Alliance Best Practice

Standing on the shoulders of giants

Best Practices in Strategic Alliance Relationships

The results of an ongoing research programme conducted annually by Alliance Best Practice

Contents

Executive Summary

This white paper sets out to show (with supporting evidence) that;

1. **Alliance Best Practices Exist**. There is such a thing as alliance best practices. These practices are those activities, conditions processes or behaviours which have been identified as contributing significantly to the commercial success of alliance relationships by the executives charged with reviewing those relationships.
2. **Critical Success Factors**. The most common and repeating of these best practices can be seen as critical success factors (CSFs) because their presence or absence has such a high impact on the probability of success for alliance relationships. These CSFs repeat consistently over time apparently regardless of business sector, location or type of relationship.
3. **Partnering Competence**. The ability to apply the CSFs in an efficient and effective manner is described in this paper as 'partnering competence' and the collection of tools, processes, training, and methodologies which support this competence is referred to as the Alliance Best Practice Framework ABPF™.
4. **Partnering Maturity**. There are broadly three stages of partnering maturity identified by the research; i) Opportunistic ii) Systematic and iii) Endemic. Every organisation researched went through these stages in a sequential manner although some made the journey more quickly than others. The commercial return of each stage was significantly higher than the previous one.
5. **Long Term (LT) Impactors / Short Term (ST) Impactors**. Whilst all the identified 52 critical success factors contribute to success some do so more quickly than others and their impact is more limited (ST Impactors) whilst others take longer to develop but their effect is more long lasting (LT Impactors).
6. **Build / Buy / Ally**. Organisations typically use three key strategies for growth:
    a. Build – Develop resources organically to grow the business. (e.g. recruiting staff and building factories).
    b. Buy – Purchase resources to grow the business (e.g. by mergers and / or acquisitions).
    c. Ally – Leverage other organisations' resources to grow the business (e.g. through new products, new access to markets, new innovations).
7. **The ROI of the Ally Model**. The commercial return of the 'ally' model is typically higher than the other two models. Organisations are increasingly turning to the third generation business growth model of 'ally' because it represents a more flexible and cost effective growth model. In addition it is easier to achieve in a recession.
8. **Systematisation**. Organisations are now applying alliance best practices in an increasingly systematic manner driven both by internal and external pressures.
9. **Commercial Return**. Those organisations which use identified best practices are significantly more successful than those that don't.
10. **Alliance Myths**. There are a number of commonly held views which appear to be negated by the evidence in the database.
11. **Alliance Challenges**. Despite the high value of success in this area there are considerable hurdles to satisfactory operation. Some of them personal and some of them organisational.

Evidence from the ABP database strongly suggests that a business development programme based around the efficient and effective establishment and management of business to business strategic alliance relationships is particularly effective in a slow moving or sluggish economy when business deals are few and far between and little investment money is available to build or buy growth.

Introduction to the detailed research findings

This white paper is based on research conducted by Alliance Best Practice Ltd (ABP) from 2002 – 2009. So far over 300 organisations have contributed to the research which is ongoing. (For a complete list of contributing organisations and research reviewers see Appendices).

The ABP database of findings from the research currently contains over 97,000 entries from organisations in multiple sectors. In each case at least three key stakeholders were interviewed in detail, these stakeholders were;

- *Executive Sponsor* – Usually responsible for setting strategic direction and primarily concerned with cost benefit analysis.
- *Alliance Executive* – Usually responsible for managing more than one alliance and principally concerned with integrating multiple alliances as efficiently as possible.
- *Alliance Manager* – Usually responsible for the day to day running of the alliance and most concerned with a specific relationship and its operational challenges.

The research was conducted by telephone and face to face interviews with alliance professionals in the following sectors; IT Software, IT Hardware, IT Systems Integrators, Airlines, Manufacturing, Logistics, Pharmaceutical, Financial Services, Telecommunications, and FMCG.

It is this breadth and depth of practical observation which allows ABP to suggest trends and key aspects in alliance management with confidence.

Collaborations have been around for many years. Some of them have been formal others less so. In the USA over the last 15 years alliances have been studied with more rigour than that which has been applied in Europe. Alliances and collaborations have generally been easier to form in the USA due to a number of significant common factors; language, tax structure, accounting procedure, currency and legal system.

Organisations observed that when partnering went well it went very well and showed exponential growth (research from Booz Allen and Hamilton from 1996 – 2002)[i] however when it went badly it went terribly wrong (Ford and Firestone Case Study[ii]).

Editorial Note - Throughout this paper the term 'strategic alliance' is used to denote those relationships examined. In practice although this term was used extensively by companies it was by no means exclusive. Terms such as strategic partnership or collaboration were also used, and depending on the context many of the relationships were viewed as key accounts or key customers or suppliers. However, the characteristics of the relationships examined were consistent in that 'strategic' invariably meant important in both the business and commercial sense and 'alliance' denote a high degree of collaboration.

Further as a convenient simplification in this paper the nature of the relationships examined are portrayed as being 'bilateral' (i.e. as having only two partners) whilst this is true of the majority of relationships in the database (> 72%) this is not the case in all instances. However, the principles and trends discovered in multiple relationships as compared to bilateral ones show a remarkable degree of congruence (>97%).

History of Alliances

Initially the vast bulk of alliances were used for business growth by expanding existing markets or entering new ones. Today it is still the case that the majority of strategic alliances are used for this purpose (76% in the ABP database). However, in recent years two other aspects have become increasingly important these are a) alliances for innovation and b) alliances to add value or cut cost in the supply chain.

Innovation has become a new driving force in the last 3 years and some outstanding work has been conducted by Robert Porter Lynch in his programme of research 'Alliances as Engines of Innovation'[iii].

Innovation has become the new battleground for organisations like Procter and Gamble and Reckitt Benckiser whilst organisations as diverse as Toyota and Rolls Royce have woken up to the added value of collaboration in their supply chains by sharing critical knowledge with suppliers.

The problem for all these companies was the realisation over the last 5 years that they had done all they could within the boundaries of their own companies. This view was expressed best in the Economist Intelligence Unit report 'Extending the Enterprise[iv]' published in 2003. This report interviewed a cross sector range of over 102 FTSE 500 companies world wide who all came to the conclusion that they needed to 'Extend their Enterprise' and leverage resources and capabilities that they didn't own.

As Deloitte observed;

> *"In today's challenging economic environment, alliances often present an attractive capital efficient alternative for driving growth and profitability. But they present a distinctive set of management challenges. What they have in common is that they involve collaboration and interdependence between otherwise separate organisations."*

In forming alliances, companies are extending the enterprise beyond their corporate boundaries – siting business critical activities beyond what is owned and controlled.

The research confirmed the growing significance of alliances in their various forms – these range from partnerships and outsourcing arrangements to joint ventures and licensing deals. Alliances are being used to achieve business objectives – from reducing costs to expanding into new markets to accessing new skills.

Most company's dependence on external relationships over the past three years has significantly increased; significantly increased (65%), decreased (4%), stayed the same (30%).

The question that this posed for many organisations was 'How can we partner safely, effectively and repeatedly?'

That question was the genesis of the Alliance Best Practice research. What ABP found was that there are 52 statistically relevant factors that can be considered critical in strategic alliance relationships. Although not all these factors are present in every case the presence of each has a tangible beneficial impact on the commercial success of the relationship.

Key Findings

1 - Build / Buy / Ally

Organisations of all sizes including small to medium (SME) are increasingly looking to exploit the third generation of business growth model, that of ally. Historically most have tried build first. This is natural since any small organisation starting up doesn't have the resources necessary to buy other organisations whilst at the same time it has no shareholders to demand accelerated growth. Hence it develops its own products and services and recruits its own staff and buys its own resources to use in production.

It is only when the organisation is moderately successful that it starts to blend its organic growth model with a non organic element of mergers and acquisitions. However, most organisations of various sizes seem to find a degree of corporate indigestion after approximately 4 years of a focused acquisition strategy this is because after 4 years the parts of the businesses that were not wanted and were not 'core' to the organisation need to be disposed of. It is a rare organisation indeed that effectively deals with these problems as it goes along[v]

Organisations in Europe recognised 5-7 years ago the power of the ally model (there is considerable evidence that US based companies recognised this much earlier i.e. 10-15 years ago). The value of being able to use other organisations resources to promote and accelerate ones own growth strategies is seen by some as 'Business Nirvana' and a sure path to sustainability in the new networked economy. There are two interesting and insightful papers on this issue the first was the result of research conducted with CEOs in 2004 in which a large majority complained that they had done all they could internally with improvement programmes and now had to 'extend their enterprise' using external collaborations.[vi]

The second paper is a recent book by Geoffrey Moore (author of crossing the chasm) called 'Dealing with Darwin' in which he argues (amongst other things) that organisations should strive to collaborate with others to combine what is 'core' (i.e. critical for survival) with what is 'context' (i.e. helps with core). In other words leverage what you are great at with others who are great at what you are not.[vii]

The problem with the ally model however leads us directly into a consideration of the next finding from the research which is that organisations are now looking at ways in which they can deploy the ally model safely, consistently and repeatedly.

2 - Alliance Myths

In the course of collecting the data which makes up the research database ABP has come across a number of commonly accepted alliance 'myths' which would seem to be dispelled by the weight of evidence from the database itself. Some of the most common are;

Alliances are about people pure and simple – The essence of this view is that collaborations between companies ultimately come down to the relationship between a finite number of people and hence alliances are fundamentally concerned with whether people 'get along'.

Whilst it is perfectly true that chemistry is an important and catalytic element in most strategic alliances and that the cultural dimension is important in the CSF framework, it also evident from the database that it is only one of many such important considerations. Further it is evident that in two relationships both with an equally strong bond between the participants the relationship with the added advantage of commercial, technical, strategic and operational factors (or CSFs) will have a vastly enhanced chance of success.

There can be no 'one' single best practice all alliances are unique – It is entirely true that one cannot isolate a single CSF or indeed a small group of CSFs and say with any confidence that such a small group represents best practice. In addition it is equally true to say that all alliances are different and in their makeup, context, results and positioning unique. However, statistically it is possible to identify those factors (CSFs) that repeat on a regular basis in successful strategic alliances and further to identify those factors in all alliances regardless of type, intent, sector or background.

The analogy is akin to that of human DNA in that the range and complexity of individual humans is infinite with each one being unique. However, we now know that all humans (whatever their sex, colour, physical makeup or ethnicity) are built from a common set of DNA 'strands'. The best practice database represents a collection of the DNA strands of strategic alliances from which many multiple types can be observed.

Collaboration is an unnatural act – This point of view most often leads us into a philosophical consideration of the nature of humanity itself (i.e. is man naturally good or bad? Is he naturally disposed towards collaboration or competition?). The argument supporting this assertion is founded on the idea that since all natural resources are by definition finite it is a 'natural' act to fight to secure a greater share of those limited resources for oneself rather than sharing them.

The answer from the database appears to be that whilst collaboration is very difficult for some personalities it is extremely easy (and the interaction of choice) for others. In addition the 'law' of scarce resources actually acts in favour of good collaboration since successful collaborators know that they need to offer something that they have a lot of (or costs them very little) in return for something that they have a little of (or costs them a lot to get).

There is also a great deal of evidence from nature itself that collaboration is not just a 'natural' act but in many instances it is a necessary one.

Alliances are not 'sexy' business models - In a recent edition of Forbes Business magazine in the United States[viii] over 100 pages of intense consideration of the alliance model concluded with the deceptively insightful comment that 'Strategic Alliances are not sexy' meaning that mergers, takeovers, grabbing market share, beating the competition, etc. all these actions were considered 'sexy' by male and female CEOs but collaboration, seeing the others point of view, one plus one equals three, etc. were seen as aspirations of non commercially minded people.

Evidence from the database suggests that there is a 'tipping point' in the understanding of and deployment of strategic alliance models. If a CEO can 'hang in there' long enough with a genuinely strategic relationship then the long term commercial results will justify the model's adoption. However, it is also true that those organisations that have a predominantly short term vision for their business relationships struggle with the stamina required to adopt successfully a strategic alliance mindset. This is reflected in those organisations that have stable senior executive teams rather than those that have a high degree of senior management turnover (e.g. success models include; Microsoft, Cisco, Dell, Eli Lilly, Siebel, and Starbucks).

If the money is good enough then people will pretend to get along – This is in a sense the converse argument to the one above 'Its all about people'. Once again the answer is similar which is that although the money (or commercial return) is important there are a whole host of other factors (actually there are 51 other factors!) which can contribute to a successful relationship.

In actual fact evidence from the database strongly suggests that commercial return is an effect rather than a cause of strategic alliance success, meaning that if the underlying causes are in place (all other things being equal) then increased commercial value will flow as a natural consequence.

No organisation is going to willingly commit to a limited number of partners – The argument here is that organisations will want to deal with as many organisations as possible to give them the best chance of commercial success. However, evidence from the research suggest otherwise.

Firstly any organisation (of whatever size) has a limited bandwidth available in terms of people, skills, technology platforms, etc. which makes dealing with more than a handful of truly strategic partners impossible.

Secondly the act of allying with one organisation necessarily alienates that organisation from a relationship with others. This is principally the reason why 'alliance fortresses' or 'islands' are growing up with competition developing not between individual organisations but between competing collaborations.

Finally the research shows that the commercial benefits of a successful alliance chosen with the right partner in the right sector which has a high degree of organisational 'intimacy' between the players outweigh the alternative benefits of allying in a non proprietary manner with a large number of less intimate partners.

There are too many variables in any collaborative relationship to allow meaningful analysis – Whilst it is true that the primary and secondary variables generated by collaborations are complex and can at time appear bewildering; organisations who have used the framework generated by the database report good results which are practical, applicable, relevant and insightful. In part this is because what the database teaches them is 'in synch' with their intuition. This in itself is not surprising since the database contains 'systematised common sense from a large number of appropriate observations, hence it would be surprising indeed if the data was not relevant and immediately practical.

3 - Challenges

Although there are many very good reasons why organisations adopt strategic alliances there are equally a number of significant challenges to be overcome for successful operation. Some of these have been identified by numerous authors elsewhere but the problems specifically highlighted by the ABP research include;

Building bricks with no straw – This is the syndrome of expecting alliance professionals to be able to develop and manage successful alliance relationships with no support. It was common in the research to find individuals at multiple levels up to and including Vice Presidents and country managers who were expected to produce outstanding results with no; training, partner support systems, methodologies, templates, tools, etc.

The reality is that no matter how good or 'alliance savvy' an individual might be he or she will benefit from being able to rely on a support infrastructure appropriately provided by the organisation.

Confusing Terminology – In many situations during the research individuals were seen to be adopting positions and attitudes to the detriment of the relationship simply because they misunderstood what individual sin their partner organisations meant by key phrases and terminology. This trivial oversight is actually responsible for massive lost value and time in many strategic alliances.

Identifying Key Stakeholders – It is amazing how much time it takes organisations to interact successfully with each other. Even in the situation where both are fully committed to interaction the apparently simple process of identifying the right person to speak to is fraught with considerable difficulties which necessarily slow down relationship development.

Lack of control – There is no doubt that for both individuals and organisations alike some can tolerate lack of control more easily than others. By its nature a balanced collaboration will have joint control or sometimes shared control between the parties depending on the situation and context. This aspect of deriving value from a collaborative model is implicit in its nature and the leading edge organisations are now experimenting with alliance manager assessment centres which identify those personalities that will feel most at home (and therefore able to perform better) in these situations.

Appointing the wrong person to the alliance role – This is a closely allied problem to the one above and involves appointing the wrong type of personality to an alliance role. There is no doubt (as identified above) that some people find it easier to and more natural to act in a collaborative manner than others consequently many organisations are wasting a great deal of time and effort asking the wrong types of people to act as alliance managers.

One of the most common instances of this is by appointing large account salesmen in the Hi Tech sector to become alliance managers. What they typically find is that the very skills, attitudes and beliefs that made them a success as a salesman are actually a barrier to them becoming successful alliance managers.

Technical excellence is not Partnering excellence – This problem showed up time and again in Hi Tech collaborations (but was certainly not restricted to this sector). The problem was that organisations and individuals believed that partners would work with them simply because their products and / or services were of good quality. These individuals misunderstand the nature of alliances in the 21st century.

It is true that if an organisation does not have products and services which are 'fit for purpose' then their chances of partnering success are slim. However, the converse also holds true and is reflected in the database, which is that just because an organisation has good products and services does not necessarily make it a good target for prospective partners.

This problem was commonly seen in the software sector in which the opening statement from an alliance executive was often; 'We make good software so how many licences do you want to on sell?' This is hardly collaborative language and actually serves to 'turn off' the partner as he or she perceives themselves being downgraded to the role of a reseller of the others services and products.

Short term thinking – There is no doubt that the strategic alliance model is a long term business model and whilst it can produce results quickly (see 'Short Term Impactors') it is also somewhat unreasonable to ask 'How will this strategic alliance affect my sales this month?

Managing multiple alliances – One of the biggest problems for many organisations moving from stage one thinking to stage two thinking is the problem of alliance portfolio management. This is because a successful answer involves so many different aspects many of which are outside of individual control; alliance strategy, senior executive support, organisational maturity, partner choice and balance, etc.

Many organisations solve this problem pragmatically by 'taking the problem offline' by allocating it to a newly formed alliance centre of excellence which can be either real or virtual. The Alliance CoE performs the strategic, integration, standards setting and balancing tasks so necessary to programme manage an alliance portfolio successfully. The drawback is sometimes that the CoE gets isolated from the operational units and is seen as a ' corporate ivory tower' adding no real value but dictating rules as barriers to local alliance practitioners.

Embedding collaborative thinking in an organisation – Just as alliance programme management is the big headache when moving from stage one to stage two; embedding collaborative thinking and behaviours is the main challenge facing high stage two companies.

The essence of the problem appears to be that organisations do not put appropriate structures in place to appropriately reward the behaviour they are seeking consequently 'lip service' is paid to collaborative aspirations and the programmes themselves become enshrined in meaningless PR documents which are not supported by local actions.

Collaborative negotiation – Negotiation in alliances is not the same as negotiation in other aspects of business life. The difference lies in the distinction between collaborative and adversarial. In an alliance compromise is failure whilst in most normal commercial negotiations compromise is seen as the natural end point achieved in balanced negotiations. For a further and deeper discussion of these distinctions see Vantage Partners and the Harvard Negotiation Project 'Difficult Conversations' www.vantagepartners.com [ix].

4 - Alliance Best Practices Exist

There is no doubt that best practices in general business management exist and the concept of establishing best practice frameworks has become a recognised management approach in areas as diverse as measurement (Kaplan and Norton Balanced Scorecard http://www.balancedscorecard.org) and total quality (the Business Excellence model http://www.efqm.org).

In the area of corporate alliances the first organisation to address this area was the Association of Strategic Alliance Professionals[x] A.S.A.P. ABP used the research base originally collated by A.S.A.P. to conduct its own systematised research into alliances looking to identify the answer to a single question; 'What works?'

What are those consistent factors that appear in successful alliances? Are these factors sector specific? Or are some of them consistent from industry to industry?

ABP examined every piece of research it could find that addressed the question of success factors in strategic alliance relationships. This involved examining research which covered over 27,000 instances of collaborative relationships of all types from 1989 – 2008. (This research is ongoing).

What we found was that there were indeed factors which appeared consistently in successful strategic alliances. These factors appeared so important that ABP called them critical success factors (CSFs). In addition these CSFs appeared to fall into 5 separate dimensions which are; 1) Commercial, 2) Technical, 3) Strategic 4) Cultural and 5) Operational. (For a full list of the CSFs see *Appendix 1 – The Critical Success Factors)* ABP defines best practices as;

> ***'Those practices, principles, procedures, behaviours or factors which appear in successful strategic alliances in a statistically relevant manner'***.

In other words they appear more times than can be explained by pure chance or luck. The ABP database holds over 97,000 observations of these CSFs in practice.

Organisations are now beginning to use these factors as the basis of a common 'framework' between them which allows them to learn from both their own and disparate sectors experience.

5 - There are broadly three stages to partnering maturity

By observation three 'tipping points' were observed in the captured data. These three points reflect a company's attitude to organisational partnering. The three stages are almost always sequential however there are certain circumstances in which some companies choose not to progress to the next stage. The three stages in order are;

Stage I - Opportunistic

Typically organisations in this stage use partnerships tactically (most often to propose for business which they could not win alone or to force suppliers to collaborate for extra value in the supply chain). Actions and initiatives are not combined and initiatives are driven by internal champions. Success is measured by commercial return or 'deals' and little if any thought is given to the long term health of the relationships involved.

Stage II - Systematic

Organisations which enter this stage have recognised the effort that they are putting into multiple instances of partnering and have recognised the value of systematising their efforts. Typical actions include; establishing a central strategic alliances planning team, developing common governance procedures, joining external alliance associations, developing common methodologies and toolsets for internal use and seeking out external best practice. This stage contains the greatest number of alliances examined in the database and appears to be the most common for organisations today.

Stage III - Endemic

This stage contains world class partnering organisations which have progressed through stages 1 and 2 above and have now implanted partnering as the very means by which they do business. Partnering is not seen as a management fad but rather as '*The way we do business around here*'. Typical actions in this stage are; breaking apart corporate partnering teams and repositioning the function within line management, making collaboration a key skill which is measured in individual appraisal processes.

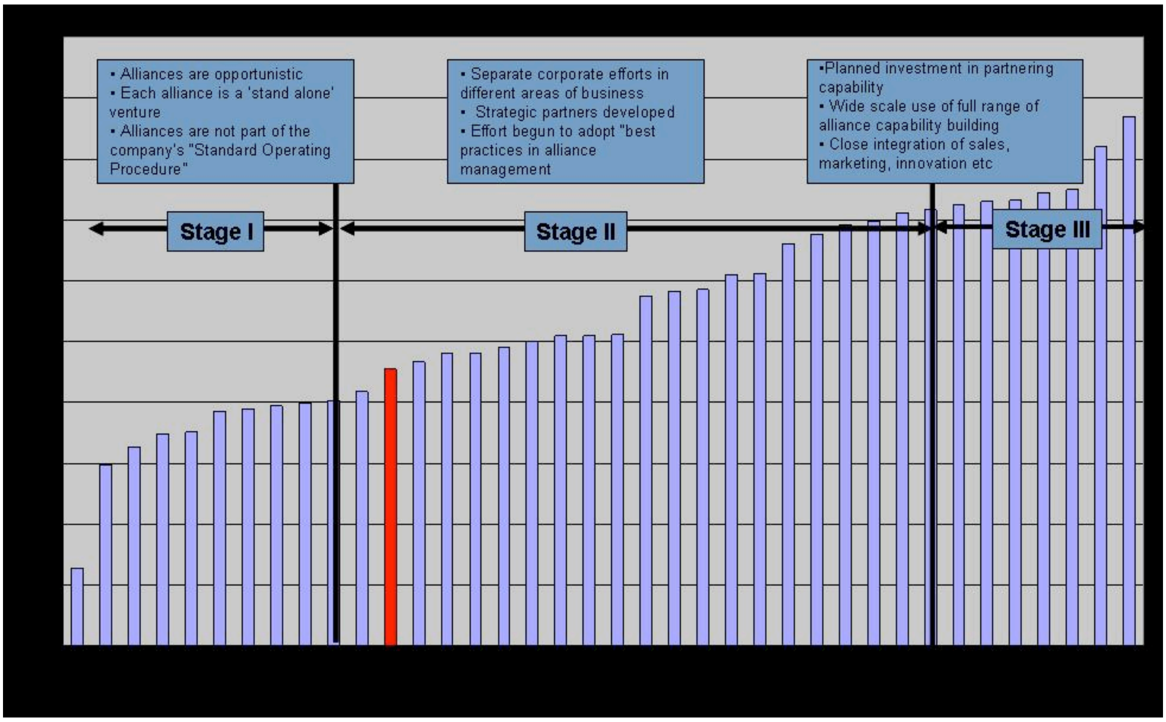

Figure 1: A representative sample of benchmarked companies by stage showing overall best practice score

6 - High Impacters / Low Impacters

The 52 Critical Success Factors fall into two broad categories; high impactors and low impactors. Although all the CSFs are crucial to success the speed at which they deliver their benefit and the impact of the benefit generated varies.

For example the appointment of a dedicated alliance or relationship manager is a relatively simple thing to do. Hence its impact is immediate however once appointed there is little more that the organisation can do to affect this factor (low impactor). However, the question of trust in the relationship takes time to develop but is an ongoing advantage in that it helps with a multitude of other CSFs (high impactor).

Generally it can be observed that low impactors tend to deliver their benefit either immediately or within 90 days whilst it takes high impactors anything from 12 – 18 months to start to deliver their benefit, but the ongoing impact makes the benefit sustainable.

This observation helps with an understanding of why some alliance relationships start well but then falter in their performance. The solution could be that the management teams of one or both sides have focused exclusively on the easy to implement 'low impactor' practices at the expense of developing underlying skills and causes of success (high impactors). In such a situation many alliance executives have realised (sometimes too late) that they have 'picked all the low hanging fruit but not built a stepladder to reach the more difficult to harvest crop' in many circumstances this leads to a reappraisal or even a cancellation of the relationship.

Best practice organisations recognise the distinction early and construct two separate action plans;

1. A low impactor action plan that will generate 'early wins' in the relationship and build support for
2. The high impactor action plan that will focus on developing the factors necessary for continued success

By combining both courses of action they not only enjoy immediate benefits but also manage senior executive expectations so that sustainable success can be delivered over a longer time frame.

7 - Systematisation is increasingly important

Strategic Alliances are becoming increasingly more systematised in Europe. This is a very obvious finding of the research and the reasons for it appear to be both internal and external.

Organisations are beginning to understand a lot more of each other's ways of working and this is being recognised as very valuable. The ability of organisations to engage with each other to discover both the 'core' and the 'context' is recognised as a key competitive weapon and one that leads to an acceleration of business value.

Organisations increasingly want to reuse the investment/s they have made in opportunistic deal making initiatives with other organisations. These days understanding organisations is a costly and time consuming business and many organisations are looking to effectively and speedily move from stage 1 to stage 2.

CEOs world wide are increasingly under pressure from aspects such as Sarbanes Oxley and Enron and other high profile audit failures and need to convince both internal and external stakeholders that they have a repeatable and auditable process for this new business model.

Organisations don't want to be held to ransom by individuals who manage very valuable relationships. In the past when a key person left a relationship business results would suffer as one individual had to 'get to know' another key individual replacement. Now systematisation is reducing the dependence on individuals and bringing with it a reduction of business risk which can be tangibly measured.

Systematisation also allows for consistency in comparing one alliance relationship with another and thus leads to being able to develop in house best practice programmes as one business unit learns from another.

It costs less to be working to a system. Invariably all the organisations in the database who have considered this question recognise its implicit truth. It costs less in terms of time, money and effort (often all three are linked) to be following a process that has already been defined than it does to invent a new one.

The flip side of the cost point above is also true. Organisations that use alliance best practices make more money more effectively (this is a point considered in detail later).

Chief Executives are increasingly tired of the hype that surrounds partnering and want to see palpable evidence of its success rather than 'motherhood and apple pie' statements of anticipated value. This attitude is increasingly driving a systematised and coherent approach into organisations.

8 - Organisations that use best practices earn more money

Evidence from the database shows that organisations that use best practice principles, approaches, and methods earn more at less cost than those that use proprietary 'in house' approaches.

The amounts will vary depending on; the business sector the organisation operates in, the market conditions at the time, the alliance maturity of all the partners involved in the relationship, the collaboration skills of the individuals involved, etc.

However, the research suggests that the scale of difference is anywhere between 250% and 700% (i.e. two and half times to seven times more effective) as measured by commercial return.

The diagram below shows the Return on Investment (ROI) of two American headquartered software companies operating in Europe between 2003 – 2006. In each case the ROI is tracked as ROI = (every dollar earned from the relationship / every dollar invested in the relationship). Dollars earned from the relationship only includes incremental revenue (i.e. revenue which is solely as a result of the partnership and not attributable to any other source)[xi].

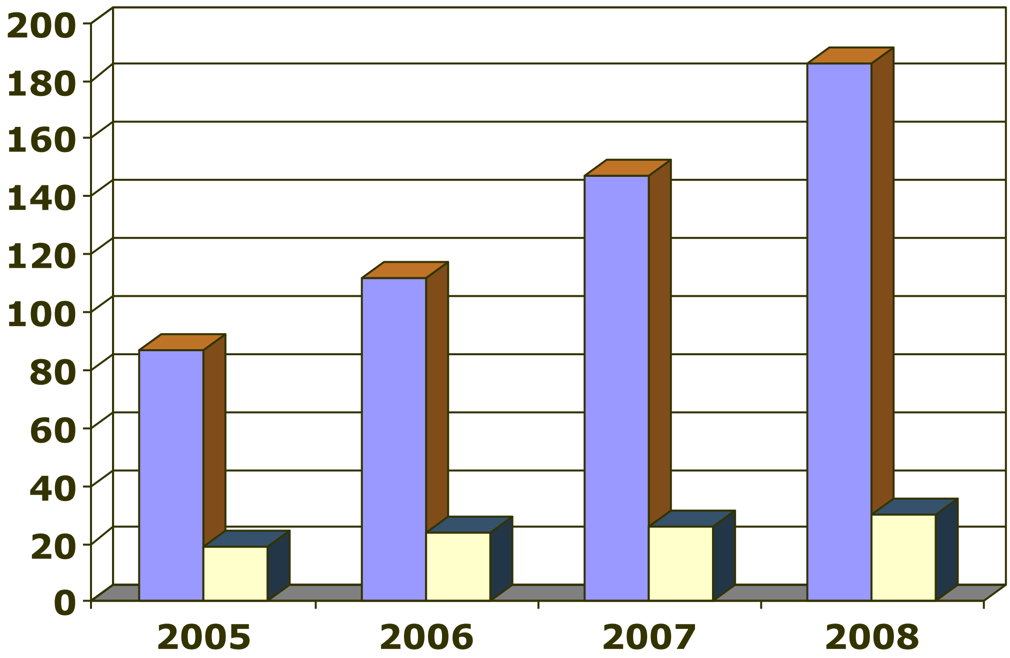

Figure 2: Organisations that use best practices earn more money

The above figure shows the revenue that two similar sized organisations (in 2005) have received year on year since 2005. As can clearly be seen the organisation that used best practices in their approach has earned considerably more money.

The sources of the commercial advantage are multiple but can be summarised into Efficiency and Effectiveness;

Efficiency

By doing the things right in an efficient manner organisations save themselves time and wasted energy which can both be expressed in cost terms ($). (e.g. internal knowledge transfer, having a defined process, having a clear business value proposition, constructing good alignment with partners, etc.).

Effectiveness

By doing the right things organisations save scarce resources for those situations which they have the best chance of ‘leveraging’. (e.g. Assessing potential partners more quickly, refusing to be drawn into the opportunistic deal chasing merry go round but rather setting and keeping to a defined strategy, etc.)

This efficiency / effectiveness ‘double whammy’ produces a virtuous circle;

By doing the right things organisations attract the most suitable candidate partners, by then doing things right they produce better results with that partner, other potential partners see the enhanced results and strive to be the ‘partner of choice’ for the organisation concerned. Thus the fortunate organisation has the luxury of multiple potential partners ‘bidding’ to become a prospective partner with the concomitant attractions of lower cost, greater value and wider margin.

The bottom line is that they accelerate revenue realisation, which is illustrated above.

Commercial Factors

Co1 - An identified Business Value Proposition (BVP)

All parties to the relationship must have a very clear and common understanding of the business value proposition (BVP). In the best cases the BVP is a breakthrough value proposition (i.e. a product and service which the customers cannot get currently from other suppliers or combinations of suppliers). Leading companies take great pains to ensure that as far as possible the partnership BVP is difficult to replicate by other consortia. In this way they extend the period of time in which they can expect to enjoy a market leading position. The existence of a BVP is critical to alliance success. Although all the other factors may be in place if you and your partner are not offering customers something that they can't get elsewhere (or offering it for a price at a quality that they can't get elsewhere) then your relationship is critically hamstrung from the outset. It is a 'must have' success factor in all your relationships. Those organisations in the database that do not have this element in place show a very high correlation with failure.

Co2 - Due Diligence

In many cases a full and formal due diligence process is possibly inappropriate in the early days of an alliance relationship. However, in the best relationships both parties understand that an assessment of how they will work together before they try is of enormous value. Commonly organisations perform some form of internal or external diligence around the areas of; commercial factors, technical alignment of both companies' products and services, a strategic understanding of where the other partner is heading, a cultural assessment of both organisations, and finally an assessment of how the will interoperate operationally.

Co3 - Optimum Legal / Business Structure

Different alliances have different purposes and it is important to recognise that the structure that works well for one relationship may not be the structure that works well for another. Questions such as whether the relationship should be formal or informal and whether the structure should include or exclude an equity element are all important id deciding the best structure. However, bear in mind that the business negotiators on both sides should draw up the overall structure of the relationship before it is finalised by the lawyers on each side.

Co4 - Alliance Audit / Healthcheck

Alliances typically are reassessed regularly for dynamic changes in day to day operations or key personnel changes. However, this CSF refers to the practice of a formal alliance review to an agreed timescale. Typically this review will be formal in nature and be attended by the full nominated stakeholder teams on both sides. Usually this review takes place annually and is the means by which original expectations and assumptions are challenged.

Co5 - Key metrics

Many organisations are finding that the selection and appropriate support of a balanced set of key metrics is critical to the success of their relationships. When deciding on the construct of their set of measurements best practice companies bear the following factors in mind;

- Commercial success tends to be an effect rather than a cause
- Causes tend to be leading indicators and effects tend to be lagging indicators

In a balanced set not only do organisations consider different dimensions (e.g. commercial, strategic, operational, cultural, and operational) but they also consider short term and long term influencers

Co6 - Alliance reward system

This point is very closely allied to point Co5 above. Only after they have decided the important things to measure do best practice companies embed the right behaviours for those key metrics. Always remember that it is at the operational level at which the grandest partnering schemes and strategies need to be implemented. At this most basic level it has never been truer that 'what gets measured gets done'. It is no use an executive team for either partner talking a good game of alliance interoperation and then rewarding direct sales and confrontational behaviour.

Co7 - Commercial cost

Most organisations have no idea how much their alliance relationships cost. Many organisations are now looking actively at this area to identify first line costs such as; the cost of the staff employed by both sides to manage the relationship; the joint marketing funds available to both organisations to achieve common goals, and the direct costs of interaction (e.g. buildings, R&D, training, etc). However, leading edge organisations are now going one step further and identifying the second line 'ad on' costs of such things as; the time of line managers taken up by alliance initiatives, the opportunity costs of not pursuing suitable initiatives or pursuing them in an ineffective manner, the costs of knowledge 'leakage' to ones partner, etc.

Co8 - Commercial benefit

It may appear to be stating the obvious that organisations should be clear on the value that they receive from their alliance relationships but in fact many organisations are insufficiently exact when identifying the commercial value that they receive. Most can identify new sales and new market share which they would not have received were it not for the partnership. However, many do not allocate value to such things as; knowledge of new markets or technological services, the innovative available to them through the interaction with their partners, access to clients which would not otherwise be available. Best practice companies are now trying hard to allocate commercial value to some non tangible factors. The reason that they are doing this is to better understand the full value of their relationships in the only commonly available measure – cash revenue!

Co9 - Process for negotiation

It could be argued that good negotiating practice would be best positioned in the cultural section which comes later. But in the MNC methodology it appears here because it has such a powerful effect on the commercial value of the deals which are agreed. Typically when negotiating a deal both parties take an adversarial position and believe that for either of them to win the other must 'lose a little'. However, in true collaborative relationships both partners understand that they are not looking to strengthen their personal position per se but rather they are trying to strengthen the value and effectiveness of the relationship. This leads to some interesting insights into what constitutes good negotiating practice in alliance relationships. MNC calls this unusual type of negotiating 'co-collaborative' negotiating to highlight and emphasise the aspect of understanding and strengthening ones partner's commercial position and the role that such a view plays in outstanding alliances.

Co10 Expected Cost value ratio

As discussed earlier best practice companies are increasingly looking in more detail and with more exactitude at the twin elements of commercial cost and commercial benefit. This allows them to develop cogent views around the cost / value return ratio of selected relationships or alliance programmes. However, this success factor goes slightly deeper than this simple observation. Increasingly best practice companies are conducting their own internal research to identify similar classes or families of alliances which can be directly compared. When they do so they discover that increasingly they can start to set expected standards for such relationships; when they do so the best indicator of success is the expected cost / income ratio. If relationships are not performing to the norms established for good alliance performance then they are quickly dissolved to save scare collaborative resource/s to be used for other and better performing relationships.

Technical Factors

T11 - Valuation of assets

It is important for both partners to feel that they are receiving equal and reciprocal amounts of value in any balanced collaboration. Consequently many leading edge organisations are now beginning to put a dollar (or sterling!) value on the assets in the relationship. This usually happens as a two stage process. In the first stage the hard assets are identified and quantified (e.g. marketing funds, R&D facilities, personnel, etc.) in the second stage the parties usually progress to include such things as; IPR, client mindshare, knowledge transfer, etc. This process is extremely important as it identifies any actual or perceived differences in value provision in the relationship. Without this process deep seated but unspoken disquiet can ferment into active discouragement and sabotage.

T12 - Partner company market position

Many partnering organisations do not take enough time to critically examine the current and future market positioning of their prospective partners. They take the view (sometimes erroneously) that what has gone before will continue into the future. However, this is very often not the case and it behoves every organisation to understand carefully their prospective partner market positions and the impact that such positioning has on their own operations.

T13 - Host company market position

Clearly of equal value in a collaborative relationship is being able to explain with clarity, simplicity and exactitude one's own market positioning particularly as it will apply to the partner. Without this key explanation the partner will not be able to suitably assess your own organisation as a prospective partner and valuable time will be lost in potentially confusing and conflicting messages from multiple executives from both (or all) companies.

T14 - Market fit of proposed solution

We have alluded to this critical success factor above in the Business Value Proposition category. Organisations need to understand how their combined offering (with their partner/s) will fit with the existing market. Ideally such a fit will be good allowing both partners to bring something new and of added value to the customer. In this way both parties will beat their traditional competition but also beat the competition of other collaborations open to the final consumer.

T15 - Product fit with partners offerings

If your organisations products or services overlap with your partners in any way there will always be the possibility of conflict no matter how many and how varied the control mechanisms that you put in place. Ideally you should choose partners who have no overlap but increasingly in the real world such an ideal situation is rare. The best that most organisations can hope for is a reduced amount of overlap to suitably reduce the risk of conflict. When facing such overlap it is always best to acknowledge the fact as soon as possible and develop joint protocols with your partner to deal with the situation.

T16 - Identified mutual needs in the relationship

Best practice organisations strive to find partnerships that genuinely satisfy a long lasting mutual need in both partners. Most regard 'making more money' or 'saving considerable revenue' as merely the starting point for such a conversation. The range of mutual needs covered is a s wide as the number of alliance relationships itself. However, all the best examples have a number of elements in common;

- The needs satisfied are considerably different but tend to be structural to the organisation in question
- The needs tend to be ones which neither part could easily satisfy on their own
- Generally the need/s represent considerable commercial value to the receiving party but paradoxically represent extremely low value to the delivering organisation
- In general the wider the diversity of need/s satisfied the greater the value leveraged

T17 - Process for team problem solving

Strategic alliances are first and foremost active collaborations. Consequently alliance managers on both sides should be encouraged not to think in terms of my problem or your problem but ‘our problem’. In this way the relationship will benefit from a higher quality of problem solving as both organisations put their best efforts jointly into solving problems.

T18 - Shared Control

We have mentioned time and again in this short paper the value of balance in the best alliance collaborations. There is no better example of the power of balance than in the area of shared control. If organisations can master the sharing of this critical feature of the relationship then the chances of success are massively enhanced. Note: this does not necessarily mean that both sides always exercise the same degree of control in the relationship. But rather that the control is exercised by the most appropriate partner at the most appropriate time. This could mean conceding control at key moments in the relationship to a partner who has a better grasp of the current situation or a better ability to effect meaningful breakthroughs. Organisations do this because they expect (and receive) the same courtesy from their partners when the need/s arise later in the relationship.

T19 - Partner accountability

Partners need to be absolutely clear as to the scope and degree of their accountability in the alliance relationships. Best practice companies jointly develop clear ground rules to leave all parties in no doubt as to what is expected of each. In many cases these rules are in no way legally binding but rather reside in Charters or codes of behaviour or Memorandums of Understanding and Principles (MOUP). Wherever they reside they contribute to a clarity of expectation from all parties that negates the damage of misaligned expectations.

Strategic Factors

S20 - Shared objectives

It is critically important that the high level (or strategic) objectives of both or all contributors to a relationship are shared and understood by all. Although seemingly obvious it is remarkable how often this basic tenet is flouted. In many cases one or all of the partners have strategic intentions which are not shared with their partners. Although this situation may be tolerable in the short term (18 months) in the longer term the differing strategic intentions of the partners will cause an increasing amount of tension in the relationship which will inevitably initiate a downward vicious spiral. The reverse of this is also true in that common strategic objectives act like a magnet drawing the relationship on ever faster towards shred goals.

S21 -Relationship Scope

In all relationships considered by ABP in this research the scope of the relationship was a factor which was least understood in a significant minority of cases. It was rare to find an MOUP (see later CSF) which explicitly stated and defined the current and ongoing scope of the relationship.

In those cases in which scope was defined it was articulated in multiple ways; geographic, technical, functionally, departmentally, etc. But in all cases the clear articulation of suitable boundaries helped the focus of the relationship.

S22 - Tactical and strategic risk

Factors S23 and S24 are clearly intimately linked, but ABP found it useful to separate them in its analysis because so often organisations had one but not the other. Many organisations identified risk in their collaborative relationships (79%) relatively fewer further refined their understanding to encompass tactical and strategic (64%) and fewer yet had a formal risk mitigation process in place to deal with the different types (32%). The factor most often cited as commonly understood risk was ‘the risk of losing money or wasting time’.

S23 - Risk sharing

Of those organisations that did recognise risk as a problem relatively few actually initiated risk sharing strategies (13%). Interestingly of those organisations that did share risk their Trust score (see later CSF) was significantly higher by a factor of over 40%.

Risk sharing was observed to be a principal driver in the area of ‘business intimacy’ and was crucial for late stage II and stage III companies. It contributed greatly to the development of trust and was observed to be a key influencer on this factor (as was the style of negotiation see later).

S24 - Exit strategies

A great deal of confusion exists in companies regarding this practice and many liken it to a pre nuptial agreement before marriage. In ABP’s opinion this analogy is both flawed and damaging. Those that support this view maintain that

S25 - Senior Exec support

The vast majority of relationships researched revealed the need to secure senior executive support (93%). However, the majority of senior executives interviewed paid only ‘lip service’ to the role of executive sponsor. There were very few organisations that adopted a formal job description for the role (9%) and of those that did only a handful required the senior executive to sign off on the objectives, duties and responsibilities that such a job description contained.

At the same time we identified a number of natural ‘alliance champions’ who felt great frustration because they were unaware of how to contribute to the success of the relationships in question.

All too often senior executive support was reduced to personal ‘chemistry’ between tope executives on both/all sides of the relationships. The best examples of senior executive support seemed to go hand in hand with regular (i.e. 6 monthly) ‘executive briefings’ at which the senior executive of one or sometimes both sides drove a formal agenda which included not just operational but also strategic issues for discussion. It was observed that in these cases there was a greater sense of integration and coherence between the operational teams on both sides of the relationship. The practice also developed a virtuous (though threatening) circle. Typically this was demonstrated by the operational teams on both sides contributing more and more planning time for these meetings (10-15 days was not unusual) so as not to be 'caught out' in front of their own senior executive and thus personally and professionally embarrassed.

S26 - B2B Strategic alignment

This is a critical factor with one of the lowest instances in the database. It is typified by organisations sharing strategic direction with each other on such issues as; technical / business direction, research and development, and market research. Most organisations had a timeframe of only 12-18 months and if they had a strategic plan for the relationship it was constructed from significant initiatives rather than a consideration of classical strategy affecting issues; political, economic, social, technological, etc.

Evidence from the database suggests that Pharmaceutical alliances tend to score higher here (+35% on the database average). This is possibly as a result of the particular nature and longevity of typical Pharma alliances and the practice of being able to exploit new drug development under licence for a relatively long time before being exposed to open market competition.

S27 - Fit with strategic business path

Just as strategic alignment between both partners was a relatively little understood or practised concept similarly the concept of key alignment between the aims of the alliance and the stated corporate objectives of both companies was rare (<9%).

Organisations seemed to view the effort of aligning the goals and objectives of the relationship with the corporate objectives of both companies as simply too hard to achieve. However, in the few instances were this was achieved it was clear that there was a resulting improvement / increase in such factors as; senior executive support, securing suitable resources for the alliance, joint marketing statements, and the preparedness of both organisations to support the other in public.

S28 - Multiple relationships with same partner

In those situations in which a significant relationship had multiple instances with the same partner the overall effectiveness of each instance was improved (between 40% - 50% better). This appears to be the result of the 'natural' and instinctive sharing of experiences from the teams on both sides of the relationship.

S29 - Common strategic ground rules

Those organisations that took the trouble to identify, articulate and document their understanding of commonly binding strategic guidelines enjoyed a better return on their relationships. Very often there was no common or consistent description of such a document (e.g. MOUP, charter, rules of engagement, behavioural code, standards manual, code of ethics, etc.). The reason appeared to be because by documenting the commonly agreed processes it significantly accelerated the planning and operationalising of the relationship. Thus both parties 'got to the money' quicker with less organisational or personal posturing.

"As soon as we agreed a simple set of relationship principles and then wrote them down managers on both sides felt that they could 'call' their opposite numbers on any behaviours or actions that weren't in synch with the charter. This stopped people damaging the relationship through inappropriate behaviours and speeded things up considerably!"

S30 - Common vision

The existence of a defined vision was absent in the majority of cases examined. In fact it was present (formally) in less than 12% of the relationships in the database. However, that is not to say that individuals on both sides of the relationships couldn't articulate in their own words 'what the relationship is all about'.

Best practice in this area suggests that the existence of a compelling vision can have a galvanising effect on the mechanics of the relationship. For example in the Eli Lilly – Takeda alliance relationship[xii] the fact that both sides firmly believed that their vision was to reduce the incidence of diabetes in young adults was a major factor in inspiring them to overcome some quite considerable operational hurdles.

Similarly the North Yorkshire Fire Brigade and McCain alliance in the UK was proven to reduce deaths from home fires by over 60% in a 3 year period.[xiii] In this case the traditional practice of using hot oil and fat to deep fry potatoes in the home was successfully replaced by the far safer option of 'oven chips' in this case provided by McCain. There is significant evidence that it was the children of parents who drove the success of this initiative after an extensive school education programme paid for out of the profits of the alliance. Official statistics show that at least 83 deaths were avoided in a three year period. It was this overwhelming vision of saving life that many alliance participants identified as the reason why they would give up their free time at weekends to talk to schoolchildren and dress up in outlandish costumes to get their message home.

Cultural Factors

Of all the 5 dimensions the cultural one was probably the least well understood or articulated. Many organisations had multiple phraseology for this area; the most common being cultural or behavioural. Cultural is used here as representing marginally the most widely accepted term (53%). However, it must be recognised that this category includes both personal (behavioural) and organisational (cultural) factors.

Cu31 -Trust

Trust was clearly recognised in a large majority of the relationships examined as being of paramount importance (87%). However, the subtle but important distinction between personal and organisational trust was less clear. There were many instances in which two or more individuals from both sides developed a powerful rapport and personal chemistry. This rapport seemed to have little to do with national or ethnic considerations and there were many instances of strong personal friendships resulting from such rapport.

Indeed in some cases the rapport was so strong that individuals were seem as 'going native' meaning that they favoured the objectives and intentions of their partner's organisation rather than their own.

The incidence of business to business trust was far less common and no organisations identified in the database have a formal or credible business to business trust building model. This is due in no small part to the fact that the essence of organisational trust is misunderstood.

Paradoxically the impact that trust can have on relationships was almost universally identified as a critical success factor (94%) with many individuals able to cite quite clearly the commercial value of developing trust;

> *"It helps you negotiate the natural ups and downs of the relationship more easily. Your partner doesn't immediately reach for the contract when you don't deliver and he looks to see why this problem might have occurred rather than blaming individuals."*

There has been an increasing degree of attention paid to this important area in the recent literature on alliance management (see particularly - Getting the measure of culture: from values to business performance by Prof Fons Trompenaars, PhD and Prof. Peter Williams, PhD and also Strategic Alliances between American and German companies : A cultural perspective by Khaled Abdou[xiv] and finally 'Managing Cultural Differences in Alliances' by Pablo C. Biggs[xv]).

There is no doubt that many organisations are now beginning to wake up to the hidden impact that cultural misalignment can have and many organisations are developing a language to describe organisational diversity in a way which allows them to address the differences (e.g. BT, SAP, Siemens Communications, Air France, Delta, Capgemini, etc.).

Cu32 - Collaborative corporate mindset

Many individual alliance managers cited this aspect as being the most difficult to deal with. Quotations such as the one below from a senior executive at Atos Origin were typical;

> *"We don't do alliances very well, this is due in no small part to our historical growth, if we see an organisation that we would like to work with we don't ally with them we buy them!"*

Organisations that exhibited an immature or nascent organisational collaborative mindset tended to fall into the Stage I – Opportunistic category. This means that they would pursue collaborations only in so far as they helped them to secure particular opportunities which were too large or too complex for them to win alone. When that particular opportunity was secured they would then pursue another one, but there was no co-ordination of alliance activities other than those necessary to 'win deals'.

In comparison those organisations that had reached Stage III – Endemic saw partnering not as a separate function but rather as 'the way wed o things around here'. Such organisations regarded partnering as the core of their business and took great pains to ensure that partnering ethics and behaviours were practised throughout their organisations (e.g. Starbucks, Eli Lilly, Dow Corning, Siebel, etc).

Cu33 -Collaboration skills

No organisations in the database had a coherent and integrated structure for collaboration skills development although many had individual training courses for aspects of the collaboration skill set (e.g. negotiation, inter personal skills, 360^{O} review, project management, influencing skills, mediation, Etc.).

This is in many respects surprising given that there is a clear and strong causal link between the collaboration skills of key stakeholders and the success of collaborative relationships. It appears that the reason might be that no association or trade body has sufficiently articulated a comprehensive framework of skills to describe the competencies of professional collaboration. However, evidence suggests that such initiatives are now gaining ground.[xvi]

Cu34 - Dedicated alliance manager

In many respects this is the simplest and easiest best practice factor to track. There is empirical evidence that when dedicated resource is allocated to a strategic relationship that relationship improves by between 50% and 80% defined in the success terms of the individual relationship (e.g. more products sold, greater influence with introducers, quicker time to market, better profit margin, greater gross sales, higher revenue, etc.).

Given this fact it is surprising that so many organisations continue to expect individual managers to run multiple alliances. The reason appears to be a damaging catch 22 situation. When a manager asks to be allocated full time to a relationship the common answer from executive management appears to be 'When you can generate x amount of increased revenue I will allow you to go full time on the relationship'. However, the problem is that without being full time the individual manager will never have the time available to produce x revenue, let alone develop a coherent long term growth plan for the relationship.

> *"I spend all my time running from one of my three so called strategic alliances to the next desperately fire fighting operational issues which arise and then I get criticised by my manager because I haven't developed a coherent strategy for each!"*

Cu35 - Alliance centre of excellence

There was overwhelming evidence from the database that when organisations start to share alliance knowledge amongst practioners performance goes up (Incidence 46% Performance improvement 87% increase on average).

These centres were by no means all physical entities, some were 'virtual' groups of multiple disciplines. Yet further not all were formally established some were clearly operationally started as a common observation of need;

> *"We started a regular teleconference call once a month to share experiences on our alliances. To be honest at first it was just a chance to share frustrations but pretty soon people began to share experiences or tips and tricks that had worked well for them that others could use. We started to share documents and templates and it really helped with our day to day jobs!"*

There was a common misconception in Hi Tech alliances that the technical centres of excellence that were formed to test technical solutions was the same as alliance centres of excellence this was clearly erroneous although there were aspects of technical collaboration that shred common best p[practices with alliances e.g. communication models, operating protocols, budgetary sign off procedures, etc.].

Cu36 - Decision making process

One aspect of an organisation's culture which was seen as extremely influential in the database (>84%) is reflected in its decision-making process. Very often this is a point of significant friction between collaborating organisations. For example, generally in a large multinational organisation, a significant decision needs to be vetted and validated by a number of management levels; whereas in a small organisation the same decision can be made quickly by a handful of senior executives sitting together or communicating remotely via telephone.

The problem is not so much that both organisations take different timeframes to make decisions; it is that both sides misunderstand the nature of the other organisation. In the large organisation (not unreasonably) managers have been told to generate a traceable audit trail of authorisation thoroughly through multiple levels of senior executives; whereas in the smaller, more agile company, risk-taking and entrepreneurship is generally encouraged.

The manner in which this factor affects relationships is in the misconception of either side to the pace and depth of consensus needed to affect a successful decision. In at least one example in the database this single factor was the one aspect that consistently held back the relationship. On the one hand was a large multinational organisation, who managed very much by consensus; and the other was a much smaller, much more agile, high-tech start-up that could make decisions quickly. The practical problems that this presented, played out as follows;

A decision was agreed at the partnership steering board on Tuesday evening. The decision was for both partners to send representatives to Microsoft, in Redmond , to develop a new collaborative service offering in the relationship. In the smaller organisation the decision was articulated to half a dozen key stakeholders located around Europe and by Monday morning the three identified people who made up the management team were all sitting in the departure lounge at Heathrow on standby for a flight to Redmond.

At the same time in the larger organisation the process of executing on the decision had only just started and would take a further three weeks before it became agreed in the action plans. In this isolated example the smaller organisation was frustrated that three of its key personnel were tied up for three weeks with no significant progress (especially as it believed that it had already made the decision).

The situation was not exceptional and was played out in different ways a number of times over the next six months so much so that eventually on one particular issue the larger organisation contacted the smaller partner to ask why no progress had been made on a key initiative that had previously been agreed. The answer given by the smaller partner was;

> *'You have cried wolf so often in the past. We weren't sure whether you were serious about this one are not!'*

Cu37 - Other cultural issues

In every strategic alliance relationship examined there exists some specific aspect of both organisations culture which give problems with the relationship. Sometimes this can be the nature of communication, in others it can be an organisational reflection of arrogance or aggression; yet again it can be the attitude of organisations to escalating problems (in some organisations this seems perfectly reasonable, whilst in others it is seen as a fast track to proving that you can't do your job and leads directly to an early exit from the organisation); whatever the particular instance there is a highly occurrence in the database of specific cultural issues providing specific problems (over 86%).

Cu38 - Business to business cultural alignment.

In those organisations that recognise organisational culture as an in-house enabler or barrier to progress with partnership; many of them have developed their own language to describe their own cultural norms. They use this language as a framework to identify to potential partners culture to which that partner will be aligning and they actively encourage the partner to consider their own organisation's culture along similar lines. There is good evidence that such an active and early cultural alignment helps minimise the delays, misconceptions, and damaging perceptions commonly found in the cultural dimension.

In those organisations that do not already have a cultural alignment language or framework many are now actively turning to external advisers to help them with the situation (for example Siemens Communications and SAP conducted a five-day cultural alignment exercise, which was attended by 13 executives from each organisation. The output was a range of three to five new initiatives which the partnership believed could be inculcated into the product set of both organisations within 18 months. Another example is that of Air France and Delta airlines, in which both organisations recognised after three to four years of the alliance relationship that the disparate cultures of both organisations was 'getting in the way' of a successful relationship. In that case both organisations jointly commissioned a cultural assessment of the relationship that each partner could explain to the other;

> *'This is how things got done around here'*

Operational Factors

The final dimension examined in the database is that of 'Operational Factors'. This dimension concerns itself with anything that improves or hinders the relationship on a day to day basis and is both the most pragmatic and the most easily measured dimension.

O39 - Alliance Process

There appears little doubt from the database that the adoption of any common process between two or more partners will produce a corresponding improvement in both the efficiency and effectiveness of the relationship (> 87% likelihood). Such a process does not necessarily need to be 'best practice' the very fact that both sides are working to a common process helps to; match expectations, reduce tension and make accurate and coherent progress reporting more achievable. Organisations which have such an alliance process reported a 60 - 70% increase in the efficiency of those relationships which use the approach. In at least one case, a senior executive sponsor put the point succinctly;

> *'It's very simple guys, when we follow a process that we have already agreed we do better than when we don't. So from now on if you don't follow agreed processes in alliance management I will sack you!'*

Obviously whilst any process is an advancement, the fact that two or more parties to a strategic relationship will have their own practical process for managing alliances brings its own problems of integration and translation. Hence the power of a best practice approach in which both organisations agree the effectiveness of a best practice set of factors, principles and methodologies which are then inculcated in a defined joint process which can be explained with equal ease to both organisations.

O40 - Speed of progress so far.

Whilst not in itself a defined best practice factor, some aspect of both organisations' defining 'where they are up to' in the alliance relationship is extremely valuable. If no other reason than it prevents the damaging misconceptions which can blow up into significant problems in the not too distant future. (For example if one organisation thinks that they have made significant progress and the other organisation thinks that they have made little progress then it will be too long before these two misconceptions express themselves as extreme dissatisfaction possibly leading to strife and relationship breakdown).

The aspect to this factor which is valuable to collaborative organisations is to match the speed of progress achieved in the relationship to some form of common plan; only by doing so can both parties objectively report to their senior management that planned progress is being made.

O41 - Distance from revenue.

The planned or anticipated distance from revenue and the actual distance from revenue is a significant factor in a successful relationship. In some instances (e.g. the software industry) the distance may be very short (i.e. less than 90 days); in others it can be disproportionately long (e.g. in the pharmaceutical sector five to seven years). Whatever the empirical distance from revenue it is important that both parties have a clear understanding and genuine acknowledgement of what it is; if clarity is not achieved on this particular success factor then the chances are that at least one if not both senior executive teams responsible for the provision of resources and budget will be quickly disillusioned and there will be a consequent reduction in attention, support and budget for the relationship.

O42 - Formal business plan.

In those relationships that have a business plan it was noticed that the corresponding Commercial Factor scores were significantly higher (73%). In addition this was a success factor which very often was misconstrued (e.g. in the high-tech sector many alliance professionals who claimed to have formal business plans had in fact forecasts for new business rather than a balanced plan showing both investment and revenue returns).

The existence of a well-defined and formal business plan appeared in a relative minority of those relationships examined (< 23%).

O43 - Communication

Communication was generally acknowledged to be one of the most important critical success factors in the operational dimension. Very often there was regular and effective communication between the two individuals specifically responsible for the relationship. However, more often than not, that communication did not extend beyond those two individuals. In the best relationships, both organisations recognise the value of both internal and external communication, and develop suitable and appropriate, communication programmes for both internal and external consumption. Such communication programmes included; an identification of the key stakeholders on each side and a description of their relative roles and responsibilities, also a formal diary or current chart of the set meetings that were to be held, in addition the communication programmes gave individuals understanding of what information they should expect as a result of those meetings.

The best communication programmes identified at least three key categories of stakeholder a) operational management b) multi relationship management and c) strategic management. Not only was the communication good between all three levels within each organisation but equally communication was good (i.e. appropriate) between the differing levels in the partnership. In this way the senior executive sponsor was able to have a good overall view of the relationship, which was fundamentally in sync with the day-to-day feelings of the operational management team responsible for the relationship.

The best communication programmes generated a communication matrix, which was used as the backbone for the governance model; in that issues were passed up the structure and guidance and direction was passed down. Within each organisation such common communications were passed across the partner simultaneously as they were generated in both partners.

O44 - Quality healthcheck

This critical success factor was one of the most rapidly expanding of all those identified in the operational area. As little as three to four years ago the idea of reviewing the quality or effectiveness of the relationship was seen as potentially very damaging because it was passing a message towards ones partner that the partner or oneself was remiss in certain key aspects. However, there is clear evidence from the database that the adoption of a formal quality review process; sometimes called a health check or even an audit is now rapidly becoming the norm. The result of this appears to be driven by both internal and external factors. The internal factors are the desire of senior management to check on the appropriateness of the actions to generate commercial return. The external factors appear to be based around the need to regularly audit key relationships as a result of Sarbanes Oxley, Enron and other high-profile audit failures.

It is evident from the annual conferences of A.S.A.P. (the association of strategic alliance professionals) that a regular healthcheck enacted through a formal quality review meeting (usually annually) is becoming standard practice in a wide range of diverse sectors (see for example; The A.S.A.P. conference 2004 and metrics track contributed to by Procter & Gamble, Eli Lilly, and Cisco Systems).

O45 - MOUP (Memorandum of Understanding and Principles).

The existence of an MOUP in strategic alliance relationships is a surprisingly good litmus test of both the effectiveness and the maturity of the relationship. Such a document (which is variously described as; a charter, a code of behaviour, a partner plan or a partner programme) should be non legally binding and should concern itself with those factors which all form the backbone of a significant strategic alliance relationship (e.g. governance structure, communication, key stakeholders, vision, business value proposition, communication matrix, project specific issues, business value proposition, etc., etc.)

The existence of an MOUP is one of the most critical success factors in the operational dimension. In addition it is the one that is most welcomed by all levels of management. Operational managers welcome it because it gives them a context within which to perform their day-to-day duties and a set of rules to live by and senior executives welcome it because it gives them the easy to read (five page document) way of understanding where the relationship is currently up to.

O46 - Change management.

Whilst most relationships had a defined change management process for the initiatives of projects that were run as part of the relationship, very few (<15%) had a defined change management process for the relationship itself. Consequently, issues such as; changing personnel, changing strategies, acquisitions and mergers or new product launches all 'Took the relationship by surprise'. When questioned individuals from such relationships had no means of being able to articulate what progress the relationships have made than by staying team generalities such as; 'I think we are better now than we were before.' Or 'I think key people understand each other better.' Etc. , etc.

In a small minority of relationships in which a formal or informal relationship change management process was in existence, it was noticed that the relationships enjoyed elongation or extension of the value that they delivered, and in general were valuable for longer. It appears that this factor is the one most responsible for allowing relationships to endure the stresses and strains of the dynamics of modern day business life.

O47 - Operational metrics.

It was noticed that in some organisations whilst there were sets of strategic or cultural metrics which were used to measure the relationship generally; there was in addition a separate and more often simpler set of operational metrics also in use. This is most often noticed in high-tech relationships in which such factors as; number of days trained on the partner products or services; number of opportunities in the pipeline, leads generated by the partner and proposal wins are all recognised as specific operational indicators of the success of the relationship.

O48 - Business to business operational alignment.

Just as in the case of cultural alignment many organisations did not pay sufficient attention to the integration of the intent of the relationship into both organisations' operational units. In the most outstanding cases the relationship resulted in a 'zippered' interaction between very many different operational levels in both partners.

However, in the lesser performing relationships there was a good alignment between the intent or desire of both alliance partnership teams but this often hardly ever reached the operational units necessary to execute on the relationship.

For example two corporate alliance teams at the head offices of a large hardware and a large software company respectively planned, designed, negotiated and signed an excellent theoretical strategic alliance relationship which would have benefited both organisations through the development of specific breakthrough solutions utilising the hardware and software of both organisations. However, neither party took the trouble to 'sell' the relationship to the sales teams in the countries in Europe Middle East and Africa (EMEA) which will be responsible for selling the solutions. Consequently, there was an inordinate delay of 6-9 months with no sales made.

The joint marketing team of the relationship seemed to believe that it was sufficient simply to inform the local sales units that the relationship existed to expect the extra sales to flow. This is clearly not achievable and in the better performing organisations a great deal of time and effort is given over to persuading the local sales units as to the value that they will see individually from selling the combined products and services (e.g. the achievement of bonuses and commissions).

O49 - Exponential breakthroughs.

This critical success factor is the one most often associated with the new management buzzword of 'innovation and business sustainability'. It refers to the ability of organisations to be able to generate new and exciting business value propositions through a defined and repeatable process within the context of the relationship. It was observed that a very small minority of organisations had anything closely resembling a formal process for this up until two to three years ago. However, this factor is another which is rapidly gaining prominence in the better performing organisations (see for example , Reckitt Benckiser, Procter & Gamble, SAP, and IBM). Many organisations now looking to external third-party advisers to help them shape a breakthrough process which will allow them to bring new products and new services to market more quickly and more effectively.

O50 - Internal alignment.

This factor is most often closely associated with the business to business operational alignment factor and very often goes hand-in-hand with it. Whereas business to business operational alignment looks at the alignment between both parties to a relationship this particular factor looks at the efforts that organisations take to align their own organisation internally, to take advantage of the products and services generated by the relationship more effectively within their own 'go to market' processes.

Organisations which had put specific resources into this area showed a high leverage of value to effort (i.e. the amount of effort they put into communicating internally, showing presentations, and persuading both verbally and also by adapting compensation plans, paid for itself very many times over in respect of extra products and services sold). This was seen as a high leverage point by a large number of senior executive sponsors when questioned (> 67%).

O51 - Project plan.

There was a marked absence of any formal project plan in place by alliance professionals in the relationships examined (<13%). This in part appears to be the result of maturity of alliance professionals thinking. Many alliance professionals believe that collaboration and partnering is based around personal contact and regular interaction with key stakeholders in the partner's organisation and that a project plan would simply ' get the way' as a barrier to the necessary fluid and nebulous networking necessary for success. There is also a second and more pragmatic reason why many alliance professionals felt that they could not develop a defined project plan. This was that many of them felt that the majority of their role was taken up with tactical efforts of 'doing rather than planning' (this is particularly true of those alliance professionals were handling more than one strategic alliance at one time).

Whatever the reason there is clear evidence that the existence of a formal project plan no matter how short and no matter how prescribed contributes very greatly to the operational success of strategic relationships. Such a plan very often goes hand-in-hand with be the communication matrix mentioned earlier. Indeed, in those relationships examined in which there was a project plan, in the overwhelming majority of cases there was also significant attention given to the operational factor 5, communication (>97%).

O52 - Issue escalation

Issue escalation appears to be a well understood and well practised procedure in most project management relationships or more specifically, high-tech projects. However, it is not formally recognised very often in strategic alliance management. In the majority of cases in which this factor was questioned of strategic alliance professionals, the most common answer was 'That is part of my job, it is my job to make sure that issues get sorted'.

Where there was a relationship issue escalation process in place it usually reflected the type of issue that was generated (i.e. the technical issue would be escalated to the technical channels appropriate, the commercial issue would be escalated to the executive sponsor and a relationship issue would be escalated to the strategic alliance manager). Most organisations did not have a formal issue escalation process in their strategic alliance relationships. In those relationships where issue escalation took place effectively there was usually good evidence of senior executive support and good communication and a formal quality review.

Appendices

Appendix 1 – The Critical Success Factors

Commercial Success Factors	*Technical Success Factors*	*Strategic Success Factors*
Breakthrough Value Proposition (BVP) Due Diligence Optimum Legal / Business Structure Alliance Audit Key metrics Alliance reward system Commercial cost Commercial benefit Process for negotiation Expected Cost value ratio	Valuation of technical assets Partner company market position Host company market position Market fit of proposed solution Product fit with partners offerings Identified mutual needs in the relationship Process for team problem solving Shared Control Partner accountability	Shared objectives Relationship Scope Tactical and strategic risk Risk sharing Exit strategies Senior Exec support B2B Strategic alignment Fit with strategic business path Other relationships with same partner Common strategic ground rules Common vision

Cultural Success Factors	*Operational Success Factors*	
Trust Collaborative corporate mindset Collaboration skills Dedicated alliance manager Alliance centre of excellence Decision making process Other cultural issues B2B Cultural alignment	Alliance process Speed of progress so far Distance from revenue Formal business plan Communication Quality review MOUP Change management Operational metrics B2B Operational alignment Exponential breakthroughs Internal alignment Project plan Issue escalation	

Appendix 2 - Organisations that have been researched

The following is a list of organisations that have contributed to this research;

Organisations A-G			
Accenture	AXA	Buckland Austin	Delta
Aenis	Bank of America	Business Objects	Disney
Air France	BASF	Capgemini	Dupont
AirPlus	Battelle	Cardinal Health	EBRC
Alcatel	Bax Global	Carlson Wagonlit	Eli Lilley
Amec	Bayer Schering Pharma	Chordiant	EMC
AMP Capital	BCX	Ciber-Novesoft	Epiphany
ANA Airlines	BDO Unicon	Cognos	Ericsson
Apple Computer, Inc.	Bearing Point	Computacenter	Everis
Apple Inc	BMI	Continental Airlines	Exel
Ariba	BNP Paribas	CSC	Exponent
AstraZeneca	Boeringer Ingelheim	Csiper	Fontline
AT+T	Bristol-Myers Squibb	Delaware	Fontworkx
Atos Origin	BT Retail	Dell	Fujitsu Communications
Avaya	BT Global Services	Deloitte	GE Capital Finance

Organisations G-Z			
Genesys	Japan Corporate Bank	Northwest Airlines	Siemens AG
GlaxoSmithKline	Kana	Oracle	Siemens Business Services
GSK (Healthcare)	KLM	Peregrine	Siemens Comms
HP (UK)	Kuehne & Nagle	Pfizer	Singapore
HP (USA)	Lawson.	PLM	SSA
i2 Technologies	Logica CMG	RCC	Star Alliance
Deloitte (UK)	Lufthansa	Reckitt Benckiser	Starbucks
Deloitte (USA)	McAfee	Rifcon	StorageTek
Deloitte Global Services	Micro Focus	Rolls Royce	TNT Express
IBS	Microsoft	SAP (EMEA)	UBS
IBS	MSG	SAP (Global)	uLogistics
IDS Sheer	NEC	SAP (UK)	Unisys
Intel	NEC Computers	SAS Institute	United
Intentia	Nordea	Scottish Widows	Vodafone
ITS	SAP	Siebel	Xerox

Appendix 3 – Acknowledgements

Alliance Best Practice Ltd wishes to thank those organisations who participated in this study by providing their valuable time and insight and also those other alliance practioners and consultants who reviewed our material and gave us constructive insights. We are extremely grateful for their help in developing the concept and practice of Alliance Best Practices.

In particular we would thank; Jim Whitehurst and Jay Ennesser from IBM, Ian Shellard from Rolls Royce, Patrick Bianquis from Air France, Karel Deckers from GSK, Lucy Dimes and Richard Bryson from BT, Steve Bridge from SAP, Stephen Stapleton from Microsoft, Rein Hoogland from Cognos, Rob Hockney from AstraZeneca, Ard-Pieter de Man from Atos Consulting, Geert Duysters from the University of the United Nations, Norma Watenpaugh from Phoenix Consulting, Robert Porter Lynch from the Warren Company, Jeff Sluman from the Rhythm of Business, Dick Hoffmann from AllianceVista, Lorin Coles from AllianceSphere, Diane Kakora from Amazon Consulting, Mark Gordon, Jonathon Hughes, Jeff Weiss and Danny Ertel from Vantage Partners.

Appendix 4 - About Alliance Best Practice

Alliance Best Practice is a strategic alliance research consultancy based in the United Kingdom. Its partners are a group of independent alliance experts who each specialise in some aspect of strategic alliance formation or management. Its goal is to increase the knowledge and subsequent adoption of proven best practice principles. To support it in this endeavour it has researched strategic alliances deeply and maintains an extensive database of observations of alliances in action gained from many leading edge partnering organisations. This database currently contains over 43,000 entries.

We welcome contributions from anyone who would like to submit research for consideration into the database or from organisations who would like to be benchmarked. Please direct all enquiries in the first instance to mike.nevin@alliancebestpractice.com or info@alliancebestpractice.com if you would like further insights from the database please visit our website at www.alliancebestpractice.com

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[i] Booz Allen and Hamilton Research presented by Peter Pekar at the Association of Strategic Alliance Professionals Summit , Scottsdale Arizona 2001
[ii] Ford Firestone Case Study report available from Alliance Best Practice Ltd
[iii] Robert Porter Lynch 'Alliances as Engines of Innovation' www.warrenco.com
[iv] Extending the Enterprise A White Paper from the Economist Intelligence Unit sponsored by AT&T, Deloitte Touch Tomatsu Dimension Data, HP and Oracle.
[v] See especially GE under the guidance of Jack Welch 'GE and Neutron Jack – A Case Study in Acquisitions'.
[vi] See 'Extending the Enterprise' a research paper by the Economist Intelligence Unit – Economist Press 2004.
[vii] Dealing with Darwin by Geoffrey Moore published by Wiley 2005.
[viii] Forbes Magazine edition dedicated to Strategic Alliances Fall 2004
[ix] See also 'Getting to Yes' Negotiating Agreement without Giving In Roger Fisher & William Ury Arrow Business Books 1987 ISBN0-09-951730-2
[x] The Association of Strategic Alliance Professionals www.strategic-alliances.org
[xi] Source data is the Alliance Best Practice Database.
[xii] The Takeda / Eli Lilly Strategic Alliance relationship is a case study available to A.S.A.P. members on the website in the research library www.strategic-alliances.org
[xiii] McCain / North Yorks. Alliance Case Study ASAP European Summit March 2004, Birmingham.
[xiv] The Strategic Alliances between American and German companies : A cultural perspective
Khaled Abdou - Department of Economics and Finance, School of Business, University of
New Orleans, New Orleans, Louisiana, USA, and Simone Kliche School of Business, University of Cologne, Cologne, Germany
[xv] Managing Cultural Differences in Alliances Pablo C. Biggs, Principal Consultant, Strategic Triangle, Inc.
[xvi] See the individual initiatives of; a) Quintiles in the Pharmaceutical sector b) A.S.A.P. Certification Programme for Alliance Managers and c) Partnership Sourcing Ltd (PSL) British Standards approach to company accreditation.

