JOINT VENTURES

Simple Rules for Making Alliances Work

by Jonathan Hughes and Jeff Weiss

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

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

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

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

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

Five Principles that Complement the Conventional Advice

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

Principle 1

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

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

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

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

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

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

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

Schering-Plough is not alone. In a recent study we conducted involving 93 companies from a cross-section of industries, we found that when partners invest time up front to jointly define the relationship they want, the alliance generates significantly greater value than when they focus exclusively on business goals, contract terms, and formal governance structures.

Principle 2

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

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

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

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

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

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

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

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

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

Principle 3

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

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

In fact, in the majority of alliances a tremendous amount of time and attention is spent in efforts to minimize conflict and reach agreement on what should be done and how to do it. This practice reflects more than a commendable focus on execution: It arises from a deep discomfort with differences and conflict and a mistaken belief that the same management strategies that (sometimes) work within a company will work equally well in collaboration with external partners. "Our differences are slowing us down; let's just figure out one way of getting things done and move on" is a common refrain—though what is usually meant is "you need to accept our way of doing things." Unfortunately, because these efforts send a message that differences are bad, they tend to drive conflict underground. They erode the partners' ability to make use of the very differences that prompted formation of the alliance in the first place.

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

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

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

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

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

A turning point came when some alliance executives began systematically documenting differences between the companies and then held working sessions with team members to discuss how those differences were being perceived and whether they might benefit the alliance if they weren't ignored or suppressed.

Because many of the differences touched on sensitive issues concerning competencies and culture, people were initially reluctant to address them, preferring to focus on imagined or desired commonality. When the teams finally overcame their reluctance, frustration that had built up over many months came pouring out, and perceptions of each other were often expressed in negative or even inflammatory language.

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

The Eye of the Beholder

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

Ultimately, HP and Microsoft were able not only to respect differences that earlier had been a source of frustration and suspicion but also to actively leverage them. For example, they began to vary their approaches to sales opportunities rather than always following the standard approach led by the same balance of HP and Microsoft sales and technical staffs. Sometimes HP would take a clear lead, relying on help from Microsoft colleagues but employing strategies and tactics that HP had honed in similar market contexts. Sometimes the partners would agree that Microsoft's particular technical strengths and sales tactics made sense for a particular customer. Sales accelerated. Today more than 14 million Microsoft Exchange Server 2000/2003 user seats are under contract through HP Services.

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

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

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

Principle 4

Go beyond formal governance structures to encourage collaborative behavior.

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

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

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

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

Working Rules

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

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

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

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

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

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

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

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

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

Principle 5

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

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

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

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

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

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

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

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

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

Similar experiences have led some companies to make ongoing management of internal constituents a central part of their alliance management process. For example, Aventis, drawing on its own experience with the undermining effects of insufficient internal alignment, formalized a series of meetings with internal stakeholders—prior to all joint governance meetings with partners—during which internal disagreements were brought to the surface and then wrestled to the ground, without the awkwardness of doing so in front of partners.

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

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

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

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A great read indeed. Forming right alliances and managing it well are the need of the hour across the industry. Deep analysis done the authors and practical recommendations. Best

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