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# Transcending Organizational Barriers — A Cross-Industry View of Alliance Management Trends and Challenges

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- Vantage would also like to thank Laura Judy Visioni and Jena Gordon for their key contributions to the structure and content of the study report
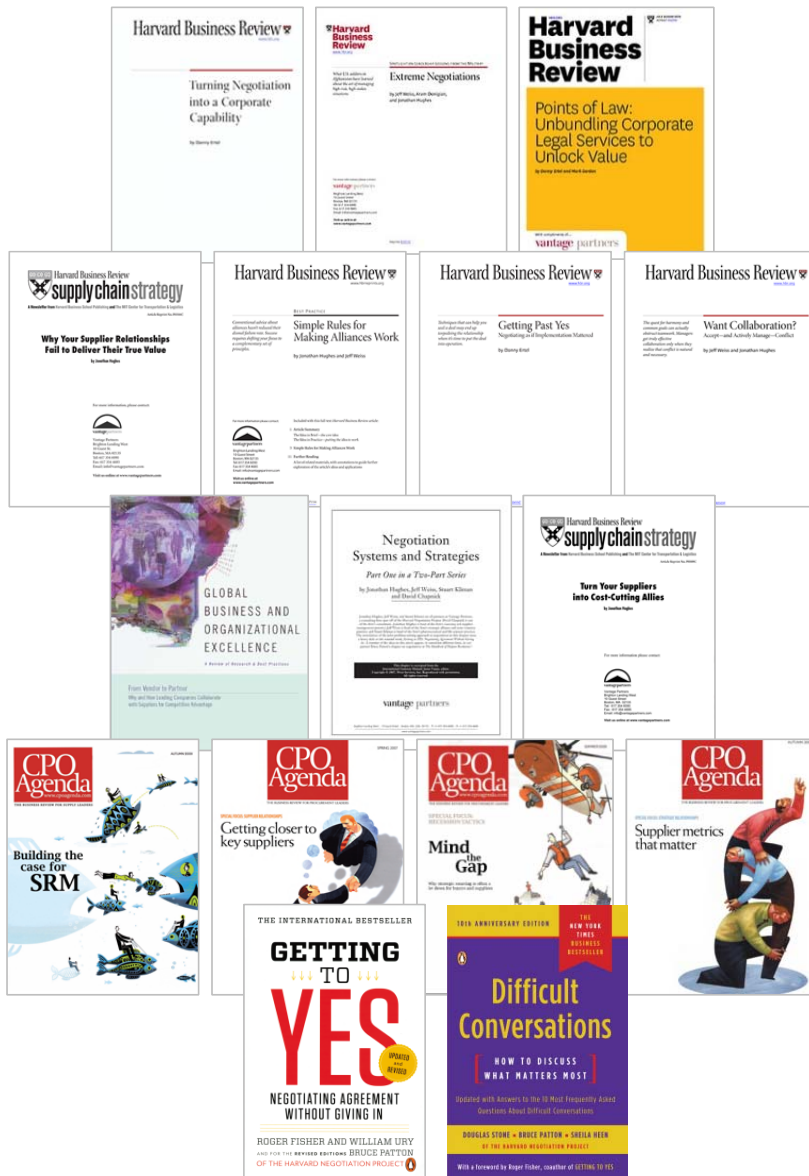
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# Introduction and Overview of Study

# About Vantage Partners

- **Mission**: Drive measurable business results by transforming the way individuals, teams, and organizations negotiate and work together

- **Focus**: Provide strategic advice, hands-on coaching, and training to help clients with their most critical negotiations, external business relationships, and internal collaboration challenges

- **Practice Areas**:
  - Alliances
  - Sourcing & Supply Chain Management
  - Sales & Key Account Management
  - Organizational Transformation & Change Management
  - Enterprise Learning Solutions

- Spin-off of the Harvard Negotiation Project

- **Faculty** at Harvard University, the Tuck School of Business at Dartmouth, and the US Military Academy at West Point

- Leaders in international conflict resolution through CMG (now part of Mercy Corps)
  - Arias Peace Accords
  - Post-apartheid South African constitution

# Study background and purposes

Vantage has been working in and studying the field of alliance management for decades.

In this, our third comprehensive cross-industry study of alliances and the practice of alliance management, we had three goals:

1. Gain insight into the impact of ineffective management on alliance results

2. Identify the new and persistent challenges of alliance management

3. Test our hypotheses about the root causes of alliance management challenges
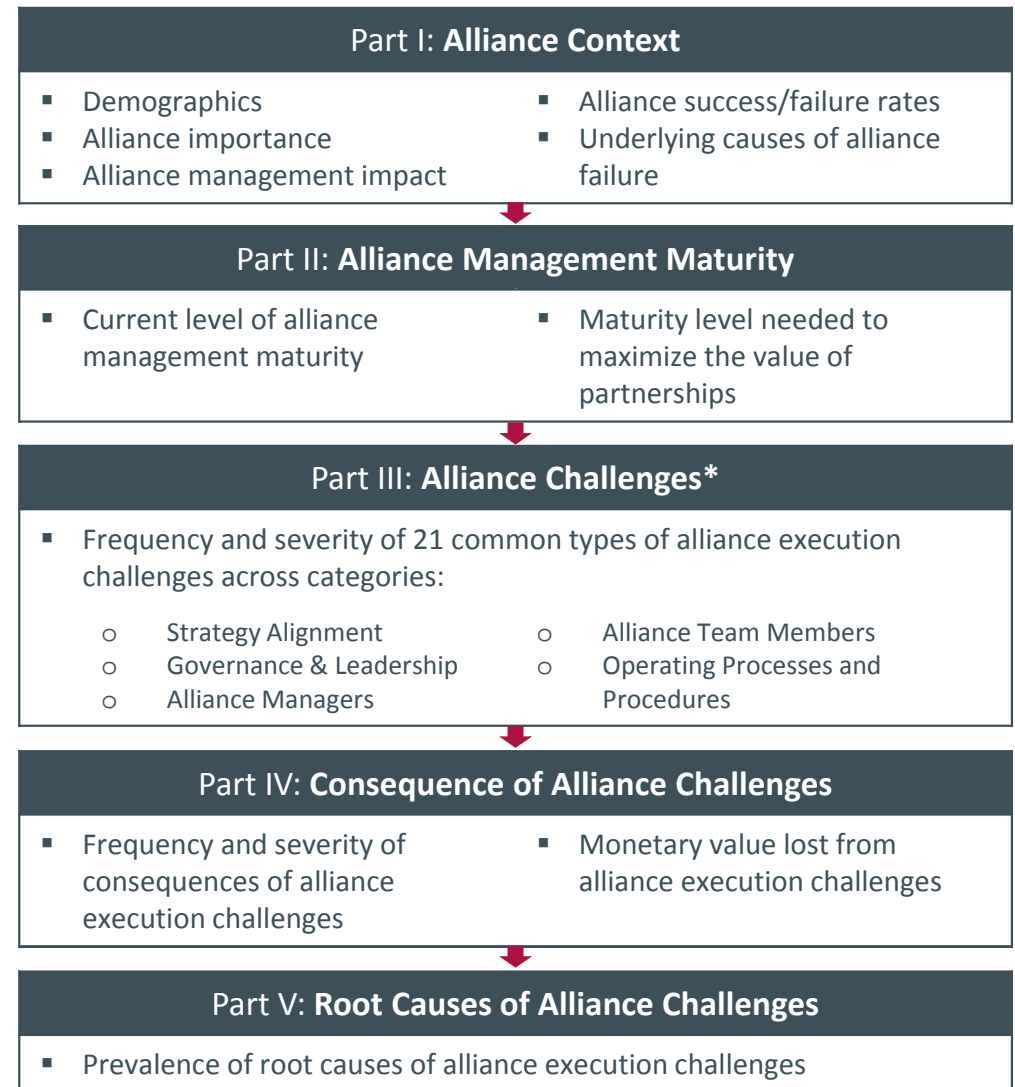
# Study methodology and survey details

## Two part study methodology

- Phase I – Cross-industry survey
  - ▸ 493 respondents from 230+ companies

- Phase II – Practitioner interviews
  - ▸ Completed with 8 survey respondents to test findings and analysis

## Study participation recruitment

- Invited alliance practitioners from our own database of clients and contacts

- Engaged market research organization to bolster cross-industry data

## Survey overview and question type

### Part I: **Alliance Context**

- Demographics
- Alliance importance
- Alliance management impact
- Alliance success/failure rates
- Underlying causes of alliance failure

### Part II: **Alliance Management Maturity**

- Current level of alliance management maturity
- Maturity level needed to maximize the value of partnerships

### Part III: **Alliance Challenges***

- Frequency and severity of 21 common types of alliance execution challenges across categories:
  - o Strategy Alignment
  - o Governance & Leadership
  - o Alliance Managers
  - o Alliance Team Members
  - o Operating Processes and Procedures

### Part IV: **Consequence of Alliance Challenges**

- Frequency and severity of consequences of alliance execution challenges
- Monetary value lost from alliance execution challenges

### Part V: **Root Causes of Alliance Challenges**

- Prevalence of root causes of alliance execution challenges

* 'Alliance challenges' refer specifically to alliance execution challenges

# Definition of "alliance"

This following definition was provided to all survey respondents at the beginning of the survey to ensure standard context for the purpose of the study:

| Element 1 |
|:---:|
| A business arrangement between two or more independent organizations… |

| Element 2 |
|:---:|
| …focused on joint pursuit of common goals… |

| Element 3 |
|:---:|
| …in which risks and rewards are shared (though not necessarily equally) |

Note the distinction between commonly used "alliance" terms in this report

- **alliance management**
  - ▸ The collection of activities necessary to making an alliance – and the alliance portfolio – work

- **Organizational capability in alliance management**
  - ▸ The condition which exists when an organization can systematically and effectively implement / engage in its agreed alliance management activities

- **Alliance Management Group / Function**
  - ▸ A group charged with ensuring that alliance management capabilities are in place
  - ▸ Day-to-day accountabilities can range from providing direct "on the ground" alliance management support to identifying and driving partnering capability, systems, needs, leadership, and the like
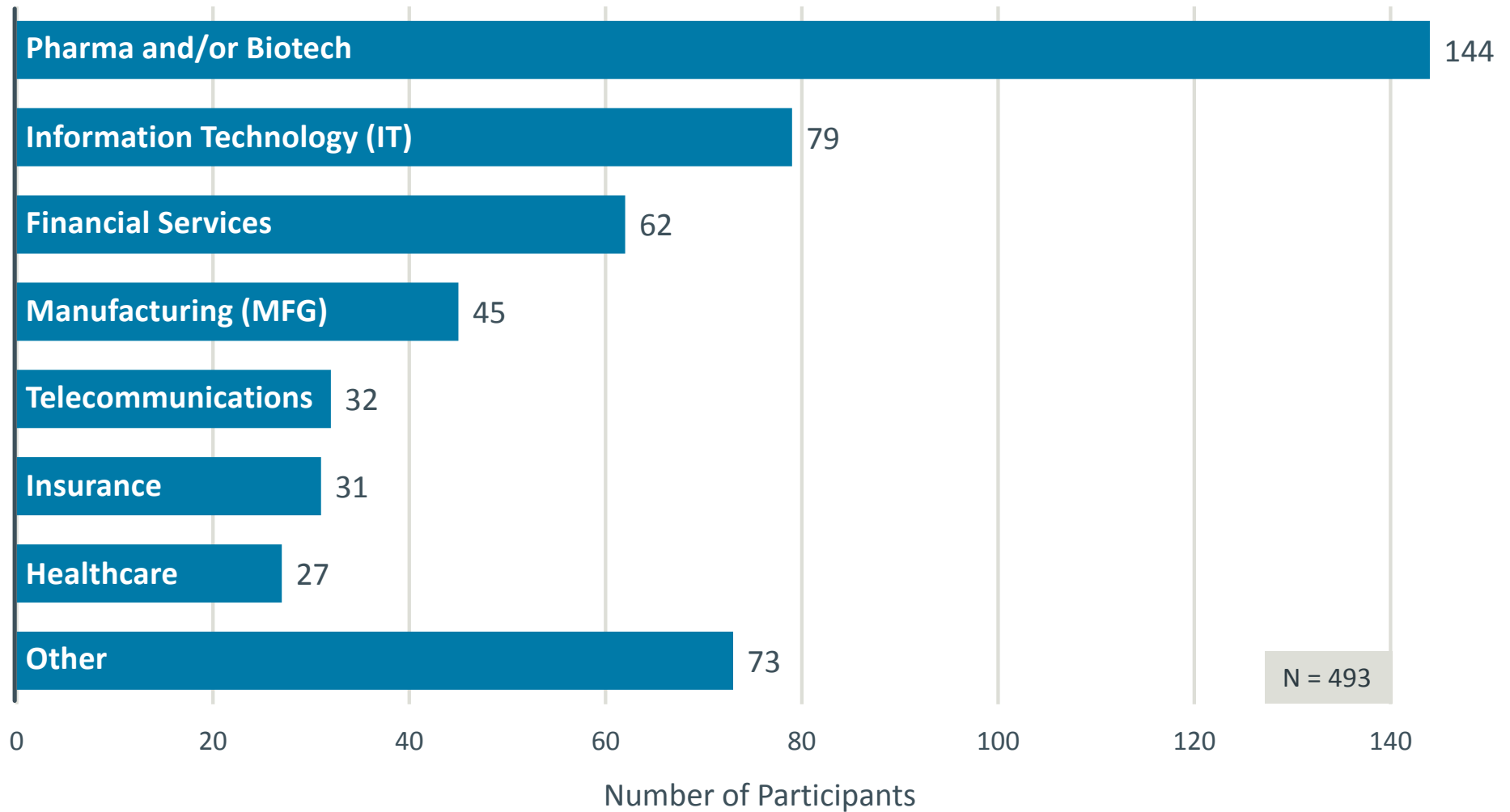
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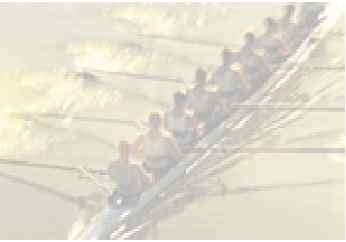
## Demographics

# High-level study demographics

- 493 respondents from over 230 companies
  - ▶ Note: Respondents were not required to answer all questions; therefore, the number of respondents varies by survey question. N-values for all charts are reported throughout

- 35% work directly within an Alliance Management Function

- 41% are from large companies (10,000+ employees)

- 53% identify as Director or Executive level
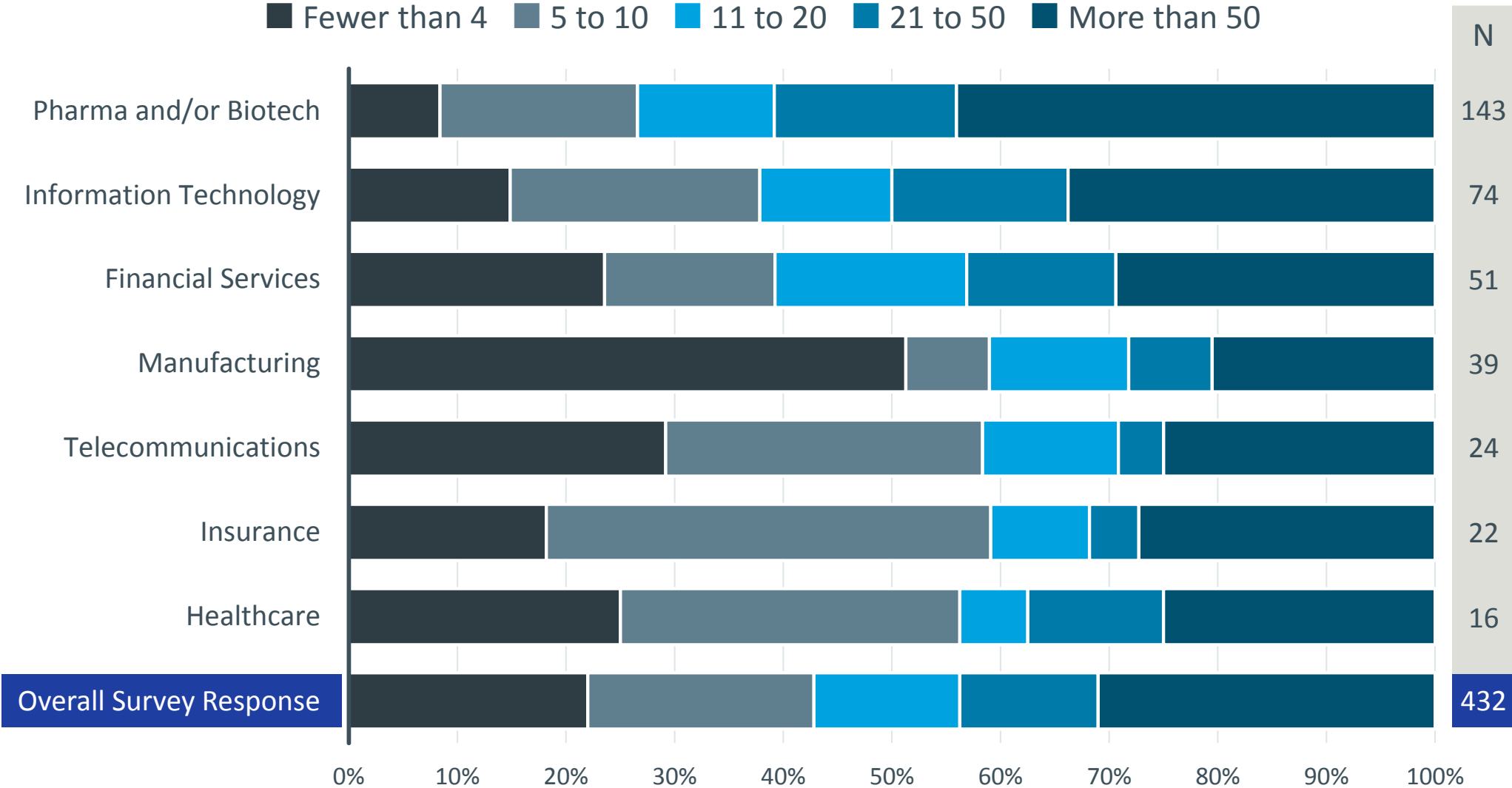
# Industry representation



Pharma and/or Biotech — 144
Information Technology (IT) — 79
Financial Services — 62
Manufacturing (MFG) — 45
Telecommunications — 32
Insurance — 31
Healthcare — 27
Other — 73

N = 493

Number of Participants

# Alliance experience

Approximately how many alliances does your company have?

■ Fewer than 4  ■ 5 to 10  ■ 11 to 20  ■ 21 to 50  ■ More than 50

| Industry | N |
|---|---|
| Pharma and/or Biotech | 143 |
| Information Technology | 74 |
| Financial Services | 51 |
| Manufacturing | 39 |
| Telecommunications | 24 |
| Insurance | 22 |
| Healthcare | 16 |
| Overall Survey Response | 432 |

Note: 'Overall Survey Response' includes respondents from 'Other'

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# Company size of respondents
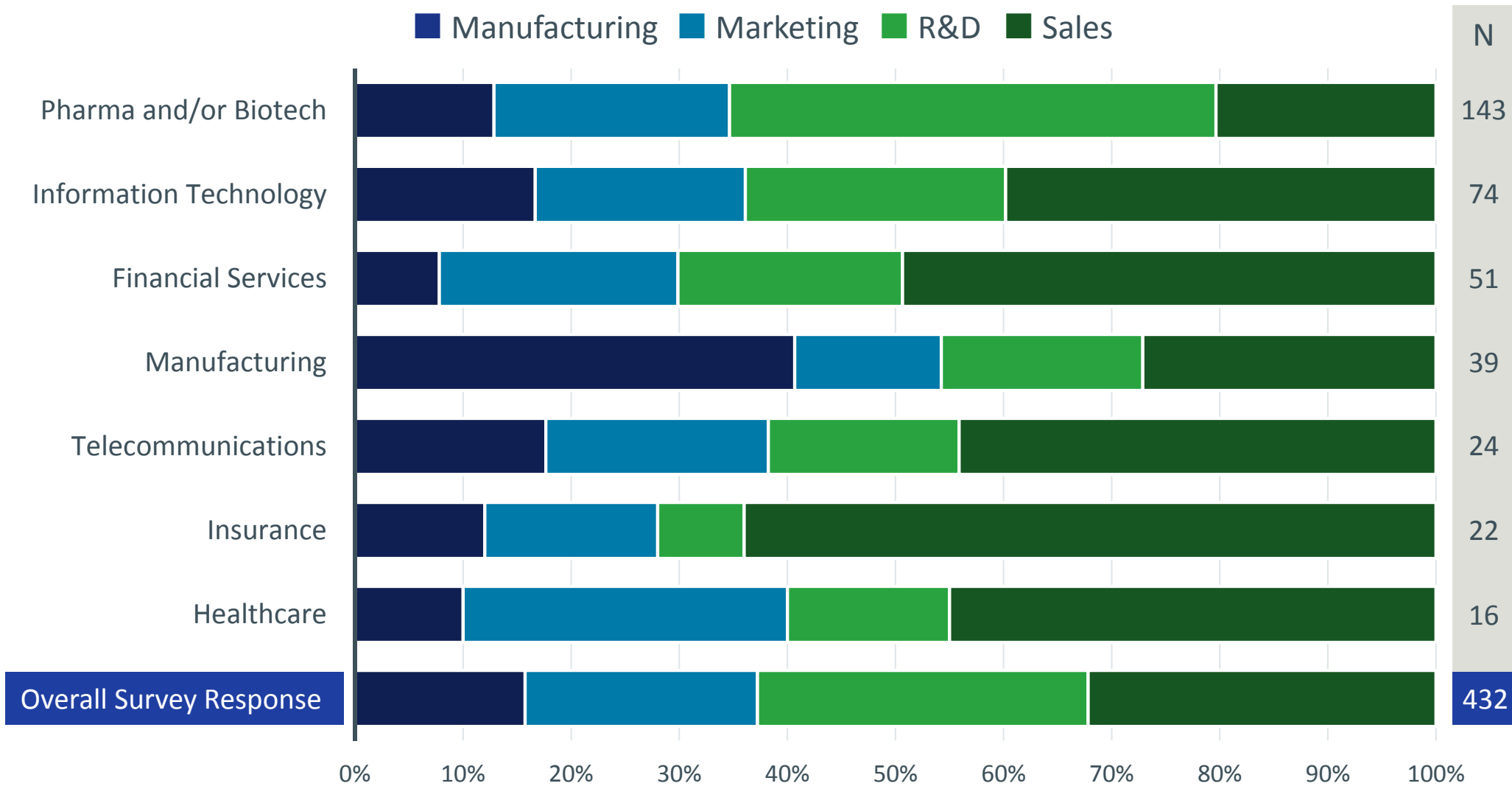
Indicate the number of employees in your company.

■ 1 to 99  ■ 100 to 999  ■ 1,000 to 4,999  ■ 5,000 to 9,999  ■ 10,000 or above



| Category | N |
|---|---|
| Pharma and/or Biotech | 143 |
| Information Technology | 74 |
| Financial Services | 56 |
| Manufacturing | 43 |
| Telecommunications | 27 |
| Insurance | 26 |
| Healthcare | 29 |
| Overall Survey Response | 453 |
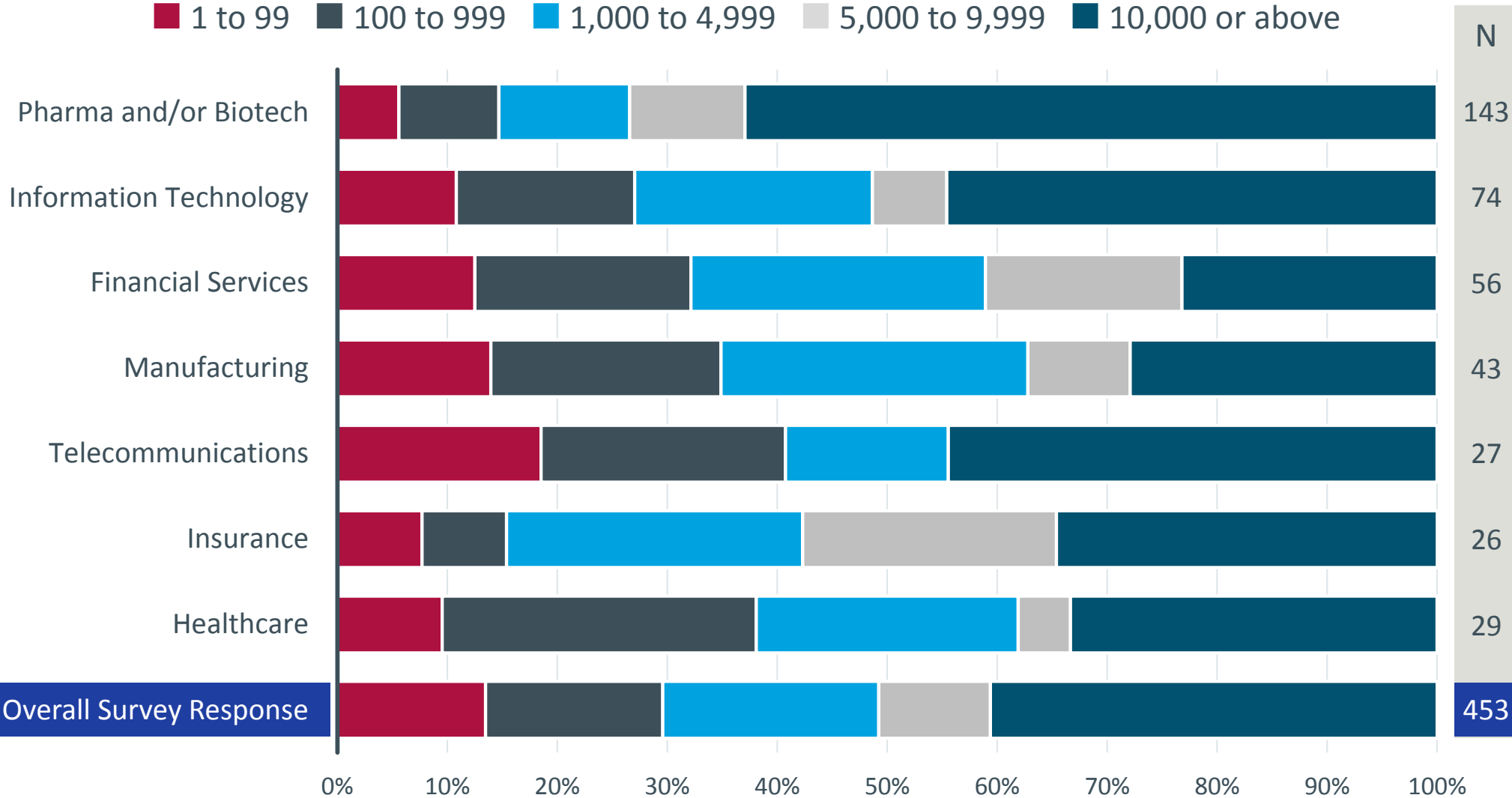
# Alliance type

## What is the primary purpose of the alliance most familiar to you?

Legend: ■ Manufacturing ■ Marketing ■ R&D ■ Sales

| Category | N |
|---|---|
| Pharma and/or Biotech | 143 |
| Information Technology | 74 |
| Financial Services | 51 |
| Manufacturing | 39 |
| Telecommunications | 24 |
| Insurance | 22 |
| Healthcare | 16 |
| Overall Survey Response | 432 |

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# Job function of respondents

Select the function that most closely reflects your current position.



Legend:
- Alliance Management
- Business Development
- Sales/Marketing
- Operations
- Research and Development
- Procurement/Supply Chain
- Other

| Industry | N |
|---|---|
| Pharma and/or Biotech | 144 |
| Information Technology | 79 |
| Financial Services | 62 |
| Manufacturing | 45 |
| Telecommunications | 32 |
| Insurance | 31 |
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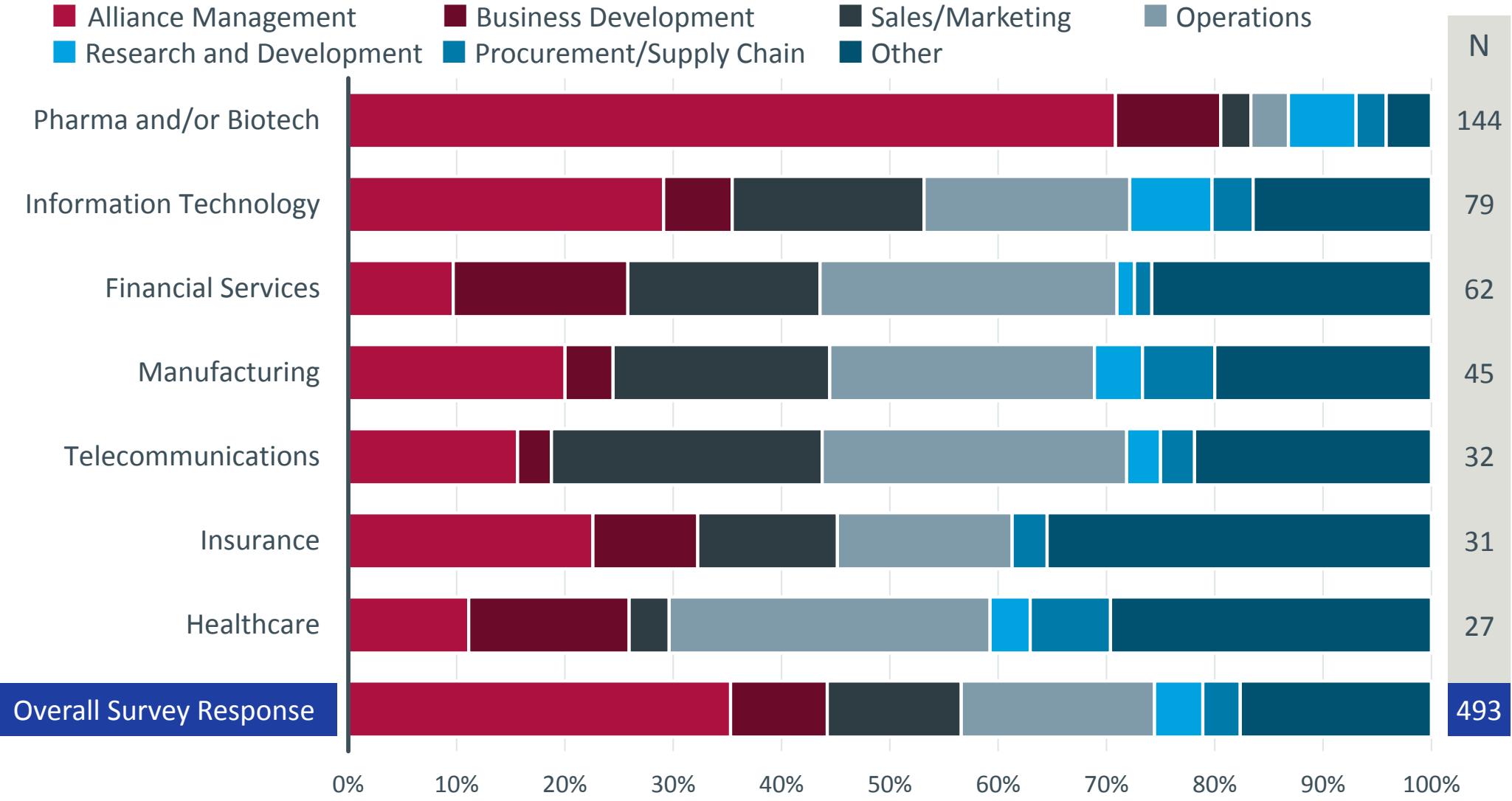
# Seniority of respondents

Select the level that most closely reflects your current position.

■ Individual Contributor ■ Manager ■ Director ■ Executive

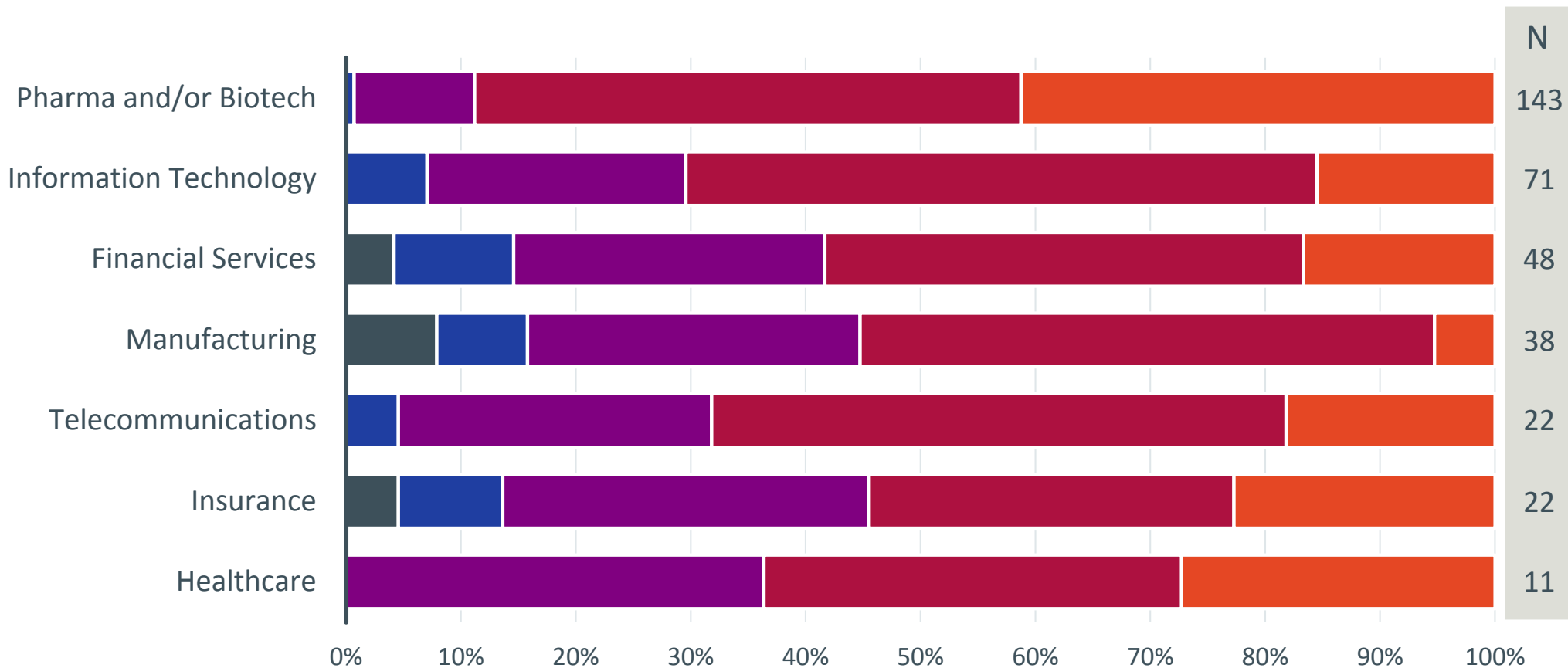| | N |
|---|---|
| Pharma and/or Biotech | 144 |
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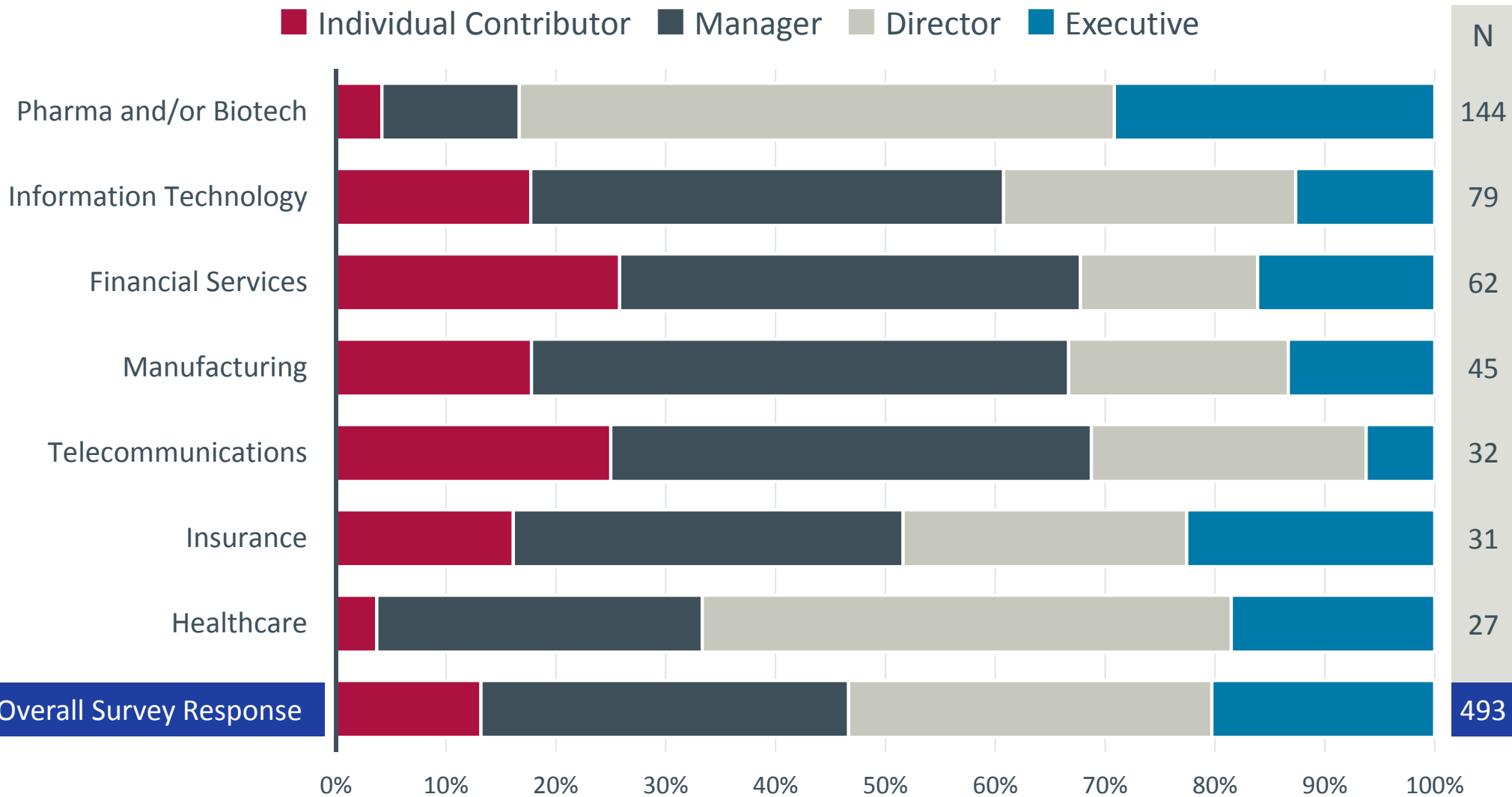
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**Setting the Stage: Alliance Success and Failure**

# Alliances are critically important

## 72% of respondents consider alliances "very important" or "mission critical."

### How important are alliances to your company?

■ Not important at all  ■ Minimally important  ■ Important  ■ Very important  ■ Mission critical

| Industry | N |
|---|---|
| Pharma and/or Biotech | 143 |
| Information Technology | 71 |
| Financial Services | 48 |
| Manufacturing | 38 |
| Telecommunications | 22 |
| Insurance | 22 |
| Healthcare | 11 |

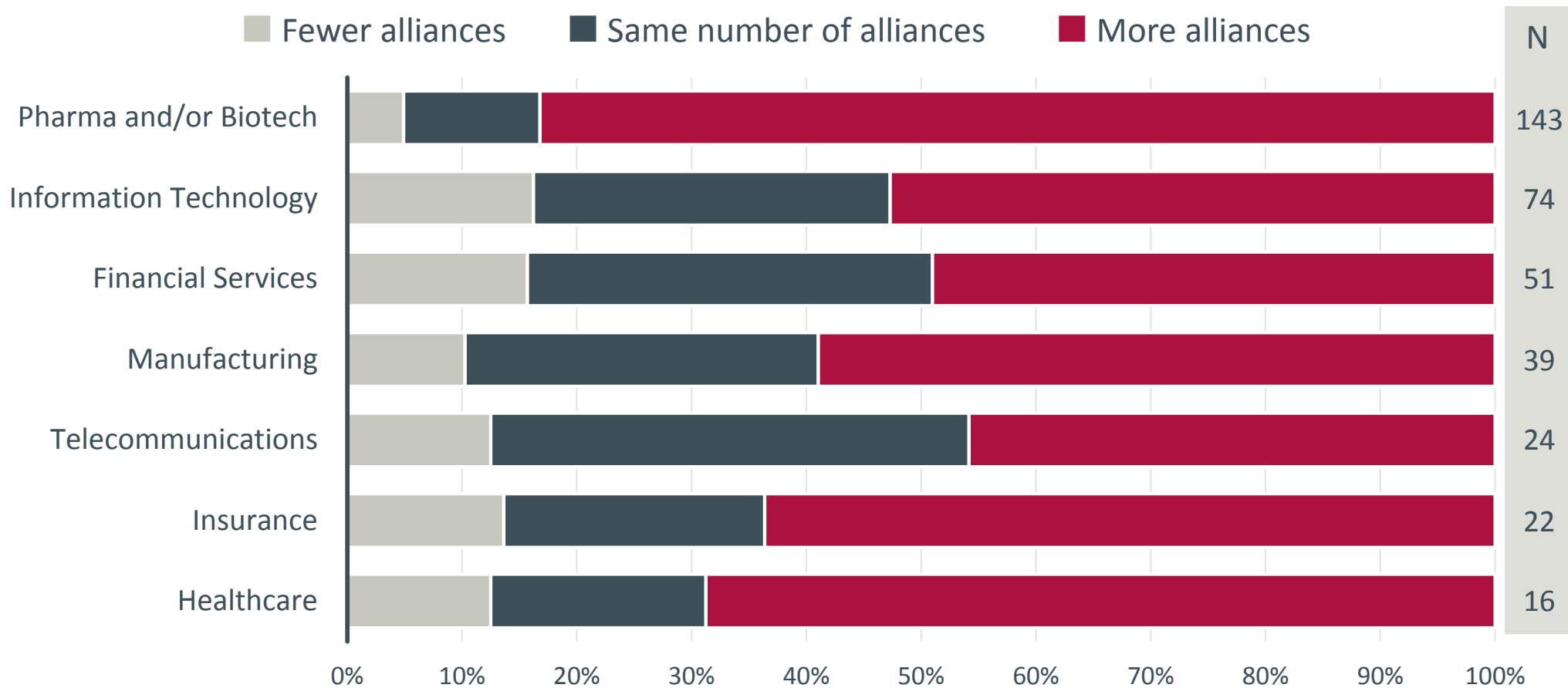0%  10%  20%  30%  40%  50%  60%  70%  80%  90%  100%

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# Companies have been engaging in more alliances

**64% of respondents across all industries report having more alliances than five years ago.**

How many alliances does your company have now compared to five years ago?



Legend: ■ Fewer alliances ■ Same number of alliances ■ More alliances

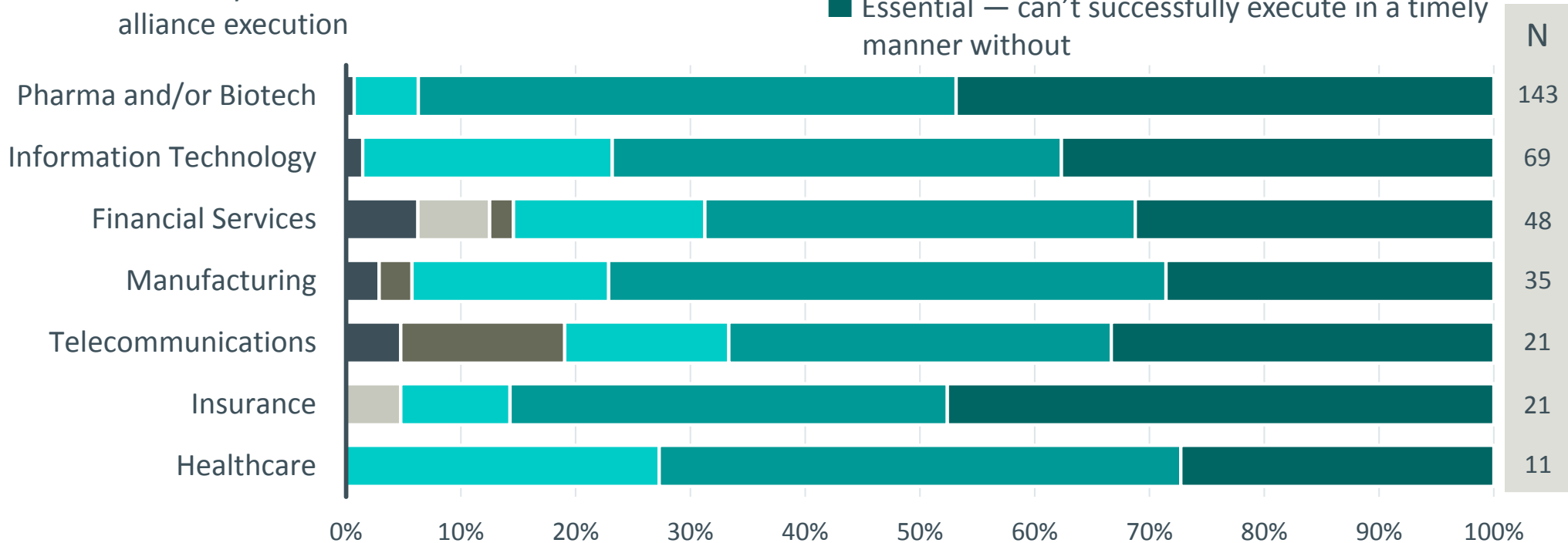| Industry | N |
|---|---|
| Pharma and/or Biotech | 143 |
| Information Technology | 74 |
| Financial Services | 51 |
| Manufacturing | 39 |
| Telecommunications | 24 |
| Insurance | 22 |
| Healthcare | 16 |

# Alliance management is critical in enabling successful alliance execution

82% of respondents report effective alliance management substantially increases the likelihood of or is essential to successful alliance execution.

Which of the following best describes the impact of effective alliance management?

- ■ I have not seen successful alliance management
- ■ Makes no meaningful difference
- ■ Minimally increases the likelihood of successful alliance execution
- ■ Somewhat increases the likelihood of successful alliance execution
- ■ Substantially increases the likelihood of successful alliance execution
- ■ Essential — can't successfully execute in a timely manner without



| | N |
|---|---|
| Pharma and/or Biotech | 143 |
| Information Technology | 69 |
| Financial Services | 48 |
| Manufacturing | 35 |
| Telecommunications | 21 |
| Insurance | 21 |
| Healthcare | 11 |

# Alliance success, partial success and failure rates

What percentage of alliances have...

- ■ Fully achieved their objectives
- ■ Partially achieved their objectives
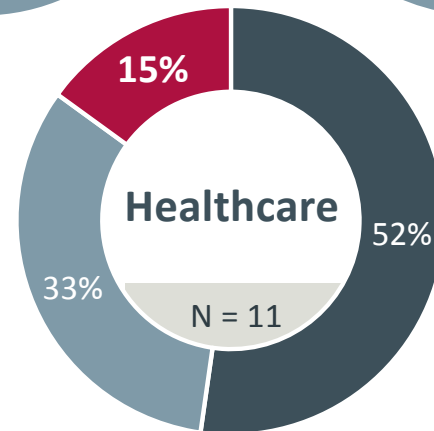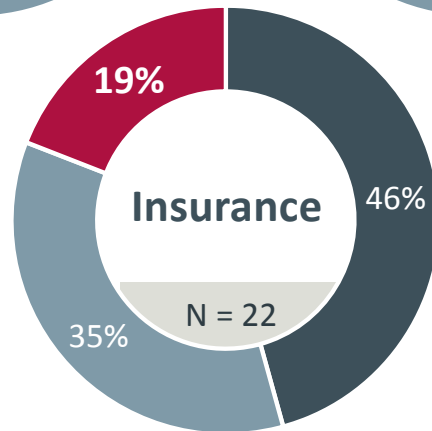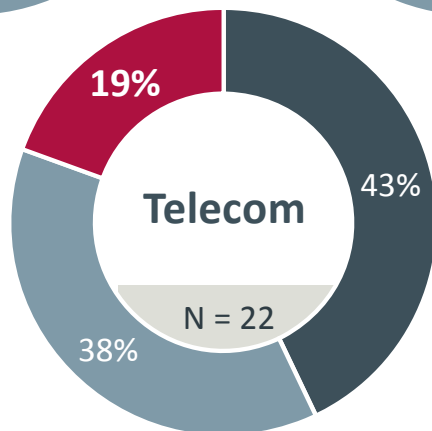- ■ Generally failed to achieve their objectives
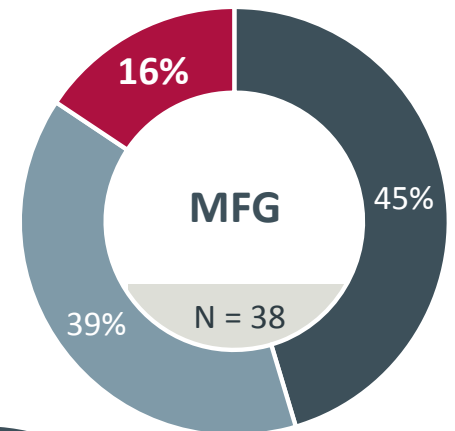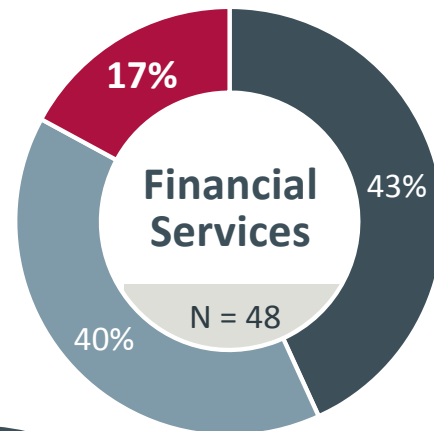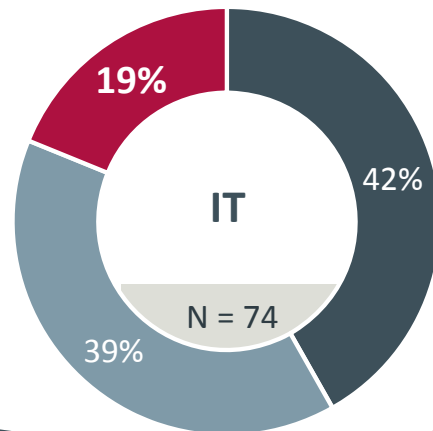


**Overall Survey Response**

N = 413

19%

41%

40%
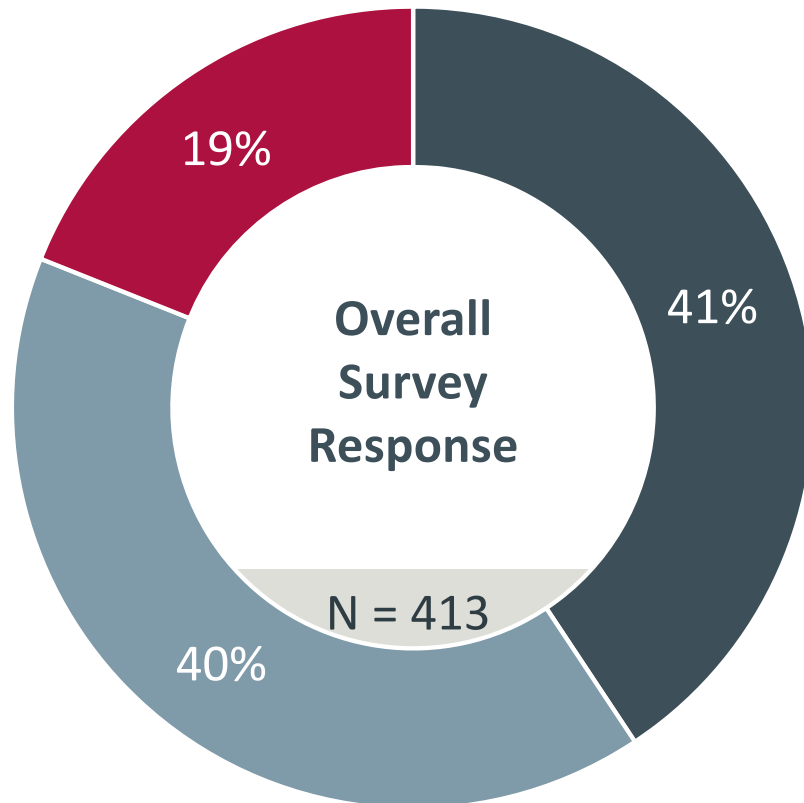
- ■ 41% of alliances are reported to fully achieve their objectives – a significant and important finding in and of itself given past reports of alliance "failure" rates. As described in later parts of this report, this improvement appears to be based on organizations' growing experience engaging in and managing alliances and their deliberate efforts to build up alliance management capabilities. That said, success rates still remain below 50%.

- ■ A large percentage of alliances (40%) only partially achieve their objectives. We believe this provides a significant opportunity for organizations to continue to enhance the value of alliances that are going well yet have room for improvement.

- ■ Only 19% of alliances generally fail to achieve objectives — again, this is quite impressive given the unique challenges that alliances present and the fact that technical and scientific causes of failure are assumed into these success/failure rates.

# Failure rates are generally consistent across industries

What percentage of your company's alliances have…

■ Fully achieved their objectives   ■ Partially achieved their objectives

■ Generally failed to achieve their objectives



Pharma and/or Biotech — N = 142: 19%, 39%, 42%

IT — N = 74: 19%, 42%, 39%

Financial Services — N = 48: 17%, 43%, 40%

MFG — N = 38: 16%, 45%, 39%

Telecom — N = 22: 19%, 43%, 38%

Insurance — N = 22: 19%, 46%, 35%

Healthcare — N = 11: 15%, 52%, 33%
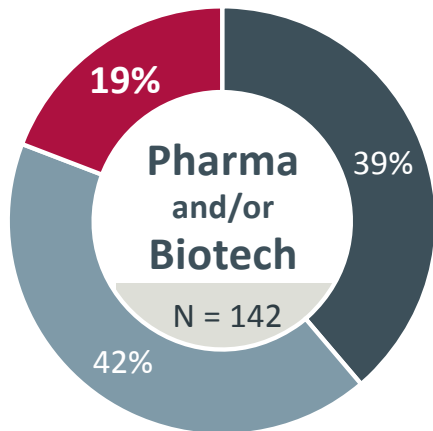
# Execution challenges are the foremost cause of alliance failure, closely followed by external factors

In your experience, when an alliance fails to fully meet its objectives, what is the most frequent cause? (Distribute 100 points between the options below)



| Cause | Percentage |
|---|---|
| Challenges during execution (e.g., poorly managed conflict between partners) got in our way | 27% |
| External factors outside of any partner's control got in our way | 24% |
| Deal terms and conditions were flawed | 17% |
| We did not choose the best possible partner for us | 17% |
| Partnering was the wrong strategic choice | 15% |

N = 393
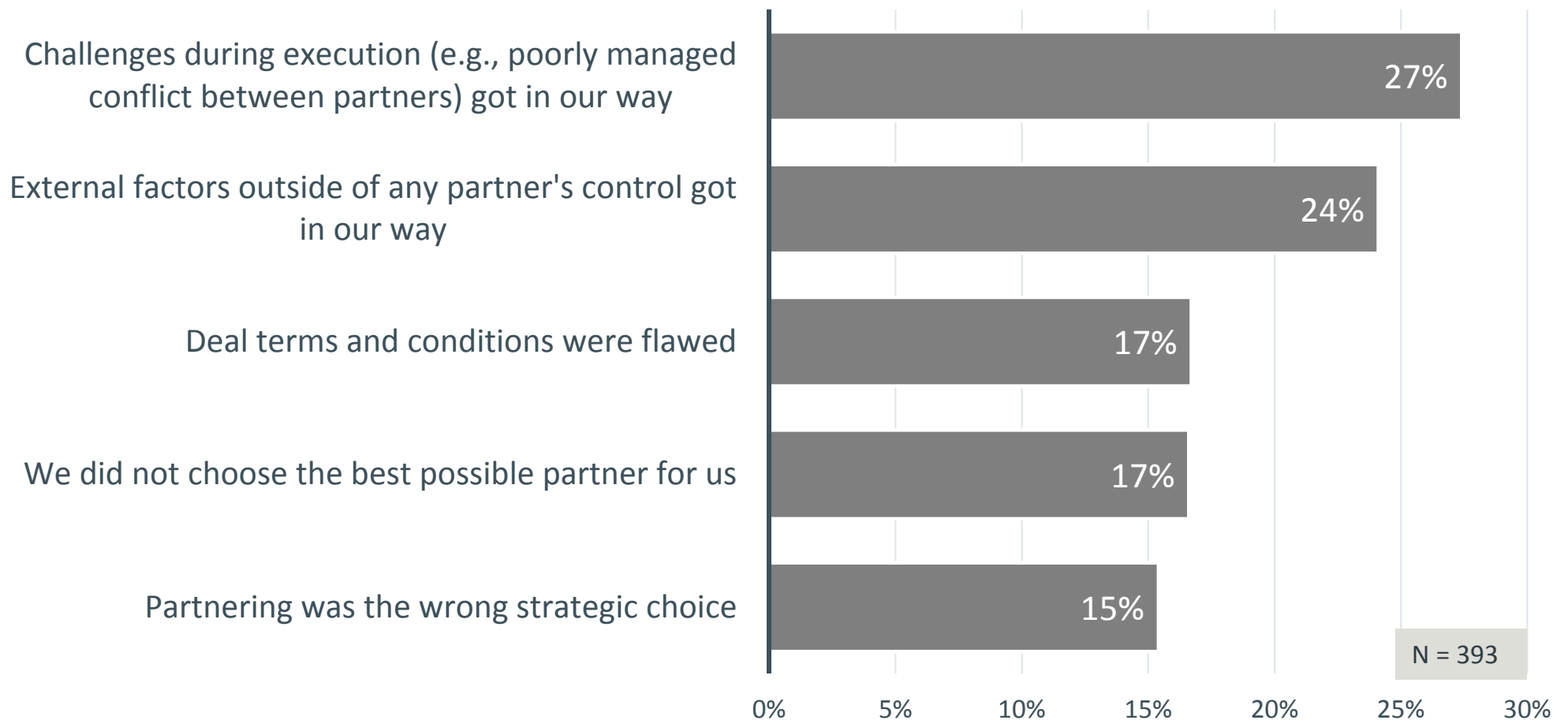
# Causes of alliance failure vary a bit across industries

In your experience, when an alliance fails to fully meet its objectives, what is the most frequent cause?

| Causes of Alliance Failures | N Pharma/ Biotech 136 | IT 69 | Financial Services 47 | MFG 33 | Telecom 21 | Insurance 21 | Healthcare 11 |
|---|---|---|---|---|---|---|---|
| Partnering was the wrong strategic choice | 14% | 18% | 17% | 22% | 13% | 21% | 7% |
| We did not choose the best possible partner for us | 13% | 16% | 16% | 18% | 24% | **25%** | 15% |
| Deal terms and conditions were flawed | 17% | 14% | 21% | 13% | 24% | 15% | 13% |
| Challenges during execution got in our way | 24% | **30%** | **27%** | **24%** | **25%** | 24% | **42%** |
| External factors outside of any partner's control got in our way | **32%\*** | 22% | 19% | 23% | 14% | 15% | 23% |

Note: Execution challenges are the foremost cause of failure overall for every participating industry except Pharma/Biotech and Insurance.

\*Pharma/Biotech is the only industry for which external factors contributed more to failure than any causes which are within a company's control. This finding is unsurprising given Pharma/Biotech participants make greatest use of R&D alliances, which are inherently prone to scientific and technical failure and face rigorous regulatory approvals.

# Execution challenges are costly

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

■ Average value lost   ■ Average value retained

32%

68%

N = 318
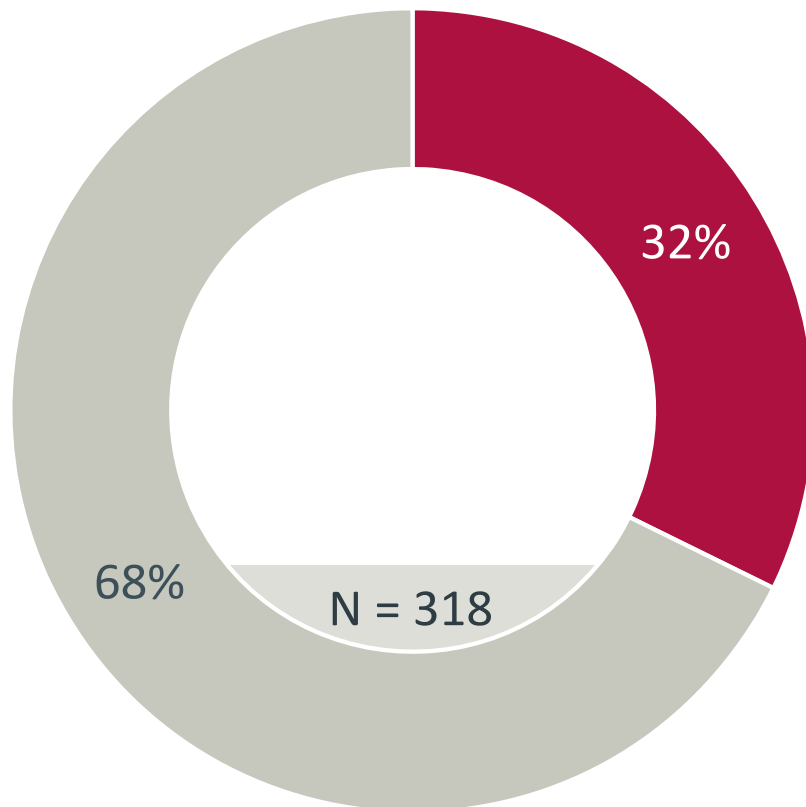
Alliance execution challenges (the leading cause of alliance failure) lead to the loss of nearly one third of alliances' potential value

# Value lost through execution challenges is generally consistent across industries

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

■ Average value lost   ■ Average value retained
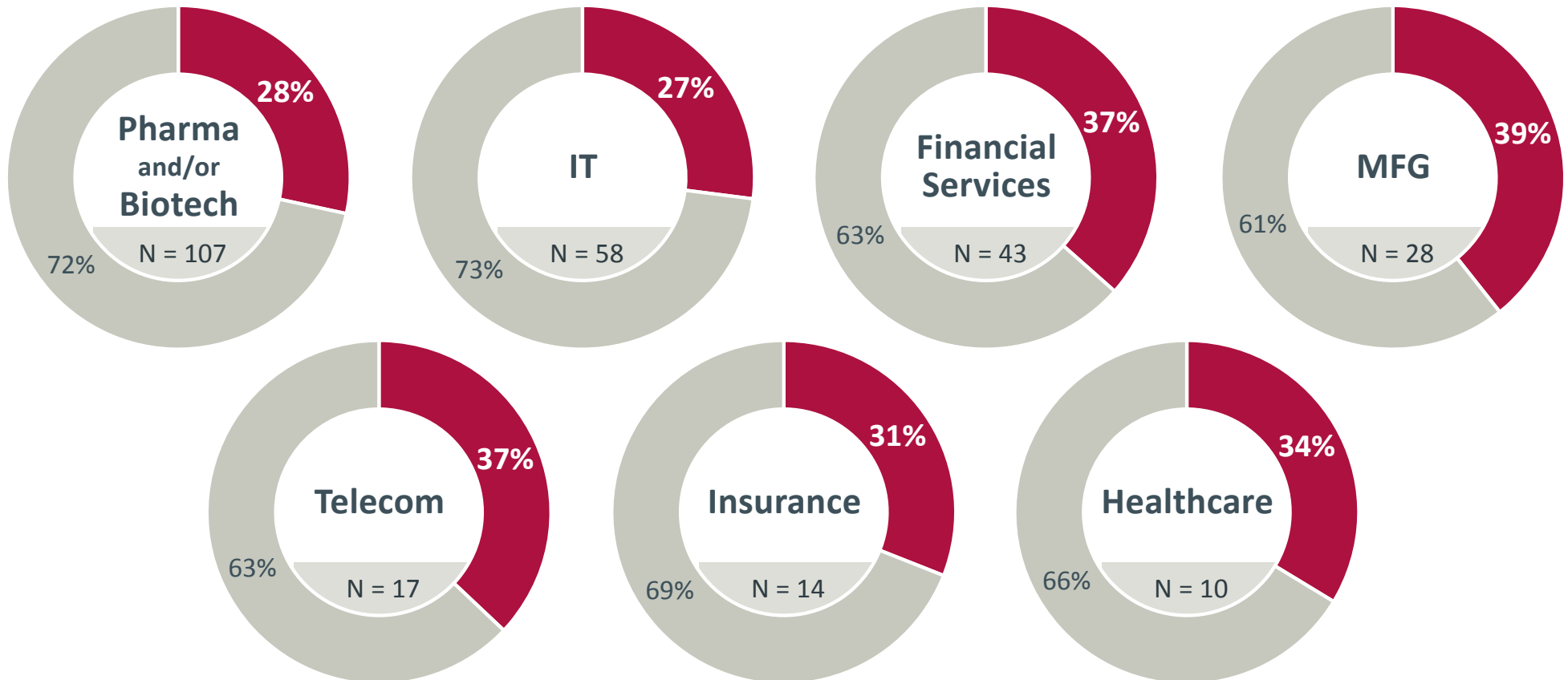


Pharma and/or Biotech
N = 107
28%
72%

IT
N = 58
27%
73%

Financial Services
N = 43
37%
63%

MFG
N = 28
39%
61%

Telecom
N = 17
37%
63%

Insurance
N = 14
31%
69%

Healthcare
N = 10
34%
66%

# Alliance Management Execution Capability

# Introduction to the Alliance Management Maturity Model

- Vantage has developed an Alliance Management Maturity Model over time through its client and research endeavors

- The purpose of the model is to provide a complete picture of what it takes to realize the most from alliances. The model can be used to assess a company's current level of alliance management capability and to help plan future investments in the capability

- The model consists of six elements that have consistently been identified as crucial components of organizational alliance management capability

- Underlying the model is the premise that organizations which consider alliances strategically important should generally strive towards the most mature level of capability (Level 4)

- For some companies, their maturity has evolved (or will evolve) organically with the growth of their alliance portfolio. Others have found they need to make concerted efforts to elevate their maturity to coincide with their organization's current or planned dependence on alliances

- Note: The model is in some ways fluid and continues to evolve as Vantage learns from new client and research engagements
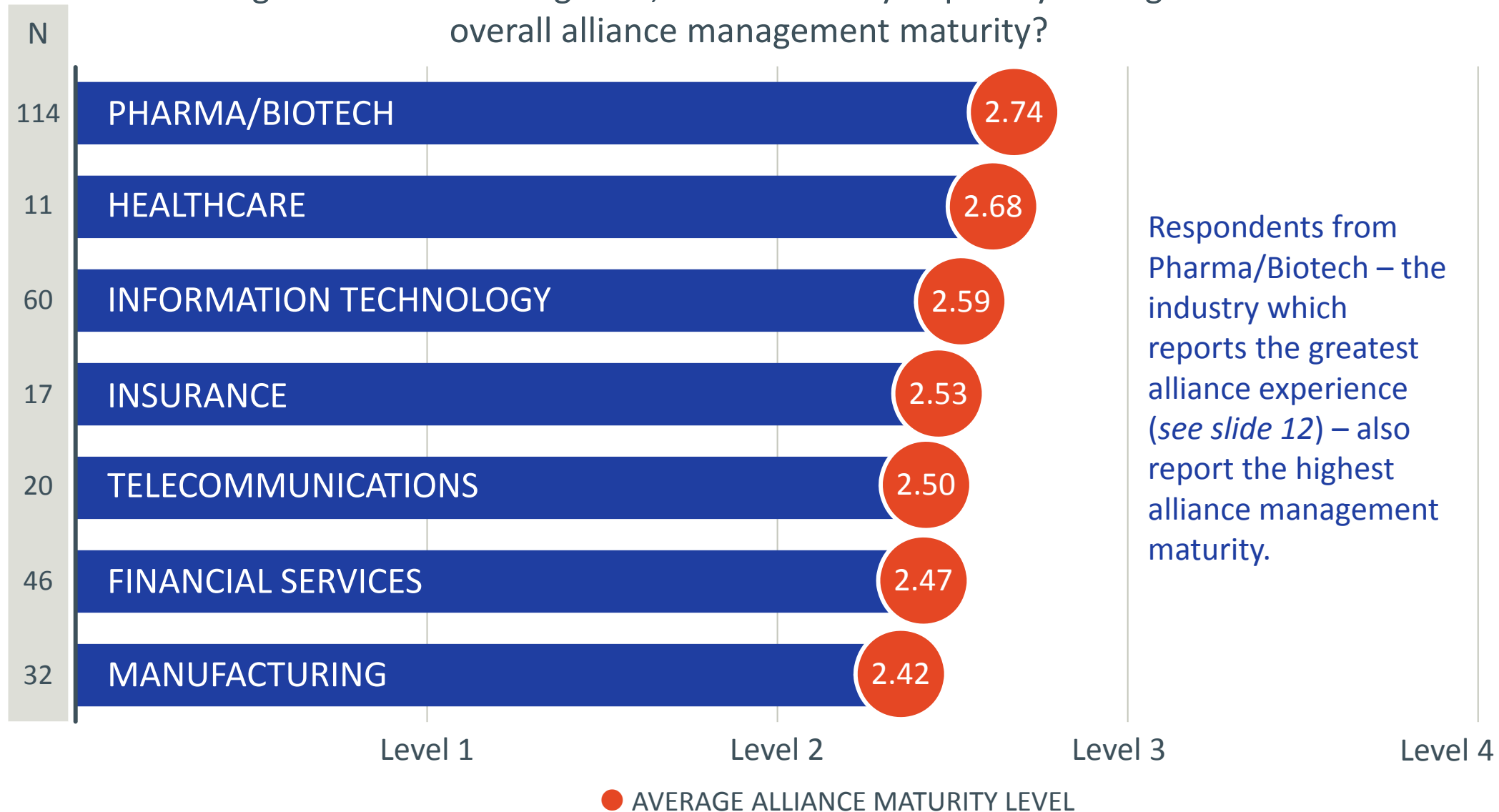
The chart on the following slide is Vantage's Alliance Management Maturity Model.  The image was included in the survey, and several questions were posed to understand how companies view their alliance management capabilities.

# Complete Alliance Management Maturity Model

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

# Alliance management maturity varies by industry

Taking all six elements together, where would you place your organization's overall alliance management maturity?

| N | | |
|---|---|---|
| 114 | PHARMA/BIOTECH | 2.74 |
| 11 | HEALTHCARE | 2.68 |
| 60 | INFORMATION TECHNOLOGY | 2.59 |
| 17 | INSURANCE | 2.53 |
| 20 | TELECOMMUNICATIONS | 2.50 |
| 46 | FINANCIAL SERVICES | 2.47 |
| 32 | MANUFACTURING | 2.42 |

Level 1          Level 2          Level 3          Level 4

● AVERAGE ALLIANCE MATURITY LEVEL

Respondents from Pharma/Biotech – the industry which reports the greatest alliance experience (*see slide 12*) – also report the highest alliance management maturity.

# Industries with the greatest alliance management maturity also have the largest maturity gaps

Again, taking all six elements together, where on this model do you think your organization needs to be to maximize the value of its partnerships?



| Industry | Average Alliance Maturity Level | Level Needed to Maximize Value | MATURITY GAPS |
|---|---|---|---|
| PHARMA/BIOTECH | 2.74 | 3.52 | .78 |
| HEALTHCARE | 2.68 | 3.32 | .64 |
| INFORMATION TECHNOLOGY | 2.59 | 3.26 | .67 |
| INSURANCE | 2.53 | 2.88 | .35 |
| TELECOMMUNICATIONS | 2.50 | 2.90 | .40 |
| FINANCIAL SERVICES | 2.47 | 2.74 | .27 |
| MANUFACTURING | 2.42 | 2.95 | .53 |

Level 1    Level 2    Level 3    Level 4

● AVERAGE ALLIANCE MATURITY LEVEL    ● LEVEL NEEDED TO MAXIMIZE VALUE

**Industries with the highest alliance management maturity continue to aspire for increased levels of maturity, as they believe increased maturity helps to meet strategic objectives.**
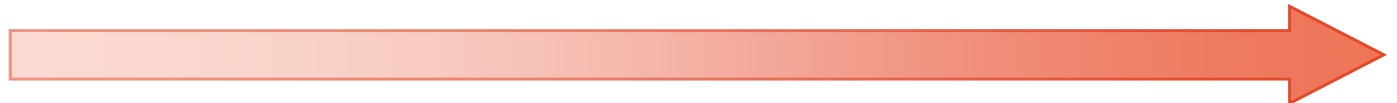
# Alliance management maturity has a positive impact on the things you can control

As alliance management maturity increases, alliance failures are increasingly caused by external factors rather than controllable factors.

In your experience, when an alliance fails to fully meet its objectives, what is the most frequent cause?

| Causes of Alliance Failures | N 16 Level 1 | 39 Level 1.5 | 51 Level 2 | 100 Level 2.5 | 62 Level 3 | 48 Level 3.5 | 20 Level 4 |
|---|---|---|---|---|---|---|---|
| Partnering was the wrong strategic choice | 23% | 14% | 14% | 18% | 16% | 13% | 11% |
| We did not choose the best possible partner | 19% | 20% | 20% | 18% | 14% | 13% | 10% |
| Deal terms and conditions were flawed | 21% | 16% | 19% | 18% | 17% | 14% | 14% |
| Challenges during execution got in the way | 25% | 32% | 26% | 25% | 29% | 33% | 25% |
| External factors outside of any partner's control got in the way | 12% | 18% | 21% | 21% | 24% | 27% | 40% |

# Alliance management maturity leads to higher success rates and value retention

Companies with "mature" alliance management capabilities are 78 percent more likely to fully achieve alliance objectives and 35 percent less likely to fail to achieve objectives than companies with "immature" capabilities.

Alliance Maturity Level

| Degree of Alliance Success | N 112 "Immature" (Level 1 to Level 2) | N 135 "Mature" (Level 3 to Level 4) |
|---|---|---|
| Fully achieved their objectives | 28% | 50% |
| Partially achieved their objectives | 46% | 33% |
| Failed to fully achieve their objectives | 26% | 17% |

Companies with "immature" capabilities lose twice as much value from alliance challenges than companies with the most mature alliance management capability (Level 4).

Alliance Maturity Level

| Value Lost from Alliance Challenges | N 15 Level 1 | 38 Level 1.5 | 46 Level 2 | 86 Level 2.5 | 53 Level 3 | 44 Level 3.5 | 18 Level 4 |
|---|---|---|---|---|---|---|---|
| % of potential value, on average, lost from alliance execution challenges | 39% | 40% | 40% | 31% | 28% | 31% | 20% |

# "People and Culture" lags behind other maturity elements

For each alliance management maturity element, where would you place your organization's current maturity?

| Element | Average Maturity |
|---|---|
| STRATEGIC IMPORTANCE & OPERATING MODEL | 2.64 |
| AM MISSION & FOCUS | 2.57 |
| STRUCTURE | 2.55 |
| PROCESSES & TOOLS | 2.55 |
| PEOPLE & CULTURE | 2.32 |
| REPUTATION | 2.65 |

Level 1    Level 2    Level 3    Level 4

● AVERAGE ELEMENT MATURITY LEVEL

N = 348
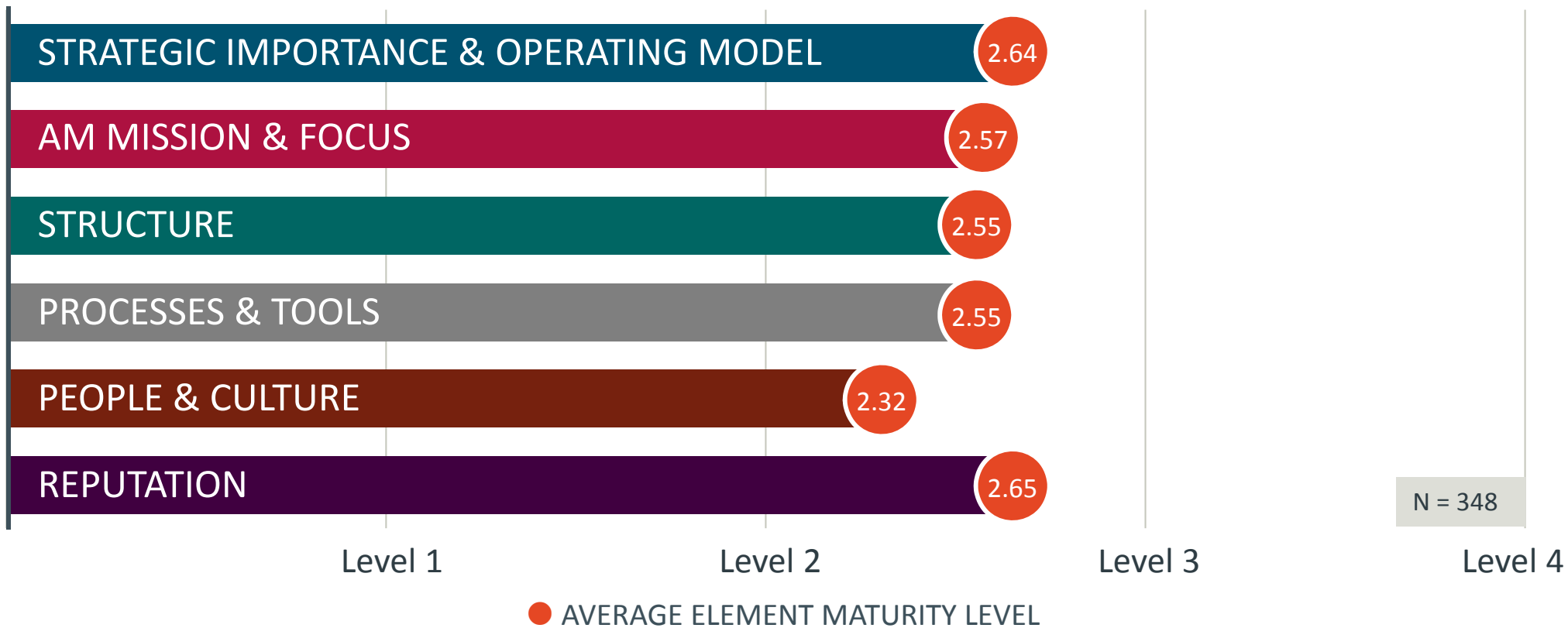
**Companies often focus initial alliance management efforts on creating an Alliance Management Group and developing supporting structures, processes, and tools. Over time, however, companies struggle to integrate alliance management capabilities into their corporate culture and mindset. We believe this is both a likely and valuable focus for alliance management capability initiatives going forward.**

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# Alliance Execution Challenges and their Root Causes

# Introduction to the alliance execution challenges examined in this study

- Respondents report that execution challenges cause more than a quarter of alliance failures across industries

- Based on decades of work helping clients intervene on alliances and build necessary internal capabilities to support them, Vantage has developed a list of 21 alliance execution challenges that are seen as most common and problematic (*see following slides*)

- These challenges are grouped into five categories:
  - Strategy Alignment
  - Governance and Leadership
  - Alliance Managers
  - Alliance Team Members
  - Operating Processes and Procedures

- In the study, Vantage examined participants' responses on the frequency and severity of these challenges in order to better understand the challenges perceived to be most harmful to alliance success

# 21 alliance execution challenges

**Strategy Alignment**

1. People working on an alliance lack insight into the objectives of their partner and therefore fail to account for them as they work

2. Changes in strategic priorities are not openly discussed or proactively managed by the partners; rather, personnel move, decisions become less transparent, and trust breaks down

3. No one in particular is held accountable for directly managing and watching for change, considering how it impacts the alliance, and guiding the alliance to adapt before the partners are at odds

**Governance and Leadership**

4. Leaders do not set clear expectations of what good collaboration looks like or hold alliance personnel accountable to those expectations

5. Leaders do not model effective communication and problem solving when they engage with their own alliance counterparts

6. Leaders give positional instructions, so alliance employees rigidly advocate their company's demands and struggle to solve problems creatively

7. Senior governance bodies (e.g., Steering Committees) are not "missioned" for proactive and engaged joint leadership

8. Committee members accept escalation from within their companies and form partisan views about problems that echo the same conflict, just up a level

**Alliance Managers**

9. Alliance Managers are not vested with the responsibility or authority to intervene in and drive collaborative issue resolution, so they are only able to encourage joint problem solving from the sidelines or argue for their own organization's views

10. Alliance Managers lack the mediation, facilitation, and advanced collaboration skills to effectively intervene in and drive issue resolution for the good of the alliance

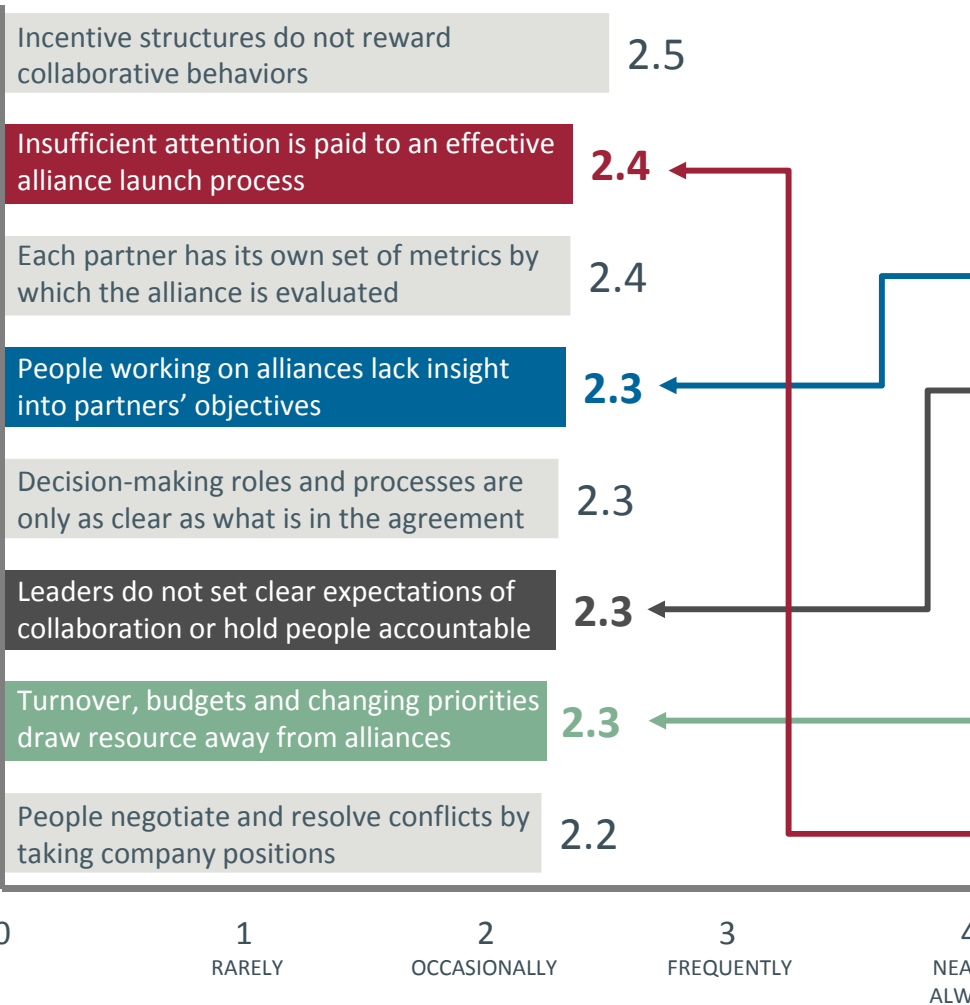# 21 alliance execution challenges (cont.)

**Alliance Team Members**

11. The alliance lacks enough people with the skills and expertise to work collaboratively on an alliance

12. Turnover, budgets, and changing priorities draw resources away from alliances without regard for the impact on the partner

13. People across the alliance do not communicate well or frequently enough with their counterparts, leaving too much open for interpretation and assumptions about the other's motivations

14. People across the alliance negotiate and resolve everyday conflicts by staking out and defending a company position instead of inventing creative solutions that take into account the needs of the partner and the alliance overall

15. Incentive structures (formal or informal) do not reward collaborative, alliance-enabling behaviors and actions

**Operating Processes and Procedures**

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

17. Decision-making roles and processes are only as clear as what is built into the alliance agreement; without more detailed allocation of decision rights within and across partners and committees, decisions take too long

18. No standard conflict resolution procedures exist to guide open and collaborative issue resolution at the point of conflict, stalling decisions and leading to needless escalation

19. Escalation procedures are loosely defined if at all, so conflicts just roll up with each partner trying to have their position or demand met by the next level of governance

20. Each partner has its own set of metrics by which the alliance is evaluated with no shared systems of metrics to jointly manage against

21. Our and/or our partner's rigid processes and protocols prevent flexibility and exceptions or adaptions to alliance circumstances

# The "costliest" alliance execution challenges
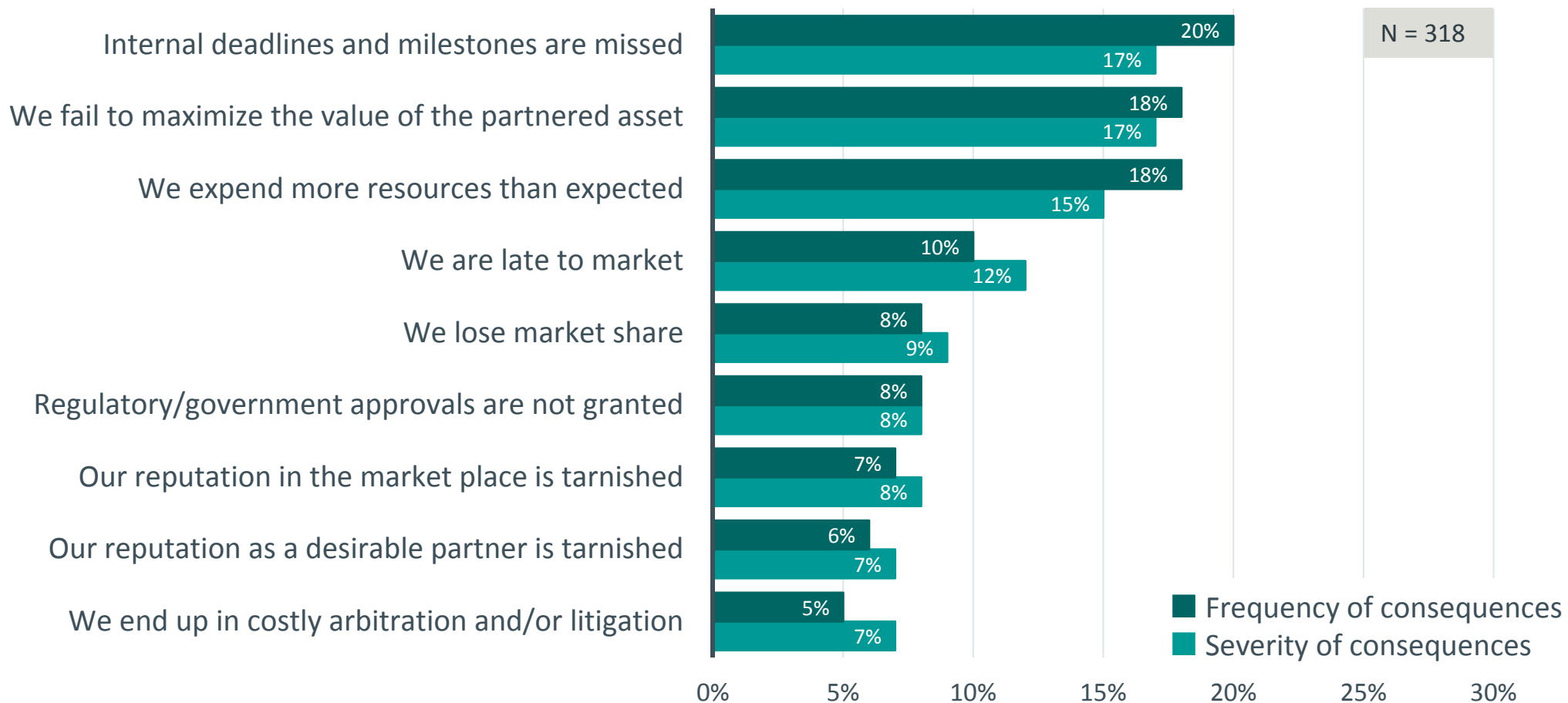
## Top 8 most frequent alliance challenges

| Challenge | Score |
|---|---|
| Incentive structures do not reward collaborative behaviors | 2.5 |
| Insufficient attention is paid to an effective alliance launch process | **2.4** |
| Each partner has its own set of metrics by which the alliance is evaluated | 2.4 |
| People working on alliances lack insight into partners' objectives | **2.3** |
| Decision-making roles and processes are only as clear as what is in the agreement | 2.3 |
| Leaders do not set clear expectations of collaboration or hold people accountable | **2.3** |
| Turnover, budgets and changing priorities draw resource away from alliances | **2.3** |
| People negotiate and resolve conflicts by taking company positions | 2.2 |

Scale: 0 — 1 RARELY — 2 OCCASIONALLY — 3 FREQUENTLY — 4 NEARLY ALWAYS

## Top 8 most serious alliance challenges

| Challenge | Score |
|---|---|
| Changes in strategic priorities are not openly discussed or proactively managed | 2.9 |
| No one is held accountable for directly managing and watching for change | 2.9 |
| People working on alliances lack insight into partners' objectives | **2.8** |
| Leaders do not set clear expectations of collaboration or hold people accountable | **2.8** |
| Turnover, budgets and changing priorities draw resource away from alliances | **2.8** |
| Alliance Managers lack mediation, facilitation, and advanced collaboration skills | 2.8 |
| Leaders do not model effective communication and problem solving | 2.7 |
| Insufficient attention is paid to an effective alliance launch process | **2.7** |

Scale: 0 — 1 MINOR — 2 SOMEWHAT SERIOUS — 3 SERIOUS — 4 VERY SERIOUS

Four of the 21 challenges have been labelled the "costliest" because they are reported as most frequently experienced **and** hold the most severe consequences when they occur.

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

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



N = 318

Internal deadlines and milestones are missed — 20% / 17%
We fail to maximize the value of the partnered asset — 18% / 17%
We expend more resources than expected — 18% / 15%
We are late to market — 10% / 12%
We lose market share — 8% / 9%
Regulatory/government approvals are not granted — 8% / 8%
Our reputation in the market place is tarnished — 7% / 8%
Our reputation as a desirable partner is tarnished — 6% / 7%
We end up in costly arbitration and/or litigation — 5% / 7%

■ Frequency of consequences
■ Severity of consequences

# Introduction to root causes of alliance execution challenges examined by this study

- Vantage developed a list of six underlying causes of the alliance execution challenges based on the common difficulties seen in client work (*see following two slides*)

- In the study, respondents reported their view of which root causes have the greatest effect on their company

- The six root causes were also examined and tested during practitioner interviews, and this section concludes with a few thoughts on each

# Six possible root causes of alliance execution challenges

### 1. My organization's internal operating models do not reflect the importance of external partnering

*We work on alliance projects as we do on internal projects, to our detriment. For example, incentives are aligned to internal goals, but not to the goals of alliances; alliance decisions can only be made after following the standard internal decision processes; we don't easily adapt our budgeting processes or workflows to accommodate a partner's.*

### 2. Our alliances have governance but lack joint leadership

*Senior committees (e.g., Executive or Steering Committees) do not take accountability for ensuring that execution is fully enabled at a behavioral level. For example, they do not pay sufficient attention to identifying differences between partners and demanding strategies for managing differences; they do not share their expectations regarding how people should work together or hold people accountable to those expectations; they don't model the behaviors they expect with their own counterparts or when giving instructions internally.*

### 3. My organization's corporate culture works against external collaboration

*For example, competition is deeply rooted in the corporate culture and prevents collaborative problem solving on alliances; we reward "winning" over reasonability or alliance longevity; or arrogance about our own competencies prevents us from listening to our partners and treating them with respect.*

# Six possible root causes of alliance execution challenges (cont.)

### 4. My organization relies on Alliance Managers in place of a true organizational capability to manage alliances

*Our organization assumes that having someone in the role of Alliance Manager who is a good collaborator is enough to support the alliance. They fail to see that effective alliance management and good collaboration are the collective responsibilities of everyone in the organization who touches or supports an alliance. Therefore, little to no training, tools, or standard methodologies exist to enable successful collaboration and alliance execution.*

### 5. We do not treat the management of our alliances with the same professional rigor or expectations than we do managing a customer or key supplier relationship

*For example, alliance management is someone's part time job, at best. They have no clear accountabilities, and little to no support structure. The rest of the organization gives little thought to what unique needs a project has when its success hinges on collaboration with an external partner.*

### 6. We are not sitting down with our partners to agree on the details of how we will work together

*While we may have some standard methods and tools for managing alliances, we don't, on at least most alliances, use them with our partners to agree on the operational processes for working together (e.g., we don't set joint scorecards, define and implement committee chartering processes, or allocate decision making roles and rights beyond what the contract might say). Doing so is too hard to sell to the partner or internal constituents.*

# Fundamental gaps at the root of alliance execution challenges

## Root Causes of Alliance Execution Challenges

Allocate 100 points across the following root causes of alliance execution challenges. Assign the greatest number of points to the root causes that most contributes to the alliance execution challenges you see and the least points to the causes that least contributes to the challenges you see. Assign zero points to any root cause that you do not think contributes to alliance execution challenges in your organization.

| Root Cause | Percentage |
|---|---|
| Internal operating models do not reflect the importance of external partnering | 23% |
| Do not sit down with partners to agree on the details of how we will work together | 18% |
| Rely on Alliance Managers in place of a true organizational capability to manage alliances | 17% |
| Alliances have governance but lack joint leadership | 16% |
| Corporate culture works against external collaboration | 14% |
| Do not treat the management of alliances with the same professional rigor or expectations as managing a customer or key supplier relationship | 12% |

N = 318

# A closer look: Root causes of alliance execution challenges

## Root Cause 1:
## Internal operating models do not reflect the importance of external partnering

- Alliances are a relatively new business tool and professional and corporate competencies are still emerging
  - In many industries alliances are ad hoc – an extra endeavor that could produce great business results as long as it does not get in the way of other more important efforts
  - For other industries, like Pharma, alliances have become essential for survival, yet organizations have not necessarily evolved to fully embrace their importance
    - Business processes like budgeting, re-organization, decision-making, external operations, etc. remain unchanged and/or suited for "non-allianced" workflow
- The dichotomy between alliance importance and company organization and prioritization is behind challenges faced by some companies
  - *"We still struggle with things like very complex internal decision-making process. Recently we were trying to fit the alliance governance into our complex internal alliance decision-making process. It is still a struggle, and it extends to things like difficulties with finances because of fiscal calendars. We are now moving one finance person to alliances – so that someone who understands our financial nuances is on the alliance."*
  — **Alliance Manager at a Global Pharmaceutical Company**

## Root Cause 2:
## Do not sit down with our partners to agree on the details of how we will work together

- Lack of a formal alliance launch is a major cause of alliance execution challenges
  - A substantial number of Vantage's alliance consulting engagements are interventions where clients ask for help to put back on track or re-launch struggling alliances
- Upfront misalignment between partners can be addressed relatively easily. Many organizations, even those that do not necessarily have very mature alliance management capabilities, have developed a standard alliance launch methodology that helps them engage partners early on the details of how they will work together
  - *"I've seen examples where the project delayed for a long time – and then once we reached a final milestone we realized we hadn't been aligned from the beginning."*
  — **Executive at an Equipment Manufacturing Company**

# A closer look: Root causes of alliance execution challenges (cont.)

## Root Cause 3:
### Rely on Alliance Managers in place of a true organizational capability to manage alliances

- Having dedicated Alliance Managers was rated the second most essential corporate alliance capability in Vantage's initial alliance study in 2001

- Creating an Alliance Manager role is typically the first thing an organization does on its path to alliance management maturity, as it is simple to enact and has the ability to make a difference

- In some cases, companies fail to do more, save adding accountabilities to the few in the organization deemed "alliance management"

- Alliance success, however, requires more than a few good people: it takes the whole organization – every person that touches an alliance can affect it

- Overreliance on individuals over capability can have negative effects on organizational capacity to succeed at alliances

  - *"I left (the alliance organization). Someone new came in but we didn't have institutional memory and the mindset changed when he came in. Organizational change doesn't impact the company if it is not embedded in the culture."*
    **- Former Head of Alliance Management at a Global Pharmaceutical Company**

## Root Cause 4:
### Alliances have governance but lack joint leadership

- Vantage differentiates between the "sticks and boxes" of governance (structure) and the actions and behaviors of good governance

- On many alliances, senior governance bodies are staffed with senior-most leaders in the company for reasons of respect to the partner and because these leaders have knowledge, authority, and vested interest in an alliance outcome. Such leaders are typically incredibly busy with other demands and may be removed from the everyday realities of what it takes to keep an alliance on track

  - *"Oftentimes I find the JSC members don't view themselves as the leadership of the alliance. People on these committees are so busy. They are decision makers and you want them on these collaborations, but carving enough time for them to think proactively on a joint basis is really challenging….A lot of people are so focused internally in a concrete way that the joint piece is put on the back burner. That has a lot of ramifications and is something I struggle with regularly – having a joint leadership team rather than a committee that meets once a quarter so that they can go back to their 'real job.'"*
    **– Head of Alliance Management at a Global Pharmaceutical Company**

- Successful alliances have governance that supports and enables collaboration and execution

  - *"What is unique between different senior leaders are the ones that voice expectations around collaboration and then those that actually model these behaviors for others. There is a next step for the industry to achieve that….[These leaders] are trained to make decisions and go forward. We're asking for dialogue, pause, and reflection."*
    **– Head of Alliance Management at a Global Pharmaceutical Company**

# A closer look: Root causes of alliance execution challenges (cont.)

## Root Cause 5:
## Corporate culture works against external collaboration

- Organizations starting to enter into alliance relationships tend to focus first on assigning internal accountabilities and building process and tools to support alliances and manage relationships with partners. These activities are often driven within specific organizational pockets

  - *"When I started, I knew within two weeks which folks knew how to partner – your 'friendlies' with a natural understanding for how to partner. But you have to be doing things as an organization to move forward. There are always folks who are irritated that you have to deal with an outside entity so you often need to have a large training and behavioral shift to understand the value married into the relationship. It is the notion that collaboration is just a way of life."*
    **– Head of Alliance Management at Midsize Pharmaceutical Company**

- Later in the alliance management lifecycle, companies realize that developing a deeper capability and enabling consistent alliance success requires company-wide behavior and cultural change, rather than the knowledge and skill of a handful of collaboration-oriented individuals

  - Over time, organizations tend to focus more on capability-building

## Root Cause 6:
## Do not treat the management of alliances with the same professional rigor
## or expectations as managing a customer or key supplier relationship

- *"It is only by chance you get hold of someone to run an alliance that has done it before."*
  **— Executive at an Equipment Manufacturing Company**

- This least commonly reported root cause may be more common than the data would suggest

  - Vantage's study drew participation from many individuals and organizations already investing in alliance management, most to a substantial degree

- Customer and supplier relationship management and project management are often more established and sometimes seen as more respected and legitimate than alliance management

# vantage partners

## Summary and Advice

# Key summary points from the report

- Alliances continue to increase in strategic importance across industries

- The ability to successfully execute alliance objectives seems to be increasing due to:
  - Increased experience engaging in and managing alliances
  - Ongoing efforts to increase alliance management capabilities

- Nonetheless, there continues to be opportunity to enhance the approach to alliance management throughout the alliance lifecycle
  - Alliance execution challenges are the most significant cause of alliance failure
  - Cost of execution challenges continues to be significant

- Looking forward…
  - Companies will continue to focus on developing alliance management capabilities in order to close the reported maturity gap between current maturity levels and maturity levels needed to maximize the value of alliances
  - Over time, organizations will work to design internal operating models in ways that support rather than disable or hinder effective alliance execution. Alliance Management Groups will be asked to drive these efforts

# Ways to leverage this report in your organization

## Use the intellectual capital and data embedded in the report

- The Alliance Management Maturity Model can help to facilitate internal discussions about the level at which your organization's alliance management maturity needs to be (given the extent to which partnering is or will be increasingly important) up against where it is now
    - Align your organization around its alliance management maturity gaps
    - Use the model as a means to develop an alliance management plan for the future

- Use the list of 21 common alliance execution challenges as a tool to:
    - Informally assess your organization up against these challenges
    - Help organize and frame internal conversations about the alliance issues facing your organization

- Examine the six root causes of alliance execution challenges and consider which are in play in your organization

- Use the survey data to make the case for alliance management internally. The study data indicates that mature alliance management capabilities make a difference

# Vantage Partners

Additional data, including industry-specific data, may be available upon request.

A spin-off of the Harvard Negotiation Project, Vantage Partners helps companies achieve breakthrough business results by transforming the way they negotiate with, and manage relationships with, their suppliers, customers, and alliance partners.

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