Managing Alliances for Business Results

Lessons Learned from Leading Companies

Jeff Weiss
Sara Keen
Stuart Kliman

Managing Alliances for Business Results

Lessons Learned from Leading Companies

Jeff Weiss
Sara Keen
Stuart Kliman

vantagepartners

10 Guest Street
Boston, Massachusetts 02135
617 354 6090
www.vantagepartners.com

Table of Contents

understanding the value of effective alliance management

The field of alliance management has come a long way in recent years, with companies dedicating more time, resource and senior management attention to alliances and with alliances continuing to gain importance to company strategy. And yet, more than half of alliances continue to fail. Furthermore, many alliance managers report that this newly dedicated time and attention is still not devoted to the right aspects of alliance management to enable successful alliances.

Ten Key Corporate Capabilities

1. Building and maintaining internal alignment
2. Evaluating and considering relationship fit with potential partners
3. Building strong working relationships while negotiating optimal deals
4. Establishing common ground rules for working together
5. Having dedicated alliance managers
6. Having collaboration skills in alliance employees
7. Having a collaborative corporate mindset
8. Managing multiple relationships with the same partner
9. Auditing alliance relationships
10. Managing changes that affect alliances

Figure 1

This report is the product of a three year, cross-industry study of over 100 alliance managers and executives, in which we sought to better understand the current state of alliances and the impact of current alliance relationship management practices on alliance results. It builds on our 2001 report, "Managing Alliance Relationships: Ten Key Capabilities.[1]" In that first study, we found that alliance failure is most frequently the product of poor or damaged working relationships between partners. We also identified ten key corporate capabilities (see Figure 1) that enable companies to more effectively manage relationship issues and, thereby, achieve greater alliance success.

Objectives

Since we published our last report in 2001, we have seen growing awareness of the necessity of effective alliance management. One of our objectives in conducting this second phase of the study was to update our data from 2001 and learn whether and how alliance management practices have evolved in the past few years. We wanted to test whether the ten identified relationship management capabilities were still integral to alliance success and to assess the value of each of them. We also wanted to quantify the value gained from having a good working relationship with a partner and determine the impact of institutionalizing the ten capabilities on alliance success rates.

Method

We conducted this study through a two part survey. The first section of the survey included the same questions that were in the survey used for our 2001 report. We asked participants to rate the importance of each of the ten key corporate capabilities on a scale of 1 to 5 (1 = Irrelevant, 5 = Absolutely Essential). We then asked whether their company had that capability, and if it did, the extent to which it was implemented, on a scale of 1 to 5 (1 = It's ad hoc, and depends entirely on the individuals involved; 5 = It's how we do business, and is consistently practiced on all alliances I have seen).

The second section of the survey asked new quantitative and qualitative questions about

[1] Ertel, Danny, Jeff Weiss, and Laura Judy Visioni. *Managing Alliance Relationships — Ten Key Corporate Capabilities: A Cross-Industry Study of How to Build and Manage Successful Alliances*. Cambridge, MA: Vantage Partners, 2001.

participants' experience working on alliances, the causes of alliance failure, and how companies spend their time when setting up and managing alliances. These questions were aimed at gathering information about the value of effective alliance management practices.

Study Participation

Individuals

The 108 study participants ranged from CEOs and presidents of companies who have been actively involved in their organization's alliances, to directors of alliance programs and operational managers of individual alliances.

Companies

The study participants represent 93 companies from a cross-section of industries, ranging from food products manufacturing to internet business services. Because of the prevalence of alliances in the pharmaceutical industry, participation from such companies was greatest. Although the size of participating companies ranged from small firms of less than 100 employees to Fortune 500s, the majority of participants are from companies with revenue of over $1 billion.

More than a third of participants report that their companies have been involved in more than 20 alliances, and a quarter have participated in more than 50 alliances. In many of the participating companies, regardless of the specific number of alliances they have done, alliances are critical to their success — almost half our study participants reported that 20% or more of their company's revenue comes from alliances.

A list of companies that granted us permission to acknowledge their participation in this study is included as Appendix B of this report.

Defining Terms[2]

Alliance

Numerous definitions of the term "alliance" exist. Some companies refer to their suppliers with whom they have minimal day-to-day interaction as alliance partners; other companies call all of their customer relationships alliances; others exchange links on their web sites and consider such interaction an alliance; while still other companies use the word alliance to refer only to their most strategic, interdependent, external relationships. Given this variance, we were careful to identify how people defined alliance, but not to limit their interpretation to an overly strict definition of our own. Accordingly, we adopted a reasonably broad definition of what does and does not constitute an "alliance" for purposes of this study. The definition used for the study can be summarized in the following way and is depicted by the chart in Figure 2. If one maps interactions between companies on a linear continuum, the point farthest to the right is where transactional relationships fall. These exchanges take place at an arm's length, and the parties involved have distinct goals. Simple customer-supplier relationships and licensing deals, for example, would fall on this end. The point farthest to the left is where a merger or an acquisition would fall. In these types of

[2] To ensure comparability of data from our first study and this follow-on study, we defined all terms in the same way as in our first study.

exchanges, the interests of the partners are indistinguishable and a formal union is created. We consider an alliance to fall between these two extremes. Therefore, intra-company partnering, mergers or acquisitions, traditional arms-length customer-supplier relationships, and other partner-like relationships that involve minimal interaction between companies do not constitute an alliance for purposes of this study. In short, the alliances with which this study deals are long-term, complex, interdependent relationships between two separate companies that share some significant common and some significant differing goals.

Alliance Manager

Figure 2

We use the term "alliance manager" throughout the report to refer collectively to the 108 survey participants, regardless of their actual titles.

Report Structure

This study led to two types of findings. The first section of the report includes our key findings related to the current state of alliances and alliance management practices. The second section of the report includes detailed information about each of the ten identified relationship management capabilities. In this section, we share operational advice by describing the dynamics of each capability and its application by various companies.

Relevance

The content of this report should be of critical interest to anyone for whom alliances are a topic of interest. Alliance managers, business development professionals, and executives alike will find this report pertinent and applicable to their work. As the number of alliances that companies enter grows, an increasingly significant percentage of market value can be attributable to alliances. However, many companies are investing heavily in alliances without a clear understanding of how to effectively build and manage them. As a result, companies are hemorrhaging value. Anticipated revenue, planned cost savings, time to market, and other sources of financial value go unrealized when alliances fail or underperform. This report gets to the root of what companies need to do to manage their alliances in a more effective, systematic, and consistent way so that they can ultimately realize, and perhaps even expand, the full intended value of those alliances.

vantagepartners

most companies do not effectively manage their alliances and therefore fail to realize the enormous amount of value at stake

Key Findings

This section of the report includes findings on the current status of alliances and alliance management. These findings are based on data from study participants and on our experience consulting on alliances for over 20 years.

I. Companies are Increasingly Entering into Alliances to Meet Strategic Objectives

Over the past couple of decades, partnerships have been proliferating at an incredible rate. Companies are turning to alliances, joint ventures, consortia, outsourcing arrangements and other forms of partnership to lengthen their global reach, enhance customer value, bridge gaps in their own capabilities and gain competitive advantage. According to a number of studies, alliance formations have been increasing at about 25 percent per year since the mid-80s.

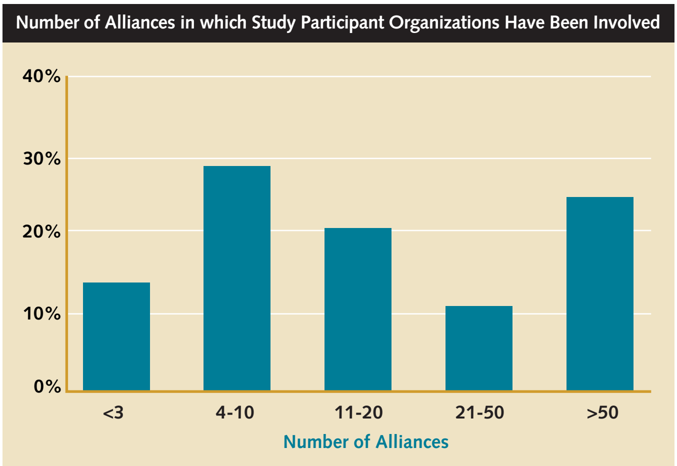


Figure 3

In the past, companies relied more heavily on mergers and acquisitions when they lacked the capability or resource to pursue a goal on their own. Now a growing number of companies are turning to alliances in these situations, be they in R&D, Marketing, Sourcing or with Channel Partners. In fact, among the 93 companies who participated in this study, approximately a quarter have been part of more than 50 alliances (see Figure 3). Partnerships are becoming integral components of most company's strategies, and the decades ahead will likely see this trend continue as globalization and competitive pressures increase.

II. The Majority of Alliances Fail

Alliances are integral to achieving business goals, yet alliance success is elusive. Alliance managers report that 57% of their alliances fail to achieve their objectives. Some are terminated outright while others endure their contractual life spans, but do not accomplish their goals.

Neither alliance experience nor dependence on alliances for revenue generation brings success to a company. Among study participants, those alliance managers whose companies had entered into more than 50 alliances report that 52% of their alliances fail, not much better than the average failure rate of 57%. Thus, the latest alliance a company enters is little more likely to succeed than the first, indicating a lack of organizational learning about alliances. Many organizations have neither a way to learn from past alliances and share best practices, nor a consistent, effective process to manage all their alliances. Thus, these organizations end up repeating their mistakes indefinitely.

Companies for which alliances are particularly critical also find that only slightly more of their alliances succeed than average. Alliance managers from companies that generate 30% or more of their revenue from alliances still find that 49% of their alliances fail. Given that half of these companies have annual revenues of one billion dollars or more, these alliance failures can equate to huge, recurring bottom line losses of hundreds of millions of dollars a year.

Alliance failure rates across different industries are relatively consistent, however one industry in particular stands out for having much higher failure rates. Study participants from computer and information technology companies report that 68% of their alliances fail, a significantly higher percentage than other industries (see Figure 4). Technology companies, which may have traditionally focused on doing everything themselves, are now looking more often to alliances to help them respond to rapid changes in their industry. However they have a lot of trouble succeeding in these alliances, creating a very real challenge for the industry.

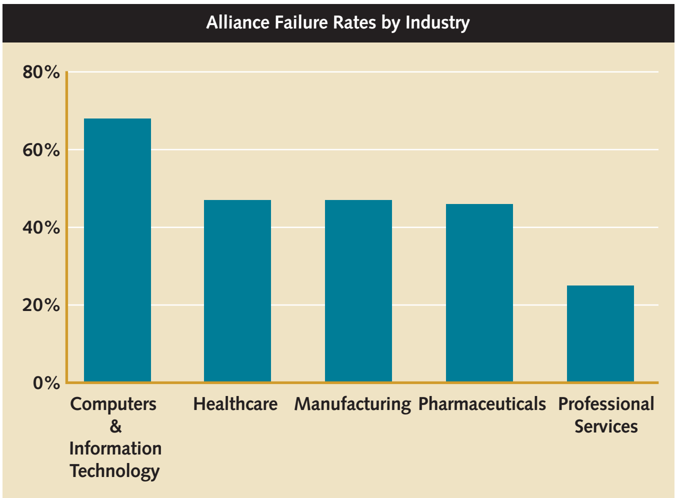


Figure 4

III. Alliances Frequently Fail Because the Partners Cannot Collaborate Effectively

The combined importance and prevalence of alliances begs the question of why so many of them are still failing. Alliance managers report that that effective collaboration is a critical success factor. Only a very small percentage of alliances fail predominantly because of poor legal and financial terms; the majority of alliance failures are the result of either poor strategy and business planning or a poor or damaged working relationship between the partners (see Figure 5).

Alliances are, by nature, open-ended and undefined, which leads to significant ambiguity and creates an environment highly dependent upon trust between the allying parties, whether at the strategic level or the level of day-to-day operations. When it comes to successful alliance execution, effective strategy and business planning impacts the quality of the partners' working relationship and vice versa. Without the type of good working relationship in which the partners have open communication and sharing of information about corporate aims, goals and strategic drivers, partners can not effectively define and refine key strategic and business plans. And without a clear strategy, confusion arises, undermining the relationship.

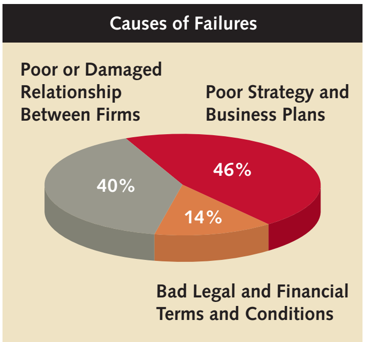


Figure 5

IV. Alliance Managers Report Significantly Underinvesting in Creating Strong Alliance Relationships

Aware of the impact a poor or underdeveloped working relationship can have on alliance success, alliance managers recognize the importance of focusing on creating a good working relationship at the same time as they are creating and implementing the financial plans, legal structures, and strategy for an alliance. However, 62% of alliance managers report that, when setting up and managing alliances, their companies do not spend enough time focused on the working relationship between the firms (see Figure 6).

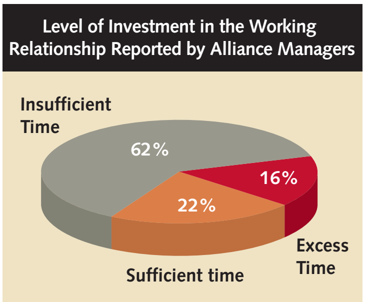


Figure 6

Alliance managers on average believe that 48% of the time that their organizations spend setting up and managing an alliance should be spent focused on the working relationship between the firms. Currently, however, they report that the majority of their companies' time is spent on legal and financial terms and conditions, which they believe is twice as much time as should be spent on these issues. This discrepancy between what should be done and what is may come about because people are used to focusing on terms and conditions. Companies typically have discipline and process around documenting and managing the myriad legal and financial issues related to an alliance, but they have not made building a good working relationship a similarly established business process.

> *The working relationship is great during negotiations, but then the alliance fails because little consideration is given to how to execute and then deliver on the goals.*
>
> — Head of Global Alliance Program for a Leading Media Company

V. Companies are Beginning to Implement the Ten Identified "Key Corporate Capabilities" but Few have Fully Institutionalized Them

The first phase of this study in 2001 identified ten alliance relationship management capabilities that are integral to managing relationship issues effectively (see Figure 1 on page 6).

Companies are increasingly following these alliance management practices at least on an ad hoc basis. Compared with the 2001 study data, more companies have implemented to some extent almost all of the identified capabilities (see Figure 7). For certain capabilities, this increase is relatively substantial. More and more organizations are recognizing the need to manage alliances more effectively and trying to do so, at least on an ad hoc basis.

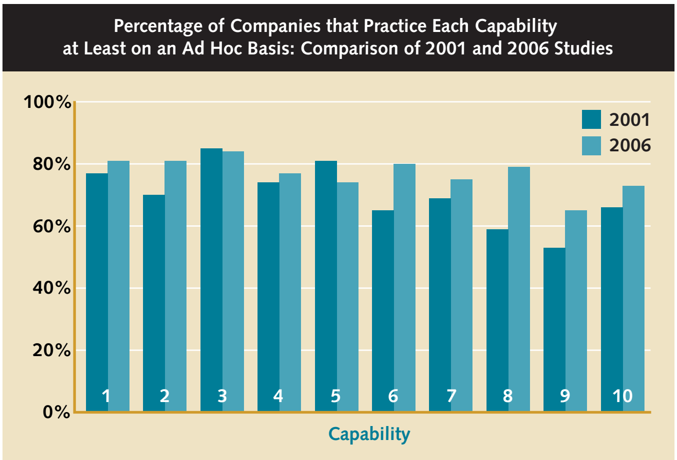


Figure 7

However, much more progress needs to be made, as very few organizations consistently practice these capabilities on *all* of their alliances and make it how the company does business (see Figure 8). There has been some improvement in full implementation rates for a couple of the capabilities; however the percent of companies which have institutionalized each capability is generally only around 10%. The low percentage of companies that have made these key alliance management practices part of how they do business is consistent with the previous finding that alliance managers believe they are not focusing enough time on building good working relationships with their partners.

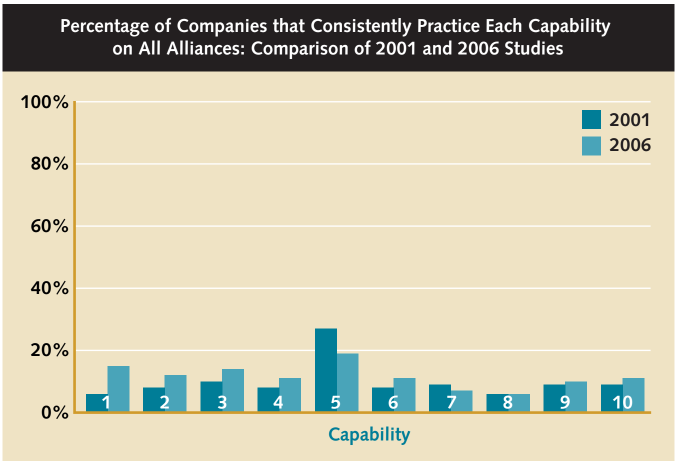


Figure 8

VI. Companies that Have Implemented the Ten Identified Key Capabilities Have More Successful Alliances

The identified capabilities are integral to managing relationship issues effectively. In both 2001 and now, alliance managers consistently reported that having each of these capabilities was at least "important" and often "absolutely essential" for alliance success.

In this current phase of the study, the critical nature of these capabilities is demonstrated not just by alliance managers' continued belief in the importance of the capabilities, but also by the alliance success rates reported in those companies that have implemented these practices. Alliance managers from companies that generally or consistently follow the majority of the ten capabilities report succeeding in their alliances substantially more often than the average company. And, companies that have not implemented the capabilities at all report succeeding much less often than that average. (see Figure 9).

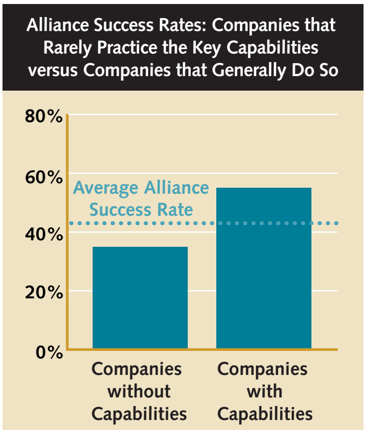


Figure 9

VII. The Ten Key Capabilities Also Help in Capturing Alliance Value

By helping companies create strong alliance relationships, the identified key capabilities also help them capture value from their alliances. When asked which capabilities would have helped them capture more value from an alliance that failed because the partners could not work together effectively, alliance managers cited all of the capabilities to varying degrees. Six capabilities were cited most often (see Figure 10):

- Capability 1: Building and Maintaining Internal Alignment
- Capability 2: Evaluating and Considering Relationship Fit with Potential Partners

- Capability 3: Building a Strong Working Relationship while Negotiating an Optimal Deal
- Capability 4: Establishing Common Ground Rules, Processes and Protocols for Working Together
- Capability 5: Having Dedicated Alliance Managers
- Capability 10: Managing Changes that Affect Alliances

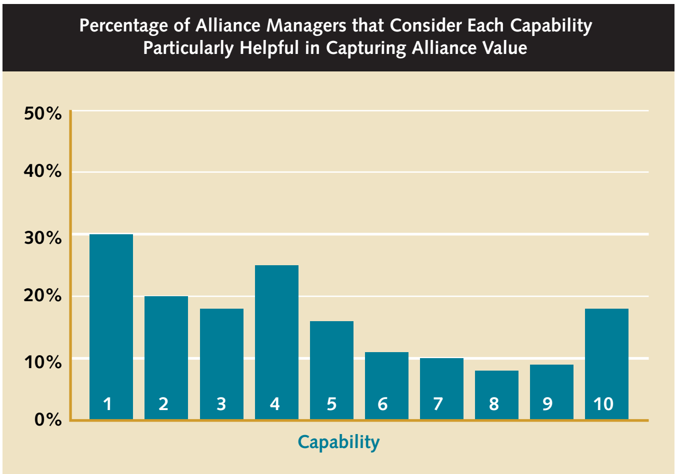


Figure 10

Alliance managers consider Capability 1: Building and Maintaining Internal Alignment and Capability 4: Establishing Common Ground Rules, Processes and Protocols for Working Together to be the most helpful for capturing alliance value. Alliance breakdowns that lead to lost value frequently occur either because the organization is not aligned internally about what they are trying to accomplish and how best to do so (often leading them to send mixed messages to the partner and making it difficult for the two organizations to work together), or because the organization is not aligned externally with the partner about how to collaborate effectively. Alliance managers believe that they would have captured much more value from many alliances if they had developed the missing internal alignment or created with their partners common guidelines for working together.

VIII. An Alliance with a Strong Working Relationship Can Generate Five Times as Much Financial Value as One with a Poor Working Relationship

The benefits of a good working relationship go far beyond such qualitative measures as efficient use of people's time, employee satisfaction, or a good partnering reputation. In alliances where there is a good working relationship, the partners realize significantly more financial value than in alliances where there is a poor working relationship.

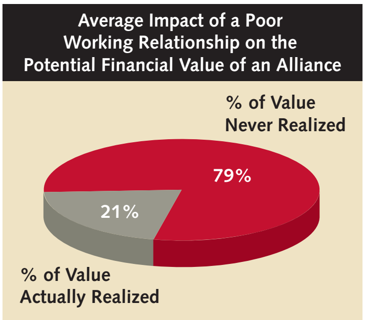


Figure 11

Alliance managers report that, when one of their alliances fails because the partners cannot work together, the partners never realize an average of 79% of the potential financial value of that alliance (see Figure 11).

Even when a poor working relationship does not result in alliance failure, it limits the total value partners realize from the collaboration. Alliance managers report that alliances with partners with whom they have a true, collaborative, good working relationship[1] deliver 73% more total value (through cost savings, innovation, quality, etc.) than alliances with partners with whom they have a poor or adversarial relationship.

[1] Defined as a relationship characterized by a high level of trust, mutual respect, open and efficient communication, shared risks and rewards, strong commitment to each other's success, and the ability to constructively deal with differences.

IX. An Enormous Amount of Value is at Stake in Alliances

Companies are generating huge amounts of revenue from alliances. Almost half of the organizations that participated in this study generate at least 20% of their revenue from alliances, and a quarter of them generate 30% or more of their revenue from alliances (see Figure 12).

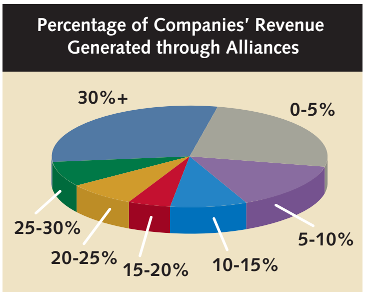


Figure 12

These organizations are creating all of this revenue while still failing in more than half of the alliances they enter, and working ineffectively and inefficiently with their partners in many others. This points to exponentially greater amounts of possible new revenue if companies were better able to manage their alliances and more often achieve success.

Conclusion

If one reflects on these findings, it is clear that companies have an enormous amount at stake in their alliances, and most organizations know this. Alliances have the potential to create immense value for the companies that enter into them, yet they rarely do so, as most alliances ultimately fail. It is also clear why so many are failing: partners are frequently unable to collaborate effectively to create key strategic and business plans and then execute on those plans.

Furthermore, organizations can identify what they need to do. However, only a small number of companies are actually investing the necessary time and effort to institutionalize effective alliance management practices. Those companies that are doing so have realized significant benefits and achieved better results. Given this, it is time for all companies entering into alliances to build out the discipline needed to achieve desired results and capture much greater value from their alliances.

vantagepartners

ten key corporate capabilities help alliances succeed but few companies consistently follow them

Capability 1: Building and Maintaining Internal Alignment

Critical to alliance success is the ability to build and sustain internal alignment around such issues as whether to partner, with whom to partner, the purpose and goals of partnering, and how a partnership will operate. Building and maintaining internal alignment requires an effectively implemented process for identifying key decisions and issues related to a partnership, knowing who the relevant stakeholders are, and consulting with stakeholders to keep the organization appropriately informed and involved throughout the life span of a partnership. Specifically, such a process should create alignment around issues like choice of partner, the objectives and terms of a partnership, how various functions and regions will be affected, and how specific conflicts should be resolved as they come up over time. This capability is fully instituted when it is both consistently applied to all phases of an alliance's life span and when it includes explicit guidelines for maintaining internal alignment as changes impact the relationship.

Alliance managers consider this to be the most important capability.

59% of alliance managers rate having a process for building and maintaining internal alignment absolutely essential — 20 percentage points higher than any other capabilities (see Figure 13).

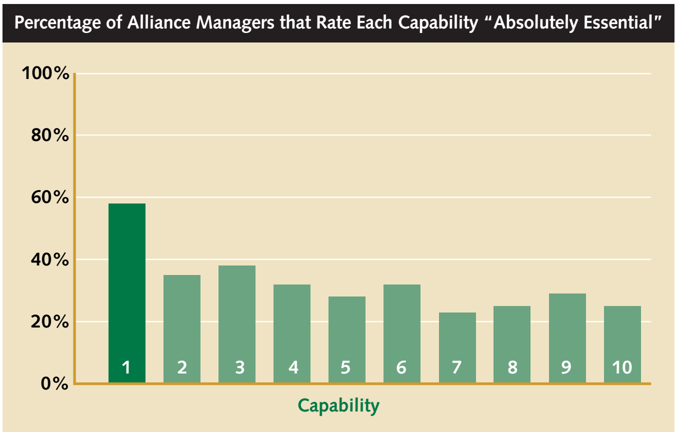


Figure 13

> *We know it is absolutely essential to maintain the intent of the alliance among internal stakeholders in the face of unanticipated events, yet we find we only do this on an ad hoc basis.*
>
> — An executive at a large financial services company

Alliance managers also cite this as one of the two most important capabilities for helping realize value from alliances failing due to poor relationships between the partners.

They recognize that coordinated action to get an alliance back on track is much more likely to occur if everyone involved has a common picture of what they are trying to accomplish and how, and can make good, informed decisions quickly in order to address the challenges they are facing.

Institutionalization rates of this capability have more than doubled in five years.

In the 2001 study, this capability was reported to be the most ad hoc and least formalized, with only 5% of all alliance managers reporting the capability's consistent practice on all alliances. Now, 15% of alliance managers with the capability report having fully institutionalized it, making it the second most formalized of the capabilities (see Figure 14).

This rapid increase in the percent of organizations that have a process for building internal alignment is a good sign for alliance management practices in general. Whether and how an organization aligns around what it is doing in an alliance sets the tone for the alliance going forward, and being able to consistently build a common understanding across the organization makes it easier to put in place the other practices described in this study.

Percentage of Companies that Consistently Practice Each Capability on All Alliances: Comparison of 2001 and 2006 Studies

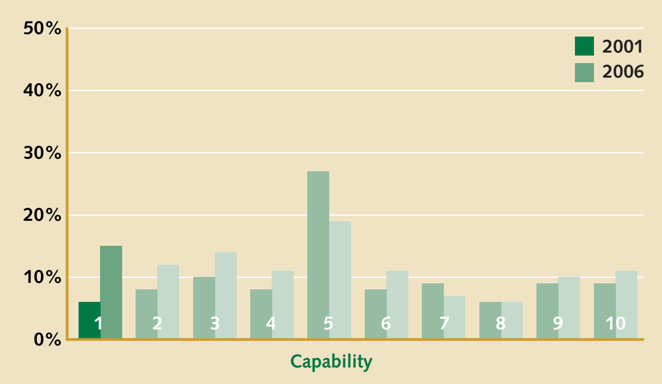


Figure 14

Illustration of the Capability in Practice: Defining ICN Decision-Making Rights

Creating a framework for defining decision-making roles and responsibilities is one effective way to develop a standard alignment process to employ on your alliances. Many companies have found it extremely useful to have a way to define, up front, the critical decisions that will need to be made on each alliance, during exploration, negotiation, and in on-going management. Once the critical kinds of decisions have been identified, these companies then sort decision-makers for each type of decision into three “ICN Buckets”: those with whom a decision must be negotiated, those who need to be consulted, and those who simply need to be informed. They also identify an individual who will act as decision-driver. Defining who has what role in each type of decision and what this role means can make a world of difference in using people’s time efficiently, communicating effectively, and maintaining cross-organizational alignment throughout the lifecycle of an alliance.

Illustrative Partially Completed ICN Tool

Categories of Decisions	Decision-Driver	Negotiate	Consult	Inform
Alliance Objectives	Alliance Manager	Executive Sponsor Head of Product Development	Alliance Manager Project Managers Product Manager B	All others on the alliance team
Business model	Alliance Manager	VP from Business Unit A Head of Product Development	Executive Sponsor Business Unit Manager X Project Managers	All others on the alliance team
Level of Investment	Finance Manager X	Head of Finance	Executive Sponsor Business Unit Manager Y	All others on the alliance team

Capability 2: Evaluating and Considering Relationship Fit with Potential Partners

To make a relationship work, companies need to consider potential fit and possible challenges before engaging in an alliance together. Evaluating and considering relationship fit with potential partners requires that in addition to strategic compatibility, issues such as differences in corporate culture, operating style, and business practice are seriously considered during partner selection. In some cases, companies only agree to engage with potential partners when their evaluation of relationship fit leads them to believe that their companies will work well together. In other cases, there may only be one strategically acceptable choice for a partner, or a particular partner may be selected notwithstanding a poor relationship fit. Under these circumstances, assessment of relationship fit provides organizations with specific data on similarities and differences between them and future partners that can be used to jointly plan for the likely challenges of working together.

Alliance managers consider this to be one of the most important capabilities.

35% of alliance managers consider having a systematic way to evaluate and consider relationship fit with potential partners to be absolutely essential — the third highest percentage among the capabilities (see Figure 15).

Furthermore, 20% of alliance managers report that considering relationship fit before entering an alliance would have helped them capture significantly more value from that alliance than they actually did.

There has been a substantial increase from 2001 in the percentage of companies that practice this capability at least on an ad hoc basis.

There has been an 11% increase in the percentage of companies that have this capability, to some extent, from 70% in 2001 to 81% now (see Figure 16). This is the third largest increase among the capabilities.

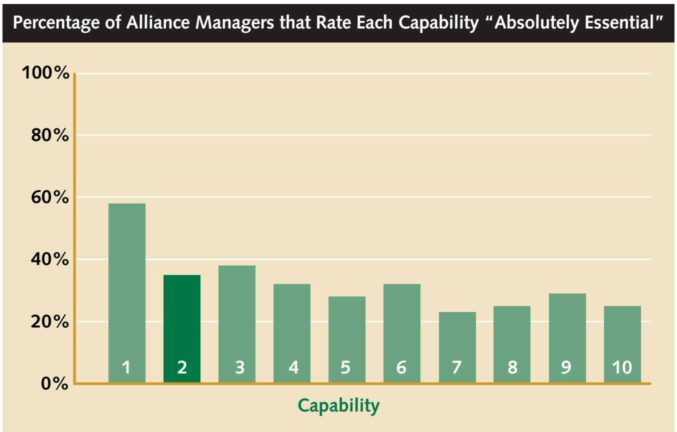


Figure 15

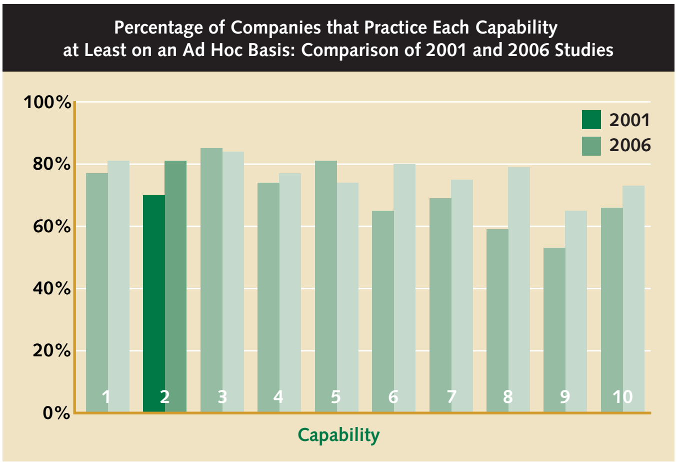


Figure 16

Illustration of the Capability in Practice: Relationship Due Diligence

Some leading companies perform "Relationship Due Diligence" by conducting, for each alliance into which they enter, an assessment that goes beyond looking at strategic fit and simple cultural alignment, taking a careful look at how and how well the potential partner manages relationships. The assessment poses questions such as: How well does the company partner? What is the company's track record for success? Where has the company been successful? Why has the company been successful? When unsuccessful, what is the diagnosis? How does the company resolve conflict, make decisions, engage in difficult conversations, manage change, etc.? How does this data compare to how we manage relationships? Taking a look at these questions with potential partners, discussing findings together, and jointly planning for how best to deal with differences and potential challenges, not only helps these companies choose their partners, but also helps them build their relationships from day one.

Illustrative Relationship Due Diligence Assessment

ACME Relationship Due Diligence Survey

1. In any past relationships with this partner, what has been the quality of the working relationship?
   - ❑ Positive
   - ❑ Negative
2. What is the company's conflict resolution style?
   - ❑ Avoid
   - ❑ Engage ineffectively
   - ❑ Engage effectively
3. What is the company's decision-making style?
   - ❑ Hierarchical
   - ❑ Consensus-driven
4. What is the company's information sharing style?
   - ❑ Open
   - ❑ Closed
5. What is the company's operating style?
   - ❑ Process-driven
   - ❑ Ad hoc

Capability 3: Building a Strong Working Relationship While Negotiating an Optimal Deal

Building a strong relationship while negotiating an optimal deal requires negotiators to focus equally and separately on the substance of their negotiations and on their working relationship. Doing so involves having a negotiation process that enables parties to negotiate tough on the merits — meaning they craft good deals that satisfy each partner's interests, leave no opportunities to create value on the table, and create deals that are fair by objective standards — at the same time as which they work to build trust and a sense of partnership between counterparts so that the value created at the negotiation table will be realized once the partners turn to implementation.

Alliance managers consider this to be the second most important capability.

38% of alliance managers rate this capability as "Absolutely Essential," the second highest percentage among the ten capabilities (see Figure 17). Its importance is particularly noted by alliance managers in companies with a large number of alliances. Only 27% of alliance managers from companies with fewer than 10 alliances believe this capability is absolutely essential, while 44% of alliance managers from companies with more than 25 alliances place it at that level of importance. Companies that have many alliances tend to be more aware of the impact their negotiation approach has on the working relationship because they have seen how their results vary from deal to deal and negotiator to negotiator.

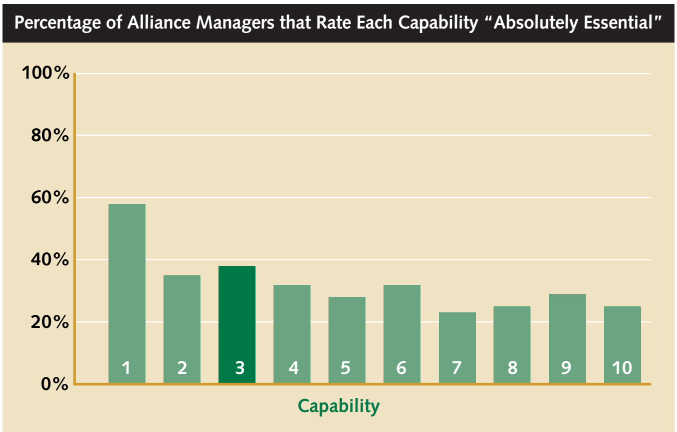


Figure 17

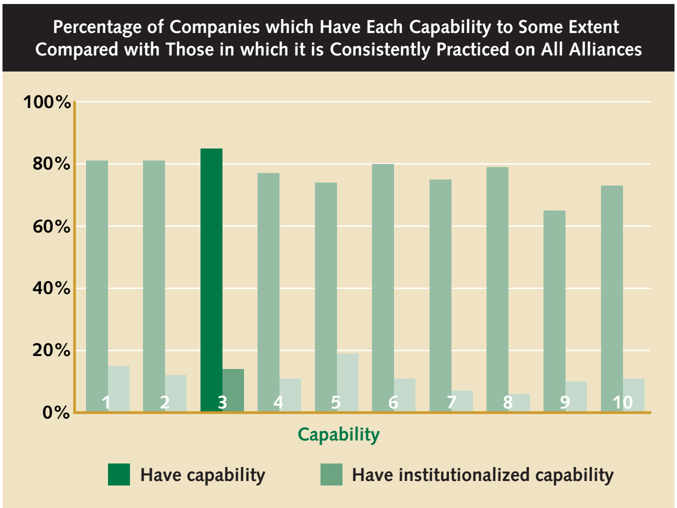


Figure 18

Although this capability is present in a higher percentage of companies than any other capability, it is no more fully institutionalized than many of the capabilities.

85% of alliance managers report

that their organizations have this capability to some extent, the highest percentage among study participants. However, only 15% report that they practice it consistently across all their alliances (see Figure 18). In our experience, efforts to build a strong working relationship while negotiating a good agreement deal tend to be particularly ad hoc because companies assume they do not need to worry about the relationship until after negotiations, when they bring in an alliance manager. Any efforts to build a good working relationship during the negotiation depend entirely on the skills and experience of individual negotiators.

Illustration of the Capability in Practice: Joint Negotiation Launch

A number of companies make use of a "Joint Negotiation Launch" to set the foundation for successful negotiations and a good working relationship. These companies, jointly with their partners, conduct pre-negotiation planning sessions in which they bring the two negotiation teams together for one or two days to discuss how they will negotiate. They discuss different processes for negotiating, consider different ground rules, and even talk about how and what they each might do in advance to make the negotiations as effective as possible. They jointly identify terms and dynamics that might be challenging to negotiate and discuss how they might approach these situations as they arise. Frequently, the negotiating teams explore how they can engage in a negotiation that both develops strong relationships (trust, understanding, mutual respect), and creates unique and practical solutions (agreements on the merits that satisfy each partner's critical interests).

> *By continuing to be honest and upfront with each other, and by asking lots of probing questions regarding what each party wanted out of the deal, we were able to negotiate a very good deal for both parties and have a huge advantage post-signing so that we could "hit the ground running" and lost no time in collaborating.*
>
> — VP Business Development & Strategy Planning, Top biotech firm

Capability 4: Establishing Common Ground Rules for Working Together

In order to manage differences well, it is useful to have a standard method in place to define with partners a shared vision of a good working relationship, explore possible challenges to realizing that vision, and develop a set of ground rules for how to work together over time to manage these challenges. To do this, partners might incorporate at the outset of the implementation period some kind of relationship planning process. Such a process serves as an opportunity to define relationship goals, build understanding between the partners about their organizations, cultures, and policies, and jointly plan ways of achieving relationship goals in light of organizational differences. The partners can jointly develop ground rules or protocols around how partners will, for example, solve problems, escalate conflict, make decisions, communicate, and manage commitments to ensure that alliance strategies are both effective and easy to execute.

Implementing this capability particularly helps companies capture value from an alliance.

When asked which capabilities would have helped them capture value from an alliance that instead failed, this was the second most cited capability, with 25% of alliance managers selecting it (see Figure 19). This is also considered to be one of the most important capabilities, with a third of alliance managers rating it "Absolutely Essential."

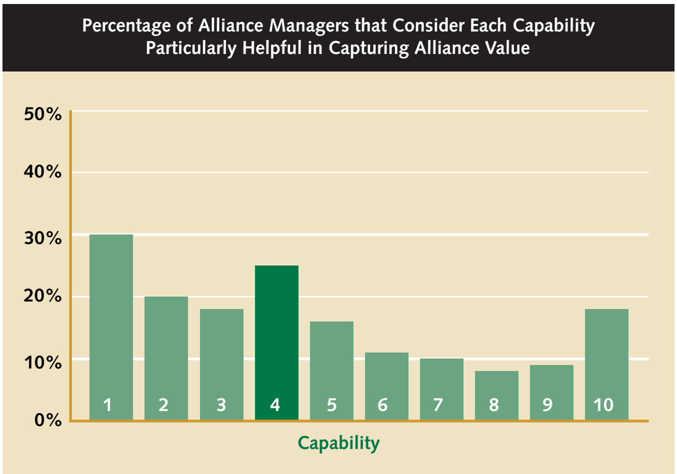


Figure 19

Partners frequently find an alliance breaking down due to misalignment and unaddressed differences in operating style, perceptions, and expectations. Alliance managers report that having constructive conversations at the beginning of an alliance about these differences and then getting aligned around and following common ground rules for dealing with those challenges prevents such relationship breakdowns and the value leakage that, as this study shows, follows.

This capability is fully implemented in only a small percentage of companies.

Only 11% of alliance managers report that their companies consistently practice this capability on all their alliances (see Figure 20). While this is about the average implementation rate among the capabilities, it is somewhat surprising this practice is not more regularly implemented. This is the capability that alliance managers have the greatest control over: alliance managers who think they need to have ground rules for working together could facilitate a meeting with both partner teams to do so. Yet, even though alliance managers consider such relationship planning to be essential, they rarely engage in it.

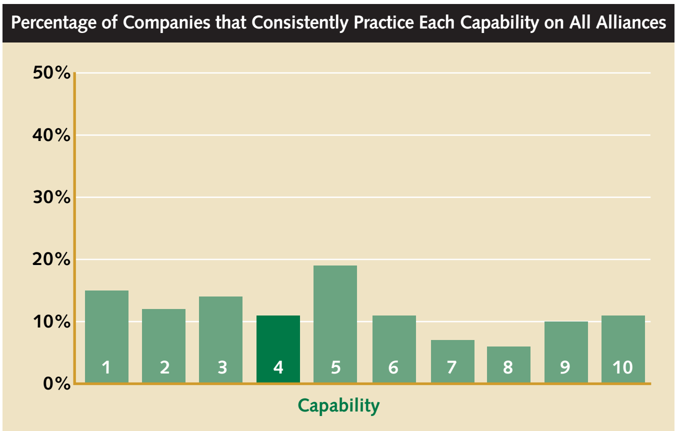


Figure 20

Illustration of the Capability in Practice: Joint Relationship Launch

Many leading companies employ a "Joint Relationship Launch," one component of which is establishing ground rules for working together at the start of an alliance. Shortly after an alliance is negotiated, these companies bring together relevant parties from each partner who will be critical to the successful implementation of the alliance. This meeting includes both those who will manage it, as well as those who will oversee it. Over the course of two or more days, the partners jointly review the intent of the alliance, its structure, and its strategy to ensure that everyone develops a common view. Afterwards, they work together to specifically define what they mean by a "good partner relationship," how they will know if they achieve this relationship, and how to measure its strength. They also identify any potential obstacles to developing and sustaining such a relationship, consider protocols they can establish for managing differences, and agree on how they will manage the relationship over time to ensure continued success.

In addition, the companies build or refine governance mechanisms for the alliance that move beyond simple definitions of committee structures to include descriptions of how each committee will focus, work, and relate to one another. The companies also frequently define additional mechanisms to jointly employ as they manage communication, conflict, and change in the relationship going forward. Finally, they may also take time to equip themselves with some common tools, strategies, and a mindset for relationship management and joint problem-solving.

Illustrative Joint Relationship Launch Component

ACME — [Alliance Collaborator] Relationship Launch Meeting Agenda

Time	Item
8:30 a.m.	Breakfast and Introductions
9:00 a.m.	Joint Contract and Deal Understanding ■ Review the strategic purposes of the alliance and what each party brings to it ■ Explain the key terms of the contract and clarify each organizations commitments
10:30 a.m.	Alliance Objectives ■ Articulate joint objectives for the alliance, and develop measures to monitor success against those objectives ■ Discuss likely challenges and barriers to achieving those objectives and agree on ways to mitigate those challenges
11:45 a.m.	Relationship Planning ■ Articulate the qualities of a working relationship required to meet business goals and ■ Identify observable behaviors that indicate desired relationship qualities ■ Discuss challenges to such a relationship and agree on ways to mitigate those challenges
1:45 p.m.	Relationship Management Infrastructure ■ Clarify the governance structure and associated roles and responsibilities ■ Develop operating protocols and processes for communication, information-sharing, decision-making, joint problem-solving and joint escalation, and conflict resolution ■ Develop approaches for an audit mechanism to measure the health of the relationship
3:00 p.m.	Resolution of Possible Existing Tensions Left Over from Negotiations ■ Articulate and try to resolve any areas of disagreement or various tensions that have developed through the negotiation process
4:15 p.m.	Plan, and Assign Responsibilities, for Going Forward

Capability 5: Having Dedicated Alliance Managers

In order for alliances to be successful, it is critical for someone to manage the alliance on behalf of each of the partners. This dedicated person (often referred to as an alliance manager or relationship manager) oversees not only the business objectives and milestones of an alliance, but also focuses on the day to day relationship issues. To monitor the relationship, these individuals, whether for one alliance or for many, might coordinate communication between the partners, spot potential conflicts, mediate disputes, and/or gauge and track the health of the working relationship.

This capability is the most fully implemented.

19% of alliance managers report that their companies consistently assign dedicated alliance managers to their alliances, making this capability the most institutionalized (see Figure 21). Many companies have focused on implementing this capability because doing so is considerably easier than the seemingly more complex analysis, process creation or mindset shifts required to implement the other capabilities. Furthermore, for many years, companies have tended to believe that alliance managers are the answer to all alliance issues, that alliance management is only about people skills and having a good alliance manager will solve any problems.

The prevalence of this capability has not increased over the past five years.

Unlike almost all the other capabilities, there has been no increase since the 2001 study in the percentage of companies that practice this capability at least on an ad hoc basis (see Figure 22).

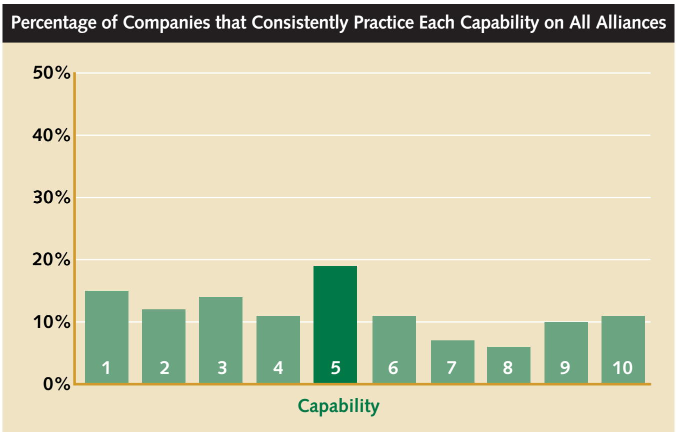


Figure 21

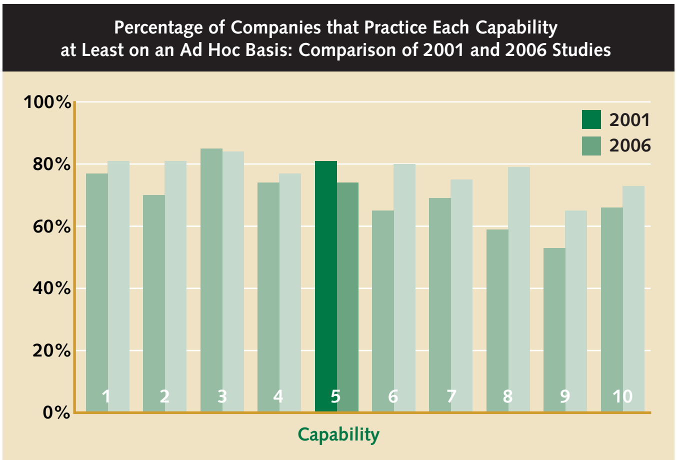


Figure 22

This reflects a growing recognition that having alliance mangers is only part of the picture of effective alliance management, as companies focus their efforts on building many of the other capabilities. Rather than focusing on alliance management as an individual responsibility, companies are increasingly thinking about alliance management as a field, and some are creating alliance management functions.

Illustration of the Capability in Practice: Alliance Relationship Manager Role Description

Leading companies that have defined the role of the “Alliance Relationship Manager” have focused on defining the necessary components of that role. They often find that those best suited for this role are individuals who are within the organization and have both a strong understanding of the business of the alliance as well as a strong ability to manage relationships. These role descriptions include the types of coordination, communication, decision-making and problem-solving activities that the role involves. Having a clear picture of these responsibilities enables an organization to better select the appropriate person to play this role, and to them effectively measure performance.

Illustrative Alliance Relationship Manager Role Description

ACME Alliance Relationship Manager — Role and Responsibilities

Role

The role of the Alliance Relationship Manager is to serve as a support function that is focused on the relationship aspect of the alliance. The Relationship Manager should focus on, drive, and advocate for, the health of the alliance relationship.

Key Activities

- Drive various alliance launch implementation activities (e.g. development of joint metrics, finalization of the alliance relationship health check survey, development of alliance goals)
- Be responsible for identifying the need for, and ensuring training of alliance members in collaborative behavior and skills
- Drive and report the results of the alliance relationship health check survey to the Joint Management Committee
- Actively participate in all Joint Management Committee meetings and recommend changes to the governance structure, operating protocols, and processes, as needed
- Assure the establishment and monitoring of relationship objectives and associated measures
- Assure that agreed upon operating protocols are developed, utilized, and updated as needed
- Develop and maintain a strong personal and professional relationship with the partner Alliance Relationship Manager
- Serving as a neutral party, monitor and address partisan perceptions and difficult conversations that develop
- Proactively look for, and celebrate, examples of good partnering behavior
- Facilitate complex and/or contentious joint meetings upon request by various people across the alliance

Capability 6: Having Collaboration Skills in Alliance Employees

A company's strong collaboration capability is often marked by the ability of alliance-involved employees to work fairly and effectively with partnering team members on all issues. Specifically, these employees are skilled at joint problem-solving, conflict resolution, open and direct communication, and explicit exchange of feedback. These individuals balance advocacy for their own positions with inquiry into others' perceptions and routinely probe for interests from the other side before providing concrete options when problem solving. Furthermore, they also avoid the "blame game" with partners, instead acknowledging and learning from each others'contributions to problems and seeking solutions that take into account the interests and concerns of both partners. Above all, companies that have this capability recognize the criticality of collaborative skills for all alliance-involved employees, and routinely invest in maintaining, updating, and instilling these skills as a corporate necessity.

This capability had the second greatest increase in prevalence from 2001.

In 2001, this was one of the least prevalent of the capabilities, and now it is one of the most prevalent, with an increase from 65% to 80% in the percentage of alliance managers that report their companies practice this capability to some extent (see Figure 23).

However, this capability is still practiced in only an ad hoc way in more companies than any other capability.

32% of alliance managers report that their companies have no formalized mechanism for building collaboration skills in their alliance employees, and any skill building that does occur is ad hoc and driven by the individual rather than by the organization (see Figure 24). Individuals who work on alliances have various avenues for developing their skills (for example, external training offerings,

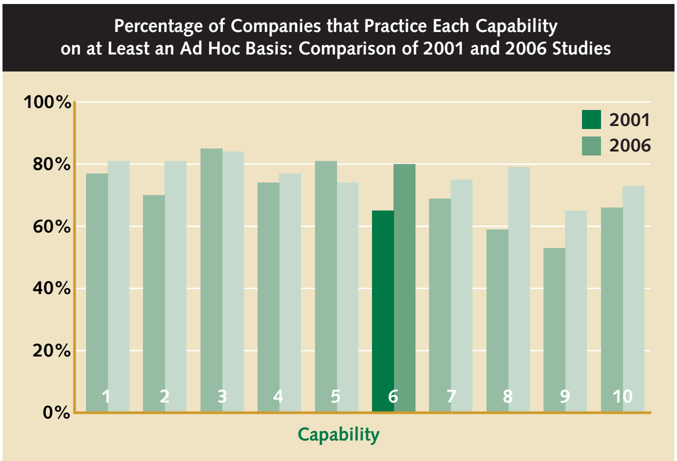


Figure 23

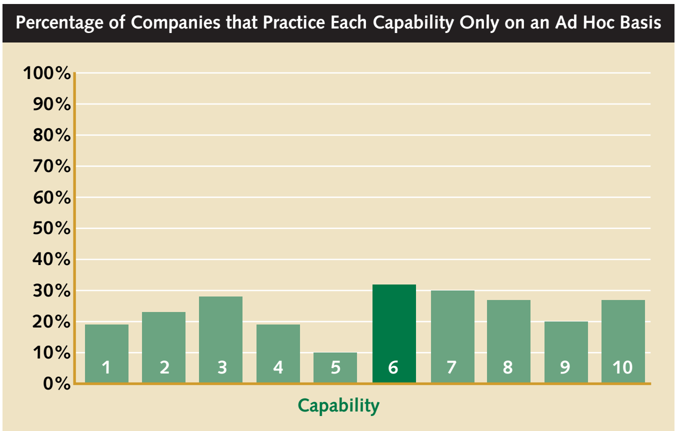


Figure 24

conferences, and books), however leaving skill building up to the individual in this way not only results in widely disparate skill levels, but also deprives the organization of the opportunity to develop a consistent set of effective collaboration skills and methods within all individuals working on alliances.

Illustration of the Capability in Practice: Relationship Management Competency Model

To ensure that alliance team members develop needed skills, some companies have built a core set of relationship management skills into their competency models for roles involved in managing alliances. They then develop training and coaching programs centered around the development of excellent problem-solving, communication, conflict resolution, decision-making, negotiation, mediation, and other core relationship management skills. These companies have involved in their training and coaching programs not only those who will work on the day-to-day alliance interfaces, but also top executives who will serve on alliance Steering Committees or Management Committees.

Illustrative Alliance Relationship Manager Competency Model

ACME Relationship Managers Competency Profile

1. Transparency
   a) Discuss candidly any issues or problems, at individual and organizational levels
   b) Demonstrate integrity and honesty when discussing what we can and cannot do
   c) Be open to and actively solicit feedback from partners

2. Problem Solving
   a) Be aware of problems and issues that impact the relationship and partner's business
   b) Work collaboratively with partners to document symptoms, diagnose problems, and generate possible solutions
   c) Know when and how to escalate problems higher up the organization

3. Decision Making
   a) Navigate organization to identify decision makers and solicit input
   b) Drive agreement and commitment to action
   c) Maintain commitment to action and implement decisions with partner help

4. Coordination
   a) Coordinates key interactions and activities with the partner
   b) Keeps all internal parties informed about key interactions and activities with the partner
   c) Serves as the first-line of contact for the partner when problems or questions arise

Capability 7: Having a Collaborative Corporate Mindset

Collaborative mindset capability reflects a company's ability to think in terms of the good of the alliance before the good of its separate interests. Decision-making, problem solving, and brainstorming are regarded as shared processes between partners, each an opportunity to further the joint objectives of the partnership at all levels of an alliance. Companies that have this capability realize the ultimate utility in interacting collaboratively with partners and, thus, provide incentives for and model exemplary behavior of such collaboration. These companies also emphasize the need to maintain collaborative mindset when dealing with uncollaborative partners and do so by instituting routine validation of collaborative thinking.

This is one of the least implemented capabilities.

Only 7% of alliance managers report that their companies' consistently practice this capability, making this the second least implemented of the ten capabilities (see Figure 25). Creating the right mindset is more difficult than building other capabilities; it is not something concrete that an organization can immediately build. Developing the kind of collaborative mindset necessary for successful alliances is a concerted effort, needs time to take hold, and requires buy-in from the senior-most executives of a company. Hence, few companies have been able to consistently and permanently change mindset.

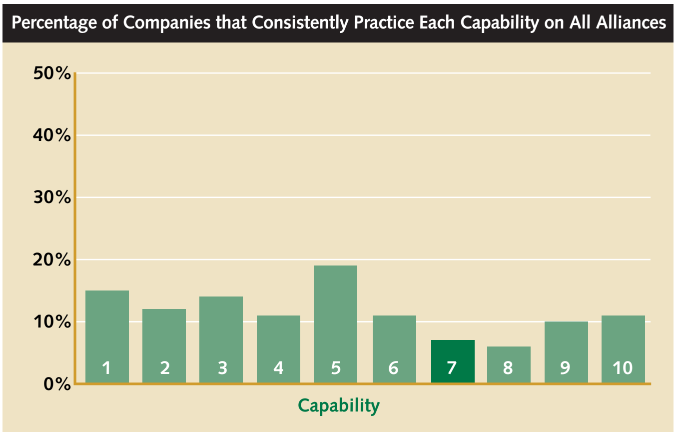


Figure 25

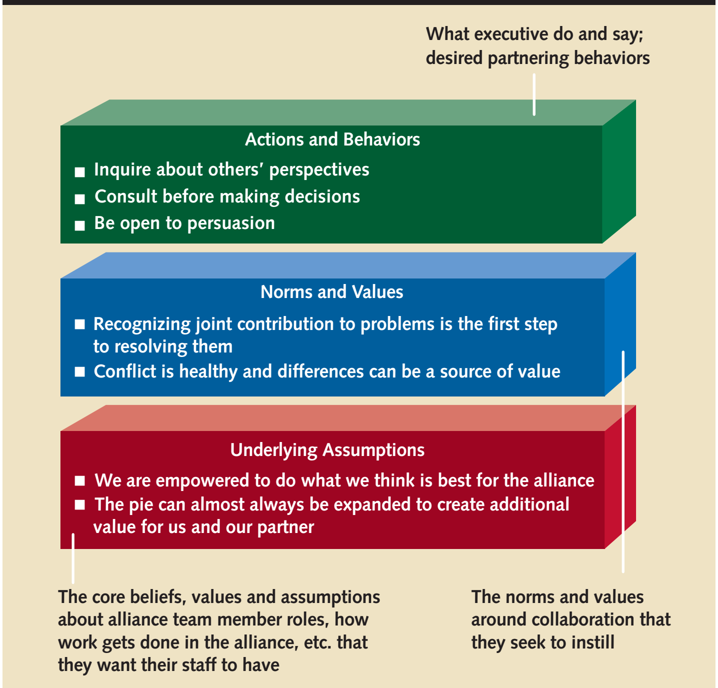
I believe the topic of Collaborative Corporate Mindset has been our alliances' most important setback. The trouble begins at the leadership level — they think they have a collaborative mindset, but when decisions regarding the alliance don't match their expectations or desires, uncollaborative actions are taken that undermine the potential success of the initiatives.

— Media Company's Alliance Manager

Illustration of the Capability in Practice: Three Layer Planning

A number of leading companies conduct "Three Layer Planning" around developing a collaborative mindset. In these companies, leaders think hard about the behaviors they espouse and the ones they practice — signaling for their staff what they expect in terms of appropriate partnering behavior. Yet, they go beyond this top layer and also think about the norms and values around collaboration that they want to instill in their organization. Further, at the third layer, the leaders think about what default operating assumptions they want people to have. They then use stories, rewards, development plans, systems, structures, and hiring to send the message of what they think is important to the development of a truly collaborative mindset. For example, sharing success stories about those who took a "best for the alliance perspective" and the results they achieved for their company because of their approach, can send a powerful message about how people should both think and act. Similarly, publicly rewarding people who find ways to "expand the pie" with the partner signals to others the importance of this way of thinking and acting. Leaders in these companies deliberately work through the above to ensure the development of the mindset they want to instill within their alliances.

Illustrative Three Layer Model



Capability 8: Managing Multiple Relationships with the Same Partner

Roughly 50% of alliances are between competitors, and many others occur between organizations that have other business relationships between them. Partners are often equity stakeholders of one another, suppliers to or distributors for one another, and even customers of or suppliers to the venture between them. In order to manage the multiple relationships that they may have with any given partner, companies need the corporate-wide ability to identify, discuss, track, and manage the numerous and often complex interconnections between them and their partners.

This is the least institutionalized capability.

Only 6% of alliance managers report that their company has a consistent, systematic way to manage the various different types of relationships it has with any particular partner organization (see Figure 26). Many companies find it particularly difficult to develop a systematic way to manage multidimensional relationships because it takes a great deal of time and effort to appropriately involve all of the different internal stakeholders in any such efforts.

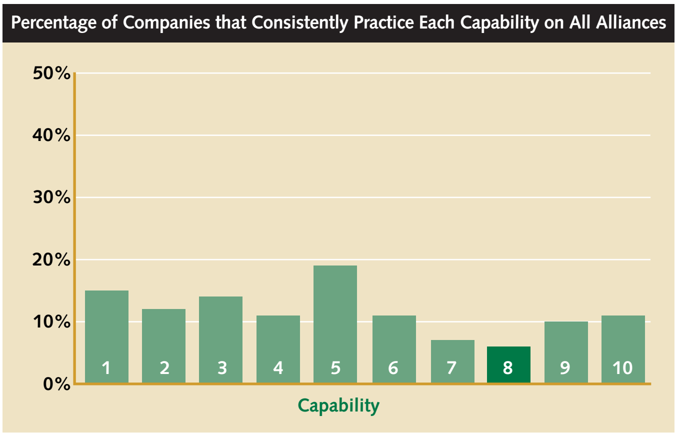


Figure 26

However, compared to 2001, many more companies are practicing this capability at least on an ad hoc basis.

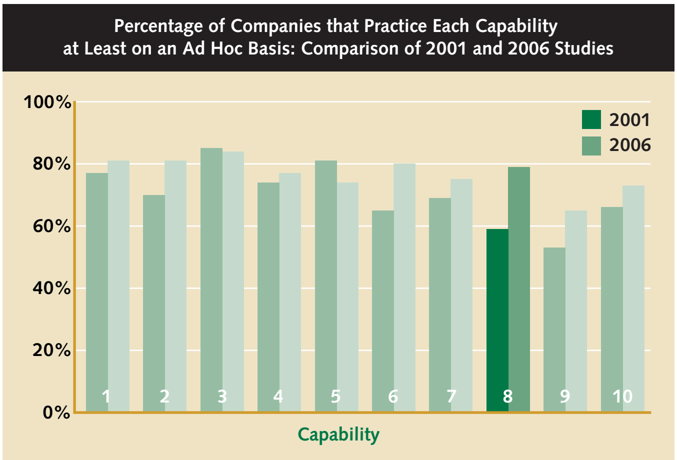


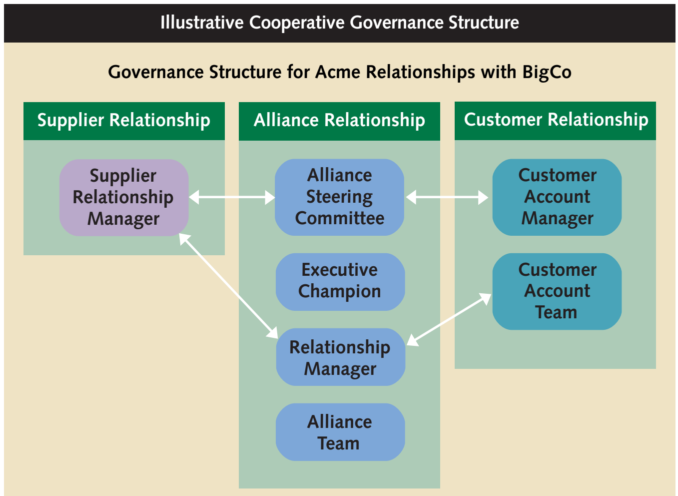
Figure 27

This capability saw the greatest increase in the percentage of alliance managers that report that their companies practice this capability on at least an ad hoc basis (see Figure 27). Organizations are starting to recognize that they are increasingly partnering with companies that are also competitors, customers and suppliers. They are focusing more attention on determining how to manage those different types of relationships in a way that both allows for leverage and also does not cause harm.

Illustration of the Capability in Practice: Cooperative Governance Structures

Many of the few companies that have fully implemented this capability have developed "Cooperative Governance Structures" for their alliances. Particularly when governing an alliance with a company with which they have many different kinds of relationships, these leading companies design governance structures that allow them to look at and manage each kind of relationship differently, while at the same time coordinating among them. Within the governance structure, different Relationship Managers are often designated for different relationships with the same partner — alliance, customer, supplier, and so on. Furthermore, when the alliance partners are also competitors, or partners of other competitors, ground rules are often established at the outset for how information should and should not be shared and what kind of communication process will be engaged when either partner makes a competitive move. In these complex partner relationships, often the Steering Committee is given specific responsibilities for managing across the various relationships to find synergies and manage conflicts.

Illustrative Cooperative Governance Structure



Capability 9: Auditing Alliance Relationships

"Auditing" partner relationships means more than assuring that partners are achieving their business objectives. It means jointly monitoring the health of the working relationship between alliance partners (i.e., how they are working together to further their substantive goals). When companies can audit the relationship side of an alliance with a formal mechanism, process, or standard procedure, the alliance is most often preserved, if not also enhanced. Such methods as surveys, off-sites, executive reviews, or other similar processes are examples of relationship audit mechanisms. These processes may be employed to measure the degree of trust between partners, identify and address negative perceptions, and/or evaluate the quality of communication between partners and between various groups that regularly interact within each partner organization.

This is the least prevalent capability.

Currently, only 65% of alliance managers report that their companies have this capability to some extent, meaning a third of companies do not audit the working relationship in any of their alliances (see Figure 28). This makes this by far the least prevalent of the capabilities. Although close to half of all alliance failures are due to a poor working relationship between the partners, many companies have no way to assess the quality of their relationships so that they can address problems before they cause irreparable damage.

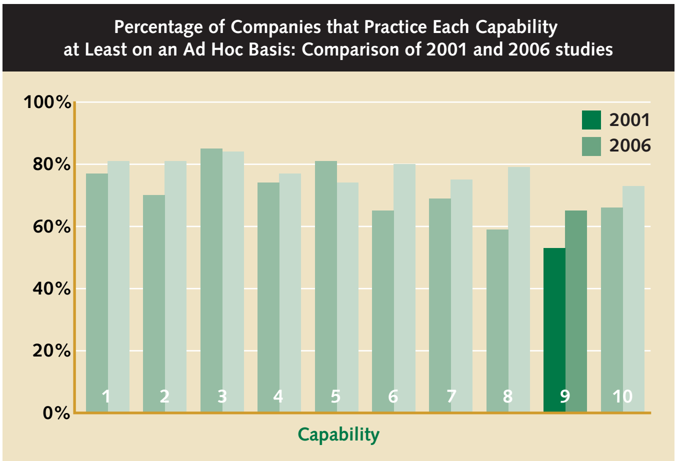


Figure 28

However, there has been improvement over the past five years; in 2001, only 53% of alliance managers reported that their companies audited at least some of their alliance relationships. More and more companies are beginning to recognize that they need to look at relationship metrics along side the business metrics that they have traditionally used. However, only 10% of companies consistently conduct such assessments across their portfolio of alliances.

Illustration of the Capability in Practice: Joint Relationship Assessment

Some top companies have incorporated a Relationship Audit into how they manage their alliances by implementing a joint relationship assessment. They work with their partners to define an assessment of their relationship that looks beyond measuring the alliance's business success to analyzing how well the partners are working together. Such an audit analyzes the strength of the relationship (degree of trust, respect, understanding, ability to jointly solve problems, etc.), the relationship management roles and methods being employed, the governance structure, and any particular relationship management problems that have arisen or seem to be on the horizon. The partners jointly conduct the assessment, analyze the data, and plan and take corrective action. Lessons from the audit not only lead to fixes and improvements within a given alliance, but are also fed back into each partner's organization for use in improving how they manage other alliances as well.

Illustrative Relationship Audit Assessment Component

ACME Relationship Survey

1. We consult with each other before making decisions that could affect the partnership

Strongly Disagree				Strongly Agree
1	2	3	4	5

2. We view solving problems that arise as a shared responsibility

Strongly Disagree				Strongly Agree
1	2	3	4	5

3. We manage conflict by inviting conversations to understand differing points of view

Strongly Disagree				Strongly Agree
1	2	3	4	5

4. We try to understand each partners' interests and identify alternatives for mutual gains among alliance partners

Strongly Disagree				Strongly Agree
1	2	3	4	5

5. We each have confidence the other partner will do what they say they will do.

Strongly Disagree				Strongly Agree
1	2	3	4	5

6. In crisis situations, we do not rely solely on colleagues from our own respective companies.

Strongly Disagree				Strongly Agree
1	2	3	4	5

Capability 10: Managing Changes that Affect Alliances

The premises under which an alliance is formed rarely, if ever, hold true throughout the life cycle of an alliance. Key personnel come and go; organizations undergo downsizing, mergers, or strategic restructuring; or the competitive or regulatory environment changes. Having the organizational capability to manage alliances in this context means anticipating such changes as early as possible, and jointly discussing and planning for the implications of change.

This is one of the least prevalent of the capabilities.

73% of alliance managers report that their companies have this capability to any extent (see Figure 29). Although this is a slight improvement from 2001, when only 66% of alliance managers reported having some means for managing change, this still leaves many companies at the mercy of changes that occur. These alliance managers are forced to react to change as it comes upon them, rather than being able take steps to mitigate potential challenges or take advantage of resulting opportunities.

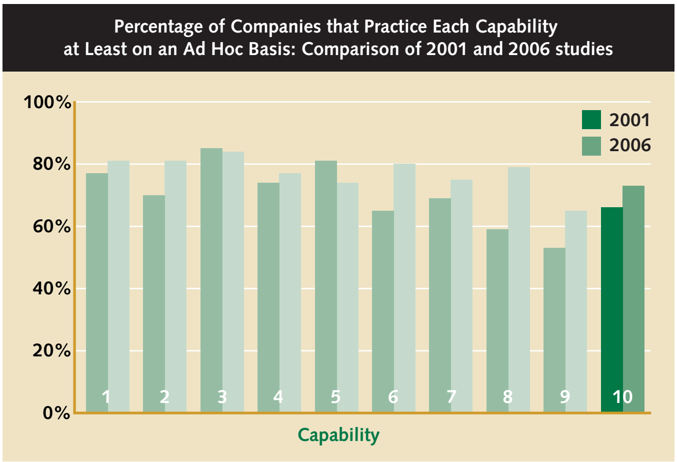


Figure 29

Alliance managers report this is one of the capabilities that is most helpful in capturing value from alliances.

When asked which capabilities would help capture value from an alliance, this capability was one of the most frequently mentioned (see Figure 30). Changes such as new competitors or shifts in market demand can have a significant impact on whether and how well partners can meet their objectives. When the partners have a plan in place for anticipating and addressing those changes, they are better able to stay on track and thus realize value from the alliance.

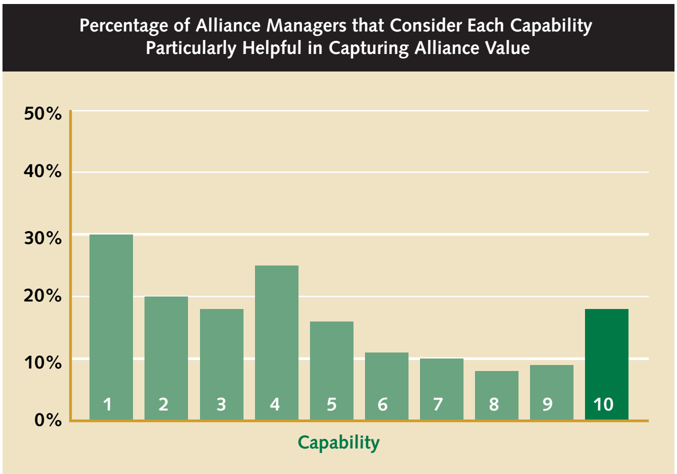


Figure 30

Illustration of the Capability in Practice: Change Management Mechanism

Leading companies have implemented a Change Management Mechanism for their alliances through defined forums, tools, and procedures for the alliance managers and executives from both partners to make spotting, discussing, and managing such change an ordinary part of how they do business together. One approach companies have found effective involves conducting a systematic Four Quadrant analysis of a change that has occurred and the most effective way to address it. This involves analyzing the symptoms of the change, exploring possible diagnoses for it, brainstorming options ways to addressing these causes, and finally creating a specific action plan for going forward.

> *We have a standard process we use extensively to look at market trends, custom trends, and demand shifts which will affect the relationship. This has really helped us manage these types of changes.*
>
> — VP of Manufacturing Company

Illustrative Four Quadrant Analysis

Analysis of market loss in ACME/BigCo Alliance

Step Two: Problem Diagnosis

Explore Possible Diagnoses

- Our business plan should not have included this market
- This is still a good market to target, we are just not marketing to it in the best way
- We have exhausted this market
- The market has changed since we entered this alliance
- We have not created a good product for this market

Step Three: Problem-Solving

Jointly Develop Options for Specific Action(s)

- Create a joint team to review our business plan up against the market problems
- Conduct a market analysis
- Continue to focus on this market, but refine our approach to doing so, to try to determine whether the market still exists
- Jointly review board to evaluate current marketing initiatives focused on this market for this market

Step One: Problem Definition

Define the Problem Together

Current State Symptoms		Preferred State Symptoms
One of our targeted markets is no longer buying our product	GAP	We focus only on interested markets

Step Four: Action Planning

Jointly Generate a Concrete Action Plan

- Mark and Tom will meet next week to review the business plan for this market
- Sandra will find a market research firm to conduct a market analysis
- Ian and Laurie will meet to assess the quality of the current marketing initiative

vantagepartners

to derive real value from alliances, organizations need to move beyond individual practices to true alliance management discipline

Conclusion

Alliances are critical to corporate performance and will become even more so in the future, yet the majority fail. Few companies are able to manage consistently and effectively either their individual alliances or their alliance portfolio. In many organizations, there are effective behaviors exhibited on certain alliances, but to really get value out of alliances, companies need to move beyond those individual practices to create organizational discipline. True discipline means turning alliance management into a business process and applying effective practices on a systematic, organization-wide basis.

According to our research, the major obstacle to developing such discipline is that companies are unsure about what discipline actually looks like and where to start. They do not have a clear picture of what is needed, how to develop it, and the value of doing so. Furthermore, organizations frequently do not have a clear idea of the negative impact that their underperforming alliances have on their bottom line, so it is difficult for executives to justify investments in alliance management, even when they believe, intuitively, in its value.

There are many paths and methods to the end of reducing alliance failure rates and improving corporate performance by creating alliance management discipline. In recent years, a small number of companies have taken a variety of approaches to systematize alliance management processes and tools.

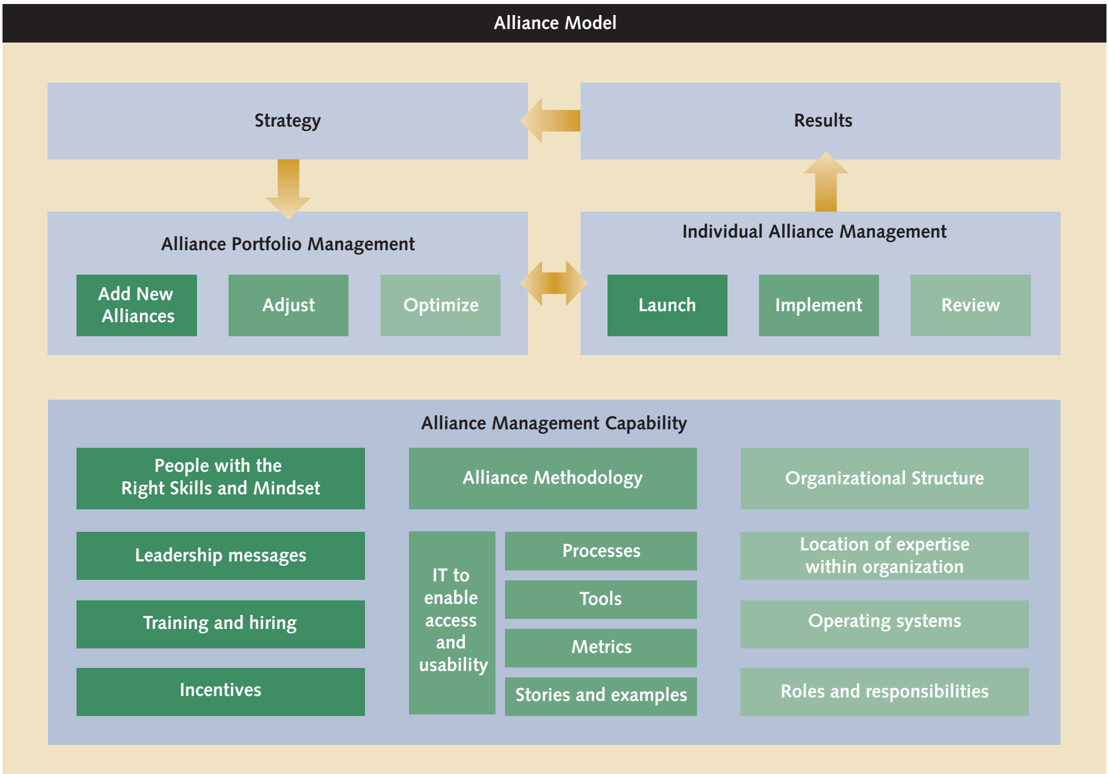
In one organization looking to improve its alliance results, key executives and alliance managers, while in agreement that they needed to create more consistent alliance management practices, did not agree on what should be built or when. Therefore, this company decided to start with an alliance management "blueprinting" process, the idea of which was to build a picture of the ideal system of alliance management for their company, and a plan for getting there that the organization could align around. They assigned a cross-functional team representing each key constituency to draft a blueprint of their system and a plan for building it. They then collected feedback and concerns until a blueprint emerged that all key stakeholders agreed to. Having developed this alignment about the ideal alliance management system for their organization, they were then able to go about building out a new alliance management function and supporting processes and tools.

Another company began by putting a couple of critical alliances back on track. As part of re-launching each of these alliances, they put in place new ground rules for each set of partners guiding how they wanted to behave and communicate with each other. They then reviewed the effectiveness of these ground rules and identified best practices among them. From these best practices, they created simple guidelines for other alliance managers to follow going forward. Over time, as they continued developing new processes and tools for individual alliances and learning lessons from these, they systematized a set of processes and tools for use on all their alliances.

A company with a particularly data-driven culture began by focusing on managing their alliance portfolio. They put in place consistent dashboards and a relationship audit mechanism, enabling them to have a concrete way to look at where they were underperforming and why, before they took any subsequent steps to address additional gaps. They then reviewed the results of the various audits to look for recurring challenges that pointed to organizational problems. This helped them figure out where they most needed to build more systematic processes and tools.

In our experience, for companies to build out full organizational discipline, there are three arena on which to focus. The first is building discipline around alliance strategy, thinking about how the organization selects alliance partners, builds out the portfolio, manages the portfolio and deals with co-opetive dynamics. Next is building discipline around how individual alliances are managed. This includes having a systematic way of negotiating deals, launching an alliance, creating ground rules, communicating, making decisions, resolving conflicts, and auditing and adjusting the alliance over time. Last is supporting the desired portfolio and individual alliance management activities by building the optimal organizational structure and roles, developing needed skills, creating effective processes and tools, and designing a knowledge management system.

As we work with clients on how to build out discipline, we tend to use a model that pulls together the arena described above and the ten capabilities included in this report.



With hundreds of millions of dollars at stake in alliances, and companies now having enough experience to know what they to do to succeed, it is time for organizations to get serious about treating alliance management as a discipline. Companies need to think of alliance management as a true profession and enable it as they would any other critical business process. For those companies that do decide to create this discipline in the years ahead, we predict that we are going to see much better success rates and much higher ROI.

Appendix A: Ten Alliance Relationship Management Capabilities

1. Building and Maintaining Internal Alignment

Building and maintaining internal alignment around the choice of a partner, the objective of the partnership, roles and responsibilities, etc. For example, there might be a process for consulting different stakeholders affected by the decision to enter into the alliance or by the choice of partner. There might be a mechanism for justifying the alliance to those who must play a role in its success. There might be a mechanism for surfacing, testing, and dealing with concerns that the alliance may not be necessary or that a different partner would be preferable. There may be an overall process for maintaining alignment during negotiation of the alliance and during its implementation.

2. Evaluating and Considering Relationship Fit with Potential Partners

Evaluating and considering relationship fit with potential partners: how well partners will work with your company, beyond how they fit strategically or financially. For example, the presence or absence of "relationship fit" with a potential partner is an issue for serious internal discussion. "Relationship fit" might be a criterion in partner screening. Individuals might look for issues of fit as they negotiate, and then address those issues as they build the partnership itself. There might be a formal "culture or partnering style assessment" process.

3. Building a Strong Working Relationship While Negotiating an Optimal Deal

Building a strong working relationship while negotiating an optimal deal, and getting one's partner to do the same. For example, there might be an explicit strategy for making difficult tradeoffs and having difficult conversations while still building trust and the sense of partnership. Tools or processes for preparing to negotiate in a collaborative manner might exist and be used. Those tools or processes might also be shared with potential partners. There might be a mechanism for developing the working relationship and jointly devising the negotiation process, with a potential partner, prior to negotiating the alliance. Outside facilitators might be used to help partners get started on the right foot.

4. Establishing Common Ground Rules, Processes, and Protocols for Working Together

Establishing common ground rules, processes, and protocols for working together, and for how partners will deal with each other. For example, partners might put in place a common set of ground rules for how they will deal with any issues that come up which affect the alliance. Decision-making roles might be clarified in terms of who will be consulted, who will be informed, and who must agree to future decisions. There might be established protocols for communication and consultation across the alliance interface and with outsiders.

5. Having Dedicated Alliance Managers

Having dedicated alliance managers: having dedicated people assigned responsibility for managing day to day relationship issues (not just operations and business strategy) with each alliance partner. For example, this person might implement specific strategies for building and managing the relationship, continuously "take the pulse" of the relationship, manage the communications flow, and facilitate joint problem-solving. This person might identify and surface tensions and facilitate the development of action plans to deal with them. This person might actively look for new opportunities to work together with the alliance partner.

6. Having Collaboration Skills in Alliance Employees

Having collaboration skills in alliance employees: employees up and down any given alliance interface have collaboration skills in resolving conflicts, negotiating, solving problems jointly, engaging in and conducting difficult conversations, etc. For example, individuals might routinely probe for interests before proposing or advocating a concrete option or when problem-solving; they might approach alliance problems with an open mind and be able to see situations from multiple perspectives; they might balance advocacy of their own positions with inquiry into the others' perceptions. The company might work to develop such skills and recognize and reward such behavior.

7. Having a Collaborative Corporate Mindset

Having a collaborative corporate mindset: Employees up and down the alliance interface consistently, and without being asked or told to do so, frame all issues or problems concerning the alliance as problems shared by the partners rather than as either 'our' problems or 'their' problems. (This does *not* mean people are capable of doing so occasionally, when someone specifically asks them to, but that they generally do so.) For example, when faced with a question or challenge, individuals might immediately ask themselves what will be best for the alliance, or at least, what is in the interest of both partners. Management's instructions might be framed in terms of the alliance's needs and the alliance's success. A mindset might exist where no one would feel punished for pursuing the alliance's success rather than that of one partner.

8. Managing Multiple Relationships with the Same Partner

Managing multiple relationships with the same partner: spotting, discussing and managing the multiple kinds of additional relationships that a company may have with a given alliance partner, such as when a partner is also a competitor in some markets, or is also a customer or supplier to the alliance or the whole organization. For example, there might be a tool or mechanism for monitoring "ups and downs" across all relationships with a particular organization. There might be a process for dealing with tensions in the alliance that may be caused by conflicts in other interfaces. There might be specified individuals responsible for spotting and dealing with the potential conflicts of interest that such different kinds of relationships might pose.

9. Auditing Alliance Relationships

Auditing alliance relationships: periodically and formally checking the health of the alliance relationship over its entire lifecycle. For example, there might be periodic “audits” of the relationship conducted jointly by both partners. Employees working on the alliance might be surveyed to determine whether there are any latent resentments or negative perceptions that may hurt the relationship or impact business results. A facilitator from outside the alliance (whether or not outside the partner companies) might be used to help assess and maintain the health of the relationship over time.

10. Managing Changes that Affect Alliances

Managing changes that affect alliances: Spotting significant change in either partner’s business is having a way of discussing and managing the implications of such changes for the alliance. Significant business changes could be brought on by, for instance, a change in key personnel, organizational restructuring, or changes in the competitive or regulatory environment. Significant business changes could be brought on by, for instance, a change in key personnel, organizational restructuring, or changes in the competitive or regulatory environment. For example, there might be periodic formal reviews and discussions during which the rationale for the alliance and the terms under which it is operating would be revisited. Alliance partners might have a practice of keeping each other apprised of significant changes in their strategies, and/or agreements to disclose certain kinds of information to each other before such information is public.

Appendix B: Participating Organizations

The following are the names of those of the 93 participating companies that granted us permission to acknowledge them.

4C Corporate Culture Clash & Chemistry
ABB Inc.
Abbott Laboratories
ADP Dealer Services
Aragon Limited
Arvesta Corporation
Authenex Inc.
Battelle
Blue Cross and Blue Shield of Florida
Bennelong Publishing
Best Buy Co., Inc.
BMC Software
Boeing Corporation
CallingPost Communications, Inc.
Cargill Dow LLC
Chiron Corporation
Cisco Systems
Custom Manufacturing and Engineering Inc.
CVN Alliances Ltd
Destiny Health
Diveo do Brasil Telecommunications Ltd.
Eli Lilly and Company
Epicenter Technologies Pvt. Ltd.
Grintek Telecom
Hewlett-Packard Company
IBM Corporation
ImmunoGen, Inc.
Insight Alliance
Integrated mar.com Corporation
International Marketing Partners Ltd.
KLA-Tencor Corporation
Lexington Marketing International Inc.
MedImmune, Inc.
Merial
MICHELIN
Orion Pharma
P&G Pharmaceuticals
Performance Coatings, Inc.
PRAXIS International
QEDSoft, Inc.
Rockwell Automation
SAPCO
Sapient Corporation
Shure Incorporated
Software Improvements Pty Ltd
Tufts Health Plan
Xerox Corporation

Acknowledgements

The authors wish to first and foremost thank those who participated in this study by providing their valuable time and insight. We are extremely grateful for their help in our ongoing research to develop the field of alliance management.

Special thanks to Stephen Kruse and Marianne Kruse for their production and design work. Additional thanks to Laura Judy Visioni for her drafting and editorial contributions, and to Ted Carstensen, Christine Kim, Alek Jovovic, Chris Hiserman, Sara Enlow, Chrissy Batterson, and Sharon Sarosky for their contributions and assistance.

About Vantage Partners

Vantage Partners, a spin-off of the Harvard Negotiation Project, helps companies realize maximize value from their most important business relationships — with suppliers, customers, and alliance partners. With more than 20 years of experience consulting to the Fortune 500/Global 1000, Vantage helps leading organizations around the world create and capture greater value through how they negotiate, and the manner by which they manage, key relationships. A leader in the alliance strategy and management arena, Vantage helps clients to develop their alliance function; develop the process and methods used to select, negotiate, launch and manage their alliances; optimize their portfolio of alliances; and assess and improve performance of individual alliances. In addition, through Vantage Technologies, Vantage provides and customizes Alliancesmith® software designed to help companies track, manage, and assess alliances throughout the organization.

Vantage helps companies build and improve their alliance management processes by integrating all aspects of alliance management, from linking alliances to overall strategy, to maximizing the performance of individual alliances, to optimizing and managing an entire alliance portfolio. Vantage provides these services in two arenas. The first is broad capability building for organizations that wish to implement standard approaches to managing their key business relationships. This work entails building relationship management processes and supporting tools and enabling those processes and tools with skills training, IT infrastructure and change activities. The second arena is enabling discrete partner relationships. In this arena, Vantage works at the interface of specific partnerships, helping both partners to jointly launch, manage, audit and adjust their relationships.

Vantage Partners' Directors are recognized thought leaders, speakers, and writers on the subject of alliance management, negotiation, and the management of critical business relationships. Collectively, their work includes such books as:

- *Getting to YES: Negotiating Agreement Without Giving In*
- *Difficult Conversations: How to Discuss What Matters Most*
- *Measuring the Value of Partnering: How to Use Metrics to Plan, Develop and Implement Successful Alliances*
- *Intelligent Business Alliances: How to Profit Using Today's Most Important Strategic Tool*
- *Making Partnerships Work: A Relationship Management Handbook*
- *Partnering — The New Face of Leadership*

In addition, Vantage has published numerous articles in the *Harvard Business Review* and the *Sloan Management Review*, a number of studies, and numerous white papers on negotiating and managing relationships with suppliers, customers and alliance partners.

Outside of the corporate arena, and through their leadership in Conflict Management Group, the partners of Vantage have also worked over the last 25 years to address some of the world's most divisive conflicts in the Middle East, South Africa, Kosovo, Nicaragua, and Rwanda.

To learn more about Vantage Partners and our work, we invite you to visit our website at www.vantagepartners.com or to call 617-354-6090.

To contact the authors of this paper directly, please e-mail us:

Jeff Weiss
Mr. Weiss is a Founder and Director of Vantage Partners.
Jweiss@vantagepartners.com

Sara Keen
Ms. Keen is a Senior Consultant at Vantage Partners.
Skeen@vantagepartners.com

Stuart Kliman
Mr. Kliman is a Founder and Director of Vantage Partners.
Skliman@vantagepartners.com

vantagepartners

Main Office: Brighton Landing West 10 Guest Street Boston, MA 02135 T 617 354 6090 F 617 354 4685
10100 Santa Monica Boulevard, Suite 2470 Los Angeles, CA 90067 T 310 556 8083 F 310 556 8085
www.vantagepartners.com