Right From the Start: The Seven Virtues of a Successful Alliance Launch

A White Paper by Nick Palmer, Laura Visioni, and Jeff Weiss
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The importance of alliances is unquestionable. In a cross-industry study by United Nations University and others, executives predicted that alliances will be responsible for, on average, more than 60% of their company’s market capitalization by 2013. From pharmaceuticals to software to petrochemicals, alliances are an increasingly significant strategic tool — one with the potential to contribute all along industry value chains (see Figure 1). Moreover, alliances generally enable faster deployment than internal initiatives without the capital commitment and many of the risks associated with acquisitions.

Not surprisingly many leading companies have explicit alliance-centric strategies. In 2000, Eli Lilly & Company’s addition of an alliance section to its Annual Report was unusual. Less than ten years later, such sections are common and, in some industries, required. Proctor & Gamble is aggressively pursuing its Connect + Develop approach, which makes clear the central role for external partnerships and alliances, and SAP touts its “ecosystem strategy” as core to its competitive advantage.

Collaboration is on the rise. Executives must identify, pursue, and more aggressively manage connections to suppliers, customers, and other partners. Even collaboration with competitors can be central to opening new markets and developing and deploying new technologies.

**Not As Easy As It Looks**

As important and pervasive as alliances have become, success remains elusive. Numerous studies suggest failure rates ranging from 43% to 57% — and these rates have remained consistent, and stubbornly high.

As Figure 2 suggests, it is not the terms and conditions that typically lead to failure, but execution. Alliances remain a fundamentally unnatural act for most organizations, and for many managers and executives. In an alliance, firms choose to pursue certain opportunities in concert, linking their success to one another, even as they remain separate and independent, and continue to pursue other objectives — some of which may conflict. This creates complications and challenges unique to alliances. Differences between partners are essential to the value proposition of virtually every alliance, yet these same differences often lead to mismatched expectations, inefficient decision-making, and often outright conflict (see Figure 3).

### Alliance Types Across the Value Chain

<table>
<thead>
<tr>
<th>Alliance Type</th>
<th>Description</th>
<th>Example Partners</th>
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<tbody>
<tr>
<td>Research &amp; Development</td>
<td>Private sector companies, universities, academic consortia, non-governemental organization’s, and think tanks partner prolifically to conduct technical and scientific research to create new markets and innovations.</td>
<td>INSEAD and Eli Lilly</td>
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<tr>
<td>Product Development</td>
<td>Companies of all types engage in co-development alliances to drive new products and services.</td>
<td>Kraft and Pfizer</td>
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<tr>
<td>Manufacturing</td>
<td>Contract manufacturing operators (CMOs) represent a significant fraction of pharmaceutical manufacturing capacity and other industries, such as aerospace, regularly partner to share the costs of manufacturing.</td>
<td>Boeing and MANY partners manufacture components of the Dreamliner</td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td>Go-to-market alliances combine capabilities and leverage one partner’s market channels to bring complementary products to a wider audience.</td>
<td>AT&amp;T and Apple</td>
</tr>
<tr>
<td>Distribution</td>
<td>Distribution alliances allow firms with design or marketing strengths to capitalize on other firms’ logistics expertise.</td>
<td>Federal Express and Laura Ashley</td>
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2. Same as previous
As new alliances are launched, partners confront three fundamental challenges:

- Building a joint understanding of the alliance, often among dozens or even hundreds of stakeholders whose decisions and actions will be required for successful implementation.

- Translating the alliance agreement and vision into a concrete operational plan — including governance, budgets, detailed plans for joint research and development, joint sales, and marketing, etc.

- Building strong working relationships by ensuring that all those involved in overseeing or working on the alliance have a deep understanding of their partner’s organization and that individual counterparts and joint teams build a level of trust and respect that will enable them to work seamlessly together.

Invariably, the terms of any alliance contract will be incomplete (arguably this is true of virtually any contract except for one-time transactions like asset purchase and sales, but even more so for any business arrangement strategic enough to warrant the label of an alliance). Alliance agreements are almost always implemented over time horizons that make uncertainty inevitable — every contingency cannot be anticipated, much less contractualized (though some can and should). Changes in technology, the competitive landscape, and the regulatory environment create both risks and opportunities that cannot be foreseen. Moreover, a full understanding of each partner’s capabilities and assets that might be leveraged by the alliance is rarely possible at the outset. Alliances are thus highly dependent upon the relationship between partners. A carefully constructed contract can help minimize surprises and align expectations, but it cannot take the place of a deep level of understanding, trust, and mutual respect between alliance partners and individual counterparts.

Launching an Alliance Right

Once an alliance contract is inked, executives typically face pressures to “make up for lost time.” Unrealistic assumptions and incomplete planning undermine many alliances — no matter how sound the fundamental value proposition. An effective alliance launch process ensures a solid foundation for successful collaboration by clarifying goals and aligning stakeholders and their expectations of one another. And, it is an essential way to rapidly build resilient working relationships.

Many executives view alliances as simply another kind of project — akin to internal initiatives, but executed by a team or teams that happen to include members from external partner companies. In fact, alliances require working through myriad issues at much greater depth than internal projects, and bring challenges that rarely arise in an intra-organizational context. An effective launch process entails systematically exploring these complexities and jointly planning for how to address them.

Of course, many companies launch alliances with some kind of kick-off event. Generally several hours to a day long, such events may include briefings about the alliance goals, ice-breaking and relationship-building activities, and perhaps some high-level planning. In a rush to action, however, conversations are often truncated, and participants often come and go “as needed.” Between
time constraints and frequent interruptions, these meetings often produce little in the way of true alignment, at a meaningful level of detail, about how to implement the alliance.

Underlying ineffective launches are common, flawed assumptions — which are often left unstated and unexamined.

- Executives tend to assume that all key personnel have a complete and shared understanding of the context for and intent of the alliance. (This assumption often includes a belief that the contract is a complete description of the alliance.).

- Due diligence, early discussions, and negotiations often create differing expectations and sometimes outright tensions between partners. And, even positive expectations, if unrealistic, can derail an alliance.

- Even moderately complex alliances typically involve interactions among multiple groups and myriad individuals within the partnering companies. Success hinges on the efficiency and quality of these day-to-day interactions, as much as (often more than) it does on interactions between alliance managers and formal governance meetings. But, all too often, these extended stakeholders lack an understanding of the alliances they support and lack skills for external collaboration.

- Most of us become accustomed to our company’s norms and processes, without even being aware of how idiosyncratic they may seem to counterparts from another organization. Unless the launch of an alliance significantly involves the extended set of individuals who will interact in some way the stage is set for great difficulty, if not failure.

An effective alliance-launch process is built around addressing these areas of concern. It facilitates robust discussions of critical details. It unearths and addresses differing expectations and sources of actual or potential conflict. It involves a sufficiently broad group to ensure a degree of understanding and alignment among those who will actually execute the work of the alliance. And, it provides a vehicle for building interpersonal relationships and trust and enhancing skills for effective collaboration. The launch process must create a felicitous context for effective collaboration. Through our experience working on hundreds of alliances, we have identified a set of foundational principles, virtues if you will, that are critical to creating the context for alliance success.

### Seven Virtues of Alliance Launch

There are seven success factors, or virtues central to launching an alliance. Four of them, what we term the cardinal virtues, are extensions of sound planning for any business launch, yet more complex in an alliance setting. Three of them, the collaboration virtues, are unique to alliances and often overlooked by executives unfamiliar with the nuances of alliances.

#### The Four Cardinal Virtues

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<th>Smooth transfer to implementation</th>
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Well-designed plans must lead to action. In an alliance, this implies coordinated, collaborative action. Too often, planning lacks involvement from the groups and individuals who will lead implementation — which can breed misunderstanding and erode support. Good planning involves operators early, and successful alliances build out from a well-coordinated hand-off from planning and negotiation to implementation.

**Involve key stakeholders early** — Although the formal launch phase of an alliance begins after contract signing, those who will drive implementation need to be engaged long before the ink is dry. In many companies, members of the implementation team participate in exploratory conversations and even sit in on the negotiations. Typically, they play an advisory role rather than participating in detailed negotiation. They may observe the proceedings and get to know key individuals. By the time the contract is signed, the implementation team should be ready and eager to take charge.
**Take time to transfer knowledge** — Once an alliance arrangement is agreed, participants not involved in the negotiation discussions must get up to speed quickly. Early briefings create a shared understanding of the letter and spirit of the arrangement. This is particularly important for alliances involving many people, for example, joint-sales collaborations. Alliance negotiations are typically rich in terms of the issues explored, and the perspectives shared among soon-to-be partners, yet only a fraction of this information ever finds its way into the final contract. It is therefore critical that deal architects and negotiators work closely with those who will take on management of the alliance to ensure that such information is not lost, but is systematically transferred through formal briefings and well documented.

There is more to learn from negotiations than the sticking points and contract issues. Negotiation teams often gain valuable insight about the partner company and its key players — how they make decisions, think about their business, and operate. It is extremely worthwhile to transfer this kind of knowledge from negotiators to alliance leaders, as well as other key stakeholders.

**2 Detailed business case**

An alliance needs to be guided by a clearly defined strategy (one which embodies hard choices about what the alliance will not focus on or try to achieve), concretely defined goals and measurable targets, and clearly defined resource requirements from partners. While pre-contract discussions and the negotiation process should produce some kind of business case, what results is often fairly high-level and lacks detail that would ensure alliance success. In general, the business case should be built around a clear and unique value proposition for customers, with benefits for partners being a natural outgrowth of customer value — rather than (as is too often the case) the other way around.

**Refine the business case** — The place to start is with a one-firm model. This is the ideal operational model if one were designing a stand-alone business, ignoring the intricacies added by the alliance. What is the customer value proposition? What assets does the business need? What processes? Consistent with a philosophy of expanding the pie before dividing it up, planners should focus first on a robust business model, and only later on respective partner roles, contributions, and benefit sharing.

Business planners must then detail the capabilities necessary to serve their customers profitably. The most common error here is getting tied-up too early in which elements come from which partner. Initially, this should be an unconstrained, one-firm exercise. The question here is, “If all partners were commonly owned and controlled, how would we construct this business?” Answering this question moves executives away from staking early positions, which often constrain an alliance’s potential, and enables them to see themselves as venture capitalists trying to assemble an organization (albeit virtual) that can deliver unique value to customers and win in the marketplace.

**Delineate Roles** — Armed with a one-firm blueprint as a foundation, planners can take an objective look at the potential contributions from each partner. Some divisions of labor and contribution will be obvious. A biotechnology firm bringing a promising compound will contribute that asset, while the larger firm will provide project management and regulatory expertise. Other divisions may be less obvious and more difficult.

It is useful for planners to map the business-model capabilities against each partner’s ability to provide it (see Figure 5). When one partner alone excels in an area, the choice is relatively obvious. Where neither partner brings strengths, the partnership needs a development or sourcing strategy. Where two or more partners excel, there is potential for conflict, and also for creativity.

All partners should articulate their interests as shareholders — what they hope to reap from the collaboration.
Again, being explicit is important, even about interests that aren’t shared. While financial returns are often central, they tend to vary significantly from partner to partner when adequately explored. What are the specific goals related to rate of return on investment, incremental revenue growth versus profit margin, time frame for recouping investments, appetitive for risk relative to upside opportunity, the need to operate within specific budgetary constraints, etc.? Moreover, other interests (e.g., learning, exploring a new business model or market, innovation) can be of great importance to one or both partners. Companies too-often keep their company-specific interests unnecessarily close to the vest, even in the absence of specific compelling reasons to do so (which sometimes exist, especially in alliances between competitors) leading to misunderstanding and mistrust.

Ultimately, alliances are like diplomacy — they are about enlightened self-interest. Each partner must see a course to prosper by its participation and contributions. The contract will pre-define some rules for cost sharing and value distribution. Rarely, however, are contractual provisions sufficiently detailed and understood. During the launch phase the team and supporting executives must refine rules for cost and benefit sharing and build a detailed business plan.

Attention to operational details is critical in an alliance, as partners lack the common context and associated tacit knowledge that underlies internal projects. The joint alliance team must translate the contract, business plan, and often unarticulated but critical intentions of senior executives, into an operational plan that is understood and supported by the myriad stakeholders upon whom successful execution will depend. In addition to traditional operations planning topics such as timelines and milestones, an alliance operations plan should go deeper to ensure mutual understanding and alignment around issues such as fiscal calendars and business-planning cycles; staffing and compensation policies; and internal governance, decision-making, and review procedures.

A common challenge at this point is differing planning methodologies between partners. Sometimes these are quite apparent, as companies use different software packages, planning assumptions, or time horizons. At times, the differences can be much more subtle. Partners may use specific words quite differently. They may expect very different levels of planning rigor. In an alliance between a global pharmaceutical company and small US biotechnology company, one firm had an entire department of project management while the other planned and managed projects using Excel spreadsheets. Progress can slow dramatically as participants encounter these issues. The most successful companies expect and plan for these differences and are flexible about the approach to planning while remaining steadfast in their pursuit of rigor and most importantly, clarity and shared understanding.

Alliance teams and supporting executives must set clear expectations for alliance outcomes and identify leading indicators that would prompt timely intervention or course correction. Balanced scorecard-type metrics, combined with a clear process for oversight and responsiveness to changing circumstances, create the feedback loops vital to flexibility and ultimate success.

**Define metrics early** —By their nature, alliances usually require considerable investment and effort before payoff. A lack of short-term results can cause executives to lose confidence in the alliance. Consequently, attention wanes, resources are redeployed elsewhere, and morale on the alliance slumps. This is a frequent cause of persistently high alliance failure rates. Clear metrics pro-
vide a concrete means for demonstrating the true state of the alliance. The right metrics can help demonstrate that an alliance is on track and performing well, even before tangible results have been achieved, or highlight performance gaps and needs in an easy-to-communicate format. Rigorous metrics also provide a common view of performance to the partners and enable joint management of the alliance. It is critical to define metrics early to buffer the alliance from unwarranted attack and to help partners make early interventions if necessary. It is also the easiest time to define metrics. Partners who wait until there is a track record of performance to define metrics experience considerably more conflict than those that set metrics during the launch process because defining metrics becomes co-mingled with defending history.

Choose balanced metrics — Partners should consider two kinds of metrics — lagging and leading measures. Lagging, or ends, measures are typically based on the financial and strategic aims of the alliance. They can include incremental revenue, cost savings, successful launch of new products, increases in market share, and so on. Leading, or means, indicators are usually measures of conditions known to bring about success or problems. Examples include tangible measures such as achievement of specific alliance project milestones and joint sales activity (e.g., leads generated, joint proposals) as well as more subjective measures of the health of the relationship between or among partners (e.g., alignment of objectives, clarity and frequency of communication, and degree of trust).

Both types of metrics are vital. Ends measures provide the bottom-line assessment of whether the alliance did or did not perform. Means measures provide early warning signs. They give useful insight into why an alliance is off track or heading in that direction. Figure 5 provides an example of a scorecard framework that includes a set of metrics carefully chosen by an IT company to represent four dimensions of alliance health — strategic value, financial value, operational effectiveness, and relationship health - and a balance of leading and lagging measures.

Define processes for implementation — Metrics help track progress and provide a framework for reporting. Partners must agree on the process for implementing the scorecard, including data collection. Hard data may be easy to extract from financial reports and project plans. Qualitative data, for example, about the health
of partner relationships, may come from on-line surveys, focus groups, personal interviews conducted by alliance managers, or other means. Leading companies employ formal tools and processes to manage alliance performance, whereas many others rely on ad hoc methods. As with all alliance planning, partners must drive for clarity. Unstated assumptions and perceptions, without grounding in fact, generally lead to poor performance and damaged relationships. Partners must also agree on how and to whom data will be reported and also how they will respond to the data to improve alliance performance.

The Three Collaboration Virtues

The tacit understandings and undocumented norms that govern how work gets done within organizations are, by definition, easy to overlook. Yet, their absence commonly bedevils alliances. The rules, roles, and processes for making and implementing decisions on an alliance must be clearly defined and explicitly agreed to by all stakeholders — in a way that will often seem, to those with little alliance experience, strange and unnecessarily detailed. Clarifying and documenting these items helps avoid misunderstandings, inefficiency, and conflict in day-to-day interactions among individuals working on the alliance. The very act of engaging in such discussions also enables alliance counterparts to better understand one another and each other’s organizational environment, and thus helps to build trust and decrease potential for misunderstandings and future conflict.

Think expansively about governance and leadership — Governance is the overall framework for alliance decision-making and action. To their great detriment, organizations too often stop at defining committees with broadly defined areas of accountability (e.g., operations, strategy). While committee structure is a part of governance, it is only a small part. Governance encompasses the definition of roles and responsibilities, guidelines for decision-making, consultation and communication, and mechanisms for tracking implementation, holding people accountable, and measuring results.

Governance without proactive leadership is little more than sticks and boxes on paper. Individuals on the senior-most governance body or otherwise at the helm of the alliance must do more than agree to show up to governance meetings. During the launch process, alliance leaders must meet and plan for how they will co-lead the alliance — proactively and jointly evaluating success, removing roadblocks, and modeling the kind of collaborative behavior necessary of their working teams.

Map the decision-making landscape — Governance design, like much of alliance building, starts with the business model and identifying the critical decisions that the alliance, as a business, will need to make and execute. It is critical to discuss and develop a common understanding of the impact of each of these decisions. Why is the decision important? Which financial and operational elements of the business does it affect? What are the implications and risks of a poor decision or a late decision?

Beyond naming the key decisions and considering their strategic importance, it is also critical to think tactically about each decision. What information and expertise will be needed to make a well-informed decision? What turn-around time will be required? How frequently will the need to make the decision occur and how predictably (i.e., can management anticipate a need for the decision like an annual budget, or might it arise unexpectedly, like a customer complaint)?

Collaboratively allocate decision rights and execution responsibilities — With meaningful clarity about the decisions required of the joint business, it then becomes easier to have good conversation internally and with the partner about who will play what roles in actually making decisions. Many companies use decision making or responsibilities matrices like the one in Figure 7, but almost as many companies then allow those grids to collect dust on a shelf or sit unopened in an e-room. The framework, and the documented decision rights and procedures, it turns out, is far less important than the process used to create it.

Allocating decision rights must be a collaborative, inclusive exercise. It is rarely effective to get a small group together, fill out a decision-making matrix, distribute it and expect it to be followed. For agreements to work, they must be reached by negotiating and communicating with all involved parties. Failure to engage affected stakeholders in collaborative conversations about roles and decision-making rights is almost guaranteed to lead to significant frustration, or worse. Multiple individuals may believe they have the right to make certain decision (or the right to simply ignore them), thereby disrupting alliance management. Even when a good decision is made, implementation is likely to suffer to the extent that it depends on individuals who feel they were not adequately consulted or involved in making the decision in the first place.
Firms enter into alliances to capitalize on differences — in knowledge, capabilities, assets, market presence, relationships, and the like. And, as a result, alliance partners bring differing expertise, experiences, and ways of doing business to their collaboration. Such differences are a potential engine for innovation, but they are also a potential source of conflict (of course, not all differences are synergistic or even complementary). Figure 8 depicts how complimentary strengths led to partisan perceptions and conflict on a co-development and joint sales alliance. Partners need to jointly explore, in detail, their differences, and plan how best to leverage or accommodate them.

Build joint understanding — Most companies, especially successful ones, have strong organizational cultures, honed over years of competitive pressures and problem solving. Unless the individuals involved in the alliance are accustomed to working together, there is little chance that the company cultures will either match or be understood. An effective alliance launch should create time to explore differences and build understanding, both formally as further described below, and informally through structured and informal social time.

Some companies use surveys or even interviews, to initiate discussion of difficult topics. They are rarely effective if conducted as part of due diligence or as part of the decision-making process about entering an alliance as other, more tangible, factors almost always receive primary attention. While organizational culture and differences should not be ignored during prospective partner evaluation and due diligence, the best time to really dig into an exploration of cultural and operational difference is during the launch of a new alliance. Moreover, once partners have committed to an alliance together, such differences can be explored in a much more collaborative and candid fashion — without feeling like an intrusive audit.

Plan for managing the differences — Some differences between partners can be eliminated. The Finance teams on an alliance may convene and find that they use different budget cycles. As a result, they might decide to adopt one or the other for the alliance. Most differences, however, can not or should not be eliminated — yet, if they are ignored, can lead to unproductive conflict.
Case A: An Alliance Launch in Action

A leading US technology company entered into an alliance with one of its customers, a US government agency, to co-develop new IT infrastructure for the agency. Modernization was a critical objective for the agency, making this alliance a very strategic relationship for them. They had worked with this technology vendor in the past, but under a traditional customer-supplier arrangement. This was the first attempt to structure work between the two organizations as an alliance.

Upon completion of the negotiations, the partners recognized that making this alliance successful would require that they work together in radically different ways from the past, so they entered the launch phase of their alliance determined to do everything they could to position themselves for success. They defined three key enablers of success for the alliance, based on their past experience working together in a customer-vendor relationship:

1) A single, comprehensive, and jointly agreed business plan with sufficient operational detail to guide day-to-day work.
2) A governance structure and mechanisms tailored to their new relationship and designed to help avoid the “you say and I do,” dynamics from their past customer-vendor days.
3) A deeper understanding of each organization (culturally and operationally), along with jointly developed plans for how to work together given their differences.

The partners sat down together to create a single, joint business plan. As they discussed their goals for the alliance, they quickly realized that their respective goals were very different, and that even within each company’s alliance teams, there were significant inconsistencies in objectives and priorities. We were engaged by the partners to facilitate conversations aimed at clarifying ambiguous goals and drilling down into a meaningful level of specificity underneath high-level objectives such as “meet end-customer needs” and “create value.” We then helped both sides work together to develop detailed operation plans to achieve their goals. In a matter of weeks, the partners had a jointly agreed-upon, operational plan which clearly defined milestones for the next 12 months.

Governance was one of the harder issues for the partners to tackle. In the past, work had been managed through task lists developed by the customer, with little supplier input. There was very little direct dialogue or joint development of requirements or solutions, and individuals on both sides tended to avoid, whenever possible, tough conversations about potential difficulties or trade-offs. As a result, deadlines were often missed, and implementation of solutions often went over budget while still leaving many stakeholders dissatisfied. The partners had worked together this way for years, with the IT vendor taking orders from its customer. Both partners entered governance discussions knowing that they needed to work together in fundamentally different ways. They agreed to each assign a full-time Alliance Manager. They defined the role of the alliance managers from each organization and how they would interact in various ways with multiple stakeholders. The new contract required a management committee, but said virtually nothing about how that committee would operate. The partners used the launch phase to agree on the mission of this committee, how it connected to the internal governance of each partner, and what decisions it would be responsible for. They further developed and aligned around a decision-making process that would ensure that key parties from both organizations would be involved in appropriate ways around specific critical decisions and issues (as identified in the joint operational plan described above).

To address their goal of enhancing mutual understanding, we also helped facilitate discussions between partners in which they catalogued their various operational differences. The two teams discussed differences between public and private sector values, policies, perspectives, and incentives. They then agreed upon protocols for working together that would help them prevent their differences from getting in the way of their success. They talked about the need to engage difficult issues and “undiscussables” directly and early, to make on-the-merits decisions without posturing or traditional customer-vendor haggling, and to focus their efforts on ensuring the success of the alliance overall, versus working to maximize unilateral advantage. We then helped them identify the barriers to translating these aspirations into daily reality on the alliance, and agreed to a set of steps to overcome those barriers and commit to concretely defined partnership behaviors.

Over time, as a result of the launch, the partners were able to collaborate effectively and efficiently, even in the face of unexpected, and sometimes high-stakes, disagreements and conflict. As challenges arose, they were able to rely on a deep foundation of partnership, and were prepared to address those challenges jointly, and then quickly move on.
Case B: An Alliance Re-launch

Partners sometimes jump right into working together on an alliance without engaging in all of the planning work described in this paper. More often than not, they later find that the alliance is underperforming or that relationships have broken down or become acrimonious. Even alliances that do follow a virtuous launch process at the outset find that many things change over time. In either case, partners should consider formally re-launching an alliance to put it back on track and/or prepare it to succeed under changing circumstances.

A small US biotechnology company joined forces with a large European pharmaceutical company to co-market a blockbuster drug that cured a serious and widespread medical condition. Spurred by a competitor’s product on the heels of theirs, the companies went to work without paying particular attention to building a solid foundation of trust and mutual understanding, or to clearly defining how they were going to work together. At the outset, they understandably felt they simply couldn’t spare the time.

A year into the alliance, the partners found themselves at odds. Conflict was rampant; work was not getting done; key staff members were resigning, and the partners were losing critical time to market. It was at this point that the partners decided to “re-launch” their relationship — to essentially start over the way, with hindsight, they realized they should have started in the first place.

The partners recognized that governance was not working effectively: key decisions were not being made or were being made only after lengthy delay and huge amounts of wasted time and effort. The heads of marketing for each organization were finding it difficult to push decisions down to their subordinates and were frustrated by the amount of time they personally were spending on making decisions. As part of an early meeting held during the re-launch process, sub-teams filled out grids delineating decision-making responsibilities as they saw them. Then everyone walked around viewing and commenting on each other’s grids. As they did this, many individuals explained that they didn’t realize they were expected to make certain decisions. Others commented that they couldn’t sustain the level of effort required to make all the decisions they had been making but didn’t trust anyone else to do so. Others were surprised to find that they were not noted by others in decisions they thought they should be involved in. As we facilitated conversations, the fundamental insight emerged that underlying trust issues could only be resolved by aligning around commonly understood decision-making roles going forward.

Procedural differences between the US and European companies were also at the root of some major conflicts and negative perceptions of one another. The European pharmaceutical company had very strict procedures, was extremely rigorous about meeting deadlines, and always wanted materials prepared far in advance of meetings. The US-Biotechnology company, on the other hand, was more entrepreneurial and flexible about how things were done. During re-launch workshops, the partners discussed these differences and the impact they were having. Through this, each partner became aware of how their own actions were impacting the other, gained a better understanding and appreciation for their partner, and were able to agree upon new approaches to working together that leveraged respective strengths and optimally fit the specific needs and context of the alliance.

Each company found it difficult to come together after serious conflicts had already broken trust and when partisan perceptions about “the other side” were already deeply imbedded. In many ways, the hardest part of the re-launch was coming to agreement about the need to engage in the process. Nonetheless, the re-launch paid significant dividends for both sides. They avoided litigation (which was looking increasingly likely); they restored trust in one another; and they successfully brought a life-saving drug to the market, ahead of their competition.
These kinds of differences (such as divergent risk appetites) become joint challenges that the partners must manage. During the launch process, partners should look together at their business and operations plans, consider how their differences may present challenges, and plan for how to overcome or prevent those challenges.

Alliance managers have a particular responsibility for monitoring differences and conflict, and addressing alignment issues on an on-going basis. In the most successful alliances, alliance managers from each partner work together as a team to regularly look for areas of misalignment or misunderstanding and then engage in proactive efforts to resolve them before they lead to significant alliance performance issues. They also spend time continuing to build an ever deeper understanding of each other’s organizations and identifying where differences exist that can be leveraged to drive innovation and new value, and where differences are creating inefficiency or conflict and need to be managed more effectively. Finally, they consistently look out for the best interests of the alliance overall, as an independent entity, while also recognizing the perspectives and needs of their respective firms.

People accustomed to working on internal teams, or on more traditional vendor or customer relationships, are likely to find working with alliance counterparts difficult. An essential characteristic of an alliance is that partners share control and commit to working out their differences in a way that is mutually beneficial. Dictating to alliance partners doesn’t work, nor does simply de-
ferring to them. The kind of communication, influence, collaborative problem-solving, joint decision-making, and relationship management skills required for alliance success are in fact quite rare. They are arguably valuable in virtually any business context, but they are not as necessary as they are in an alliance. Executives should not assume that a sound alliance value proposition and business plan will ensure success. As in other realms of business, so it is with alliances: execution is often more important than strategy, and in alliances, execution depends overwhelming on the ability of individuals from partner companies to work well together, more or less seamlessly — almost as if they were members of the same organization. This requires an investment of time and effort to develop, reinforce, and reward collaborative skills and behaviors.

**Provide tools and training** — It is important to spend time during the launch process discussing the challenges of collaborative endeavors and providing tools and training for all alliance team and governance committee members. It is most helpful to conduct joint training so that partners share common vocabulary, skills, and even concrete job aids to enable collaboration. Joint training also provides an opportunity for partners to get to know one another and build effective relationships. This familiarity forms the basis for more constructive interactions, and is an insurance policy against interpersonal or inter-organizational breakdowns.

Specific tools and skills that enable people to apply these concepts can also be shared and practiced. For example, participants may learn a framework for joint problem-solving (see Figure 9) that enables them to come up with solutions that take into account the interests of each partner, set good precedents, and maximize potential alliance value. Numerous firms have found that these kinds of skills and tools enable parties involved in partnerships to prevent misunderstandings and different perspectives from damaging relationships and to capture and create new and unforeseen value from the partnership.

Some alliance-experienced companies have developed curricula in alliance management, collaboration, and joint problem-solving that they readily share with partners and leverage into joint trainings during the alliance launch process. A focus on collaborative skill-building is the least prevalent of the Seven Virtues and one of the most valuable because it not only increases the odds of success on the alliance, it also provides a valuable set of skills that have impact beyond the alliance.

**A Note on Re-Launching Alliances**

No matter how well an alliance is launched at the start, it should be emphasized that alliances, by nature, are dynamic and subject to inevitable change. Therefore, it is important to prepare to recognize changes in an alliance or its environment that may necessitate a re-launch, and the alliance conditions to look for as evidence of change significant enough to warrant a re-launch of the alliance.

There are a few different kinds of changes or circumstances that typically affect an alliance and often trigger the need to re-launch:

- **Significant change in strategy, major reorganization, or merger/acquisition at one or more alliance partners**
- **Significant change in external environment that is relevant to the alliance (e.g., major change in technology, competitive landscape, regulatory environment)**
- **Life cycle transition in the alliance (e.g., from product development, to commercialization)**
- **Alliance performance and/or relationship problems such as missed milestones, broken (in perception or reality) commitments, reduced communication and trust**

When the change is one that all the partners were expecting and both can see, such as a life cycle transition,
the need for re-launch is sometimes obvious and hard to refute. When a product under development is ready to bring to market and the partners are expecting the change, it is often easier to talk about the importance of a systematic alliance re-launch. Other changes, such as when partners’ strategies shift considerably and fall out of alignment, are harder to identify. To spot less obvious changes, it can be useful to look at the alliance for evidence that it may be time to re-launch the alliance. Signs to watch for include:

- Slowed or dead-locked decision making
- Significant reductions in the amount and quality of communication
- High frequency of conflict
- Employee attrition
- High absentee rates at critical meetings, including regular delegation of attendance to more junior staff

Ideally, during the initial launch of an alliance, some time would be spent discussing and defining triggers that indicate the need for a re-launch and can be jointly monitored (whether as part of the alliance scorecard, or independently).

Taking an alliance through a re-launch isn’t terribly different from launching it from the beginning. The same seven virtues should be considered and applied. What makes re-launch unique is that there is a longer history of interaction between the partners than at the outset of the alliance. For better or worse, the partners know (or feel they know) each other. They have perceptions about each other and a track record as a backdrop for the re-launch. For example, take the “Appreciation of Differences” virtue: During an initial alliance launch, understanding and creating a foundation to manage differences requires educating one another about how your companies operate (your business norms) and jointly planning for how to manage differences. By contrast, a re-launch may entail analyzing and talking about ways that your differences (and/or sub-optimal management of them) may have caused conflicts or compromised alliance success; jointly diagnosing how and why; and then jointly developing new and improved strategies for working together in the context of your differences. If these conversations occur in a context of significant change (which often brings with it significant anxiety), and/or in the face of significant conflict and/or alliance performance issues (which are likely to trigger finger pointing and defensiveness) they are likely to be significantly harder to engage. However, they are arguably even more critical.

A re-launch is also different from a launch in that a successful one may only address some of the virtues. The seven virtues, for an alliance with history, can serve as a very high-level diagnostic tool. An effective launch is one that instills in the alliance everything it needs to succeed, so the virtues of an effective alliance launch simultaneously describe the virtues of a successful alliance. Sometimes, when the changes affecting an alliance aren’t far-reaching (such as when one partner experiences a major re-organization), a re-launch is as simple (which is not to say easy) as adjusting or redesigning governance structures and mechanisms. Sometimes, when more fundamental changes are necessary, such as when the alliance’s goals and market strategy need to be overhauled, a re-launch includes work on all seven virtues.

Of course, sometimes changes that lead to a re-launch process indicate that an alliance is no longer viable or in the best interests of the partners to continue. Alliances may last for decades, or they may be shorter lived, but relationships and reputations have much longer life spans. Thus, the process of deciding to unwind an alliance, and the process of doing so, should be approached as collaboratively as the process of creating one. Customers and other partners (actual or prospective) will be watching. And you never know when a new opportunity may arise to form an alliance with a past partner.

**A Good Start Leads to Smoother Sailing**

Alliances have become an essential tool for executing today’s complex, interdependent business strategies, yet their potential often goes unrealized. To ensure success, alliance partners need to clearly define their objectives, build a common understanding of the alliance goals and strategy and explore their differences in detail. They need to develop a joint approach to governing the alliance, and managing a business together. We frequently hear the objection, “But we don’t have time for this! There is business to conduct.” In our minds, the critical question is, “Can you afford not to do this?” More alliances fail than succeed. Most of these fail in large part because strategies and business plans are ill-defined and working relationships between partners break down. Remembering the Seven Virtues during the launch phase ensures that partners invest time early to lay the foundation for future success. The best-conceived and struc-
Structured alliances can create enormous value. To capitalize on this potential requires going beyond alliance contracts and high-level business plans. By following a systematic process for launching new alliances, partners can build the kinds of working relationships, and detailed strategies and operating plans, that enable them to capitalize on the enormous power of collaboration.
Case C: Alliance Launch Methodology

A leading pharmaceutical company saw its alliance portfolio grow by 100% in a single year. The company’s strategy was formally shifting to one that would rely even more heavily on partnering over the coming five years, and their alliance track record was mediocre at best. They were in litigation with several of their partners and on shaky ground with others. The company established an alliance group and determined that it needed to enhance its company’s capabilities and marketplace industry reputation as a desirable partner.

The new alliance team began to intervene in troubled alliances, driving corrective action. The team found themselves encountering similar problems from one alliance to the next. Governance was broken. Committees weren’t meeting or, if they were, the wrong people were showing up. Key decisions weren’t being made, and others were being constantly revisited and questioned. Strategies were misaligned or simply unclear. And, on more than one alliance, the team found that the partners were each operating according to their own separate business plans which weren’t at all aligned. Across the board, alliance team members questioned the motives of their partners: “Do they really care about our success too? Isn’t the real reason we haven’t received study data that they are trying to stall our joint project and accelerate an internal one?” And so on.

Reflecting on what they learned from intervening in these troubled alliances, the alliance group decided to work with us to build a methodology to help employees across their organization manage alliances more effectively and collaboratively. A critical component of this methodology was the development and documentation of an alliance launch process and toolkit. Based on their experiences repairing damaged alliances, the alliance team believed that better planning early on would help avoid much of the trouble they were seeing later. They set a goal for the organization. All new alliances would be running productively and positioned for long-term success by 100 days post-contract signature. We then set about jointly determining what it would take to meet this goal, beginning with the end in mind.

First we carefully considered the observable indicators of a successful alliance. What does it look like when an alliance is performing well? How can this be measured before concrete business results are available? How can we tell that the alliance is well-positioned to succeed? We agreed to a set of 12 success factors that, at this particular company, characterized a healthy, high-performing alliance. The team then asked itself what would need to be in place by 100 days from the initiation of the alliance to position it for success. We defined these items as 100-day deliverables, and built a step-by-step planning guide that anyone in the company tasked with managing an alliance could use to lead a “virtuous” launch process.

While the Alliance Launch process is new, it is being met with enthusiasm across the company and by partners. With their launch process in place, this company is poised to start all of its alliances right.

<table>
<thead>
<tr>
<th>The Company’s Definition of Alliance Success Drove Methodology Design</th>
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<tr>
<td>1. Each partner is aligned internally around the purposes and goals for and importance of the alliance.</td>
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<td>2. Alliance objectives are clearly established and understood, and support each partner’s strategy.</td>
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<td>3. Contractual and non-contractual commitments are jointly agreed, tracked to completion, and met.</td>
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<td>4. Senior management and senior joint teams understand their leadership roles and act consistently with them.</td>
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<td>5. The spirit of the contract is understood and guides decisions that are not explicitly included in the contract.</td>
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<td>6. The financial agreement is fair and motivates jointly beneficial behavior.</td>
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<td>7. Communication between the partners is open, clear, and as frequent as necessary.</td>
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<td>8. Timely decisions are made by appropriate parties after consultation with jointly agreed stakeholders.</td>
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<td>9. Metrics are in place to track progress toward objectives, including evaluation of the working relationship.</td>
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<td>10. The project is going according to plan and delivering desired results.</td>
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<td>11. Problem-solving and conflict resolution are handled in an effective, collaborative manner.</td>
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<td>12. The Partner proactively discuss and address key issues requiring resolution.</td>
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About Vantage Partners

Vantage Partners is a management consulting firm that specializes in helping companies achieve breakthrough business results by transforming the way they manage their most important relationships. We are a spin-off of the Harvard Negotiation Project, and authors of numerous books and articles in leading journals like the Harvard Business Review on relationship management between individuals and organizations.

To learn more about Vantage Partners or to access our online library of research and white papers, please visit www.vantagepartners.com

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Easy Mistakes to Make When Making Decisions About LPO

A White Paper
by Danny Ertel