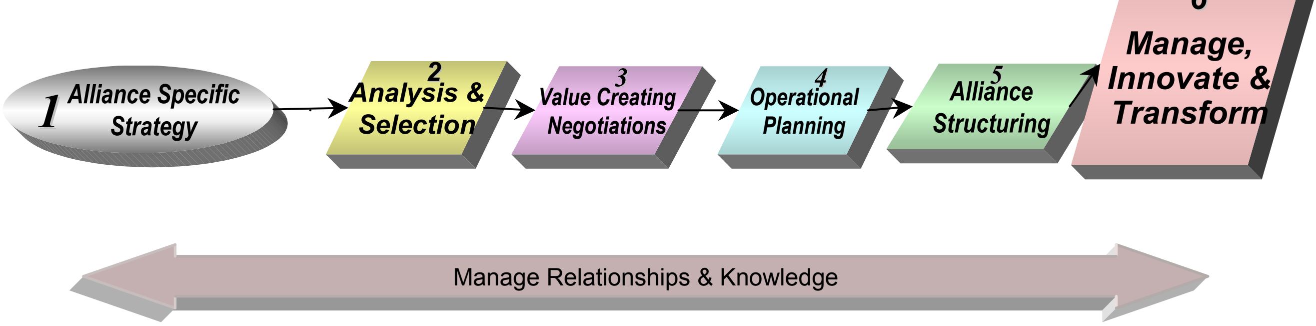
Strategic Alliance
Best Practice User Guide

-- Contents --

Alliance Framework



Overview

In the Manage, Innovate, & Transform phase, the agreement established in the Alliance Structuring phase (Phase 5) is implemented and managed over time. This phase involves two teams: the Operational Team and the Joint Governance Board.

The Alliance Executive Council, which was formed in Phase 5, includes executives from our company and our ally. This council guides policy, reviews the relationship's performance regularly, and is generally responsible for keeping the relationship "healthy" and focused on continuous improvement.

The Operational Team, which was formed in the Operational Planning phase (Phase 4), is responsible for ensuring that the alliance agreement is implemented and managed. This team also works with the Joint Governance Board to ensure that issues are handled in a timely manner. Team members should have a clear understanding of the business processes in question and of the strategic intent and expected benefits of the relationship. At the same time, team members should have strong communication and problem-solving skills that will allow the partner organizations to effectively work together to find new approaches and breakthroughs beyond those spelled out in the original agreement.

Contained within the process steps will be the following types of activities:

1. Hold initial implementation meeting.
2. Maintain continuity of personnel.
3. Monitor performance.
4. Exploit short-term opportunities.
5. Review service levels.
6. Resolve problems.
7. Maintain top-management support.
8. Maintain motivation of alliance managers.
9. Renew the alliance.

Purpose:

- To ensure a successful operation of the alliance
- Finalize all governance mechanisms to ensure proper decision making processes
- Ensure ongoing support for evaluating new opportunities
- Determine whether we are achieving alliance expectations

Goals, Critical Success Factors and Expected Outcomes

Goals

- Achieve the Value Added Proposition and STROI objectives
- Generate Synergistic Breakthroughs in Performance
- Ensure Effective Leadership, Communications, and Coordination
- Adapt to Changing Strategic and Operational Conditions
- Measure Performance and Continuous Improvement

Critical Success Factors

- Maintain the Win – Win Condition
- Empower the Alliance with top-notch leaders and managers
- Use the Differences between the Alliance Partners to Advantage
- Maintain Senior Leadership
- Retain Customer Focus

Expected Outcomes

- Team building should become endemic to the Operational Team
- Skills Development should be embraced by all team members and management
- Development of new ideas to foster the growth and success of the alliance
- Measurement tolls should be available to all team members
- Identification of areas of potential relationship changes that should be monitored

Manage, Innovate, and Transform

Step 6.1 Operational Team
- Teambuilding
- Establishing Multi-Disciplinary Teams
- Clarify Expectations

Step 6.2 Leadership and Management
- Champions
- Alliance Management Skills
- Roles of Liaisons
- Alliance, and the Role for Middle Managers
- Alliance Manager's Problem Solving Role
- Control and Empowerment Mechanisms

Step 6.3 Alliance Governance
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- Creating a Charter of Expectations

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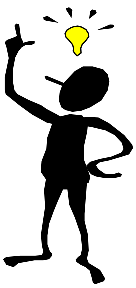
- Five Measurement Tools
- Diagnostics of Alliance Health

Step 6.6 Adapting to Change
- Realignments for Success
- Expect a Crisis
- Life Cycle Management
- Exiting Gracefully

What the Experts Say...



"No alliance ever failed because of too much communications. Keep everyone informed regularly."

"Keep champions 'glued' to the alliance."

"Watch out for threats to the alliance from changing business conditions, market shifts, and changing personnel."

Step 6.1 Operational Team

Team Building

A meeting of the alliance's Operational Team and the alliance partners' Implementation Team should take place as soon as the alliance agreement is approved in principle. (In order to ensure that the transition occurs in a timely manner and to implement the agreement as soon as possible, you may want to hold this meeting before the signing of the contract. This will give the team more time to consider human-resources and asset-transfer issues.)

The meeting should focus on making sure everyone understands the nature of the alliance and, in particular, their roles in executing the 120-day launch plan created in the Operational Planning phase. The meeting also gives the operational managers a chance to get to know each other and begin building a team.

Bring the Implementation Team into the alliance through a team building meeting. The agenda should proceed by reviewing key issues in the following sequence (See Checklist 6.1a. Launch Meeting Agenda, use it as a guide to get started.): In the launch meeting, review the following issues in order:

~Tip~
Building teamwork

Several qualities and techniques can help build a cohesive team:

- **Responsibility:** Individuals should be given enough responsibility to feel a sense of control and personal satisfaction.
- **Creativity:** Team members should be allowed to offer new ideas and alternatives before tackling a project. Foster creativity by focusing on results, rather than dictating processes and procedures.
- **Focus:** Make the team's purpose, goals and responsibilities clear.
- **Communication:** Teams should be provided with accurate information and timely feedback.
- **The "big picture" view:** Keep the team focused on the results being produced for the customer, and the value being created by the team's work, and the overall strategic alliance relationship.
- **Intervention:** Managers should act quickly to stop anti-team behavior.

Step 6.1 Operational Team

Team Building *(continued)*

Checklist 6.1a
Launch Meeting Agenda

1. **Mission/Value proposition**. Start the meeting with a review of the big picture--the reason the alliance was formed in the first place. Be sure everyone understands, agrees, and is 100% committed to the alliance.

2. **Strategic Return on Investment for both partners**. Discuss what each company will get out of the relationship, so that everyone understands each partner's perspectives.

3. **Values**. Review the core values outlined in the memorandum of understanding.

4. **The plan and the goals**. Be sure everyone understands their roles and responsibilities, and what is expected of them. Refine any plans that are unclear or incomplete.

5. **Potential problems**. Identify possible problems, and develop approaches to resolving such problems. Pay particular attention to making the people who are being transferred feel secure in the new working environment.

6. **Breakthrough projects**. Identify any elements of the plan that require extraordinary results or quantum leaps in performance.

Step 6.1 Operational Team

Team Building *(continued)*

Teamwork is synonymous with the concept of an alliance. It derives from “trust,” the fundamental element of chemistry. Teamwork empowers the alliance, and serves as a fundamental integration mechanism.

As those familiar with athletics will attest, teamwork comes from practice, continued working relationships, ethics and fairness, organization, coordination, collaboration, and discipline.

Teamwork is not just a nice value, it is a way of life -- “one for all and all for one”.

The Implementation Team Leader will not have too large of an ego, but instead should be a high achiever who sees the roles highest achievement as pulling the group together in such a way that each person may display their individual talents. In addition the Team Leader will want to create a synergy where the ultimate result is greater than the sum of the individual contributions. (See Checklist 6.1b for Guidelines to Support Teamwork.)

Step 6.1 Operational Team

Team Building *(continued)*

Checklist 6.1b
Guidelines To Support Teamwork

____**Responsibility**:	Individuals within the team have been given sufficient responsibility and control to gain personal satisfaction.
____**Creativity**:	Teams are allowed to inject ideas **before** they start tackling a project. Foster creativity by encouraging solutions, rather than dictating processes and procedures.
____**Focus**:	Oversight is maintained, without meddling. Focus is on results, boundary conditions, and obstacles.
____**Communications:**	Teams are provided with accurate information, and timely feedback.
____**Big Picture**:	The team's vision is kept broadly focused on the Value Added issues for the customer, so that team members don't become too ingrained, introverted, or parochial.
____**Intervention**:	The alliance manager puts a quick end to ego-centered, anti-team behavior (rumor spreading, Us versus Them, Not Invented Here, sacred cows, etc.)

Step 6.1 – Operational Team

Establishing Multi-disciplinary Teams

Anticipate that there will be several multi-disciplinary teams required to provide the customer with top-notch value. Use multi-disciplinary teams to solve problems directly at the level where the expertise exists. Typically these teams will be involved in activities such as:

- Joint Sales Presentations
- Joint Product/Software Development
- Joint Educating of the Customer

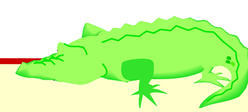
The key factor in this will be to integrate operations within the alliance so that the customer does not experience problems as the result of responsibilities “slipping through the cracks” in the alliance. The customer must see the ultimate product as totally integrated and synergistic. Anything less is unacceptable.

Clarify Expectations

To deliver value to the customer, each alliance partner will have expectations of the other. These expectations, when unstated, are “time bombs” because, if not fulfilled, will cause tremendous frictions within the alliance. Transform these volatile expectations into explicit goals by bringing them into the open and converting them into measurable, time oriented metrics.

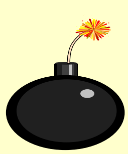
Consensus Decision Making

Alliances are built on the premise that decisions will be reached by consensus. Consensus is not a majority vote, but rather an understanding by all involved that everyone has had a chance to put their ideas on the table, and while there may still be some disagreement, the team agrees to move on in unison for the good of the venture.



~Trap~

Managing Expectations



Unstated and Vague Expectations are “Time Bombs”

Once Stated Clearly, Expectations Become Goals
Clear Expectations will yield Clear Results.

Step 6.2 Leadership and Management

Champions

Alliances fail unless there are committed champions. Champions must sit on the governing steering committee, work effectively across corporate boundaries, and solve top level problems when they arise.

Champions have to remain committed to the alliance for the long haul. In Japan, the champion remains attached to the alliance for life, regardless of promotions to another division, or assignment to another location.

Champions cannot command because their authority is not positional. Their authority comes from their vision, their energy, and their ability to touch the hearts of those who believe their vision is the reality the organization must achieve for more than its future survival, that vision contains the organization's "*thrival.*"

Tenacity and persistence are always associated with successful champions.

~Tip~
The Spirit Of The Champion

Most managers are driven by an *ethic of competition*. However, according to Terrence Deal and Alan Kennedy, authors of *Corporate Cultures*: The champion is "driven by an ethic of creation." They inspire employees by distributing a sense of responsibility throughout the organization. Everybody performs with tangible goals in sight. There is more tolerance for risk-taking, thus greater innovation; more acceptance of the value of long-term success, thus greater persistence; more personal responsibility for how the company performs -- thus a workforce that identifies personal achievement with the success of the firm."

One champion said it quite well: "You cannot cut out too early, you must follow your instincts. When you get knocked down, you must get back up again. It takes more than ego to get back up – it's beliefs, knowing you are right, it's an intuition that what you are doing is worthwhile. Doing this takes an innate ability to deal with uncertainty and risk."

Alliance Management Skills

Collaboration and coordination skills are paramount for the leaders of alliances. They exhibit behavior that is considered highly "integrative." The typical skills of a skillful alliance manager will be:

Step 6.2 Leadership and Management

Alliance Management Skills *(continued)*

- Exhibiting influence through personal persuasion;
- Persuasion based on both personality & competence as an expert;
- Style that prevents internal dissention & stalemating -- that transforms conflict into breakthrough thinking;
- Relating to diverse perspectives of a wide variety of specialists;
- Seeing the “big” picture;
- Talking the many languages of the venture;
- Using a variety of leadership styles;
- Focusing goals into common vision; and,
- Maximizing the utilization of diffuse resources.

Roles Of Liaisons

“Liaisons are often the only force capable of keeping the form shuffling, bureaucratic ‘memo-master’ from tying up the new venture in mountains of red tape.”

Norm Alister, Electronic Business

Liaisons are not the prototypical “organization man.” Some liaisons are quite senior and high ranking, while others are mid-level “inter-company deal makers” trading favors, and linking information. Universally, they pride themselves on their ability to cut through red tape and make things happen quickly. They are usually very helpful and have lots of contacts throughout their parent organizations.

Alliance and The New Role For Middle Managers

The alliance places the middle manager in a new position -- becoming a “strategic manager.” Many middle managers will not be ready to assume this role, as it is out of their previous “operational mindset.” Similarly, they will be faced with managing inter-disciplinary, cross-corporate teams, which will seem like unfamiliar territory requiring extra-ordinary communications and sensitivity to differing corporate cultures. Managers should be trained for these roles and be given the opportunity to observe other highly successful alliances before tackling the job assignment.

~Tip~

Japanese companies regard assignment to an alliance as a very positive, career enhancing promotion. As a result, not only do their best people get assigned to alliances, but they manage the alliance with the attitude that the alliance is a positive thing for themselves and their company. Ensure that all personnel from both alliance partners are “the best.”

Step 6.2 Leadership and Management

Alliance Manager's Problem-Solving Role

When problems emerge, and they will, the alliance manager's role is to manage the decision-making, not necessarily to make the decision. (Clearly, in times of crisis or urgency, the alliance manager may become the decision-maker.) To be effective in a highly ambiguous environment with mature people on staff, the manager will be an integrator who will bring key individuals together to build consensus, help the groups mutually diagnose problems, and stimulate creative solutions which maximize meeting each group's needs, while at the same time ensuring that the venture's goals will be met.

Knowing how the differing styles and capabilities of two or more companies will mesh in an alliance is a key to effective integration. The purpose statement created during the negotiations stage is the first step. Still, it is not enough. A set of clear policies regarding corporate interaction is essential. People need to know how decisions will be made, what the priorities are, who will be held accountable, and what rewards will be given.

Control and Empowerment Mechanisms

As has been stated numerous times, the methods for controlling the"extended corporation" are very different from those for the internal corporation. In the extended corporation, control tends to become an *empowering process*, whereas, in the internal corporation it is generally a limiting process. Control tends to be exercised in the following ways:

1. **Control Systems**:
   By establishing an effective reporting system that lets the sponsors know if specific goals are being met, the partner will know quickly how to take corrective action. Clear responsibilities ensure specific assignments for results. The adage: "If you can't measure it, you can't manage it" should always prevail. Directly measurable, specific, and time oriented goals can be monitored and individuals held accountable.

2. **Conception:**
   By gaining mutual agreement of the Operational Plan, at both the top and middle ranks of both partners, all key players share the same "common vision". This empowers people to act as a team and ensures alignment of activities. By having an Operational Plan, by clarifying expectations, everyone is aligned and moving toward the same destination.

Step 6.2 Leadership and Management

Control and Empowerment Mechanisms *(continued)*

3. **Coordination:**
   Effective coordination is accomplished by using excellent project management techniques that break down the tasks of the alliance into discreet process steps. By using individuals with good "integration" skills, teamwork will be enhanced, thereby further providing an empowering form of control.

4. **Communications:**
   As stated, no alliance ever failed because of too much communication. With the advanced technologies to augment face-to-face communications, there is virtually no excuse for failing to communicate. Many companies are now hooked up with Electronic Data Interchange (EDI), video conferencing, and computer networks to supplement face-to-face contact.

5. **"Chemistry":**
   Those who have experienced good chemistry in an alliance know the irrefutable value and power of this phenomenon in controlling and empowering an alliance. With integrity as an underpinning, partners can remain confident that the alliance will not careen out of control due to unscrupulous behavior. Combined with a deep commitment to a win - win approach, the partners know, regardless of strategic changes that may blow an ill wind, the alliance will steer a mutually productive course.

6. **Creativity:**
   Every cooperative venture should make a supreme effort to develop and support a creative spirit dedicated to flexibility. Diversity is a driving force magic which energizes the synergistic capacity of the partners. By maintaining a strong vision for the final purpose of the alliance, and enabling a level of "experimentation" to exist, the alliance is controlled by expanding its horizons and by facilitating its adaptive mechanisms.

7. **Commitment:**
   It is truly remarkable how persistence, time and again, leads to success. Success is due to commitment, which controls direction, speed, and final attainment of a goal. Commitment is a highly effective control mechanism for an alliance because it is both directive and empowering. Senior Leadership support from both sides of an alliance set the direction and reward systems into motion.

Step 6.2 Leadership and Management

Control and Empowerment Mechanisms *(continued)*

8. **Clarity:**
   When goals and direction are extremely precise, and milestones have been established and are regularly monitored, then clarity of direction is set in motion. Add to this an exact definition of roles and responsibilities, and the alliance becomes both empowered and controlled by acting harmoniously.

9. **Consistency:**
   The last element of control is the consistency and coherency of the value structure of the alliance itself. These values form the basis for creating decision-making, achievement, and reward processes which energize people to their highest performance.

Of these nine "control and empowerment mechanisms", the strength for the alliance comes from using them together as a whole system. Take away one or two of these methodologies and substitute more arcane and limiting auditing and reporting systems, and the alliance will wither.

Step 6.3 Alliance Governance

Alliance Executive Council

Generally the governance process occurs through an Alliance Executive Council (often referred to as a steering committee). Unlike a political system, where governance is focused on voting, politics, and majority rights, alliance governance has a very different set of purposes:

1) Coordination: Insurance that the two partners are working in a closely coupled manner, gaining unified operational functioning
2) Alignment: Singularity of vision, goals, and metrics, thus providing harmony of purpose and integrity of spirit
3) Decision-Making: Clarity of methods and speed of decisions, including roles and responsibilities for accomplishment of key tasks.
4) Guidance: Providing specific direction to those working on alliance projects, programs, and key initiatives to gain the highest performance possible
5) Policy: Determination of priorities for use of resources, and guiding principles to build trust.
6) Oversight: Reviewing the performance of the alliance to ensure it is achieving its key goals.
7) Engagement: Serving as a mechanism for optimizing senior management support and sponsorship

While the original operating agreement may call for voting rights of the members, as a practical matter, successful alliances tend to use consensus decision-making for all critical issues, believing that if one of the partners is not in concurrence with the decision, the critical win-win is not present. At this point, the best alliance managers continue to seek innovative solutions to ensure mutual benefit.

Maintaining the ever-valuable win-win balance requires a continued reassessment of the balance of risks and rewards and understanding what “winning” means to your partner.

Other Governance Mechanisms

Alliance Managers typically will be in frequent communications with each other. In many ways, this daily informal interaction is the most practical form of alliance governance.

Project Committees or Task Forces may be established to launch special initiatives. Besides the Alliance Executive Council, successful alliances often schedule an annual CEO Summit to ensure support, direction, and strategic assessment.

Step 6.3 Alliance Governance

Checklist 6.3
Establishing a Governance Process

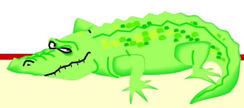
____**Executive Council**: An alliance Executive Council has been established with representatives with decision-making authority, who represent the sponsors of the alliance. Key integration team champions are assigned to the Council.

____**Responsibility**: Clear roles, responsibilities, and communications pathways have been created for each of the Executive Council members.

____**Frequency**: The Council has a regular meeting schedule which matches the needs of the alliance.

____**Crisis Response:** Any member of the Council has the authority to call a meeting of the Council when a crisis is possible or is occurring.

____**Decision-Making**: Decision-making methods are in place to drive decisions downward, not upward. Fast, non-bureaucratic procedures keep the alliance from becoming bogged down. Decisions are clearly linked to the alliance's strategy and vision.



~Trap~
Frequent Management Changes

No alliance can be effective, no matter how well conceived the decision making methodology, if there are frequent changes in personnel. Good decision-making is based on trust and relationships. As one alliance manager said: "We could never get this alliance into high gear because our alliance partner kept changing people. The average tenure of an alliance manager was less than 100 days before they were rotated to another job assignment."

Step 6.4 Creating a Collaborative Culture

Why a Collaborative Culture is Important

Once the alliance is launched, the most frequent cause of alliance failure. In one study, 62% of alliance practitioners cited "clash of corporate cultures" as a very common or somewhat common cause of failure. These clashes typically show up in a number of different ways, such as:

- Lack of Shared Vision
- Different Leadership Styles
- Top Down versus Consensus Decision Making
- Hierarchical versus Horizontal Organizational Structures
- Dissimilar Performance Processes
- Misaligned Success Measures and Rewards Systems
- Dissimilar Time Orientations, Response &Cycle Times
- Divergent Corporate Values
- Incongruent Approaches to Entrepreneurship & Risk Taking
- Technology versus Market Driven Cultures

Taking proactive leadership is essential before such conflicts can erupt and destroy the alliance . To prevent cultural clash, it is vital for the alliance management to establish clear guidance on how to handle differences or to establish a new culture for the alliance itself.

Leverage Points for a Collaborative Culture

A collaborative culture embraces a number of shared values and behaviors, including:

- Commitment to Win-Win Relationships
- Honoring and Respecting Differences
- Agreement to Disagree without Acrimony
- Open, two-way communication flow
- Willingness to "give the benefit of the doubt"
- Empathy and understanding
- An openness to learning and teaching
- The flexibility to respond to uncertainty

A collaborative culture provides a cushion against clashes that occur by the tendency of many people to make differences in culture the source of conflict by making the other culture "wrong" just because it is different. Creating new sets of shared beliefs and values for the alliance enables alliance members to shift from prior cultural constraints to a united vision and matching behaviors that respects the "synergy of compatible differences."

Step 6.4 Creating a Collaborative Culture

~Tip~

Creating the "Synergy of Compatible Differences"

- See diversity and differing opinions positively.
- Focus conflict on ideas and issues, steer away from ego entrapment (i.e. who's right/wrong, what's good/bad); do not focus on the person.
- Key Questions to Ask:
  - "What's Missing?" (not "You're Wrong!)
  - "What's Possible?" (not "That's not Our Way!)
- Use breakdowns to trigger breakthroughs.

Remember: "Unified Action is More Important than being Dead Right"

Diversity – The Alliance's "Hidden Asset"

Alliances, by their very nature, have a "hidden asset" -- diversity of viewpoint, which, for the most part, goes either **untapped** or is seen as an **obstacle**.

Research into new paradigm generation shows that it is diversity of thinking, not similarity, that creates new innovation.

The old adage prevails: "If two people in the same room think alike, one is unnecessary." The best alliances see diversity is not an obstacle, but rather, as a unique opportunity to capitalize on breaking the old paradigm of performance, and creating new frameworks for results.

As we enter an age of increasingly discontinuous change, (i.e. where the future may or may not be reflection of past trends), alliances provide us with a vehicle to be nimble and innovative in a constantly shifting world.

Creating a "Charter of Expectations"

To launch the alliance in a collaborative manner, clarity of expectations is vital. Mutually creating a "Charter of Expectations" is a method of gaining consensus on how to surface unarticulated goals and how to handle cultural differences.

The Charter of Expectations defines mutual values and establishes guidelines for behavior, especially when differences in points of view occur. Figure 6.4 outlines some of the issues that are commonly addressed in the Charter of Expectations.

Step 6.4 Creating a Collaborative Culture

Figure 6.4

Example of a Charter of Expectations

1. *Alliance Management:* The alliance managers are committed to using the Best Practices outlined in the Alliance User Guide.
2. *Assignment of Personnel:* We will insist that high quality people are assigned to work in the alliance to help ensure high performance.
3. *Performance Review:* We will conduct a strategic and operational performance review every six months, and make corrections rapidly when required between reviews.
4. *Risk/Reward:* We will encourage informed risk taking in achieving the alliance shared vision
5. *Urgency for Change:* Having asked our boards to support the alliance, we need to consider every decision's impact on achieving promised short-term results
6. *Achievement:* We seek to reward *shared* achievement, balancing individual excellence with team accomplishment
7. *Approval:* Middle and front line management will be able to make the investment decisions necessary to resolve customer issues on the spot
8. *Power/Control:* We will share power with our customers. Customers will have the ability to modify orders (within parameters) up to 24 hours in advance without penalty
9. *Learning:* Mistakes will not be punished or seen as failures, but be treated as learnings and opportunities to turn breakdowns into breakthroughs.
10. *Decision Making:* Decisions will be made at the lowest levels possible
11. *Support:* We will engage all employees in the change process and work with those whose skills are no longer needed to seek gainful employment elsewhere
12. *Conflict Resolution:* Immediate and aggressive handling of conflicts will be the norm. Disputants will candidly but constructively share concerns and grievances
13. *Time Perspective:* We will focus our energy and talents on creating a shared future, not on advancing our individual organizations or living in their past successes
14. *Relationships:* Teamwork and cross-process/cross-function collaboration must characterize all our interactions
15. *Budget & Resources:* Alliance managers are committed to be strong advocates for sufficient resources to be allocated to the alliance to ensure its success.

Step 6.5 Performance Measurement and Diagnostics

Measurement Tools

Create An Empowering Measurement System

"Be sure to design a measurement system that truly empowers the manifestation of great results." This may seem like a strange statement at first glance. However, there is a great deal of truth to the adage, "You get what you measure." Therefore, when designing the measurement system, focus on key leading indicators and measurable actions that enhance results, synergistic actions, and innovation, which, in turn will trigger exceptional results.
It is essential to "define what winning means" if you are to be successful with alliances. This requires mutual agreement on the Performance Measurement System for the alliance (which should have been defined at the earlier stages of the alliance, Phase 3.4. While each alliance will have its own unique performance measurement system, there will be common elements based on a foundation of five key measurement systems. The following list outlines these key elements:

1) **Net Satisfaction Index**:

- How satisfied is the customer?
- Have we delighted the customer the first time?
- Were we proactive (i.e. in front of the problem before something went wrong?) or re-active (taking action after the damage was done?)
- Is our partner satisfied with our relationship? Are we satisfied?
- What are any points of contention?

2) **Profitability**:

- Was there a fair profit for both partners?
- Did both meet or exceed their profit projections? if not, why?
- Was the profit reasonably apportioned/balanced between the two partners? If not, will the imbalance eventually cause friction?
- If the profit was below the projection (or negative), what are the prospects for improvement? What are the reasons for poor profit? What needs to be done to correct the situation?

Step 6.5 Performance Measurement and Diagnostics

Measurement Tools *(continued)*

3) Revenue Growth: (This is not just market share)

- Is our revenue growing at a rate that exceeds inflation and the growth of the market?
- How is the alliance's revenue growing when compared to the market's best competitor?
- What is happening in each product/market segment of the business?

~Tip~

Measurements for the Elements of Victory

Remember the Rule: "If you can't measure it, you can't manage it." Therefore, be sure you have clearly quantifiable measurements. To generate measurable criteria, ask the questions:

How Many? How Often?
How Soon? How Much?

4) Product & Service Volume:

- Are unit sales increasing?
- What lines are showing the greatest improvements?
- Are increases in volume occurring in the most profitable sectors of the business?
- What new sales/marketing/pricing approaches need to be used today or will be needed in the future?

5) Strategic Return on Investment:

Four indicators (Market Impact, Organization, Innovation, and Competitive Advantage) are *leading* indicators, and therefore are equally important with the financial elements, which are *lagging* indicators.

- **Market Impact**: Increasing market share, expansion into new markets, capturing niches that show promise of future growth, locking up key distributors, pumping more product through existing distribution channels, and becoming more responsive to the customer, etc. Some of the possible measures of market impact include:

Step 6.5 Performance Measurement and Diagnostics

Measurement Tools *(continued)*

- **Market Impact** *(continued)*
  - Revenue Generation
  - Customer Satisfaction
  - Linkage of Product, Service, Support Functions
  - Customer Internal Expansion
  - Enlarging total market for product
  - Brand Recognition/Proliferation
  - Market Leadership
  - Redefining market value in a given sector
  - New Territory Capture
  - New Segment Expansion

- **Organizational Effectiveness**: The ability to marshal its human resources. Strength is *not* measured in the *numbers* of people, but in the *effectiveness* of people. Examples include:
  - Speed of Decision-making
  - Proliferation of Organizational Learning,Proficiencies & Capabilities
  - Acquisition/Expansion of New Competencies
  - Productivity per person or investment
  - Leverage of Sales Force with Multiple Products in same channel
  - Integration of Technologies
  - Building Internal Alliances & Bus. Unit Cooperation
  - Elimination of Non-Value Added Work
  - Ability to Work Seamlessly & Effectively with Alliance Partners

- **Innovative Capacity**: Without innovation, there is no adaptability for the future. Innovation can take a variety of forms, ranging from:.
  - New Production Processes
  - New Products
  - New Services
  - Integration of Software/Hardware/Network Solutions
  - Effective Use of Information
  - New Core Technologies
  - New Delivery Mechanisms
  - Continuous Improvements
  - Technology Breakthroughs
  - Faster Adaptation

Step 6.5 Performance Measurement and Diagnostics

Measurement Tools *(continued)*

• **Competitive Advantage:** All strategy must give major consideration to competitive advantage if it is to be successful. Business is a chess match; there is never a single "best move". Strategy is all relative to the customer and the response to the competitor. Some highlights as examples:

— New/Compatible Product Stream
— Speed: Fast Time to Market/Fast Cycle Times
— Creating Barriers to Entry or Exit
— Premium Paid by Customer for Integration
— Low Cost Producer
— Open System or Closed System
— Portal of Choice
— Service Availability
— Ability to Attract Best Alliance Partners
— Intellectual Property Protection
— Strategic "Trump" or "Checkmate"

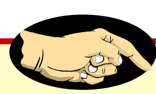
Alliance Diagnostics

By monitoring the "health" of an alliance, we can determine if there are Early Warning Signs of distress and take action with ample lead time to prevent serious difficulties.

Seasoned alliance managers know that changing business dynamics cause misalignments as the alliance matures, therefore necessitating an annual check-up. Areas that are typically surveyed include:

— Strategic Fit
— Chemistry Fit
— Operational Fit
— Organizational Effectiveness
— Performance
— Governance

Figure 6.5 is an example of a partial list of some of the questions used in diagnosing alliance health.



~Tip~

Only Conduct a Survey If You Intend to Make Changes

A survey of alliance members opinions will create expectations for change. Be sure to provide feedback of survey findings, then follow-up with an action-planning workshop to engage both sides of the alliance in constructive changes. Many alliances use a neutral third party to perform the diagnostics and workshop to ensure objectivity.

Step 6.5 Performance Measurement and Diagnostics

Figure 6.5

EXAMPLE of Survey Issues used in Alliance Diagnostics

(Note: This is a partial list. An actual survey usually consists of 50 questions, with open ended questions, etc.)*

Strategic Fit

a. Our Alliance partners have complementary strategic directions.
b. The alliance continues to gives us a very powerful competitive advantage in the marketplace.

Organizational Effectiveness

a. We receive the information we need to conduct the alliance's activities in a timely and orderly manner.
b. Our alliance operates using procedures and processes that make it a highly effective organization.

Win-Win

a. There is a strong commitment to having the alliance be a win/win arrangement.
b. Our alliance is well structured to share risk.

Chemistry Fit

a. We have high levels of trust and integrity between both sides of the alliance.
b. Our alliance team communicates often and frequently.

Synergy

a. Together, we are able to create far more than we could independently.
b. We have demonstrated proper flexibility between the partners when needed.

Operational Fit

a. We have a good operational environment to run the alliance.
b. The alliance has sufficient resources to accomplish its task.

Support

a. Top management from both companies understands & supports our activities.
b. The project activities of the alliance are well planned, coordinated and managed.

Performance

a. We are achieving the highest level of performance for an alliance of this type.
b. There are specific and timely procedures for addressing the breakdowns or disagreements.

Governance

a. We have an effective governance procedure for setting direction, policies, and priorities.
b. The measurements we use for evaluating performance of our alliance are highly effective

** Survey Issues provided courtesy of The Warren Company*

Step 6.6 Adapting To Change

Realignments For Success

During the course of the alliance, there will inevitably be shifts in its critical underpinnings. These shifts will affect the three dimensions of fit:

Strategic Fit: Shifts in **Strategic Environment**

- Price Changes
- Changes in Technology
- Competitors Entering Market
- Market Changes
- Production Costs
- Strategic Realignments
- Changing Consumer Needs, Values, Expectations

Chemistry Fit: Changes in **Human Dynamics**

- Change of Key Personnel
- Lack of Commitment and Support
- Conflicting Organizational Values
- Breakdowns in Relationships

Operational Fit: Changing **Operational** Conditions

- Internal Financial Problems
- Production and Marketing Costs
- Lack of Productivity
- Other Service or Performance Problems

Normally when things are going well, no one pays attention to the alliance. It is when results start to fall off that managers become deeply involved in the arrangement. What becomes normal at that time is micro-management of the alliance. You can then see the following things happen as:

Avoid the problem by staying proactive. By scheduling reviews of the components of the Three Dimensional Fit we will be sure to identify problems before they become large enough for senior executives to become involved in a negative manner.

Checklist 6.5, The Alliance Future, should be viewed as assisting you in asking questions about where the alliance is going and how it will get there.

Step 6.6 Adapting To Change

Checklist 6.5
The Alliance Future

The "**Second Act**:" Look beyond the current product/service mix…

____ Where is the alliance going?

____ What will be the future value offering?

____ What should we be thinking about as a future offering?

____ What is the customer's likely reaction to such an offering?

____ How can the alliance be used to advantage to collect information or develop new offerings to the market segment?

Step 6.6 Adapting To Change

This is obviously not the way to manage an alliance relationship. Instead once the alliance is launched, management's ultimate goal is to maintain a win - win condition in an ever changing world, where strategic forces are always in flux and operational conditions are shifting. Change is inevitable, and not always predictable; it creates problems and opportunities. There are methods to ensure changes are handled effectively and opportunistically.

The alliance manager's task is to custom design a venture that enables both the sponsoring companies and the alliance itself to optimize their objectives. This process must focus on continually devising win - win methods to adapt the alliance to maintain the three dimensions of "fit" -- strategy, chemistry, and operational.

In the competitive marketplace of this new century, companies will have to reexamine their entire base-line assumptions about the future and what makes them competitive. For a company to be strong in the global marketplace, it must look at alliances as one of the more powerful strategic weapons in its arsenal. The successful corporation in this new era will have a number of characteristics:

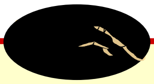
- Highly Flexible
- Think Globally, Act Locally
- Wide Access to Resources
- Highly Leverage Capabilities
- New Measurement Systems
- Highly Innovative
- Responsive to Shifting Customer Preferences
- Focused on High Quality and Low Cost
- Achieve Growth Without Minimal Capital Outlays

Identify Critical Incidents Up Front

Hope for the best but prepare for the worst things to happen. "Good luck" stems from excellent preparation. Union Carbide's William Silvia comments:

"I never want surprises. The best alliance managers anticipate problems well in advance. I recommend performing a critical incident analysis before finalizing any cooperative venture. Then you know what to expect from your partner. This is essential to trust and good chemistry. It also reduces the possibilities for divorces later on."

Step 6.6 - Adapting To Change



~Tip~

Develop Contingency Plans

Each partner should know their role, their risks, and their responsibilities should problems occur. Particularly in fast moving markets and highly risky ventures, a strong contingency plan may spell the difference between success and failure.

~Tip~

Personnel Selection

"Far better to have a Grade A Management Team and a Grade B product, than a Grade A product with a Grade B Management Team."

Step 6.6 Adapting To Change

Maintain Executive Support

Ensure that corporate management on both sides of the alliance remain highly committed to the alliance strategy. Without close and intense executive support, the alliance, by definition, is probably not strategic. Strong support creates a climate of cooperation. By endorsing alliance teamwork, the corporation also supports internal teamwork, cross-training, and integration, thus building an important skills base to make alliances more effective. Alliances are designed to be strategic and flexible, which requires more than superficial commitment and thought.

Create A Flexible Structure

Business strategy should be predicated on the belief that much of the future is indeterminate. While important to lay out a plan and a strategy for the future, there are always unforeseen twists and turns of fate. Strategy must remain fluid enough to respond to unpredicted problems as well as emerging opportunities. The organizational structure and the legal agreements must have built-in adaptive mechanisms to successfully make transitions.

Remain Clear About Your Objectives

Know the expected Strategic Return on Investment (STROI) for our company as well as for our partner as they may change over time Only by remaining clear about these objectives and goals can you define the elements of victory and set out a clear set of operational plans to achieve them.

Issue Of Governance

Decisiveness is a critical factor. Alliances should not become cumbersome, unwieldy, bureaucratic behemoths. Time is one of the greatest opponents of those who play the field of risk. To defeat time requires decisiveness -- an ability to make timely and correct decisions.

This ability comes with experience, and is not normally found in the uninitiated. Once we have embarked on the alliance course, we will have to constantly review why we engaged in the alliance and whether or not our governance process requires fine tuning. Is our decision-making process helping or hindering the alliance? Do we need to make modifications to the governance process? Did we select the appropriate personnel at the outset or do changes now have to be made? Is our empowerment process working or do we need to make changes that move decisions closer to the customer?

Step 6.6 Adapting To Change

Issue Of Governance *(Continued)*

IBM's former chairman and CEO Thomas Watson, Jr. looked for intelligent people with "common sense" when he was at the helm of IBM: "Common sense allows managers to make a decision, but too much intellectual depth may allow them to see too many variables -- and therefore make *no* decision."

Prepare For Internal Realignments

No company should ever expect to introduce a strategic alliance into its organization without making internal changes to procedures and policies. Adding an alliance is like bringing a new child into a family. Organizational patterns will require change.

Alliance architects should think through precisely what strategic realignments may occur, how to create the right rewards systems, how to streamline decision-making, and how to create more effective internal lines of communications.

Train Your Alliance Team

How many people who will be intimately involved in an alliance have had training? Corporations train people in every other skills -- engineering, finance, sales, -- but tragically, seldom in the field of formation or management of alliances. It should be no wonder then when alliances fail.

The rules of engagement are different outside the boundaries of the corporate walls. The team of champions and alliance managers, and liaisons, along with those negotiating the deal, should be properly trained for their complex roles. This way, they will have the same language, frames of reference, and processes. By the same token, it is quite fair and reasonable to insist that your prospective partner have a trained team as well. Otherwise, you might be setting your partner up for failure.

After selecting key personnel, seriously consider engaging in a team-building session to jump-start the alliance by clarifying roles, defining key priorities, focusing efforts, and establishing workable reporting systems. Make use of integrating methods such as secondment (cross-assignment) and cross training. In addition, require site visits to the other company's location.

Tighten Personal Relationships

An essential ingredient of the glue that binds the alliance together is the trust that top and middle management have in each other as individuals. Companies do not trust or distrust companies; people form the bonds of trust on an individual to individual basis.

Step 6.6 - Adapting To Change

One way of developing trust within and without the organization is based on another comment by IBM's former CEO, Thomas J. Watson, Jr. said: "The job of managing business is managing morale." His comment paralleled his Japanese counterpart at Sony, Akio Morita, who said:

> "I was taught that scolding subordinates and looking for people to blame for problems was useless. The proper thing is to make use of the motivations you share with people to accomplish something that will be to the advantage of you both."

This attitude is vital for any alliance to function effectively.

Capitalize On Diversity

If you have a trust vested interest in our partner winning, as should be the case, then you will pledge to fight as hard for their winning as for our own, because, when they win, we do also. Often this requires the alliance manager to represent the interests of the alliance first, and his parent company second, and be rewarded by his parent company for such behavior.

Maintain Middle Rank Support

"People support what they help create" is the motto for all alliance formation and management. The middle managers' roles change significantly once they shift from the internal to the extended corporation, where they become leaders of teams and are faced with being far more aware of corporate strategy than ever before.

These managers must also be reinforcing creativity within the alliance, and continually seeking to expand the size of the pie.

Fight For The Other Company

Diversity is the spice of life and the power of an alliance. It can also be a destructive element if trust is not present. And the greater the ambiguity of the project and the rate of change of forces acting upon the alliance, the greater the chance of diversities becoming corrosive.

It is essential to maintain trust through personal relationships, commitment to critical values, and strong leadership to manage diversity in times of uncertainty.

Step 6.6 Adapting To Change

Choose The Right People

Assign the best people to the alliance. Know their past assignments, their character, their skills. Be sure the type of personnel will mesh within the operational framework of the venture. Reject any candidates that do not meet the quality standards of the desired team. Find individuals who can lead without being anointed or without wearing general stripes on their sleeves, because their capacity to motivate will not depend on their ability to hire, fire, or promote.

Key operating personnel should have previous experience in at least two of the venture's functional specialties, in order to assure effective integration and respect of authority by demonstrating a reasonable degree of competence. Obviously, for these reasons, the role of the Alliance Manager is not a good selection for a new, unseasoned management trainee.

People make a difference

It is the diversity between corporate cultures which produces *creative tension* -- one of the alliance's finest assets. However, this tension can easily degenerate into conflict, which, in turn produces combative behavior. A very moderate level of friendly competition can actually be potentially healthy by creating a level of tension for focusing energy.

The critical issue is not inherently the *differences* and *contradictions*, but the manner in which conflict is *elevated* into creative problem-solving. While it may seem paradoxical, in the contradictions, therein lies the truth. What seems to conflict is often really a crystallization of two different and seemingly opposite dimensions of the same whole. Therefore while people may view the same problem differently that difference can result in breakthrough solutions that will add value to the alliance relationship.

Early Prevention Of Problems

Every alliance will run into problems; it is inherent in the process because, by definition, business alliances tackle elements of the unknown. And wherever there are risks, there are bound to be anxieties and often conflicts.

Step 6.6 Adapting To Change

Solving The Problems When They Occur

Effective alliance managers and integrators should have excellent abilities at solving more than just mechanical and technical problems; they need to be able to solve personal conflicts as well.

Clearly, the best way to limit operational problems is to take strong preventative action; a result of careful planning far ahead of time. Evaluate potential problems regularly. Have venture managers meet frequently with their key advisory teams to discuss potential problems *before* they occur. The old adage: "an ounce of prevention is worth a pound of cure," still prevails. Determine what factors are likely to create problems. If the problems seem very likely to occur, ask if the problems are surmountable or insurmountable.

Reevaluate the risks, break them down into manageable components, and organize for a succession of incremental victories. One alliance manager suggested this was analogous to the riddle: "How do you eat an elephant?" The answer: "One bite at a time!"

If Problems Persist

If operational problems go unchecked, sponsoring companies become anxiety ridden, often jumping into the middle of the alliance managers' picture, demanding reports, sending investigators, and tightening financial controls. Then the alliance managers' ability to function worsens as decision making becomes more difficult, and a downward spiral dooms the alliance.

Sponsors, when faced with such a condition, should call a "summit" meeting of all the partners to address the problems and a set of solutions that will constructively bring the venture back on course. Nipping at the heels of the alliance managers will probably have negative effects. The best approach is to look carefully at the three dimensions of "fit", and see which one(s) are the root cause of the problems. If leadership is inadequate, the partners will have no choice but to make a change in personnel.

Step 6.6 Adapting To Change

Expect A Crisis

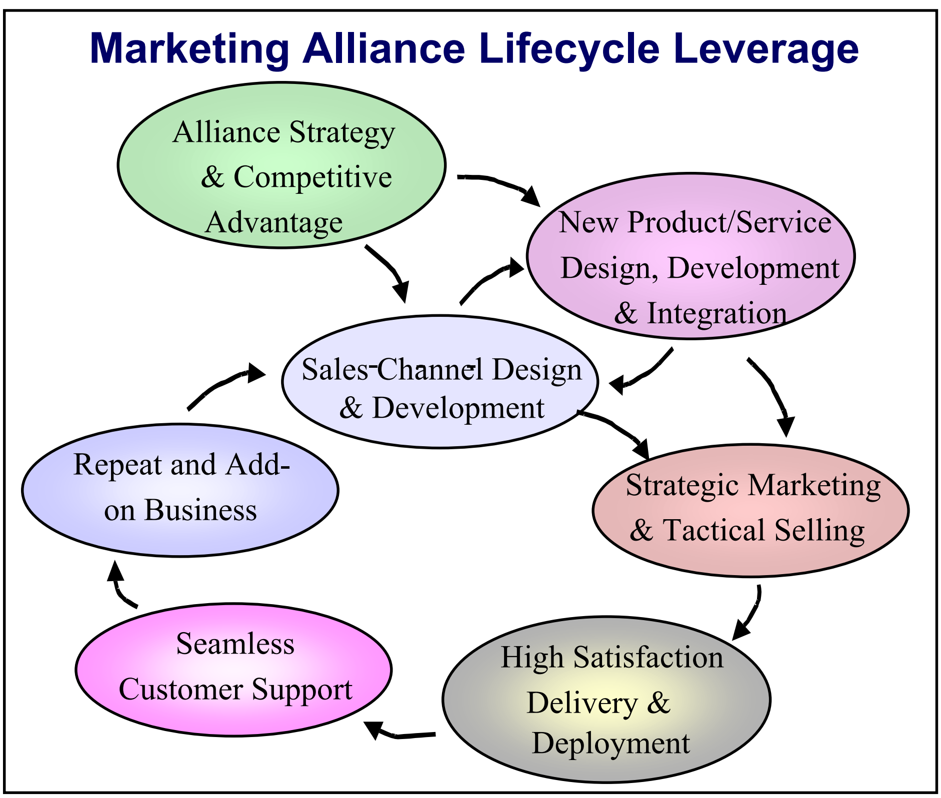
Alliances can be expected to have crises, just like any other start-up business going through its growth cycle. When it happens, use the principles of the three dimensional fit to isolate the root cause; evaluate if the failure is *strategic* (such as a change in market conditions), *chemistry* related (has one of the partners lost interest or commitment?) or *operational* (is the problem in leadership, management, support, marketing, or production?). Many operational problems can normally be solved without structural or strategic realignments simply by bringing teams together for problem-solving sessions.

Perhaps a structural redesign will be required to make the form fit the new adjusted functions, with a re-division of risks, rewards, and management. Strategic problems, usually the most vexing of all, may call for a complete reevaluation of the alliance and either a restructuring along the strategic spectrum of options, or termination.

Life Cycle Management

All alliances travel a journey through life. This unfolding of its future is known as the Alliance Life Cycle, which leaders must carefully monitor and manage. *Figure 6.1* below illustrates some of the issues that one might address in a marketing and sales alliance.

Figure 6.1



Step 6.6 Adapting To Change

Life Cycle Management *(continued)*

Because the strategic environment of the alliance is constantly changing, successful alliances will be continually transforming themselves to meet the new emerging needs.

There are several options for transformation the alliance manager can expect:

- ✓ RAPID GROWTH -- Alliance needs Critical Resources
- ✓ REGENERATION -- Extracting Additional Synergies & Innovations
- ✓ STRATEGIC SHIFTS -- Drivers have Changed
- ✓ LATERAL SHIFT -- New Focus is more Appropriate
- ✓ BUYOUT -- Value is Greater to One Partner
- ✓ EXIT -- Alliance has lost its value

These types of transformations are typically brought about by a series of driving forces, such as:

- Crisis
- Value Migrations
- Technology Shifts
- Customer Demands
- Ownership Shifts
- Competitive Pressures
- Governmental Regulation
- Champion Leaves

The alliance managers for both partners must be alert to these changes in forces in order to be proactive in making alliance adjustments. If managers are too late in responding to these shifting forces, it is likely the alliance will become unduly stressed, relationships will become strained, and performance diminished, at which point the partners may be likely to desire an exit from the alliance.

When shifting drivers are observed, the alliance manager and/or champions should recycle through the Alliance Development Process. Be alert to maintaining a win-win environment. Be sure to prepare early by setting expectations. Remember, flexibility and creativity in negotiations is essential.

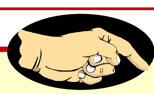
The Checklist 6.1 which follows on the next page (oriented to diagnose issues associated with the three dimensional fit model in Phase Two) will assist the alliance manager in spotting these shifting drivers.

Step 6.6 Adapting To Change

Checklist 6.1
Shifting Drivers:

Alliances are susceptible to changing forces in the strategic and operational environment. Below are some typical symptoms the alliance managers must be alert to:

- Shifts in **Strategic** Environment
  - ✓ Major Price Fluctuations
  - ✓ Political Changes
  - ✓ Change in Technology
  - ✓ Competitors Entering Market
  - ✓ Market Changes
  - ✓ Production Costs
  - ✓ Strategic Realignments
- Changing **Chemistry**
  - ✓ Changes in Chemistry
  - ✓ Change of Key Personnel
  - ✓ Lack of Commitment and Support
  - ✓ Conflicting Organizational Values
- Changing **Operational** Conditions
  - ✓ Internal Financial Problems
  - ✓ Production and Marketing Costs
  - ✓ Lack of Productivity



~TIP~
Keeping the Alliance Alive and Fresh
Lessons from the Old Masters

A review of those alliances that have lasted over 30 years has shown there are several key things that keep the alliance revitalized:

- ➢ Create Multiple Contact Points
- ➢ Replenish Your Champion
- ➢ Define the Boundaries Carefully
- ➢ Change Structure as Needs Change
- ➢ Create Bold New Futures
- ➢ Scenario & Transformation Planning
- ➢ Build Trust & Top Level Relationships
- ➢ Reap Rewards from Innovations in the Alliance

Step 6.6 Adapting To Change

Extending Alliance Longevity -- Setting Expectations

Expectations in an alliance will change over time as the alliance matures in its life cycle. The effective alliance manager will use metrics to re-set expectations (see Phase 2). Generally, a quarterly review of goals, strategies, and expected performance will be sufficient to prevent a widening of the gap between expectations and reality.

Adjust metrics over time. Sometimes raise the bar, thus phasing out lower performers. Do a diagnostic to determine key areas where the alliance has gone astray

If key metrics are not being achieved, the alliance manager should examine several options:

- Re-Set Metrics
- Check for Internal Support and Internal Alignment, then renegotiate with internal people
- Re-Check the Build, Buy, Borrow Analysis
- Re-Check the Value Migration Flow
- Re-Check the Critical Factors for Success
- Re-Check the Rewards and Incentives
- Re-Check the Chemistry/Culture Issues
- Determine if Win/Win is still prevailing
- Assign an internal champion who can cross all organizations, to determine key issues/problems, track individual sales, etc.
- Transform Alliance to a Lesser form on the Spectrum
- Sunset the Alliance with no ill feelings

Renewal of Leadership

When the original alliance champions move on to other jobs or leave the company, remember to replenish the champion. The best companies let their partners have a say in the selection of the new champion. Be sure the new champion is:

- Passionate Crusader
- Entrepreneurial, Risk Taker
- Vision of the Future
- Value Creator
- Demonstrated Leadership
- Successful Track Record

There should be an overlap period when the old champion is getting ready to leave, and the new champion is coming on board. Companies that let months pass before bringing on a new champion (or just fill the role with an uninspired manager) often have major breakdowns in the alliance shortly thereafter.

Step 6.6 - Adapting To Change

Exiting Gracefully

Not all alliances are destined to be marriages forever. Some alliances are very transitory (short term), particularly those alliances formed when the strategic environment was very uncertain or volatile. What originally looked like an emerging market or technology may have been a lot of hype with no substance.

Other alliances are destined to transition into another entity. These structures may be step-stones to a future acquisition or a mechanism to exit a market.

For those alliances where the failure to meet expectations cannot be corrected, exit may be the optimum action. First, consult the exit clauses in the legal agreement to determine how this event is to be handled. It should define how assets, sales force, customers, technology, intellectual property, trade secrets, software codes, and personnel will be allocated back to the partners. Often issues such as who provides customer support and warranties has been overlooked.

In the event of disagreement, litigation should be avoided at all costs; it will be extremely costly, and brings the added risk of spoiling our reputation as “Alliance Partner of Choice.” Steadfastly avoid actions which may adversely impact other successful alliances, or create negative publicity that would damage our ability to form other alliances.

To lower these risks, it is highly advisable to exit with least damage to the other party. Yes, “ win - win” prevails even upon terminating an agreement. Establish a “Fairness Doctrine” at the commencement of the termination process. Remember, you may be their partner again when conditions change. What’s more, key people from the alliance may later reappear again in other companies.