/or likely to lead to joint success as creating a deal per se. Specific contract language that defines governance protocols, risk management, and individual roles can be added to reduce ambiguity and ensure a unified approach from day one of the alliance.

III. Input to specific alliance launch activities

- Determining the potential issues or difficult areas prior to deal signing allows partners to focus at least part of the first 100 days of the new alliance on ensuring that the alliance has in place understandings, working together protocols, committee agenda, etc., that are explicitly designed to ensure that the alliance is well prepared to deal with those previously identified likely challenges — *mitigating* the likelihood that the identified possible challenges will crop up and *maximizing* the likelihood that the partners will deal well with them when they do. As per below, the outputs of an Engagement Model Due Diligence process are direct inputs to the Alliance Manager's design of his or her New Alliance Launch Plan.

What does Engagement Model Due Diligence Entail?

The Engagement Model Due Diligence methodology has four steps that enable Alliance Managers to not only learn about the best ways to structure their interactions with their partners, but

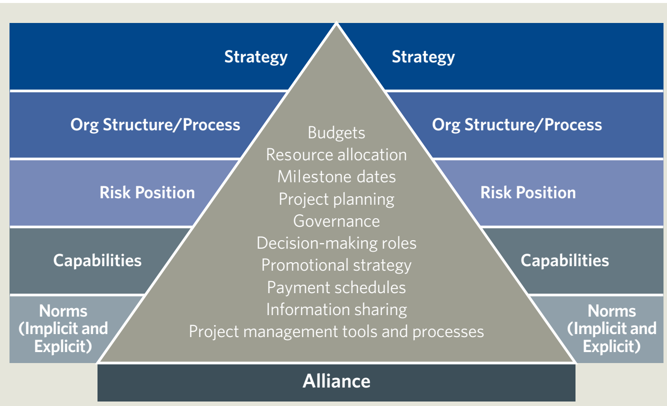


Figure 1

proactively take on challenges that would not have otherwise been uncovered until manifested as issues down the road. As indicated in Figure 1, organizations often differ in their business strategy, organizational structure, risk position, alliance capabilities, and cultural norms. These differences, while not always outwardly apparent, are usually the primary culprits in creating tension among organizations in an alliance when it comes to key decisions, budgets, and resource allocations. They are also often at the crux of why alliances fail to perform optimally. The engagement model's four distinct steps are therefore focused on identifying those differences, devising approaches to mitigate the likelihood that those differences will undermine alliance execution, and then ensuring that those approaches are embedded in the contract and new alliance launch plan. Thus, the four steps are: 1) understand your partner; 2) compare your organization; 3) devise mitigation strategies; and 4) devise launch plan. Going through these four steps to truly understand a partner at the beginning of a relationship, as opposed to midway through (if at all!), is a critical element to its success.

- **Understand Your Partner:** Once a term sheet is signed, the Alliance Manager facilitates an effort to collect data about the prospective partner to help inform the team's understanding of some key partner characteristics and how those might be different from their own organization. Data is collected across five different categories (strategy, organizational structure/process, capabilities, risk, and norms). These categories provide a broad look at all of the possible angles of a relationship that could impact alliance performance.

- **Analyze Differences Between Organizations:** Following the collection of data across the categories previously described, the Alliance Manager offers his/her expertise to the team in in order to help perform analysis and advise the deal formation team of what the implications of the differences between their own organization and the prospective partner might be on their ability to effectively engage. The areas where the greatest gaps appear will inform the Alliance Manager where he or she will likely need to focus team attention.

- **Devise Mitigation Strategies:** Alliance Managers then work with the various members of the deal formation team to encourage them to think about the gaps/differences that were uncovered between the organizations. The Alliance Manager should facilitate a meeting with key stakeholders to determine a set of plans and activities to eliminate or mitigate the potentially negative implications of those differences on the alliance's ability to execute. Outputs of this meeting could include making recommendations on additional language to be added into the contract, designing specific work sessions to map out alliance decision making processes, re-thinking governance, or scheduling a discussion to talk through the kinds of norms and behaviors the partners will try to embed in the alliance's day to day operating norm.

- **Devise Launch Plan:** Shortly after the information gathering, analyzing, and planning stages are complete, the Alliance Manager then facilitates conversations with key members of the alliance team in order to begin to craft a New Alliance Launch Plan that is focused on dealing with the identified issues (gaps). This is often done jointly with the Alliance Manager from the partner organization and, as such, is the first step in alliance implementation planning.

Conclusion

Facilitating an Engagement Model Due Diligence Process provides Alliance Mangers with a means to leverage their expertise as early in the process as possible in order to help their organization assess execution challenges that the alliance is likely to face. Outputs of the model can include such things as the addition of "hard" contract language that reduces ambiguity, the creation of a launch plan that is built to handle likely areas of tension, or simply greater sensitivity to the need to accommodate partner differences down the line. As difficult as some of the issues may appear, discovering them before a contract is signed rarely ever prevents a deal from actually closing — especially when the business case is already made. Instead, rather than simply "hoping for the best" or pledging to "make it work," Alliance Managers are able to take a constructive, meaningful, and value add role prior to a deal being signed — and prepare for a launch as quickly and efficiently as possible.

vantage partners

Top 21 Alliance Execution Challenges to Focus Alliance Management Efforts

By Stuart Kliman and Lauren Krouskoff

Organizations increasingly utilize alliances to develop relationships for mutual gain, address business challenges, and drive bottom-line results. Given these partnerships' strategic importance, companies are continuing to dedicate resources toward building their alliance management capabilities. Although alliance success rates are increasing, a recent Vantage study found that when alliances fail to meet their objectives, alliance execution challenges remain the most significant cause. Vantage has therefore developed a list of the 21 most common execution challenges to help clients deal with this reality. Each of these challenges can be systematically addressed, providing organizations with an opportunity to improve alliance execution, enhance relationships with partners, and get closer to maximizing the value of their alliances.

Brief introduction to Vantage's newest alliance management study

In June 2015, Vantage published its latest comprehensive cross-industry study on alliances and alliance management, entitled *Transcending Organizational Barriers—A Cross-Industry View of Alliance Management Trends and Challenges.* The purpose of this study was to:

- Gain insight into the impact of ineffective management on alliance results
- Identify the new and persistent challenges of alliance management
- Test hypotheses about the root causes of alliance management challenges

The study, which was based on a nearly 500-respondent survey and a series of practitioner interviews, highlighted the significance of alliance execution challenges and their consequences.

(**Note:** Please reach out directly to skliman@vantagepartners.com if interested in receiving a complimentary copy of this study).

Five categories of alliance execution challenges

Based on decades of client experiences, Vantage has organized the 21 alliance execution challenges *(see page 2)* into five key categories. These categories are: Strategy Alignment, Governance and Leadership, Alliance Managers, Alliance Team Members, and Operating Processes and Procedures. This categorization organizes the various challenges that often arise throughout an alliance's lifecycle.

Strategy Alignment: Companies and/or those manning key governance committees often struggle to set a clear and well-defined alliance strategy up front, leaving partners unsure about one another's objectives and roles

Governance and Leadership: Governance is often not focused on truly enabling joint execution. As a result, partners are unclear on how to deal with competing priorities and differences in views

Alliance Managers: Challenges may be further exacerbated if Alliance Managers are not given the authority or lack the mediation, facilitation, and advanced collaboration skills to effectively intervene

Alliance Team Members: Team members often lack the skills or support to successfully collaborate and joint problem solve

Operating Processes and Procedures: Integrating operating processes and procedures are often not explicitly built and embedded in the fabric of the alliance, resulting in efficiency gaps and/or differences that are not well bridged

Four costliest challenges to alliances

As part of the study, survey respondents were asked to rate each of the alliance execution challenges *(see Page 3)* based on their frequency of occurrence and level of seriousness when they arise.

Four of the top eight most frequently experienced challenges were also reported as having the most serious consequences. We have labeled these four challenges as the "costliest."

The four "costliest" alliance execution challenges are:

- When new alliances are inked, immediate deadlines loom and partners focus quickly on *what* needs to get done without regard for *how* it will get done; insufficient attention is paid to an effective alliance launch process

21 Alliance Execution Challenges

Strategy Alignment

1. People working on an alliance lack insight into the objectives of their partner and therefore fail to account for them as they work
2. Changes in strategic priorities are not openly discussed or proactively managed by the partners; rather, personnel move, decisions become less transparent, and trust breaks down
3. No one in particular is held accountable for directly managing and watching for change, considering how it impacts the alliance, and guiding the alliance to adapt before the partners are at odds

Governance and Leadership

4. Leaders do not set clear expectations of what good collaboration looks like or hold alliance personnel accountable to those expectations
5. Leaders do not model effective communication and problem solving when they engage with their own alliance counterparts
6. Leaders give positional instructions, so alliance employees rigidly advocate their company's demands and struggle to solve problems creatively
7. Senior governance bodies (e.g., Steering Committees) are not "missioned" for proactive and engaged joint leadership
8. Committee members accept escalation from within their companies and form partisan views about problems that echo the same conflict, just up a level

Alliance Managers

9. Alliance Managers are not vested with the responsibility or authority to intervene in and drive collaborative issue resolution, so they are only able to encourage joint problem solving from the sidelines or argue for their own organization's views
10. Alliance Managers lack the mediation, facilitation, and advanced collaboration skills to effectively intervene in and drive issue resolution for the good of the alliance

Alliance Team Members

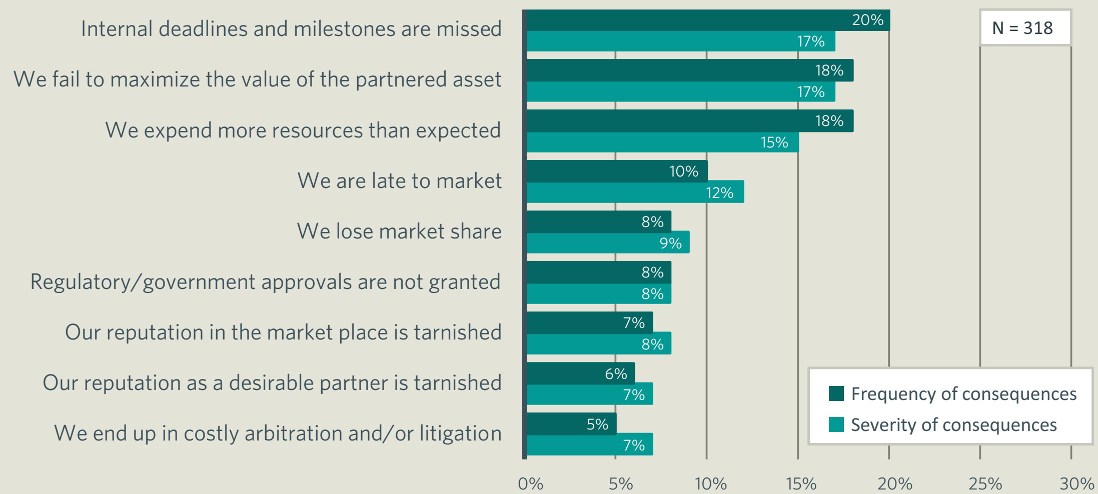
11. The alliance lacks enough people with the skills and expertise to work collaboratively on an alliance
12. Turnover, budgets, and changing priorities draw resources away from alliances without regard for the impact on the partner
13. People across the alliance do not communicate well or frequently enough with their counterparts, leaving too much open for interpretation and assumptions about the other's motivations
14. People across the alliance negotiate and resolve everyday conflicts by staking out and defending a company position instead of inventing creative solutions that take into account the needs of the partner and the alliance overall
15. Incentive structures (formal or informal) do not reward collaborative, alliance-enabling behaviors and actions

Operating Processes and Procedures

16. When new alliances are inked, immediate deadlines loom and partners focus quickly on what needs to get done without regard for how it will get done; insufficient attention is paid to an effective alliance launch process
17. Decision-making roles and processes are only as clear as what is built into the alliance agreement; without more detailed allocation of decision rights within and across partners and committees, decisions take too long
18. No standard conflict resolution procedures exist to guide open and collaborative issue resolution at the point of conflict, stalling decisions and leading to needless escalation
19. Escalation procedures are loosely defined if at all, so conflicts just roll up with each partner trying to have their position or demand met by the next level of governance
20. Each partner has its own set of metrics by which the alliance is evaluated with no shared systems of metrics to jointly manage against
21. Our and/or our partner's rigid processes and protocols prevent flexibility and exceptions or adaptions to alliance circumstances

Delays, loss of value, and inefficient use of resources are the most frequent AND severe consequences of alliance challenges

Allocate 100 points across these possible consequences of 21 alliance execution challenges, assigning the most points to consequences that are, first, most common in your experience and, second, most severe.



- People working on an alliance lack insight into the objectives of their partner and therefore fail to account for them as they work
- Leaders do not set clear expectations of what good collaboration looks like or hold alliance personnel accountable to those expectations
- Turnover, budgets, and changing priorities draw resources away from alliances without regard for the impact on the partner

Interestingly, an organization's alliance management maturity impacts the frequency of execution challenges. "Immature" organizations (defined as Level 1 or Level 2 on Vantage's Alliance Management Maturity Model) reported experiencing all 21 alliance challenges *more frequently* than "Mature" organizations (defined as Level 3 or 4). This finding suggests that increased alliance management maturity may inhibit the prevalence of common alliance execution challenges.

Please note that a more in-depth analysis of the Alliance Management Maturity Model can be found in the study.

Consequences of alliance execution challenges

Alliance execution challenges prove to have tangible consequences. In the study, participants were asked to allocate 100 points among possible consequences of the 21 alliance execution challenges. Points were to be assigned to consequences that were, first, most commonly experienced, and second, most severe. Three consequences proved to be rated as both the most frequent *and* the most severe.

1. Internal deadlines and milestones are missed
2. We fail to maximize the value of the partnered asset
3. We expend more resources than expected

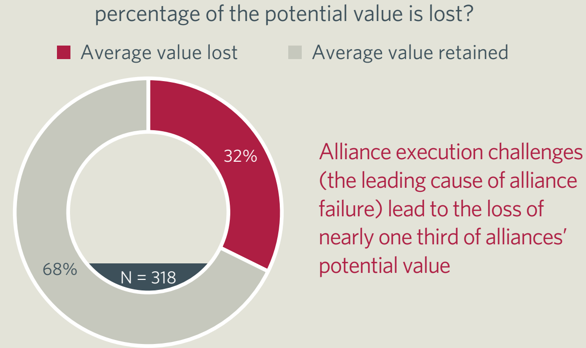
Failing to manage alliance execution challenges can have significant consequences that result in delays, loss of value, and an inefficient use of partners' resources.

Real value is lost

The consequences of alliance execution challenges have proven to be costly. Respondents estimated that an average of 32% of alliances' potential value was lost due to such problems. This statement held true across industries and illustrates the true negative impacts of poorly managed alliance execution challenges.

Execution challenges are costly

If you had to monetize the impact that alliance execution challenges have on the alliance(s) you are involved in, what percentage of the potential value is lost?



Going forward

Having in place the organizational capability to effectively manage alliance execution challenges can have a tangible positive impact on the value delivered from alliances. The challenges are not unknown or unable to be mitigated. Companies can use the 21 challenges described above as both a tool to assess how they play out in its alliances and to frame up conversations about the alliance execution issues it faces. Once discussed, plans can be agreed and implemented, allowing for a targeted approach to enhancing an organization's alliance management capability.

vantage partners

How good at partnering are we?
Assessing and building a plan to improve organizational partnering capability

By Kelsey Glatz and David Chapnick

Not a day goes by without a new major business partnership being announced, from Apple creating a network of partnerships to revitalize iPad sales, to Google and Dexcom partnering to bring revolutionary glucose monitoring devices to market, to AstraZeneca going for a trifecta of new oncology partnerships with Heptares Therapeutics, Mirati Therapeutics, and Inovio in just the past quarter. Companies recognize the importance of partnering to future revenues, but they face a common challenge: though they build strategies centered on external innovations and collaborations, they are doing so with organizations built to bring *internally* developed products and services to market. In many cases they either fundamentally lack or have significantly sub-optimized their organizational capability to execute partnerships. Though they have evolved their strategies to drive external innovation, they have failed to update their core operating models to reflect this strategic shift.

A skilled, mature, and dedicated Alliance Management function can no doubt help alliances to succeed, but in order to overcome the significant challenges that arise in executing a partner-dependent strategy, the organization itself must build its alliance management capabilities *beyond* the Alliance Management function. When organizations partner, they ask very smart, well-meaning, and successful employees from each company to work together in the face of fundamental structural differences between the companies. In any alliance, each company has its own strategy, its own culture and ways of operating, its own processes, and its own internal stakeholders with differing agendas and priorities. If leaders do not proactively make accommodations to address these fundamental differences and provide very direct guidance to those tasked with alliance execution, partnerships will inevitably be severely challenged as these differences get in the way of basic execution and can lead to outright failure of the partnership. Companies still struggle with being able to effectively execute alliances and capture all of the value at stake. At an organizational level, when the strategy is to successfully execute many partnerships, this failure to organizationally embed the flexibility and agility required for effective alliance execution results more often in alliances encountering disputes, increased costs, complaints, and "firefighting" — which can lead to failure to reach the potential value envisioned at the outset of the deal.

> *"While I regard Alliance Management as an important aspect, I think the ability for team members and project leadership to navigate internally while facing externally to the partner is most important."*
>
> — Project Manager at a Global Pharmaceutical Company

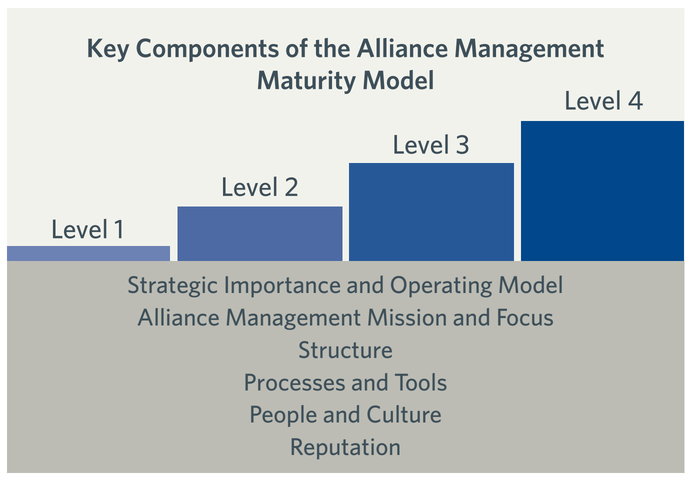


Figure 1

Implementing a partner-dependent corporate strategy without an organization capable of efficiently executing those partnerships carries significant risk and potential cost. To understand the extent, Vantage Partners recently conducted a comprehensive cross-industry study of alliance management trends and challenges. In the study, Vantage assessed a company's level of alliance management maturity across six key categories *(see Figure 1).* Perhaps unsurprisingly, the study found that companies with lower levels of maturity have both significantly lower percentages of alliances that fully achieve their objectives than anticipated at the start of the deal and higher percentages of alliances that fail to achieve their objectives. Likewise, companies with the greatest level of alliance management maturity have alliances that lose the least amount of value *(see Figure 2).*

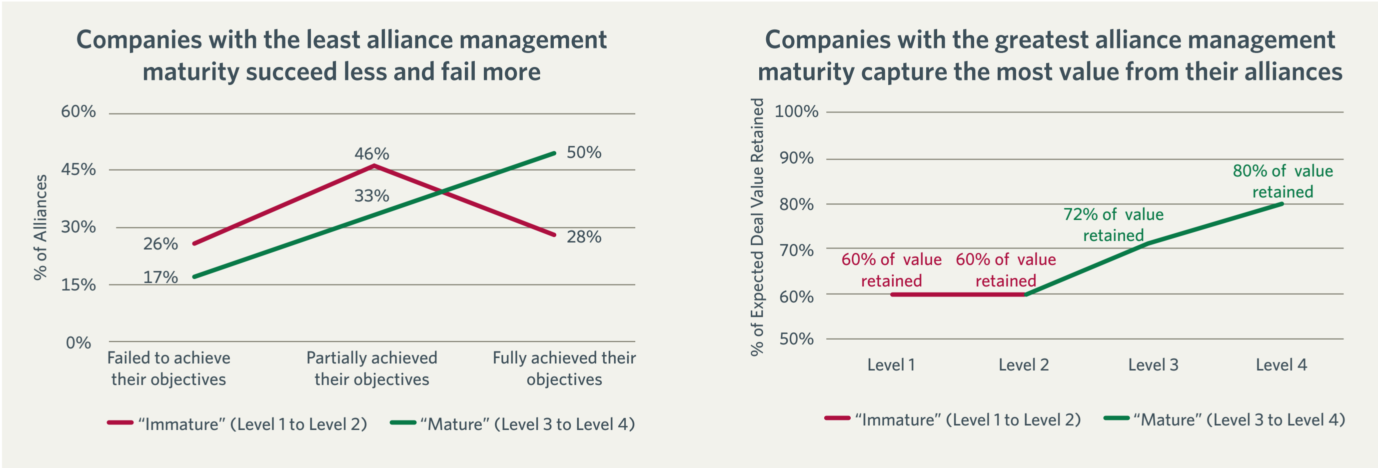


Figure 2

Alliance Management Maturity Model

Level 1	Level 2	Level 3	Level 4
STRATEGIC IMPORTANCE AND OPERATING MODEL			
Alliances are a relatively new or under-utilized strategic tool	Alliances are an important and increasingly valued tool	Alliances are essential to success but the organization has not fully adapted standard operations to reflect this	Alliances are essential to success and the organization's priorities and operating models reflect that
AM MISSION AND FOCUS			
Alliance management, to the extent that it exists, is about maximizing the performance of individual alliances	Alliance management is mostly about maximizing the performance of individual alliances	Alliance management is about maximizing the performance of individual alliances with informal approaches to alliance portfolio management	In addition to a focus on individual alliance performance, significant attention is paid to managing the company's collection of alliances in a holistic manner, as a portfolio
STRUCTURE			
No formal alliance management group or function exists; the Alliance Manager role is new or non-existent	A formal alliance management group is young or forming; Alliance Managers are typically assigned to key alliances	A formal alliance management group is well-established; Alliance Managers are always assigned to key alliances	A formal alliance management group is well-established and has organizational influence
PROCESS AND TOOLS			
Alliance management is ad hoc with no formal tools or processes	Some formal processes and tools have been developed but are not widely used	Formal processes and tools are being used and adapted across alliances	Formal processes and tools, based on best practice, are regularly utilized across alliances
PEOPLE AND CULTURE			
Alliance management knowledge and competence comes from a few interested and naturally collaborative individuals	Alliance management knowledge and competence is sought after when staffing and recruiting alliance managers and group leaders; training and education are in development	Alliance management knowledge and competence is actively developed through education and training for all alliance-involved employees	Alliance management is part of corporate DNA; Executives to front lines understand and consistently demonstrate the importance of collaborative behavior for alliance success
REPUTATION			
No partnering reputation	Partnering reputation is mixed and limited to a small ecosystem	Partnering reputation is mixed within a larger ecosystem of partners and potential partners	Considered a "partner of choice"; widely known for excellence in alliance management

Figure 3

Companies that scored the highest on the maturity model are the ones that embed effective partnership execution into their corporate DNA — their objectives, processes, incentives, culture, and the like *(see Figure 3)* — they have created operating models built for partnering success.

That said, though many companies recognize the impact building organizational capability in partnering has on their results, they do not know where to start. Helping your organization get clear about where there are opportunities to enhance its operations requires a business case, direction, alignment, and a plan. Systematically building this plan starts with creating hypotheses about where change is needed most, then gathering data to support or refute these hypotheses, analyzing the data, and developing and implementing recommendations based on an analysis of the findings.

> *"By getting the basic stuff in place around culture, tools, and our governance model – the structure and process around alliance management will change quite a bit. The very first step is to bring attention to the fact that there is something that needs attention."*
>
> — Director of Alliance Management at a Leading Manufacturing Company

The following steps detail a process companies can go through in order to build a plan for developing a world-class partnering organization:

1. Brainstorm and select organizational capability hypotheses to test
2. Collect data to prove or disprove hypotheses
3. Analyze data to pinpoint capability gaps
4. Develop recommendations and an implementation plan

Step 1: Brainstorm and select organizational capability hypotheses to test

The first step in identifying gaps in partnership execution capability is to develop a set of organizational capability hypotheses to test. There are multiple ways to do this.

For instance, convene a working session with those who work on partnerships to brainstorm the partnership execution challenges your organization faces most frequently, or create a draft list on your own and test and refine these with others in your organization. When determining these hypotheses, consider recent challenges with partners, pain points from past or current

Organizational Partnering Capability Hypotheses
1. **Resource Allocation:** Our company (dealmakers, alliance implementers, alliance governance members, etc.) underestimates and fails to adequately address the "partnership tax" required to support our alliances (i.e., the extra people, time, and effort).
2. **Alliance Governance and Senior Leadership:** Alliance governance members often do not give alliances the attention they require.
3. **Internal Processes:** Our internal processes and structure (for e.g., commercialization governance, portfolio management, decision making, communication, reporting) are geared for bringing internally developed products to market, and not designed to ensure or facilitate effective partnership management and decision making.
4. **Managing Change:** Our company lacks the ability to monitor and flexibly adapt our alliance strategy, terms, and governance to changes in corporate strategy, new/competing programs, market changes, and other changes to the alliance context.
5. **Collaboration:** Our company tends to "under-collaborate" with our partners (especially when named the contractual "lead"), preferring instead to drive on our own as much as possible, provide updates or consult only when necessary, and discount what is important to our partners (e.g., interests, goals, values, and strategic intent).
6. **Managing Organizational Differences:** Our company as an organization often fails to adequately manage key organizational differences with our partners.
7. **Individual Skills:** Individuals at our company often fail to adequately manage key organizational differences with our partner counterparts.
8. **Alliance Implementation Plans:** Our company's partnership negotiation process/approach is not focused on proactively identifying and addressing potential alliance implementation challenges.
9. **Finance Function Involvement:** Our company's finance function is neither equipped to, nor has the accountability to, manage the financial processes, obligations, and constraints that partnerships require.
10. **Alliance Manager Focus:** Alliance Managers are often not deployed at their highest and best use.
11. **Functional Accountability:** Functional roles, responsibilities, and accountabilities for alliance execution outside of those owned by the Alliance Management function are not clearly defined or rewarded.

Figure 4

Illustrative Causes and Implications

Hypothesis: Alliance governance members often do not give alliances the attention they require

Potential Causes	Potential Implications
■ Other competing commitments ■ A lack of both implicit and explicit accountability and/or incentives to do so ■ A lack of understanding of what "required attention" means/entails ■ A lack of clarity about which alliances require what amount of "leadership attention" ■ A lack of training and skill around the behaviors they should be exemplifying ■ A potential lack of the right people on alliance governance (e.g., because of skill or temperament, competing commitments, lack of decision making accountability)	■ Difficulty resolving issues ■ Alliance governance members who are unprepared for governance meetings ■ Alliance governance members who fail to handle problem solving and conflict resolution in an effective, collaborative manner ■ A lack of efficiency in decision making ■ Partners feeling they are not relationally well attended to ■ A failure to set and proactively manage to an aligned vision and direction for alliance

Figure 5

alliances, and ways in which the internal organization gets in the way of working with partners. See Figure 4 for an illustrative list of hypotheses and capability gaps that have been tested by other companies.

Test and refine the hypotheses with others in your organization to ensure alignment around the key areas in which you will focus your capability assessment. By building alignment early on, you will create a strong foundation for action down the line. Once aligned around a list of hypotheses, consider building out possible "causes" and "implications" of each hypothesis, in order to then be able to build diagnostic tools to test them. For instance, if one of your hypotheses is that alliance governance members often do not give alliances the attention they require, then some possible causes of this gap might be that there are other competing commitments (e.g., alliance governance members sit on multiple committees or have other significant internal responsibilities), or that there is a lack of understanding of how much time and attention to dedicate to the alliance. Some implications of this hypothesis being true could be difficulty resolving issues in alliance governance meetings, a lack of efficiency when making decisions, or a failure to set and proactively manage to an aligned vision and direction for alliance *(see Figure 5)*.

Building out potential causes and implications for each hypothesis enables one to see where the root of partnering issues lie and how each impacts alliance performance. With hypotheses and possible causes and implications in hand it is possible to begin proving or refuting them.

Hypothesis: Alliance governance members often do not give alliances the attention they require

Potential Causes/Implications	Illustrative Survey Questions
■ Other competing commitments	1. Alliance governance members gave our alliance the attention it required (e.g., were able to dedicate adequate time to the committee(s) they sat on)
■ Alliance governance members are unprepared for governance meetings	2. Alliance governance members came well-prepared for alliance governance meetings
■ Difficulty resolving issues	3. Senior alliance governance members had the authority to make decisions necessary for the alliance to operate effectively 4. The joint alliance governance committee(s) effectively and efficiently resolved the issues that our alliance faced 5. There was open communication between our partner and our company's governance counterparts
■ A lack of training and skill around the behaviors they should be exemplifying	6. Senior executives, especially those staffed to alliance governance committees, demonstrated the level of collaboration, tact, and professionalism expected of a governance member

Figure 6

"We struggle with things like very complex internal decision-making processes. Recently we were trying to fit alliance governance into our complex internal alliance decision-making process. It is still a struggle, and it extends to things like difficulties with finances because of fiscal calendars. We are now moving one finance person to alliances — so that someone who understands our financial nuances is on the alliance."

— Alliance Manager at a Global Pharmaceutical Company

Step 2: Collect your data

Data around the hypotheses can be collected in a variety of ways, from holding a small team meeting or a working session to launching a broader initiative involving focus groups, interviews, and surveys. If significant quantitative data is required to make the argument for change, then surveys tend to be best; if deep qualitative data is needed then consider conducting interviews to gather this level of insight. When designing your survey and/or interview questions, refer back to your list of hypotheses, potential causes, and potential implications. See Figure 6 for an example of how to use the potential causes and implications around the hypothesis that "alliance governance members often do not give alliances the attention they require" to create specific questions.

If your data collection is particularly complex, consider creating a "capability feedback database" *(see Figure 7)* to house and filter the qualitative information gathered. Investing this time up front to store and categorize information collected saves time later during data analysis, and it can continue to be a valuable tool for tracking and measuring progress against the hypotheses over time.

"The biggest challenge I faced with [Partner Company X] is that internal processes do not permit execution of the agreement to share collaboration data, which cripples collaboration."

— Senior R&D member at a Midsize Biotech

Step 3: Analyze data to pinpoint gaps

Regardless of how the data was collected, analyze it to pinpoint the organization's partnering capability gaps. If a survey was conducted, which hypotheses were scored as weaknesses?

Organizational Capability Feedback Database

The hypotheses that the observation supports (or rejects)

Quotes and findings that reflect on Company X's organizational alliance management capability

Clarifies whether the observation came through via an interview or a survey free response

The alliance partnership from which the observation was collected

The company of the individual who provided the observation

Categorizes the observation as a strength or weakness

Primary Hypothesis	Secondary Hypothesis	Observation	Collection Method	Alliance	Company Source	Year	Strength/ Weakness
Alliance Governance & Senior Leadership	Resource Allocation	Alliance governance members are spread too thinly to be truly effective.	Capability Survey	Partner A	Internal	2015	W
Alliance Implementation Plans	Internal Processes	There's no onboarding for the contract or what it means for anybody's particular role, so Company X defaults to their usual process instead of stopping to recognize what they did specifically in this contract in order to get access to this drug.	Interview	Partner B	Partner B	2015	W
Alliance Manager Focus		Alliance Management today is quite good. Professional and collaborative.	Capability Survey	Partner A	Partner A	2015	S
Managing Organizational Differences		There are different philosophies between the partners and failure to manage this impacts expectations of the program.	Capability Survey	Partner C	Partner C	2015	W
Managing Organizational Differences		Company X is much bigger, with many more competing priorities than us...we want things to move faster than they do.	Interview	Partner B	Partner B	2015	W

Figure 7

If data was collected through interviews or working sessions, sort through the capability feedback database to see which hypotheses were most frequently rated as areas of strength or areas of weakness, and why. If data was gathered both internally and from partners, how does the data compare? Sometimes a capability may be rated highly by a partner, but low internally, indicating that your company may be shielding the partner from the gap through individual heroics. If an area is viewed positively internally, but partners view it as a weakness, why might that be? Perhaps there is more of a capability gap than you might realize, or perhaps effectiveness in this area is not being adequately conveyed to partners. Consider sharing the data with the relevant stakeholders to get the benefit of their perspectives, and to ensure that you are aligned on a common view of what the data means. See Figure 8 for an illustrative comparison of internal and partner survey results.

Step 4: Develop recommendations and an implementation plan

Once the gaps are clear, it is time to determine how to fix them. With real data in hand, engage key stakeholders in recommendation development. For instance, if hypotheses around alliance governance are revealed to be gaps in organizational capability, what were the specific reasons why, and how might they be fixed? Iterate and refine your recommendations with key stakeholders and present them for signoff. This is critical both to ensure you receive diverse perspectives as you test and refine the recommendations, and also to attain buy-in from key stakeholders within your organization who can later support you

Illustrative Comparison of Internal and Partner Survey Results

Please rate your agreement with the following statements on a scale from "strongly disagree" (1) to "strongly agree" (4).

	Average External	Average Internal	Difference
Our alliance governance members have clear and open lines of communication with our alliance governance counterparts from our partner	3.00	3.03	0.03
Our alliance governance members have the authority to make decisions necessary for the alliance to operate effectively	2.46	2.50	0.04
Our alliance governance bodies clearly communicate the decisions they make and their implications to those responsible for executing them	2.98	3.03	0.05
Decisions on our alliances are made at the lowest possible level	3.00	2.95	0.05
Senior executives demonstrate the level of collaboration, tact, and professionalism expected of governance members	3.01	3.06	0.05
We staff people to alliance governance with the requisite skills and temperament	2.82	2.93	0.11
Our alliance governance members have performance goals tied to the success of their alliance(s)	2.39	2.25	0.14
Our alliance governance committee members adjust the time and attention they give an alliance based on its level of strategic importance	2.87	2.68	0.19
Leaders set clear expectations of what good collaboration looks like and hold alliance personnel accountable to those expectations	2.48	2.68	0.20
Alliance governance members gave our alliance the attention it required (e.g., were able to dedicate adequate time to the committee(s) they sat on, came well prepared to alliance governance meetings)	2.41	2.16	0.25
The joint alliance governance committee(s) effectively and efficiently resolved the issues that our alliance faced	2.58	2.20	0.38

Figure 8

Note: Capabilities that averaged 2.50 or below were categorized as red. Capabilities that averaged 3.00 or above were categorized as green.

Illustrative Deliverables by Workstream

Workstream	Deliverables
Charter a Partnership Excellence Committee (1/6)	■ Operational Alliance Portfolio Oversight Committee (APOC) ■ APOC charter ■ APOC onboarding and organizational communication plan /materials
Instill a partnership-focused culture (2/6)	■ Partnering Values ■ Communication plan for Partnering Values ■ Alliance Performance Goals ■ Alliance skills training ■ Updated job descriptions, personal goals, and performance management documents
Effectively resource & prioritize partnerships (3/6)	■ Collaboration resourcing models by function ■ Principles for staffing and collaboration ■ Deal due diligence process
Implement the Alliance Portfolio Stratification Framework (4/6)	■ Alliance Portfolio Stratification Framework ■ Alliance Portfolio Stratification Framework communication plan ■ Tiered alliance portfolio ■ Alliance tiering transition plans
Optimize functional processes for partnering (5/6)	■ Partnering-optimized functional processes (including Finance and Business Development) ■ Training on updated functional processes
Form a Partnership Execution Center of Excellence (6/6)	■ Operational Partnership Center of Excellence (COE) ■ COE charter ■ Development / refinement of AM processes and tools, as needed ■ COE communication materials ■ COE launch working sessions

Figure 9

as you begin to implement the recommendations.

More often than not, multiple recommendations will be developed around each capability gap, such that prioritization and tradeoffs for implementation will need to be considered. This prioritization will inform how best to sequence operationalizing and implementing the recommendations.

Once the recommendations have been developed, workstreams and project groups can be formed as in any other organizational transformation effort *(see Figure 9)*. Build in a process to ensure that there is adequate oversight, and that there is a way to resolve cross-functional issues and make tradeoffs as they arise.

"[Some folks here] have a natural understanding for how to partner. But you have to be doing things as an organization to move forward…You often need to have a large training and behavioral shift to understand the value married into the relationship. It is the notion that collaboration is just a way of life."

— Head of Alliance Management at a Midsize Pharmaceutical Company

Consider asking senior leadership to endorse and communicate the plan, the suggested changes, and the reasons behind these changes, in order to build buy-in and ensure people tasked with executing the change effort are recognized for the critical role they will play in building the organization's partnership execution capability.

***

For many companies, future revenue growth will be ever more dependent on an ability to execute partnerships successfully.

> *"As we have evolved our alliance management maturity, partnerships are much simpler and much more successful."*
>
> — Director of Alliance Management at a Telecommunications Company

Traditionally, companies have relied on the Alliance Management function as the sole mechanism through which to support the company's partnerships. Ironically, in many organizations it has become Alliance Management's job to overcome *internal* barriers to partnering. Having an Alliance Management function is a critical starting point, but the function alone is insufficient for successfully executing an organization-wide partner-dependent strategy. The organization must also consciously make the decision to develop a broader, cross-organizational capability in partnering that cuts across the objectives, processes, skills and mindset of the organization *(see Figure 10)*. In order to evolve into such an organization, identify and address gaps using a hypothesis-driven approach to align key stakeholders and create a platform for targeted and impactful action. By doing this, your organization will truly be built for partnering.

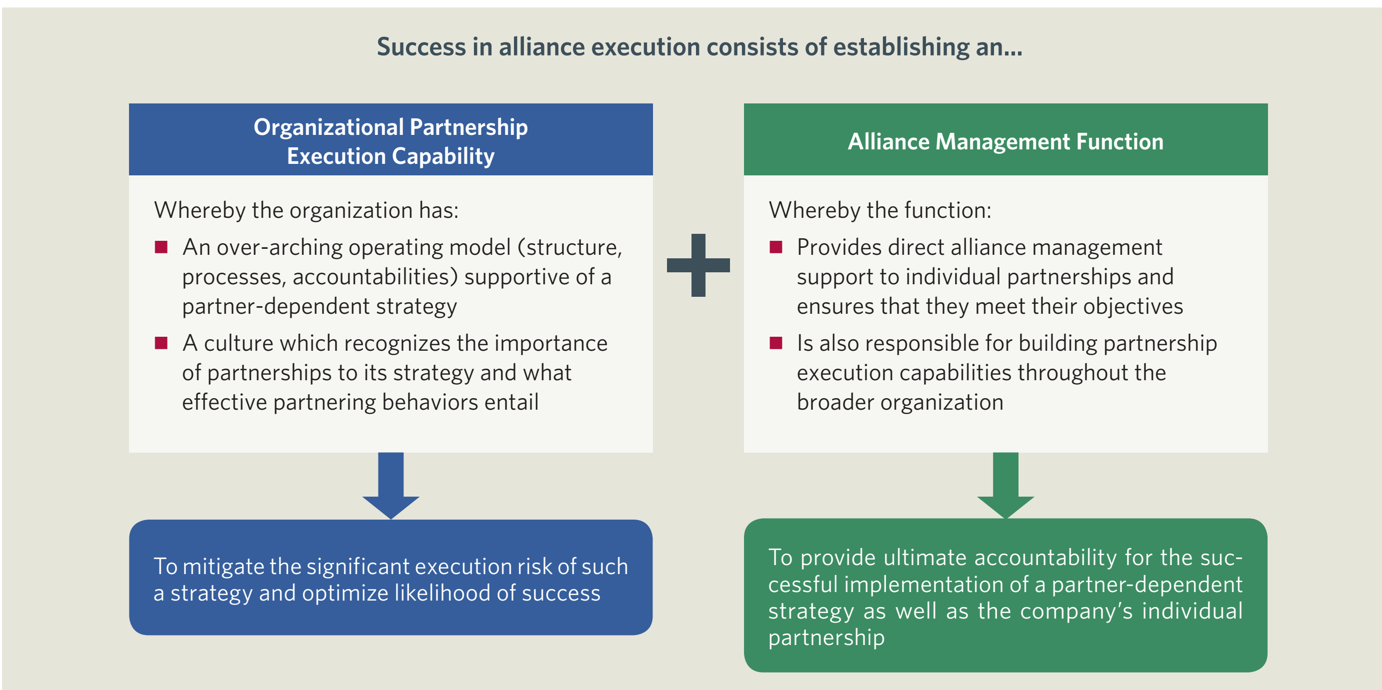


Figure 10

About Vantage Partners

Vantage Partners, a spin-off of the Harvard Negotiation Project, is a management consulting firm that specializes in helping companies achieve breakthrough business results by transforming how they negotiate, and manage relationships with, key business partners. To learn more about Vantage Partners or to access our online library of research and white papers, please visit:

www.vantagepartners.com