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ASSOCIATION OF
STRATEGIC ALLIANCE
PROFESSIONALS

Strategic Alliance

Best Practice Architecture

User Guide

How to
Form, Manage, & Evolve
Strategic Business Relationships

By Robert Porter Lynch
Founder, Association of Strategic Alliance Professionals

International
Collaborative
Leadership
Institute

And most of all: *May your alliances bring prosperity*

This Generic Version is intended for a wide variety of alliances.

We also provide customized versions for specific alliance applications.

 VERSION 2.5 09/27/2011

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To learn more about the
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please visit:

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Best Practice User Guide

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Best Practice User Guide

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ASSOCIATION OF STRATEGIC ALLIANCE PROFESSIONALS

Strategic Alliance Best Practice User Guide -- Contents --

I - INTRODUCTION: SUCCESSFUL ALLIANCES

Using this User Guide

Purpose of the User Guide

The purpose of this Strategic Alliance Best Practice User Guide is to enable you to design, form, and manage alliances in the most successful manner possible. The Alliance User Guide is the result of years of experience, analysis of successes and failures, and surveying of the most profitable approaches used by alliance experts among the top companies in America. The material contained in this User Guide reflects the learnings gleaned from well over 1,000 alliances, both domestic and international.

However, it is not the intent of this guide to provide you with a "cookbook" about alliances, with precise formulations and ingredients, because every alliance is different — one size will not fit all. Neither is it valuable to attempt to make users alliance "mechanics," because mechanics understand only the "nuts & bolts," but lack the designer's understanding of the vision, value proposition, and interactions between the systems — all capabilities possessed by an "architect." Every alliance is unique and must be customized to the alliance partner, the driving strategy, and the cultures of the alliance partners. Therefore, this User Guide should be viewed as a ***guidebook, not a cookbook.***

This User Guide is designed to prevent those involved in deal making from committing significant mistakes typical to business developers that are the cause of alliance failure. In particular: too much emphasis on legal agreements; too early a focus on structure without understanding and, the driving strategy or functional integration requirements; lacking a sense of continuity between the negotiating team and into the alliance operational planning and implementation.

Using this User Guide

Findings from Best Practices Benchmarking

The contents of this User Guide have evolved from benchmarking studies of the Best Practices used among the top corporations currently involved in alliance formation and management throughout the world. You will see many words of advice from seasoned veterans who have made many mistakes in the course of mastering their profession.

A Best Practice then results from comparing a number of different ways for achieving the same output. The "best way", or Best Practice, is the one that achieves a superior output in the most efficient way at the least possible "total" cost to the organization. Some examples are claims processing or distribution methods. An important consideration to remember is that a Best Practice today can be replaced with a "better" Best Practice tomorrow that improves upon the results of the output of the process being performed. Explicit in this definition are the importance of consistent quantitative measurements.

It is important to know that alliances that do not follow best practices have a very high likelihood of failure. But for those who diligently adhere to best practice usage, the rewards are enormous, resulting in much higher success rates as shown in *Figure A.*

Figure A

Source: The Warren Company 1994-2001
Booz-Allen Hamilton, 2000
Brigham Young University-Wharton Study, 2001

With Best Process & Best Practices, the success rates go up to 65%

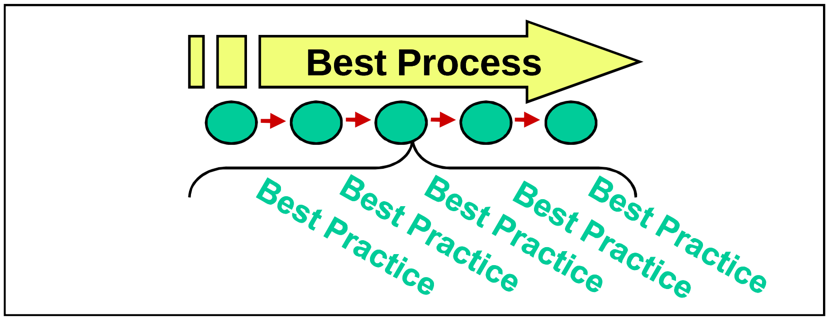
Using this User Guide

Best Process Framework

In addition to Best Practices, this User Guide provides the proper sequencing of best practices, which is the “Best Process” flow. In the compilation of the best practices, it has become clear that there is also a best process for alliance formation and management as depicted in *Figure B*

Figure B

A Best Process Is a Sequence and Flow of Best Practices.



By combining Best Process with Best Practices, the alliance professional or practitioner has the advantage of an extremely powerful methodology for alliance success. The Best Process model used throughout this book is depicted by the Alliance Framework outlined at the end of this section.

While the illustration above indicates that a Best Process is a collection of Best Practices, how would we recognize one if we were to see one. A Best Process is best thought of as a total systems solution of a problem. As an example, if we consider all of the steps required from receiving a claim form through responding to the claim we would have a number of Best Practices being applied throughout the steps involved. We would then consider all of these individual steps, using Best Practices, within the overall process being considered the Best Process.

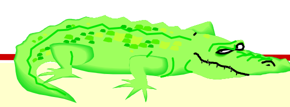
Alliance Definition

Definition

The term "alliance" is used by many organizations to encompass a broad spectrum of relationships. For the purpose of this User Guide, our definition of an alliance is **a close, collaborative relationship between two or more entities that share complementary assets and strengths to create increased value for their customers and their own organizations that could not be accomplished independently.**

Some characteristics of a typical successful alliance include:

- Synergy in the relationship contributing to a powerful value proposition;
- Mutually compatible goals that would be difficult for each to achieve alone;
- Expectations of sharing the rewards and risks inherent in the relationship;
- Terms of the alliance agreement are incomplete because of future uncertainties;
- A governance structure is established to conduct joint decision-making and to deal with conflict resolution;
- Each organization is looking out for the interest of the other organization and the alliance as a whole;
- Champions are designated by the involved organizations;
- Operational unit support is achieved and aligned at multiple levels;
- There is a long-term view to the relationship; and,
- Joint planning is used to innovate and evolve the relationship over time.



~TRAP~

Apply the term "Partnership" Very Cautiously

Using the term "partnership" has very strong legal implications which link one firm's obligation to legally binding commitments on the part of the partner, and vice versa.

Recently, one very large US corporation had told one of its suppliers it wanted to engage in a cooperative partnership with its vendors. The supplier made major capital investments based on this commitment. When the market changed unexpectedly, the large corporation canceled its orders and the supplier sued based on the supposition that a partnership existed. Use the term "alliance" instead of "partnership."

Alliance Definition

Alliance Characteristics

An alliance should embody the spirit and essence of the following characteristics to improve its likelihood of success. Any alliance missing these characteristics will likely be beset with problems. Use these characteristics as a checklist to assess current and prospective alliances. Any missing characteristic should be considered a danger sign.

- ✓ Synergistic (1+1>3)

  Powerful Value Proposition - Combining of organizational strengths is multiplicative, resulting in a far superior value proposition.

  Mutually Aligned Goals - Investments by both organizations result in greater returns when goals are aligned.

- ✓ Strategic - Affects long term destiny - determines whether relationship will be strategic, long lasting, or tactical, limited time period.
- ✓ Champion - A Senior leader is designated to support and promote the alliance.

  Operational Unit Support is assured by the Champion.

- ✓ Tight Operating Linkages - Governance Structure is put into place for joint decision making, problem solving, conflict resolution and planning.
- ✓ Interaction at Multiple Levels - while the champion will interface at the senior levels, all functional areas should have corresponding interfaces to ensure smooth operational implementation.

Alliance Definition

Alliance Characteristics (continued)

- ✓ **Collaborative**

  Win-Win is an expression used to imply that both organizations are committed to achieving above average results for the alliance as a whole. In so doing each organization will benefit to a greater degree than they would have if they had operated in their own best interests.

- ✓ **Reciprocal Relationships**

  Shared Assets

  Sharing Strengths & Information

  Shared Risk & Reward

- ✓ **Regenerative**

  Renewing contract

  Adapting Strategy to Competitive Environment

Why Alliances are Essential

Winning in Today's Competitive Environment

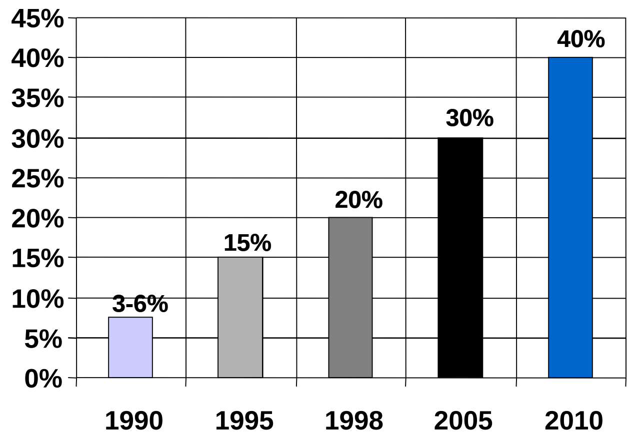
In today's world, companies must continually grow their core business and enter the fastest growing market segments.

In the rapidly changing world of global competition and technological invention, where state-of-the-art technology is sometimes superseded in a matter of weeks, the race may not go to the swiftest state-of-the-art new technology, nor to the largest behemoth corporation, nor to the fanciest marketeer. Rather, it will be won by the team delivering to the customer the highest value integrated solution.

Maintaining a competitive edge and marketing leadership is more than just a challenge, it is a necessity. For companies to remain strong during the 2000's, it is essential to find opportunities for leveraging and expanding their core competencies into leading edge markets.

Figure C

Alliances as Percentage of Revenue for Top 1,000 U.S. Public Corporations



Sources: Columbia University, European Trade Commission, Studies by BA&H, AC.1983-1987, 1988-1993, 1994-1996, 1999 EIU Global Executive Survey Andersen Consulting, Warren Comp.

Figure C illustrates the dramatic shift in usage of alliances for creating competitive advantage. The forces that have propelled this massive shift include globalization, the Internet, new competitive models that are reengineering the value chain, and the need to provide totally integrated solutions from participants throughout the value chain.

Why Alliances are Essential

Winning in Today's Competitive Environment

~ TIP ~

USE ALLIANCES to ADD or SUPPORT CORE COMPETENCIES

Enhance Performance in the Value Chain

1) Widens the Domain of Innovation
2) Capitalizes on Hidden Assets
3) Provides Potential Access to a Variety of Markets
4) Significantly Contributes to Perceived Customer Benefits
5) Difficult for Competitors to Imitate
6) Grows When Shared and Applied

~TIP~

Use Alliances to LEVERAGE CORE COMPETENCIES

"What We Are Good At"

Core Competencies are not simply our products, services or physical assets, but include:

- Embedded organizational knowledge
- Defines your company's unique capabilities to deliver value
- Involved complex integration
    - Harmonizing streams of technology and production skills
    - Specialized coordinative abilities
    - Unique technical capabilities
    - Integration of customer needs to technical possibilities

Why Alliances are Essential

Winning in Today's Competitive Environment *(continued)*

For many companies it is vital that these relationships be developed early in a market's evolution, which is more likely to ensure a long-term competitive position, and facilitate access to the best alliance partners.

Key Alliance Drivers

There are a number of reasons why alliances are formed. Below is a review of the typical objectives. It is important to be clear about the purpose and objectives of an alliance *before* seeking partners and entering into negotiations. Figure D demonstrates the wide variety of drivers which spawn alliances. Alliances are created for a number of reasons, including:

- Gain foothold in international marketplace
- Innovate in the industry
- Establish a unique position in the market
- Boost market presence
- Provide added value to customers
- Expand customer base
- Access knowledge & expertise beyond company borders
- Increase sales and profitability
- Reduce overhead through sharing costs or outsourcing completely
- Enhance R&D capability and to conduct R&D
- Strengthen reputation in the industry as a result of associating with world class organizations.
- Extend product offerings
- Speed entry into particular market
- Secure position as front runner in marketplace
- Provide marketing
- Establish advantageous Purchaser/Supplier relationships
- Set up Distribution Networks
- Augment selling effort
- Manufacture cost effectively
- Supply Customer Service
- Increase sales and profitability
- Reduce overhead through sharing costs or outsourcing completely
- Leverage assets to diversify into related businesses

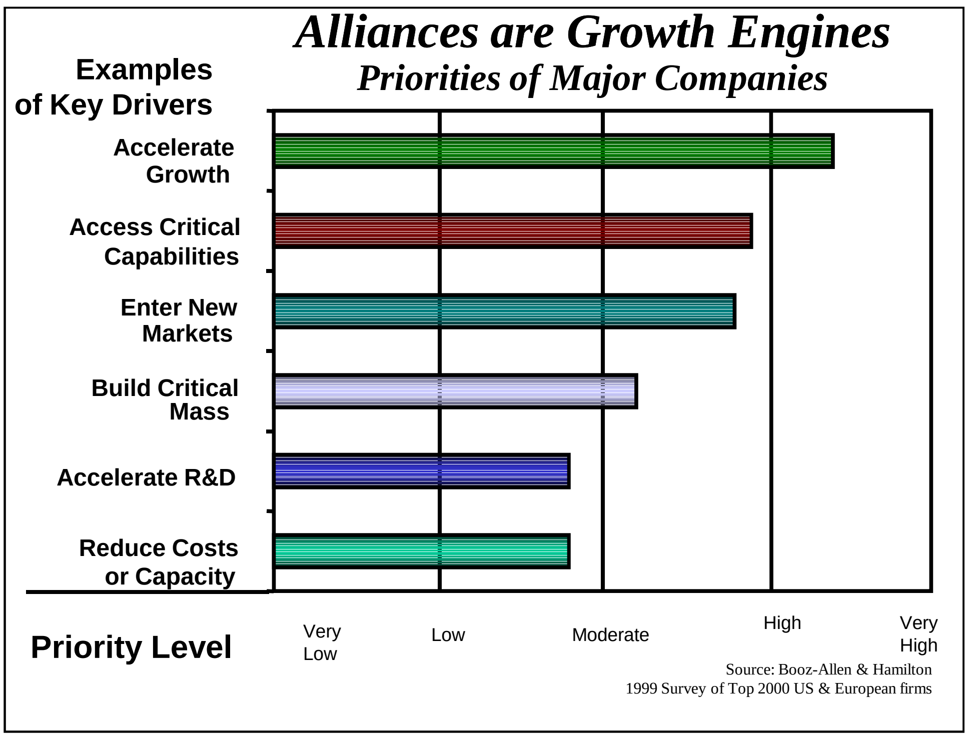
Why Alliances are Essential for

Key Alliance Drivers *(continued)*

The priorities placed on some of the key drivers by major companies are shown in Figure D.

Figure D

Key Drivers



Why Alliances are Essential

Increased Return on Investment

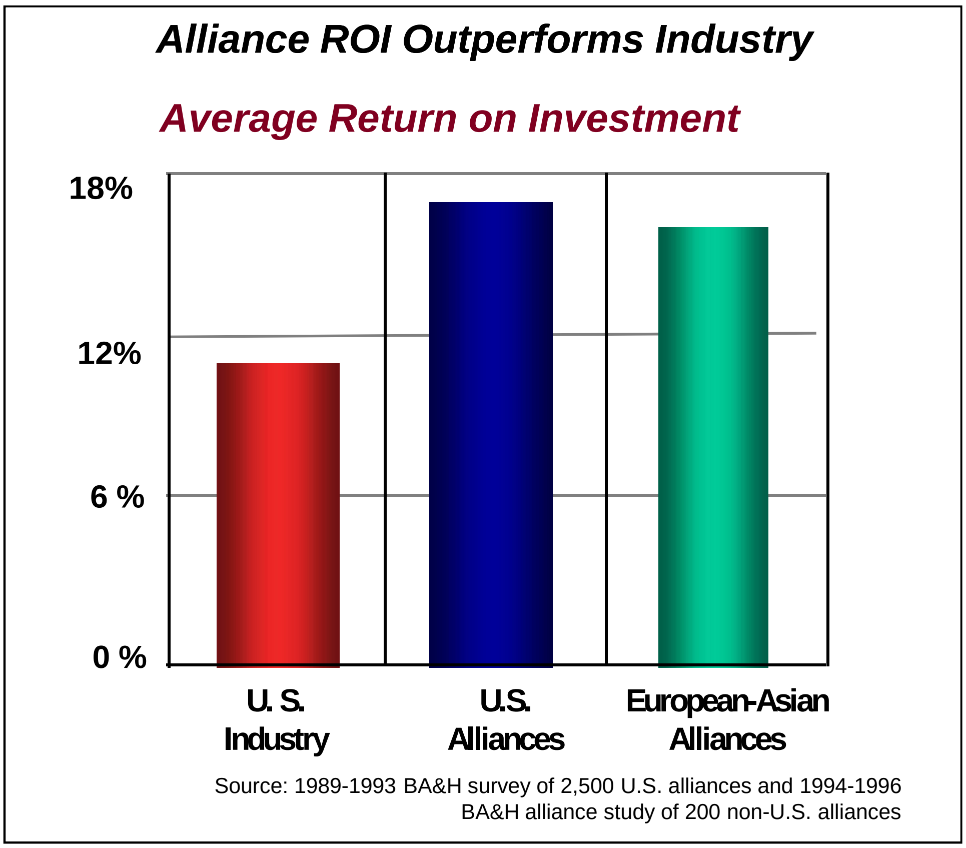
Alliances, when successful, outperform normal investments. This is because the alliance structure is able to capitalize on using the partner's assets, including:

- Other People's Assets (OPA)
- Other People's Baggage (past mistakes) (OPB)
- Other People's Capabilities & Competencies (OPCC)
- Other People's Time (OPT),
- Other People's Resources (OPR),
- Other People's Connections (OPC), and
- Other People's Knowledge (OPK)

Alliance organizations agree to share their complementary assets to create a "win-win-win" situation. That is increasing value for customers and increasing rewards for both entities. As a result, ROIs are increased for alliances as shown in Figure E.

Figure E

Demonstrates the impact of Alliances on ROI



Why Alliances are Essential

Increased Return on Investment *(continued)*

Coopetition

Coopetition is a term that was coined to describe alliance relationships between organizations that normally compete against one another in the same competitive space.

Ten years ago, competitors were considered “the enemy,” to be dominated, defeated, and eliminated. In a dramatic turn of attitudes, 50% of all alliances today are between competitors. Often these alliances are driven by the need to reduce risks of developing new technologies, to open up new markets, or to supply a mutual customer with compatible products & services. Given the critical issues that naturally occur between competitors, it is essential to use the best practices in this guide.

Advantages of Alliances

There are numerous reasons for forming alliances, as described in Figure D. Some of the major shifts in market evolution include:

- To take advantage of economic disruptions in the market place, alliances provide a fast alternative to internal growth;
- Revenue in the market is shifting to services; and,
- Profit is increasingly derived from leveraging the core competencies of alliance partners by creating stronger integration of their unique strengths.

Developing synergies by matching your capabilities with potential alliance partners that share your objectives, basic values and strategic focus will be the key to success in this competitive world.

Given the proliferation of rapidly changing technologies, new delivery systems, vicious global competition, and difficulties in foreseeing every future possibility, a needed strategy for winning in a rapidly changing and highly uncertain environment is to have many options, opportunities, and avenues for creating value for the customer. This often will require multiple alliances in multiple markets, which will need to be managed using an alliance portfolio management system.

Why Alliances are Essential

Advantages of Alliances *(Continued)*

Maintaining *prominence as the leader in the industry* is only possible when our company creates the *greatest value* for its customers. This superior *value* is generated not solely from being technologically competent, but by combining a best solution with the best service, quality, distribution, integrated management systems, reliability, and the best relationships with alliance partners and customers.

You can achieve a *superior value-added position* in the market by *augmenting its own internal core competencies with the assets, competencies and human capital brought by alliances.* Alliances can be used to immediately enhance our position in: marketing, distribution, service, systems integration, product development, technology research, design innovation, *and solution sourcing.*

While alliances, mergers, and acquisitions each have their distinctive advantages in certain situations, some of the general advantages of alliances compared to mergers and acquisitions are shown in Figure F on the following page.

Why Alliances are Essential

Advantages of Alliances *(continued)*

Figure F

General Advantages of Alliances

Versus Mergers & Acquisitions

Strategic

- Increase Penetration into New Market Niches
- Expansion of Market Share
- Able to Meet More Customer Needs
- Higher Customer Satisfaction
- New/Broader Technical Capacity
- Quickly Become "Best in Class" Competitor
- Increase Barriers to Entry/Exit
- Access to Innovation
- Synergistic (1+1ñ3)
- Quickly Introduce New Business Models

Economic

- Require Less Up-Front Cash
- Quicker Time to Market
- Increase Gross Profit Margins
- Decrease Marketing Costs on a Per/Unit Basis
- Don't Pay Premium for Acquisition
- Drain Fewer Resources from Sponsors
- No Cost for Unwanted Capabilities

Functional

- Quicker to Form
- More Flexible to Operate
- Less Risky
- Are Relatively Easily Established
- Enable Stretching of Financial, Managerial, & Technical Resources
- Easier to Dissolve

Why Alliances are Essential

Disadvantages of Alliances

Some of the more significant disadvantages of alliances are:

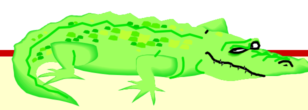
- Perceived lack of control;
- Lose exclusivity to technology;
- Inability to correct problems quickly; and,
- Possible legal conflicts.

Many managers perceive a lack of control as the largest disadvantage. However, alliances can be controlled, but the concept of control is very different from the classic style of control through hierarchical power and limitations of authority. Alliances exercise control through alignment, coordination, creative adaptations, governance structures, and designing empowering measurement systems.

Loss of exclusivity in any area is only a concern when you think that it is paramount to your core capability. If a technology is core, then plans should be made to acquire it at the outset of the agreement.

Correcting problems quickly is more a function of trust and chemistry as we shall see, than anything else. By ensuring peer – to-peer functional reviews and empowering employees closest to the problem, issues can be resolved quickly in alliances.

Legal conflicts arise when you lose trust in your partner. The old adage is, “If you have to pull the contract out of the drawer to resolve an issue, then the alliance is failing.”



~ TRAP ~

This deadly sin is the most frequent trap of all alliance killers

Best Practices Violated

Alliance disadvantages are normally due to an organization’s haste to create an agreement. The end result is considered a “deal”, rather than an alliance of equals. This occurs because in our haste to culminate an agreement we do not review all of the basic alliance principals that are outlined in this User Guide.

It is critical that alliance practitioners not ignore basic considerations, such as, core competency of each player, chemistry, operational styles, and the strategic direction that each organization has laid out for themselves.

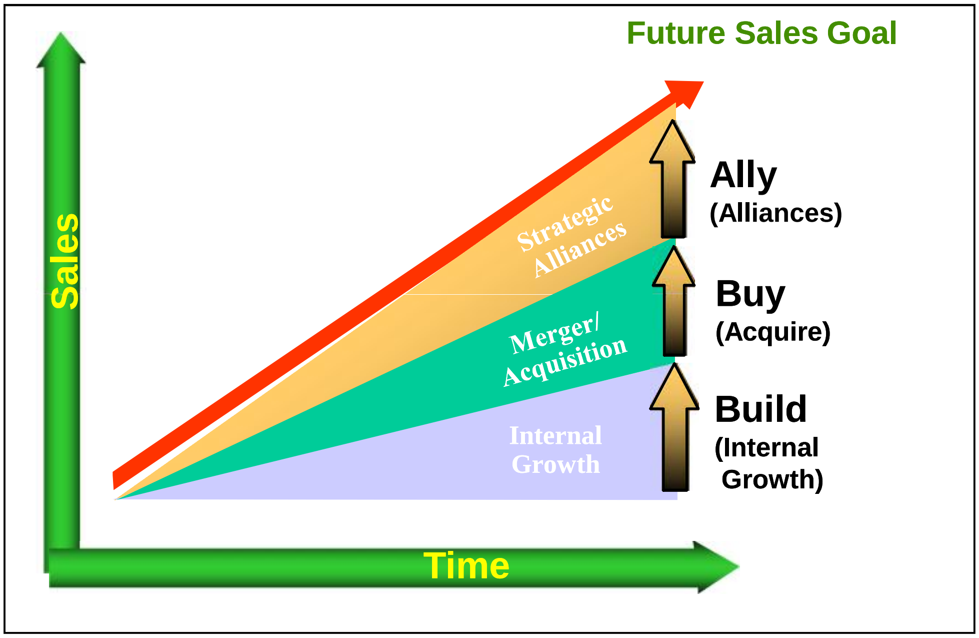
When to Create an Alliance

Growth Portfolio Options

Is an alliance the right approach to addressing your strategic goal or need? This is the most critical question any company can ask before embarking on an alliance journey. Consider first: "What is the best growth vehicle?" Fundamentally, there are only three ways to grow a company: Internal (organic) Growth, Mergers/Acquisitions, and Alliances. Every company should have a balanced strategic portfolio of these three approaches to growth and success. (See Figure G).

Figure G

Alternative Growth Vehicles



Each approach has its own advantages and disadvantages -- no approach is inherently better than another. Every business opportunity should be thought through as to the best approach. Figure H illustrates some of the pros and cons of each growth option, and when to use each of the options.

When to Create an Alliance

Growth Portfolio Options *(continued)*

Figure H

Pros & Cons of Alternative Growth Approaches

	PROS	CONS
Build (Internal Growth)	+ Strengthen Internal Capabilities + Tailor Growth to Needs + Control Assets & Technology + Maintain Core Competencies	- Expensive - Time Consuming - Value Capture Delayed - Uncertain Success - Limited Expansion Growth - Competitive Disadvantages
Buy (Merge or Acquire)	+ Quick Entry into Similar Business/Geography + Proven Capability + Product Differentiation + Reduce Supply/Demand Interruptions + Expand Competencies	- Large Cash Outlay - Massive Integration Challenges - Uncertain Regulatory Approval - High Risk - Complex Deal Negotiations - Disruptions from Simultaneous Acquisitions
Ally (Strategic Alliance)	+ Quick Entry into New Business/Geography + Proven Capability + Shared Risk + No Acquisition Premium + Multiple Alliances Possible + Expand Competencies + Change Positioning + Value Chain Leverage	- Shared Reward - Governance Challenges - Must Define Performance - Lack of Attention - Portfolio Management Challenges - Control Difficulties

Certain *conditions* in the business environment will also have a major impact on when to use an alliance. The matrix in Figure G will provide guidance in determining what structure to use. For example, in situations with low risk, slow speeds of expansion, hand high resource availability, chose internal growth. But for situations of low resources, highly differentiated business types or cultures, and extensive changes in the environment, chose an alliance.

When to Create an Alliance

Growth Portfolio Options *(continued)*

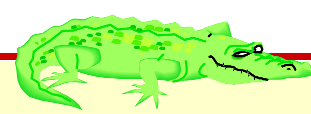
Figure I

Build, Buy or Ally Decision Matrix

IF → **THEN**

These Conditions | **Consider the Following Option**

Risk Level	Speed of Expansion Required	Resource Availability	Similarity	Change in the Environment	Consider the Following Option
Low	Slow	High	The Same	Slow	Build
Low to Moderate	Moderate	High to Moderate	High Similarity	Moderate	Buy
High to Moderate	Fast	Moderate to Low	Different	Extensive	Ally



~ TRAP ~

Faulty Assumptions

Executives fall into this trap by assuming that a good strategic "fit" implies a good operational "fit."

A strategic match conceived in heaven can end up in divorce.

Some executives want a deal so badly, they will do anything to get a signed document, rather than take the time to carefully write out an operations plan.

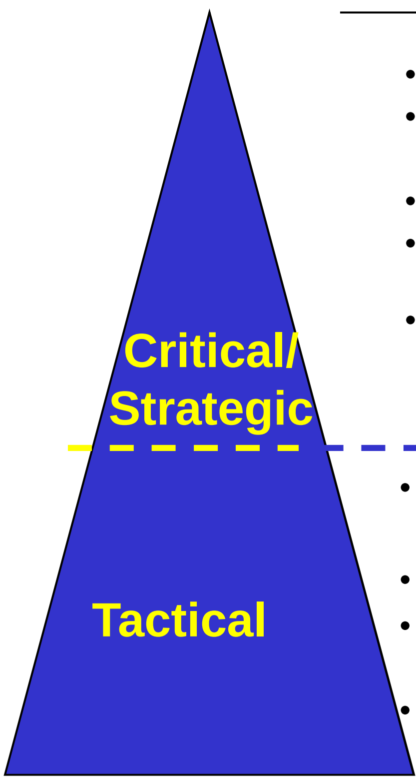
With the prescriptions in the following chapters, you will be able to avoid this problem with utmost certainty.

When to Create an Alliance

Growth Portfolio Options *(continued)*

Having determined that an alliance is needed, it is helpful to determine whether the alliance will be strategic or tactical. This determination is important in deciding who should be involved in the formation and management of the alliance, required approvals, and the extent of resources to be applied to the formation and management of the alliance.

Figure J



	General Description	Examples
Critical/Strategic	• Critical to core business • Potential to reshape company or industry • 1 to 6 deals • Affects 5 to 10% of revenues/profits/costs • Important in size and scope	• Large mergers or acquisitions[1] • Major joint ventures • Major outsourcing alliances
Tactical	• Operational or enabling business arrangements • Complement existing assets • Necessary to provide base of products or services • Numerous deals	• Alliances with vendors or suppliers

1. Mergers and acquisitions are not technically considered alliances.

When to Create an Alliance

How to Create an Alliance

Once the organization has assessed the Build, Buy and Ally model and has decided upon allying our organization with another, the next step becomes the most important step in the overall development of the alliance. It is implementation of the Enterprise Alliance Framework or process. Not using this process could more than likely result in a deal making mentality. Consistently using our institutionalized alliance process will guide practitioners as they initiate the first steps in the alliance formation process.

Senior management begins by selecting a champion - an executive who is charged with making the specific strategic alliance take shape and become a reality.

The champion builds a cross-functional/multidisciplinary core alliance development team that will execute the relationship-building process - analyzing needs and potential partners and ultimately creating an operational team that will oversee the alliance relationship over the long-term. As the process proceeds, the core alliance development team grows and draws on the expertise of people from throughout the organization to create sub-teams to handle specific tasks.

The nature of the core team and sub-teams varies as the organization moves through the phases of the alliance process; the precise makeup of the team depends on the task at hand at any given time, on the nature of the business process being considered, and the organization's specific structure and needs.

The various teams involved in the alliance formation process are essentially temporary. They are assembled to perform specific tasks and then dissolved when the tasks are complete. As a result, executives must ensure that team members are familiar with the alliance concepts and processes and have enough time to devote to the effort.

Figure K depicts the worst practice methods for the creation of alliances. It is important to remember that another company utilizing a "Deal Mentality" will have to become educated in the way our organization will approach alliance relationships. If they are not amenable to this method, we may have to reconsider the relationship or treat it as a tactical one until a more appropriate organization comes along.

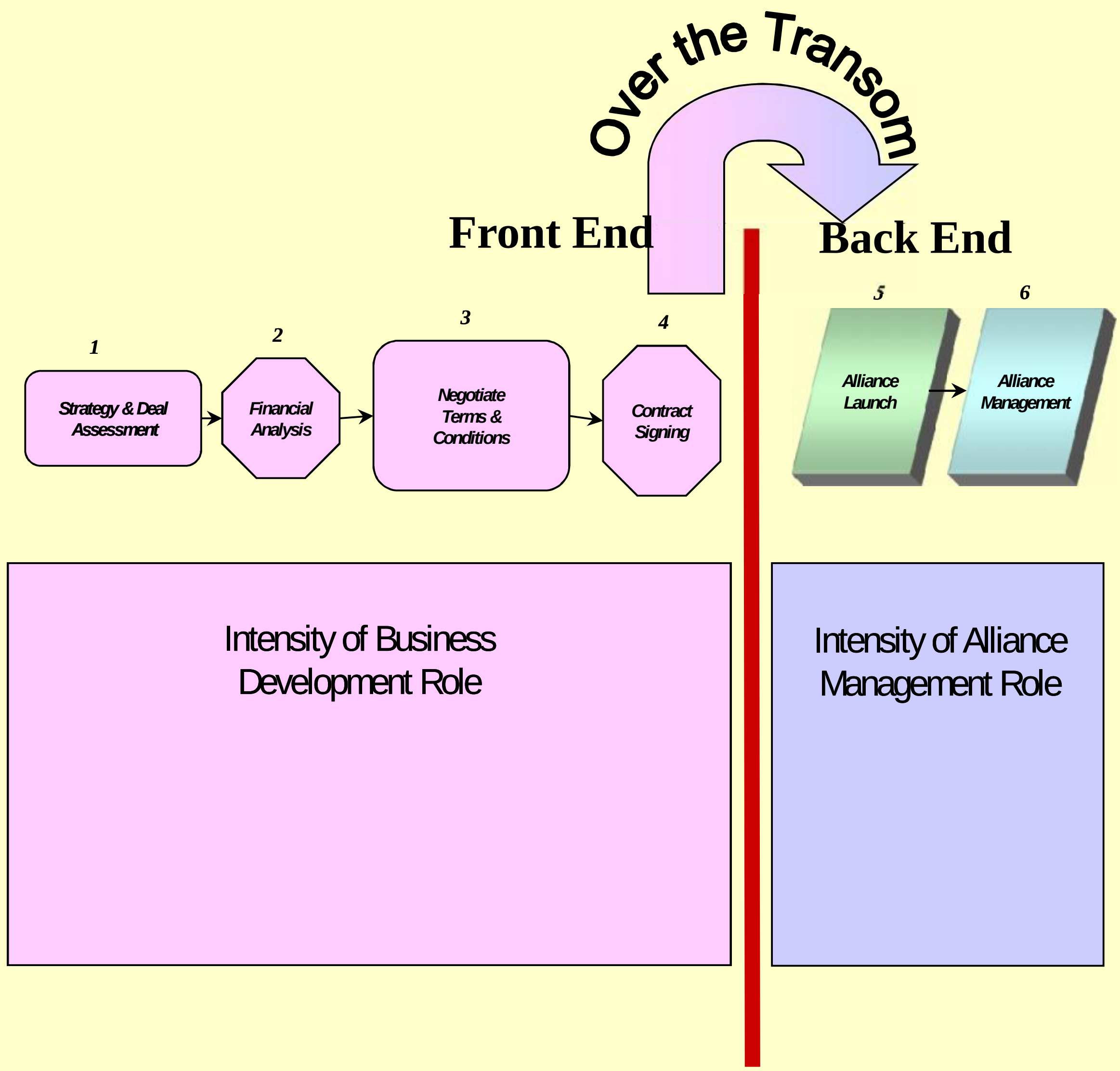
When to Create an Alliance

How to Create an Alliance

Figure K

Worst Practice Process

- Worst Practice Roles – (Often the Way Alliances are Done)
  - Rewarded for Number of Deals
  - Focus on Getting Contract Signed
  - Maximize Financial Impact of the Venture and Reduce Risks
  - Keep Alliance Management and Operational People out until after the deal is signed



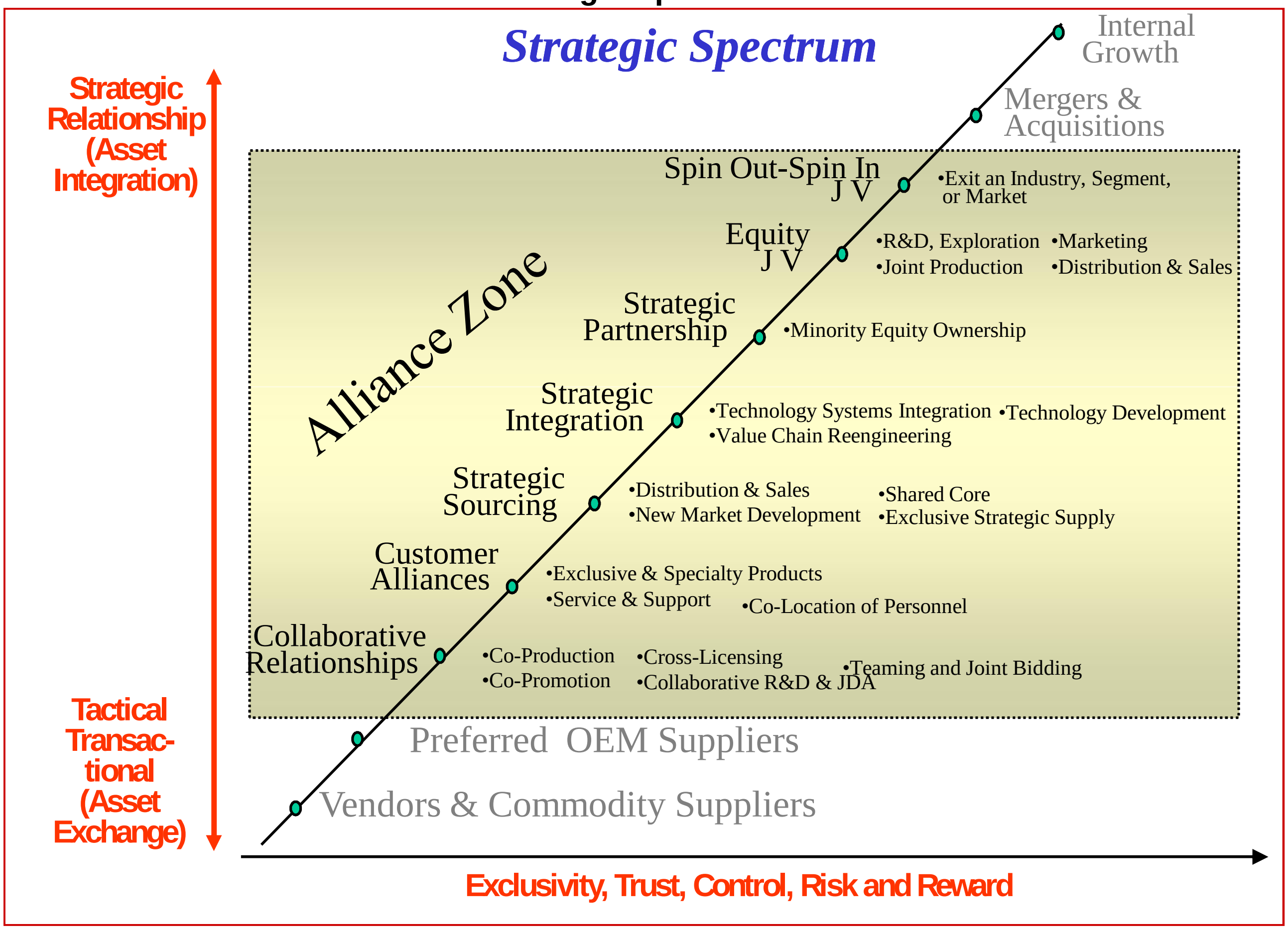
When to Create an Alliance

Alliance Strategic Spectrum

When deciding upon an alliance, one must first determine what organizational goals will be translated into the alliance. To select the right form of alliance you will need to consider customer needs, competitive advantages, and both short and long-term objectives. Figure L provides a spectrum of the types of alliances that may be considered.

Figure L

Strategic Spectrum



~ TIP ~

Regardless of the form the alliance takes,
the operational management principles are the same.

When to Create an Alliance

Alliance Strategic Spectrum *(continued)*

Joint Ventures

The definition of a joint venture alliance is quite straightforward:

Cooperative business entity formed by two or more separate organizations for strategic purposes that allocates ownership, operational responsibility, financial risks and rewards to each member, while preserving their separate corporate identity/autonomy.

Joint Ventures (JV) are formalized alliances which either unite two or more separate organizations into a freestanding new company or create a new, separate business entity which allocates ownership in the JV to each member, while preserving the separate identity and autonomy of each parent organization. The JV is staffed by a separate management team, and has its own Board of Directors. Ownership in a JV is typically a 50-50 relationship, but it can vary to anything the organizations think will represent their individual contributions.

If the equity relationship becomes significantly tilted towards one organization, than the organization with the smallest equity interest can consider their relationship one of an investment more than a sharing of interests.

When to Create an Alliance

Alliance Strategic Spectrum *(continued)*

Different types of business relationships can be described on a continuum representing differing degrees of collaboration, and the exchange (trading) or integration (merging) of corporate assets between participants. Strategic alliances constitute a spectrum of business relationships within this continuum, involving more integration than a simple buy/sell transaction, but less than that of a merger or acquisition.

Figure M depicts a general view of how different business relationships might be characterized on this continuum. The examples provided are neither absolute nor evolutionary, as each business relationship is unique.

Figure M

Characteristics of Various Supply Management Relationships

Strategic Spectrum for Types of Supply Management Relationships

FACTOR	VENDOR	PERFERRED SUPPLIER	ALLIANCE
Viewed As:	Replaceable Commodity	Unique Specialty	Integrated, Customized Specialty
Level of Integration	Low/Not Integrated	Loosely Integrated	Highly Integrated or Inseparable
Number of Suppliers	Many Suppliers	Several Suppliers	Very Few Suppliers
Distinguishing Features	Mainly Price Driven within min. Quality Standards.	Price plus unique offering (i.e. technology, service, etc)	Synergistic Value Proposition (i.e. mutual growth, etc)
Style of Interaction	Tactical Transaction	Preferred and/or Tactical Relationship	Strategic Synergy
Duration of Term	Short Term	Medium Term	Long Term
Value Proposition	Price and acceptable quality	Price, superior quality, and excellent service	Strategy, Cost, Quality, Reliability, Speed, Innovation, and more
Framework for Winning	Winning is essential for me, What happens to you is your business	A Win is essential for me, and I know I should let you win too if the relationship is to survive	A Win/Win is essential for both of us and is critical if the relationship is to thrive continually
Competitive Advantage	Low Competitive Advantage	Moderate Competitive Advantage	High Competitive Advantage
Make, Buy, or Ally Decision	Seldom produced internally (not a core competency)	Often Produced Internally (debatable core competency)	Frequently has been an integral part of the internal value chain
Trust Level	Distrust Prevalent (caveat emptor)	Trust is important to managing the relationship	Trust is essential to generating a continuous stream of new value
Difficulty of Exit	Low Impact, Excellent Ability to Switch Vendors quickly	Moderate Impact	High Impact, Switching may have detrimental impact due to disintegration of systems
Strategic Environment	Cost Driven Low Product Differentiation TCO is non-critical Relationships not important	R&D is a Distinguish Value Applications Focus Provider of Performance	Discontinuous Change in Buyer's Industry Fast Time To Market is Essential Innovation & Integration Essential

Alliance Architecture

Basic Components of Alliance Architecture

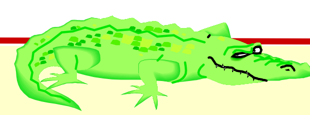
Good Architecture Passes the Universal Test:
The Test of Time - Long-Term Success

The architecture of alliances is composed of key laws, principles, practices, strategies, structure, systems design, management processes, frameworks and roles, interrelationships and interfaces, conceptual frameworks, critical issues, early warning signals, vital signs, and alternate pathways.

As an alliance professional, you will be called upon to design the architecture of a collaborative venture. This will not be a "cook-book" process, instead you will follow a set of principles, best processes, practices, and procedures that will greatly enhance your success.

All the principles, concepts, and frameworks addressed in the following chapters have been tested against standards for universal applicability. These approaches have been derived empirically by analyzing the successes and failures of scores of alliances. Their practical application in hundreds of cases has stood the test of time. As you begin developing an alliance, test its underlying assumptions.

~ TRAP ~



Avoidance of Fundamentals

Often this trap results from the avoidance of addressing the most basic business fundamentals, such as doing a thorough market segment analysis, looking into the financial condition of a partner, addressing exclusive marketing rights, and the like.

All too often the assumption is made that “my ally’s strength will mask all sins,” or “we’ll let the operational managers take care of the details.”

Alliance Architecture

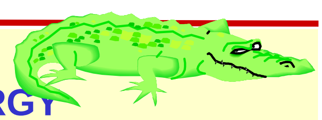
Creating Alliance Architecture

Given the scope of this User Guide, we cannot cover every detail of the alliance process. However this User Guide will help you develop skills as an Architect of Alliances. As an Alliance Architect, you will have an opportunity to develop and customize key issues for your unique alliance, including:

1. Best Principles, Practices, and Processes;
2. Strategies and Structures;
3. Successful Management;
4. Systems and Processes;
5. Critical Questions and Alternative Choices;
6. Key Guidelines and Measurable Criteria; and,
7. Early Warning Systems and Vital Signs.

It is not the purpose of this Guide to turn you into an alliance "mechanic." Every alliance is unique and must be customized to the alliance partner, the required strategy, and the cultures of the alliance partners. Therefore, this is a "guidebook", not a "cookbook".

The Tools and ideas presented throughout this User Guide are designed to assist you in asking the right questions; you are responsible for providing the answers.



~TRAP~
STRATEGIC SYNERGY

Be careful about how "strategic synergy" is evaluated.

Don't Overstate: In the excitement of creating deals, many managers have exaggerated the anticipated synergies to the extent that it distorted their better judgments.

For example, on the surface, two companies may appear to be selling similar, but non-competing product lines -- one may be a commodity product, the other a specialty product. However, the sales force and techniques for selling commodity items is so different from specialty selling as to make the two virtually incompatible.

Synergy is real, but it tends to create a narcotic euphoria. Like "hope," it can be a phantom, unless it can be measured.

Alliance Architecture

The Eight Essentials of Success:
Characteristics of a Well Structured Alliance

Regardless of the industry, a well conceived cooperative alliance, regardless of whether the partner is domestic or foreign, will have a set of common essential characteristics. These Eight Essentials are fundamental building blocks of all alliance architecture. Elimination or inadequate attention to any one or more of these factors will reduce the likelihood of a successful alliance.

#1 CRITICAL DRIVING FORCES: Every company is defined by its relationship to itself, its customers, and its competition. Critical forces compel the company to act, react, or not act at all. An effective alliance is when the driving forces (strategic and operational) for both companies are complementary.

#2 STRATEGIC SYNERGY: Complementary strengths will yield strategic synergy. The two allies should have more strength when combined than they would have independently. Mathematically stated: "$1+1\geq3$." Mutual advantage must exist. Remember, if there is no synergy then the partner selection process was flawed and you should review your partner candidates.

#3 GREAT CHEMISTRY: Your company must have the managerial ability to cooperate efficiently and effectively with another company, and they must have an equally cooperative spirit. Chemistry is the result of positive, team-oriented, trust-filled relationships between key sponsors.

#4 WIN-WIN: The operation, risks, and rewards must be fairly apportioned. Allies must be willing to address new risks, be committed to flexibility and creativity, and be ready to transform the alliance structure. The alliance should also provide greater value to our customers.

#5 OPERATIONAL INTERGRATION: The style of operations and methods of management should be compatible. Companies with similar goals, rewards, methods of operations, and corporate cultures tend to make better partners.

Alliance Architecture

The Eight Essentials of Success: *(continued)*
Characteristics of a Well Structured Alliance

#6 GROWTH OPPORTUNITY: The alliance by its very nature should create opportunities for positioning your company and its alliance partners in a leadership or growth condition to sell a new product or service or to secure access to technology or services. This typically will create an excellent reward/risk ratio. With an ally, the likelihood of success must be significantly higher. If the chance of success in achieving growth is only marginally higher, and the risk only slightly less, an alliance may not be worth the additional complexity it requires.

#7 SHARP FOCUS: Excellent clarity of purpose is one of the most frequently cited reasons for the success of an alliance. Alliances with specific, concrete objectives, timetables, clear lines of responsibility, and measurable results are best positioned for potential success.

#8 COMMITMENT AND SUPPORT: Leadership is essential. Without top level support, middle managers devote their energies to other priorities which they believe may lead to their promotion. There must be a corporate alignment at the enterprise and sector levels. All management and leadership levels must ensure that the proper attitude filters down throughout the organization. Middle management's support and involvement are vital, because "people support what they help create." Further, support must be backed up by the commitment of resources necessary to get the job done.

Alliance Architecture

Success and Failure Factors

The most important reasons for success or failure in alliances have been well documented over the last decade. This list, Figure N, while not inclusive of every factor, highlights the most important factors:

Figure N

10 Key Success/Failure Factors

Success	Failure
1. Excellent strategic fit (strategic alignment and offsetting strengths and weaknesses) 2. Maintenance of excellent chemistry. 3. Selection of right partner with compatible culture 4. Creation of best value in customer's eyes 5. Commitment to long-term win - win relationship and results	1. Low commitment (no champion, minimal executive support) 2. Poor operational planning/integration 3. Strategic weakness (diverging strategies/under-developed value-added proposition, unclear strategic return on investment) 4. Rigidity/poor adaptability 5. Focus on internal alliance issues, and not the customer mission

Details on how to address these success and failure factors are found in this User Guide.

Alliance Architecture

Overview: Alliance Mindset and Spirit

"Synergy" is the elusive but alluring theme song of alliances. Its archetypal attraction is bound in its possibility of creating something more than the sum of its parts. Synergy captivates all, escapes most, briefly visits some, and for the blessed few, bestows enormous wealth and success.

What then is the magic of synergy? Or is it magic at all? The quest of every alliance professional is to find this holy grail -- the formula or architecture that will manifest this gallant goddess with singular regularity; to unveil synergy's secrets like Edison revealed the power of electricity or the Wright brothers manifested flight.

The Illusion -- What's Missing?

Not understanding the spirit and soul of the alliance and the need to create synergy results in comments like these:

> *"We know how to create alliances, but don't know how to manage them!"* reflected one American top executive, who lamented the lack of success in achieving his alliance's primary goals.
>
> *"It looked great on paper, but it was a terrible fit in reality. Our cultures clashed on every issue from decision-making processes to rewarding our sales force;*" stated a dejected alliance manager in the pharmaceutical industry.
>
> *"During negotiations, the deal makers poisoned the well, and we haven't yet recovered. We had to undo all the damage caused by the adversarial legal jargon;"* was the battle-weary response of the president of a multi-billion dollar international joint venture.
>
> *"Alliances are an unnatural act for us. They are extremely difficult to manage; we'd prefer to do acquisitions;*" complained a senior vice president of a large German chemical manufacturer. Later, he noted that 30% of his revenues and nearly 50% of his division's profits came from alliances, but *" we spend only 5% of our management time on them."* For some inexplicable reason he failed to allocate management resources to the highest profit generator in his business.

Alliance Architecture

The Illusion -- What's Missing? *(continued)*

Alliances are a very different form of business genre than managing an internal business unit. Fundamentally, executives who have been managing in traditional hierarchical command and control companies are befuddled when given an alliance assignment. The synergy they seek from the alliance remains elusive; cultural differences become insurmountable obstacles; project management turns into problem management; and the bureaucracies of the two parent organizations become a quagmire of politics.

Secrets of Synergy

Not every alliance must face these impasses.

"I am amazed how well our two companies are working together. We are actually ahead of schedule, and have had relatively few difficulties;" was the delighted comment from the alliance manager of a strategic alliance venture composed of a European food service company with an American partner.

"After only 6 weeks of working together, it's hard to tell the difference between the employees of their company and ours;" explained the director of an international mining company, commenting about his alliance with an electronics firm.

These alliance managers achieved success because they insisted their joint teams spend ample time understanding the unique aspects of alliances, building cross-cultural teamwork, and establishing processes and skills to access and embrace the unique value of the alliance and their alliance partner.

Experience has proven that there are invaluable beliefs and skills which are often overlooked that enable alliance managers to produce high performance results: skills at managing differences, breakthroughs, speed, and transformation.

Alliance Architecture

The Sources of Alliance Mastery

The fundamental reason why alliances are formed is to access a capability within another company, thus finding the magical synergy, the $1+1 \geq 3$. However, this means capturing the value of differences.

Lying within these inherent differences is the promise of the alliance to create bold new futures, or conversely, to implode upon itself as differences turn destructive.

Traditional approaches to managing cultural differences have focused on becoming sensitive to differences, cross-cultural training, understanding linguistic nuances, and acculturation. While these methods have their worth, we have found a number of very essential elements are often overlooked that distinguish successful alliances (each element will be explored in detail in the following pages):

- Power of Shared Vision
- Synergy of Compatible Differences
- Commitment to Mutual Benefit
- Trust Building & Integrity
- Commitments & Camaraderie
- Sharing Expands Possibilities
- Conflict Transcendence
- Transformational Flexibility

The Power of Shared Vision

The universal vitality of focusing on a powerful common vision, backed up by a dynamic and inspiring value proposition that speaks to the customer shows no cultural boundaries.

For example, take this typical vision for alliances:

“We will be the leaders in our industry.”

It presents a “vision vacuum” by saying nothing, containing no commitments, and inspiring neither the alliance partners nor the customers. Devoid of a powerful vision, everything defaults to politics, manifesting as cultural differences, which then divide the alliance partners against themselves.

Alliance Architecture

The Power of Shared Vision *(continued)*

As the old adage from Alice in Wonderland states: “If you don’t know where you are going, any road will get you there.” And that road will be fraught with in-fighting, subversion, despair, and confusion, all of which will ultimately lead to the ruin of the alliance.

Contrast the weakness of a faulty vision with the motivational force of a more commanding perspective:

> *“Our alliance will create 10 new innovations each year that will reduce the costs to our customers by 25%, while accelerating their throughput by 50%.”*

By having a powerful central vision and value proposition such as this, alliance partners focus differences on how to achieve the joint goal, rather than arguing amongst themselves as to whose way is the “right way.” A shared vision helps ensure synchronicity.

Powerful visions are all founded on belief in the ability to discover the unknown, accomplish the seemingly impossible, and overcome the apparently unattainable. Therefore, strong alliance leadership must be present to build such a vision and to unify and align the alliance’s differences for a common purpose.

~ EXAMPLE ~

Baseball’s Famed Double Play

Infielders executing a “double play” is a perfect example of synergy and synchronicity. All players have the same shared vision and guiding principles, innate trust in their teammates, commitment to precision of execution, and very clear roles and responsibilities.

Timing is essential. A split second spent to “think about the play” is enough to ensure failure.

Alliance Architecture

Synergy of Compatible Differences

Synergy does not just occur as a natural byproduct of alliance formation, nor from a tough legal agreement, nor by means of a dream.

Rather, it must be designed with architectural assurance. But more, synergy must be activated by a powerful set of actions founded upon the understanding of how differentials produce the $1+1 \geq 3$ effect.

"*If two people in the same room think alike, one is unnecessary;"* commented the philosopher Ernest Holmes.

The eminent psychologist, Carl Gustav Jung foresaw the potential of alliances when he said: "*The greater the contrast, the greater the potential. Great energy only comes from a correspondingly great tension between opposites."*

Joel Barker, in his groundbreaking work on paradigms, recognized that new paradigms originate from outsiders who think differently, not from insiders who see their world from an old and tired perspective.

Each of these men understood the profound impact differences can have on the co-creation of bold new futures.

Invariably, however, ethnocentric or business culture attempts to enforce its mighty hand. Some alliance members may begin by making judgments regarding the other side's culture, branding it as strange, wrong, inefficient, bad, or unproductive. As soon as this begins, fear, uncertainty, doubt, and distrust begin to fester, and then the alliance begins to unravel. This calls for strong action.

Adept alliance managers, leveraging the vision for the alliance, will call for creating a "synergy of compatible differences" in which differences are respected as source of innovation, cherished for their ability to break paradigms, and expected to produce creative solutions. The manager's ability to create this new "super-ordinate" culture within the alliance enables the alliance to produce at higher performance levels than either parent company can achieve alone.

Because alliances cannot be commanded, the mechanisms for leadership and control are dramatically different compared with most conventional organizations. Great alliance managers tend to be "integrators," possessing outstanding skills in bridging differences through their ability to translate across cultural boundaries. The greater the differential between cultures, the greater the need for highly skilled integrators.

Alliance Architecture

Synergy of Compatible Differences *(continued)*

Often the effective alliance manager will develop principles and values for the alliance that forge unity of vision and purpose. Integrators empower those around them by recognizing that "people support what they help create." Thus, they use techniques to unify alliance members, rather than divide them, to bring out the best in others.

Commitment to Mutual Benefit

Win - Win is the oft-trumpeted rallying call for alliances. But win - win can mean very different things to different people. Consider these statements, all of which represent win-win:

Weak

- *I will fight to win, and you must fight to win, and somewhere in the middle we will strike a balance;*
- *I must protect my interests, and, inasmuch as they are protected, you can take what is left or what is in your interests;*

Good

- *We must both be willing to strike compromises and make concessions if we are to achieve win-win;*
- *I will let you win because I know win-win is good for alliances;*
- *I am committed to you winning as long as you are committed to me winning;*
- *We both have a common goal, so we should work together to achieve the goal together;*

Strong

- *I will defend your interests from an attack or an infringement from people on my own team because you are my partner and my ally and because we have established firm Rules of Engagement which I will not let my own side violate – I am committed to retaining our trust;*
- *We augment each other's strengths and weaknesses, therefore together we are greater than we are apart;*
- *Our Vision is the same, Our Values are Compatible, Let's Dance*
- *We will create a whole new world together with an inspired vision of the future that expands our potential, and lets the Customer win too.*

For synergy to manifest itself, the alliance must be championed by people willing to make strong commitments to a powerful win-win.

Trust Building and Integrity

Ask any alliance manager about the value of trust in an alliance, and they will wax eloquently about its impact on success. Without trust, alliances fail! Trust is the foundation of all cooperative enterprises.

Trust is the hallmark of the personal relationships between the people who constitute the alliance. Without this trust, no legal agreement, no strategy, no structure, and no process can achieve its objectives. These personal relationships distinguish alliance professionals from their transactional cousins specializing in acquisitions.

Trust is the glue that binds personal relationships and the grease that prevents frictional differences from becoming contentious.

Trust and integrity are the threads of the alliance fabric. Integrity is more than just being honest or trustworthy. Integrity means being true to oneself, to one's deepest values; and the benefits are ultimately both a divine blessing and a liberating freedom.

> *Integrity resides in the ability to constitute yourself as your word. As such it is a home, an anchor, a self-generated and continuing commitment to honor your word -- despite contrary thoughts and feelings if need be. It is a consistency of being, speaking and acting that shapes who you are -- to yourself and to others.*
>
> Anonymous

Integrity becomes a divine gift by enabling us to touch the deepest yearnings of others around us, thus creating a new set of possibilities filled with hope and inspiration. Integrity is thus expansive, allowing us to become more than ourselves, to create with others, to empower others.

Alliance Architecture

Trust Building and Integrity *(continued)*

For Gerry Dehkes, an alliance champion at Lucent,

> *"Integrity includes setting expectations and consistently meeting them. Doing both is important. Making sure that your counterparts will know (and be able to trust) that you will act in a certain way in a given situation. Then meet or beat that expectation consistently. This extends beyond the individual to the rest of the people in the alliance partners organizations. Or better, in an old Minnesota expression: 'Underpromise. Over Deliver.' View problems or barriers, especially early on, as opportunities to show your trustworthiness, meeting the expectations you've set with your partners. These have strong impact beyond the decision of the moment. They engender trust that later on you will indeed act that way, thus inviting reciprocal actions."*

Integrity marvelously liberates us to live our alliances forward into the future, enabling us to experience the present moment cleanly and without fear that our past will undermine us, corrode our vision, and erode our energy.

The lack of integrity inevitably forces one to look back over one's shoulder, haunted by a past filled with historic baggage which will harbor tomorrow's illness, or threaten to destroy one's false illusions that were invented to disguise the sordid realities of a troubled life.

In a fast moving world, trust and integrity thus spawn a massive competitive advantage, because together they enable the alliance to make rapid decisions without the need for a legal contract every time someone tries to make a decision. What's more, trust and integrity enhance creativity, build teamwork, reduce unnecessary transactional costs (such as memos to protect oneself), and make the alliance more fun, thereby building human energy.

Alliance Architecture

Commitment and Camaraderie

Building trust in alliances comes not from golf games and dining together. It's built in the heart, and on the field of deeds; it's held the commitment to transform values and beliefs into concrete actions, it's founded on the commitments to the integrity of one's word.

Trust and Integrity are but hollow concepts until vigorous commitments are put into place. For it is with commitment we transform promise into reality by words that reflect intentions, and actions which speak louder than words.

Commitment is:

- making the time when there is none;
- the daily triumph of vision over skepticism, of conviction over fear, of cohesiveness in the face of adversity
- the willingness to take risks, even when past experience calls for caution;
- crossing the chasm of fear and danger to meet the needs and hopes of your partner;
- the willingness to look from the past into future possibilities;
- the willingness to move enough to release anger and hurt to enable our rising to a higher level, seeking to turn breakdowns into breakthroughs;
- the power to transform the reality of relationships;
- the willingness to take the leap of faith when there is little justifying evidence, because one believes in the other's values and integrity.

Alliance Architecture

Commitment and Camaraderie *(continued)*

Alliance champions always remark that they are accused of being traitors to their companies when they stand tall and strong for their alliance partners. Brian Ferrar, alliance champion at Compaq recognizes how this bonding impacts the relationship between champions:

"An alliance manager and his counterpart at the partner company are often closer than each may be to many of their co-workers because of the trust it takes to form the alliance."

However, this bonding across organizational boundaries can be quite disconcerting to many insiders who see this as a serious breach of loyalty. It is from this loyalty, commitment, and integrity that alliance champions build a camaraderie that lasts for years.

Sharing Expands Possibilities

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1 \geq 3$ proposition. The only way to attain such gain is through co-creative sharing. Alliances are built on the fundamental premise that sharing of risks and resources will expand the possibilities and rewards available to all.

Sharing Expands Possibilities

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1 \geq 3$ proposition. The only way to attain such gain is through co-creative sharing. Alliances are built on the fundamental premise that sharing of risks and resources will expand the possibilities and rewards available to all.

Alliance Architecture

Unfortunately, in a world where certain resources may have been scarce, hording of resources has been a common practice, based on the belief that hording will control resources and maximize returns.

One must distinguish between *expendable* resources that disappear upon sale or consumption (such as oil, food, minerals, etc) and *expandable* resources that multiply the more they are used (such as creativity, cooperation, and teamwork).

Expendable resources are depleted and decrease upon usage. Expandable resources regenerate and increase when used.

For example, software is an expandable resource. Using it daily does not diminish its size or impact. To the contrary, using software creates more value every time it is used. Therefore it expands. It is best used when shared, transferred and transmitted. Using this resource brings it to life.

Unlike expendables, which adhere to the universal price laws of supply and demand, expandables are not limited by supply, and demand does not increase their price, but does increase their value.

We must be able to distinguish between expendables and expandables when negotiating alliances. To treat each with the same principles limits possibilities of expanding the realm of the alliance. This type of thinking is often reflected in contracts for intellectual property, where negotiators tussle for months and even years over ownership rights, when, if sharing of intellectual property rights occurred, both sides would create more new ideas and command a better mutual competitive advantage.

The economic Laws of Expendables run counter to the Laws of Expandables, but both are true and both mutually exist in our world. The problem is usually that we don't acknowledge the latter.

Alliance Architecture

Accessing the expansive possibility of sharing begins with the mutual belief that "the more you give, the more you're going to get." When both partners hold this belief, it manifests. The general rule for the Law of Expandables is

Sharing Expands, Hording Contracts

Roy Rogers, commenting on his long marriage to Dale Evans, remarked that a great marriage is not a 50-50 arrangement. Both partners have to give at least 100%. Rogers said both Dale and he were always willing to go beyond: giving 120%. The Law of Expandables creates its own "regenerative energy," this is what we call "synergy."

Ask yourself the question: "What kind of relationship will emerge if sharing is not a fundamental value?"

Alliance Architecture

Conflict Transcendence

Whenever disagreement arises (and it will, for wherever there is change, heir will be disagreement and conflict), great alliance practitioners are careful to focus on ideas and issues, steering clear of ego entrapment games, such as “who’s right or wrong,” or “what’s good or bad” that will rapidly descend into the pits of defensive self-righteousness and difficult conflict.

Conflict is the inevitable by-product of all change, and any proposition of new ideas will generate some amount of conflict. The objective is to prevent the conflict from degenerating into blind fear and inflexible rigidity. As one champion in our focus groups articulated it:

> *“Without conflict there will probably be no buy-in. I just have to be careful I do not take conflict personally as an attack on myself. Conflict is just a tool to get people talking and debating an issue from one side or another. It promotes the kind of understanding necessary to be successful in this business.”*

Alliances exist in a world of constant flux, and therefore need frequent and continual adjustment. If those responsible for the alliance use win-lose negotiating techniques, always angling for self-interested advantage, then each side will lose synergy potential. But worse, this approach will then generate conflict, which will soon become unmanageable as trust and commitment rapidly evaporate in an enflamed atmosphere of fear and protection.

The alliance spirit has an internal compass that points to synergy in lieu of conflict. This does not mean disagreements and breakdowns do not occur. But rather that these circumstances are opportunities for improvement, situations for turning breakdowns into breakthrough, conditions for shifting to higher orders of thinking.

Disagreement does not naturally gravitate to conflict, but becomes a transcendent experience to turn the passion of argument into the passion of creation. Instead of taking “positions” on issues – a certain sign that conflict is brewing – the effective leader seeks to find mutual interest, joint advantage, shared vision, common values, and combined strength to stake out a new future and a shift in thinking.

Alliance Architecture

Conflict Transcendence *(continued)*

The alliance champion will not be a great compromiser between the diverse elements, however, unless every other avenue has been explored. A compromise is usually seen as a poor second choice, the forsaking of a dream. Forging a new unity from seemingly diverse values and thinking will be the champion 's first choice. This unity becomes a new order of interaction, better than the original, thereby creating a *super-ordinate* culture for the alliance.

Negotiating styles that are overly legalistic, win-lose, or adversarial in any way will be highly detrimental to the overall health of the alliance in an environment of frequent repositioning.

Transformational Flexibility

A fast moving world causes the strategic driving forces that formed the essence of the alliance to be in a constant state of flux, serving as a major destabilizing factor, like a rogue wave trying to capsize a boat. Thus, alliances are in constant need of transformation.

Alliance managers must be monitoring the shifts in the strategic environment regularly, and repositioning their parents and partners to align with these shifts.

Because the alliance must transform itself frequently or lose its competitive edge, alliance managers must establish a culture of visioning, breakthroughs, and co-creation as a foundation for their re-negotiations. As one telecom executive said of his alliance in Poland: “No one knows what the future will look like. But if we don’t talk about it, we will end up someplace else.”

Flexibility is essential to making alliances work over the long haul, because benefits to each party are seldom equal at any one point in time. Each alliance partner can expect to see benefits unequal for short periods of time, but without flexibility to re-write an agreement, failure is lurking.

Alliance Architecture

Transformational Flexibility *(continued)*

For example, in the alliance between British Airways (BA) and USAir, both airlines gained significant new passengers and made commensurate investment. However, the benefits eventually saw BA gaining over a 100% increase in revenues, while struggling USAir gained only 40%. This situation called for a readjustment of the division of profits, which, when it did not occur, created friction and eventual dissolution of the alliance. BA's later alliance with American Airlines embraced a distribution of revenues based on passengers attributable to the alliance.

The legal definition of an alliance is straightforward:

> *Cooperative business entity, formed by two or more separate organizations, for strategic purposes, that allocates:*
> - *ownership,*
> - *operational responsibility,*
> - *financial risks and rewards to each member,*
>
> *while preserving their separate corporate identity/autonomy*

It always seems to surprise lawyers that if one designs an alliance to this specification, one does not create a successful alliance.

What is missing in this definition are those elements of the alliance spirit that bond people and organizations together, and give them the flexibility to make adjustments as the world around them changes.

Successful alliance managers proclaim that if you ever have to look at the legal contract, the alliance has failed. Alliances exist not in the contract but in the soul and spirit of those who create and manage them.

Alliance Architecture

Mastery as Alliance Architects

Seldom does synergy happen by accident. It manifests because people believe it is possible; it is so often a self-fulfilling prophesy. To so many of us, our work in strategic alliances is not just a business profession, but a mission with its roots solidly set in the "architecture of cooperation“.

Our mission is to transcend divergent points of view, thus co-generating bold new futures where differences become the ever-renewable source of creative energy, the essence of innovation, the dynamism of new possibilities. Ours is a noble endeavor - designing the synergy of compatible differences. Daily we must use honor and integrity to build the trust that is essential to all our alliances.

Held within the seed of the architecture of cooperation is the power to let us bring a new insight, a new pathway, a new hope, a new spirit, and a new power to our world.

Each day, when we use or invent best practices for alliances, we are contributing to the creation of that higher order of experience and action that makes our workplace a better place to live. Daily we are honing the skills and transmitting the abilities and multiplying the possibilities to spawn a better world around us. As our corporations globalize, we can use these proficiencies in a multitude of applications to engender not just better companies, but better relationships, better teams, better families, and better communities.

In the large span of things, step by step, alliance by alliance, we will have created a better world for all of us. The Spirit and Soul of the Alliance can help make that happen.

Alliance Architecture

Assembling the Right Team

If the Business Development Process leads to a decision to proceed with the Strategic Alliance Process, assembling the right teams is a critical factor. Senior management begins by selecting a champion - an executive who is charged with making the strategic relationship take shape and become a reality.

The champion builds a cross-functional/multidisciplinary core alliance development team that will execute the relationship-building process - analyzing needs and potential partners and ultimately creating an operational team that will oversee the alliance relationship over the long-term. As the process proceeds, the core alliance development team grows and draws on the expertise of people from throughout the organization to create sub-teams to handle specific tasks.

The nature of the core team and sub-teams varies as the organization moves through the six phases of the Strategic Alliance Process; the precise makeup of the teams depends on the task at hand at any given time, on the nature of the business relationship being considered, and on the organization's specific structure and needs.

The various teams involved in the Strategic Alliance Process are essentially temporary. They are assembled to perform specific tasks and then dissolved when the tasks are completed (with the exception of the operational team, which is created to manage the alliance on an ongoing basis). As a result, executives must ensure that team members are familiar with the alliance concepts and processes, and have enough time to devote to the effort. Typically, that means relieving individuals of some of their normal workload so that they can focus on the alliance process.

Alliance Architecture

Roles and Responsibilities

Strategy Phase

The Strategy Team is, generally, an executive-level group that concerns itself with corporate strategic alliance questions. This team is responsible for appointing a champion for the strategic relationship to be formed, assembling a core alliance development team, and providing input into the overall Enterprise plan.

The Strategy Team handles six action steps:

1. Identify the products, services, technology etc.to be considered for a strategic relationship;
2. Tentatively determine which type of alliance strategy relationship is appropriate;
3. Assess organizational readiness;
4. Develop and document a preliminary *Alliance Mission, Strategy and Goals* (AMSAG) statement;
5. Identify and train champions and the core alliance development team;
6. Reach a team consensus on and gain management approval of the final AMSAG statement and alliance relationship plan.

Analysis and Selection Phase

This team identifies, screens, and initiates contact with prospective alliance partners. Team members should be individuals who have excellent business skills and an understanding of the corporate strategic plan, who are knowledgeable in the business issues that require an alliance to be formed, and who can evaluate the financial health, technical capabilities, and operational skills of the potential partners.

The team essentially establishes the boundaries of the proposed agreement that will be the basis for later Co-Creation and Structuring meetings between the organizations.

The Analysis and Selection Team handles 11 action steps:

1. Outline tentative performance goals for the business requirements that require an alliance partner;
2. Establish preliminary requirements and measures;
3. Gather internal and external benchmarking data;

Alliance Architecture

Roles and Responsibilities *(continued)*

4. Develop a summary of specific performance objectives, operating requirements and measurement criteria to be used in the alliance process;

5. Develop an ideal-partner profile;

6. Create an initial list of candidates;

7. Establish and communicate the partner-selection procedure;

8. Check the references of candidates;

9. Conduct interviews with candidates;

10. Perform due diligence; and,

11. Pick the provider(s).

Value Creating Negotiations Phase

This team called the Co-Creation team is a small, focused group, formed at the beginning of the phase works closely with our potential ally to develop a Memorandum of Understanding and Principles that describes the broad goals and nature of the relationship.

Because this effort requires excellent communication and business skills, the members need to be experienced professionals. They also should have demonstrated skills in the business issues that have justified pursuing an alliance and have been involved previously in other strategic alliance relationships.

The Co-Creation team handles three action steps:

1. Plan the Co-Creation approach;
2. Conduct joint exploration and design of the venture; and,
3. Create a Memorandum of Understanding and Principles.

Alliance Architecture

Roles and Responsibilities *(continued)*

Operational Planning Phase

In the Operational Planning phase, the partner organizations develop detailed plans for implementing and maintaining the alliance relationship. The core alliance development team creates an operational team, drawing on people with the functional expertise needed to complement our partner's capabilities and strengths. This operational team creates an operational plan describing how the services outlined in the Memorandum of Understanding and Principles will be provided. Members of the Operational Team will remain in place during the launch and ongoing operation of the alliance in order to represent our organization and provide the expertise needed to manage the relationship over time. The Operational Planning team handles two action steps:

1. Create an operational plan; and,
2. Develop an operational launch plan.

Alliance Structuring Phase

In the Alliance Structuring phase, the legal and organizational frameworks of the upcoming relationship are created - frameworks that allow both parties to share fairly in risks and rewards. Therefore, in this phase the alliance team should include individuals with financial, administrative and legal expertise, as well as people with communication skills and the relationship-building and management experience needed to create a win-win arrangement.

The team must also involve senior managers, such as the alliance manager and the champion, to ensure a focus on strategic goals and collaboration in developing a contract.

The team involved in this phase handles eight action steps:

1. Prepare an organizational structure chart;
2. Prepare a summary of the governance structure and control mechanisms;
3. Agree on performance objectives and operating measures;
4. Agree on financial, legal and ownership matters;
5. Evaluate all structural elements for balance and a win - win approach;
6. Draft the contract;
7. Obtain final senior management approvals; and,
8. Sign the contract.

Alliance Architecture

Roles and Responsibilities *(continued)*

Manage, Innovate, and Transform Phase

The Manage, Innovate, and Transform Phase encompasses the implementation of the plans created in the Operational Planning Phase. In this phase, all parties work to ensure a smooth implementation of the operational aspects of the relationship. The phase also is directed towards those elements that will ensure that the relationship continues to grow and evolve in order to provide benefits as the business environment changes.

The members of the operational team, with ongoing responsibility for managing the relationship, work with the Joint Governance Board to ensure that issues are handled in a timely manner. Therefore, this team must have a clear understanding of the business processes in question and of the nature 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 work together to find new approaches and breakthroughs beyond those spelled out in the original agreement.

Enablers of the Alliance Framework

The relationship management component is critical to the successful formation and management of alliances and essentially has no beginning and no ending during the life cycle of an alliance relationship. An enterprise competency representing the ability to effectively cultivate and maintain highly productive relationships internally and externally must be developed within all business sectors. This is a critical success factor to ensure the alliance process is optimized and yields the expected business benefits.

Relationship management is the foundation on which to build alliances/partnerships. Relationship management is the sum total of all the interactions that occur throughout the strategic alliance framework. It is the ability to build and maintain trusted relationships. Relationship management focuses on the intangible and qualitative components of the business relationship.

The knowledge management component of the framework encompasses the ability to create and maintain a searchable knowledge base of alliance information (e.g. alliance specific information, frameworks, processes, tools, enterprise competency, development information, contact information, etc.) to ensure alliance information is readily accessible across the enterprise, consistent and credible.

Roles and Responsibilities

Who's on the team?

The following table shows which executive levels, and functional areas are typically involved in the core team, and various sub-teams in each of the six phases of the Strategic Alliance Process.

Phase	Core Alliance Development Team Members	Members as Required
Alliance Specific Strategy	CEO/Executive VP VP Business Development VP Finance VP Human Resources VP Administration Business Analyst	Chief Information Officer Chief Technologist Staff Support
Analysis & Selection	Champion/Initiator Business Analyst Marketing Human Resources Contract Management	Technical Legal Manufacturing Business Proc. Analyst IT Ops. Mgmt.
Value Creating Negotiations	Champion Alliance Manager Operational Support Marketing Human Resources	Legal Procurement Administration Manufacturing Technical
Operational Planning	Champion Business Process Experts Human Resources Alliance Manager	Administration Logistics Technical Support Service Support
Alliance Structuring	Champion Alliance Manager Legal/Contract Management Administration	Finance Marketing Technical
Manage, Innovate, & Transform	Alliance Manager Operational Functions Administration	Human Resources Technical Legal

Roles and Responsibilities

Assignment of Roles and Responsibilities

Figure O below illustrates how you can assign Roles and Responsibilities for each of the activities within each phase. A blank format that can be used as a guide when developing the roles and responsibilities for a specific alliance can be found on the following page.

Figure O – For Illustrative Purposes Only

Sample Responsibility Chart

Task	Alliance Mgmt Team	Alliance Company	Your Company
Develop Operations Plan	R	S	S
Develop Service Strategy	L	S	R
Selection & Contract with Solution Providers	S	Input	R
Establish Program Budget	A	---	R
Manufacture the Product	Input	Info	R
Pricing the Solution	R	S	S
Budget	Info	---	R
Establish Sales Quotas/ Composition Input	R	Info	
Train Sales Reps	Info	Support	Support
Design Literature	L	R	Input

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

Roles and Responsibilities

Assignment of Roles and Responsibilities

In each of the three blank columns, indicate which role each of these groups has. Remember, only one column can have an "R" (responsible) for each task.

Figure P

Tasks/Major Activities	Alliance Mgmt. Team	Ally Company	Our Company
Phase 1 - Areas for Alliance opportunities - Identify and train champions and core alliance team -Prepare Alliance Mission, Strategy & Goals Statements. - Obtain appropriate approvals to proceed			
Phase 2 - Outline performance goals - Establish preliminary requirements and measures - Gather internal and external benchmarking data			

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

Roles and Responsibilities

Assignment of Roles & Responsibilities

Tasks/Major Activities	**Alliance Mgmt. Team**	**Ally Company**	**Our Company**
Phase 2 (continued) - Develop a summary of specific performance objectives, operating requirements and measurement criteria - Develop and ideal partner profile - Create an initial list of candidates - Perform due diligence - Select the partner			
Phase 3 - Plan the negotiation approach			

Task Responsibility Charting

KEY:
Leadership = **L** — Support = **S**
Informed = **Info** — Approval Power = **A**
Input = **Input** — Responsible = **R**

Roles and Responsibilities

Assignment of Roles and Responsibilities

Tasks/Major Activities	Alliance Mgmt. Team	Ally Company	Our Company
- Conduct joint discussions to explore the design of the alliance. - Create MOUP			
Phase 4 - Identify and form operational teams. - Create an operational plan - Develop an operational launch plan.			
Phase 5 - Prepare organizational charts - Summarize governance structure and control mechanisms.			

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

Roles and Responsibilities

Assignment of Roles and Responsibilities

Tasks/Major Activities	**Alliance Mgmt. Team**	**Ally Company**	**Our Company**
- Agree on performance objectives and operating measures. - Agree on financial, legal and ownership matters. - Draft contract - Sign Contract			
Phase 6 - Hold implementation meeting - Monitor performance - Identify new opportunities - Maintain morale - Identify and adjust to changing market conditions. - Renew agreement.			

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

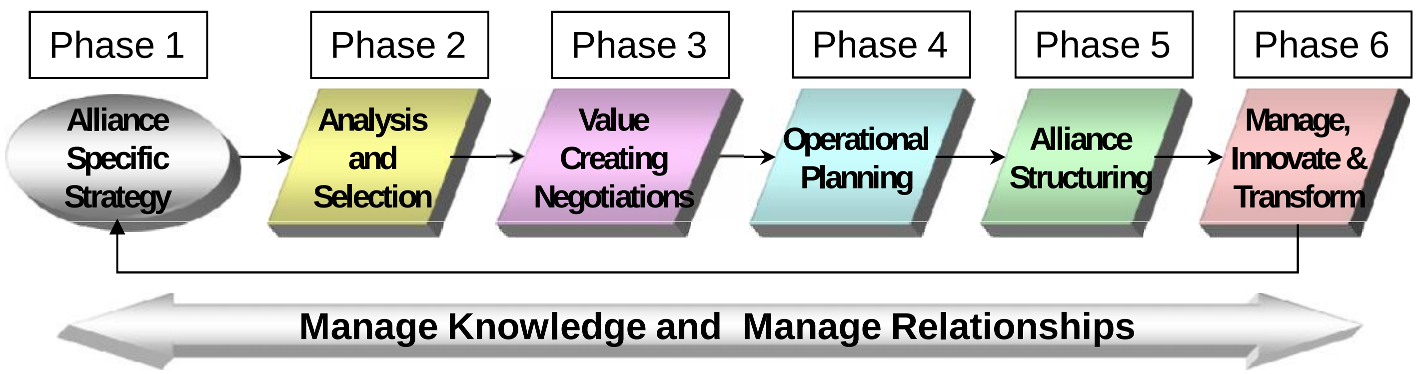
Alliance Framework

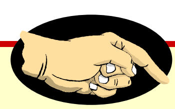
Alliance Framework Overview

Best Process-Best Practices Framework Ensures Success

As a result of the Best Process/Practice analysis, the Alliance Framework has been created as a system to delineate a simple, six-phase map of the process of forming alliances. This Alliance Framework helps to guide the alliance architect through the basic steps of creating and maintaining a successful strategic relationship.   (see FigureQ)

Figure Q





~TIP~

Every alliance architect will have a natural tendency to want to "structure a deal" fairly early in the negotiations. Beware! All seasoned alliance veterans have learned the difficulties this will cause in the long run. Follow this principle religiously.

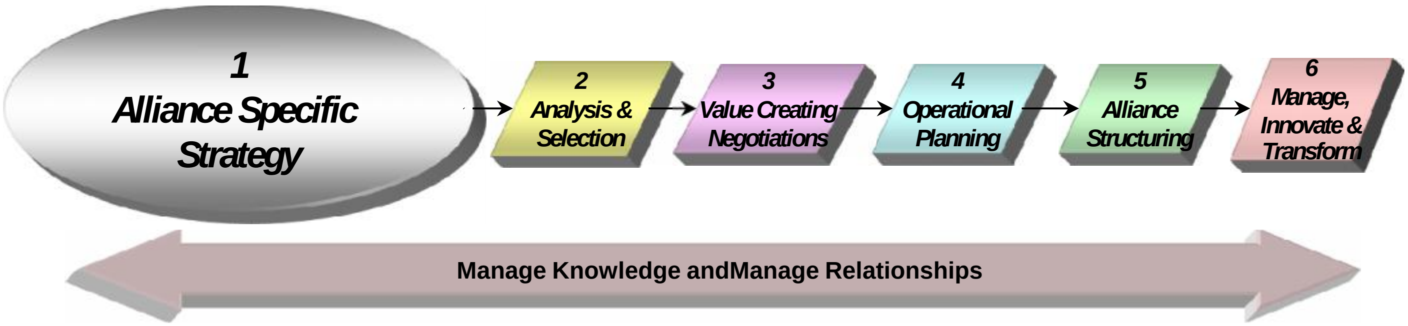
Remember this Alliance Framework is a guide. As a practitioner of the Framework we will have to decide how much or how little of it is applicable to a given alliance scenario.

The following pages provide a high level overview of each phase of the Alliance Framework.

Alliance Framework

Alliance Framework Overview

Alliance Specific Strategy - Phase 1



Alliances are the result of understanding our corporate business strategy. In today's environment our organization needs to be quick to respond to market and governmental changes. How to do that becomes a crucial question.

Our growth can come through internal development, acquisitions or through alliances with other organizations. Once we have a clear vision as to our requirements and what we want from an alliance then we can formulate our value proposition for the success of the alliance.

Key to the success of any alliance will be the involvement of our executive committee and key individuals within our organization that will come to share the vision of our alliance strategy.

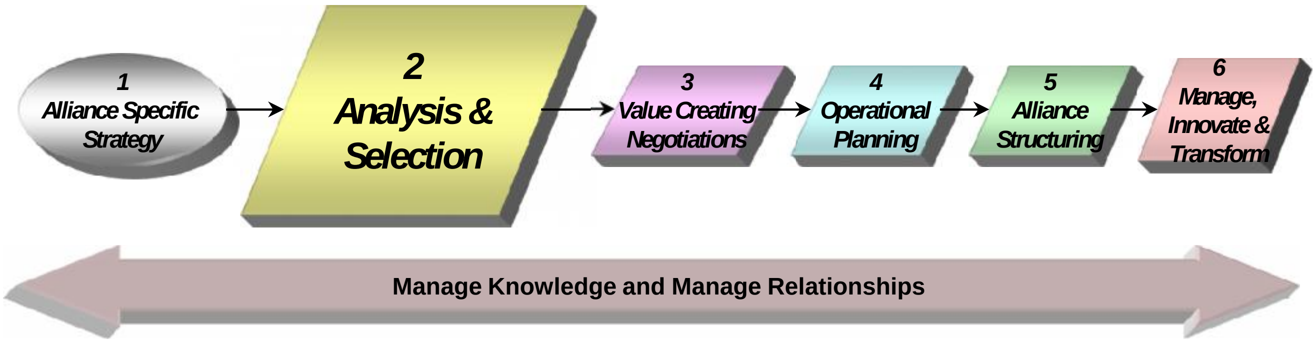
Phase 1 of the Alliance Framework will address the strategic questions and identify key individuals that will participate in the alliance development process. Some activities addressed during this phase include:

- *Identify Strategic Gaps and prepare a list of strategic needs and assets*
- *Alliance requirements are aligned with corporate strategy*
- *Development of Value Proposition and map of value migration*
- *Champion and teams identified*
- *Engage in internal planning , assessment and alignments*

Alliance Framework

Alliance Framework Overview

Analysis and Selection - Phase 2



The Analysis and Selection phase begins the job of finding a partner who can meet all of the requirements set out in the strategy phase. We cannot under estimate the importance of this phase to the ultimate success of the partnership.

As we will learn, selecting an appropriate partner requires more than viewing financial results. It will require learning about the structure of the organization and how they function. What is their organizational culture? How will it fit within our structure? Can we ultimately take an organization that thinks differently then we do, close the differences between our organizations and arrive at a successful relationship.

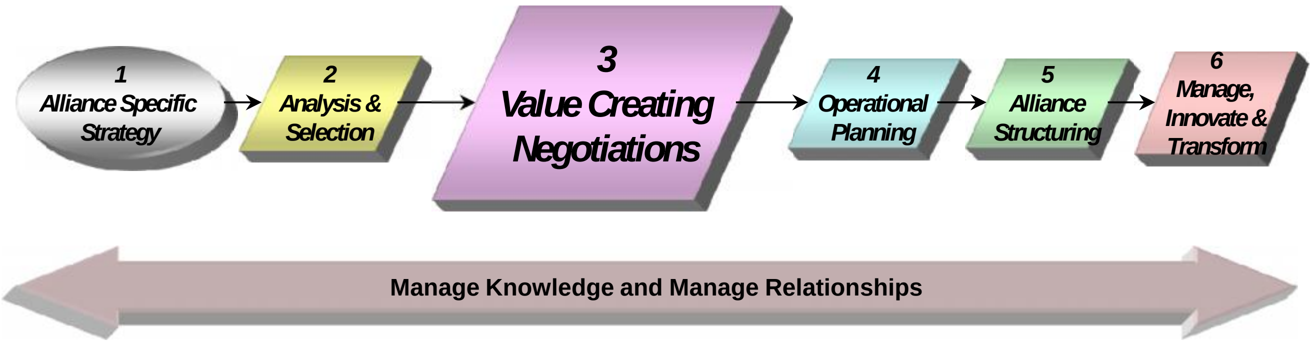
To assist us in this phase we will learn a number of new terms and utilize new tools unique to the alliance process. When we ultimately select our partner we will be comfortable that this alliance will succeed. Typical activities include:

- *Screening of Potential Partners*
- *Quantification of the size of the opportunity and impacts*
- *Value and Risk Assessment*
- *Stakeholder Impact Assessment*
- *Business Case Prepared*
- *Metrics Identified*

Alliance Framework

Alliance Framework Overview

Value Creating Negotiations - Phase 3



Value Creating Negotiations will provide us with a different methodology in which to engage our prospective alliance partners. Rather than engaging in a deal making mentality, as many alliances are formulated, we will be utilizing a co-creative strategy. An approach that will permit both partners to realize their strategic vision in a way that will add value to each partners' organization and the alliance as a whole.

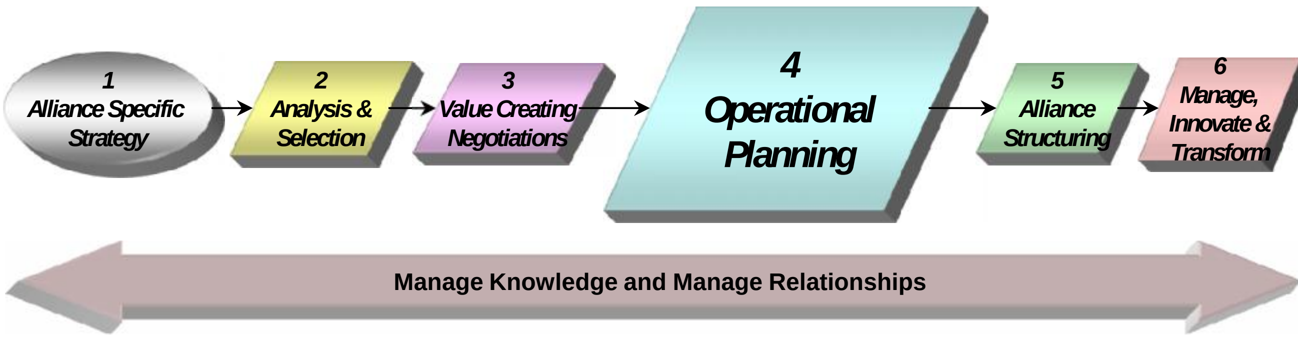
The end result of this phase will be a Memorandum of Understanding and Principles (MOUP). This document, jointly created, will lay the foundation for the operational plans to follow and the final contract. Examples of activities involved during this phase include:

- *Validation of Strategic and Chemistry Fit.*
- *Ensure a Shared Vision exists*
- *Negotiations Team Selected*
- *Preliminary Legal Protections Identified*
- *Define key capabilities and resources needed for each partner*
- *Confirmation of compatibility of partners' objectives and goals*
- *MOUP Written*

Alliance Framework

Alliance Framework Overview

Operational Planning - Phase 4



The Operational Planning phase will be crucial to the success of the alliance. It is here that we will sit down with functional groups from our potential ally. At this time we will identify all of the operational issues that may occur, either during launch or implementation. Any potential problems that are identified then can be addressed.

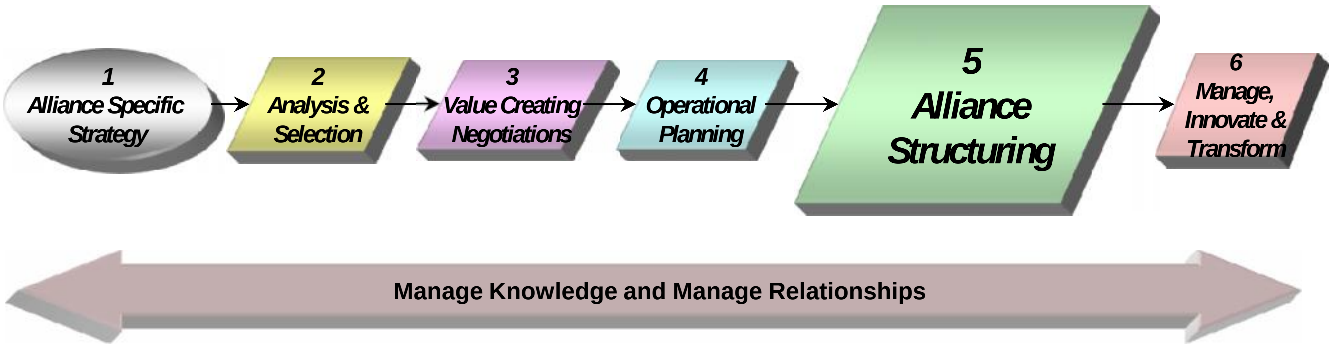
In the Operational Planning phase, our organization and our future partner will jointly establish a day-to-day operational plan. We will create a detailed manual that describes how the business processes will operate. In addition the plans will establish preliminary designs for control systems, reporting systems and the interfaces that link customers and the providers of the business processes. The creation of these plans should be viewed as a pilot project that provides a "reality check" on the assumptions and projections made during the Value Creating Negotiation phase. Typical activities during this phase include:

- *Co-Created Business Plan*
- *Roles and Responsibilities identified*
- *Functional and Cultural Integration Occurs*
- *Resource Requirements Identified*
- *Metrics validated*
- *Implementation planning with all key constituents to get alliance off to fast start is conducted*

Alliance Framework

Alliance Framework Overview

Alliance Structuring - Phase 5



The Alliance Structuring phase focuses on creating legal and organizational frameworks for the strategic alliance relationship, on finalizing operational plans, ensuring that leaders and key managers are in place, and establishing a risk-and-reward formula that motivates both parties to make the relationship succeed. Structuring culminates in the signing of the contract.

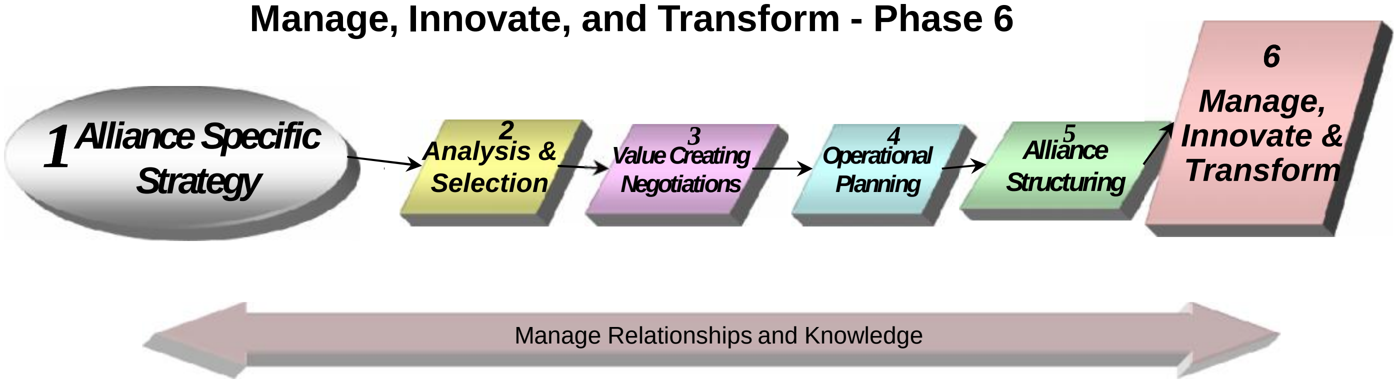
The Alliance Structuring phase builds on the broad objectives and goals described in the Memorandum of Understanding & Principles, and the detailed review of the Operational Plan to create a framework that reflects the collaborative spirit of those two documents.

- *Organizational Structure developed*
- *Governance Structure implemented*
- *Leadership Structure is in place*
- *Financial Structure is in place*
- *Relationship is finalized*

Alliance Framework

Alliance Framework Overview

Manage, Innovate, and Transform - Phase 6



In the Manage, Innovate, and Transform phase, the agreement established in the Alliance Structuring phase is implemented and managed over time.

This phase will involve the Operational Team and the Joint Governance Board (JGB). The JGB will include executives from both companies. Their role will be to guide policy, review the relationships performance, and is generally responsible for keeping the relationship "healthy" and focused on continuous improvement.

The Operational Team (OP) is responsible for ensuring that the alliance agreement is implemented and managed. This team also works with the JGB to ensure that the issues are handled in a timely manner.

A significant aspect of this ongoing phase will be the continuous renewal of the alliance. The Team will be responsible for identifying new opportunities as well as adjusting the requirements of the existing ones. As market conditions change the alliance, to stay vibrant and healthy, will have to be proactive in changing with changing strategic drivers.

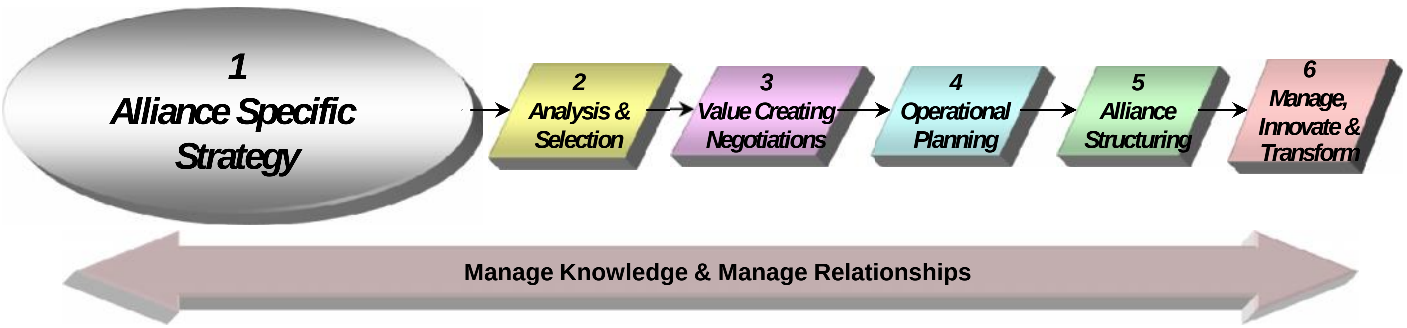
- *Monitoring of Performance to achieve Results*
- *Innovate new products, services, and processes*
- *Management of Relationships and Trust*
- *Organizational Learning and Management of Knowledge from Learnings*
- *Collaborative Culture Created*
- *Evolution in response to Strategic Drivers*

Strategic Alliance
Best Practice User Guide

-- Contents --

Phase 1 - ALLIANCE SPECIFIC STRATEGY Page #

Alliance Framework



Overview

Alliances are, by their nature, strategic. Therefore you should think strategically before initiating the alliance. There are four critical interrelationships that should be thought through carefully when designing an alliance:

1) What are our **company's** needs for its own strategic positioning in the marketplace.

2) What do our **customers'** need in order to see our company as their most vital provider of products and services.

3) What will the **competitors** be doing to take away our customer base and how they will respond to any competitive moves our company and its alliance partners may make.

4) Who are the array of **collaborators** (potential partners) available to our company? What are the implications of choosing one over another? Which partners could augment our company's product-service offering to provide the strongest market offering, and therefore, the highest competitive advantage?

Figure 1, above, will be repeated for each phase to remind us of the steps that we will follow during our quest for a successful alliance. This first phase is the "Alliance Specific Strategy".

The purpose of this initial phase is to validate direction for formation and management of specific alliance(s) to ensure alignment with enterprise and business sector strategies. Additional results of this phase include:

- Clarity of strategic intent
- Clear objectives and metrics
- Commitment by champion/top level and operational support
- Sharing of alliance process with partner to obtain commitment to similar process

Purpose:

Validate Direction for Formation and Management of Specific Alliance(s) to ensure:

- Alignment With Enterprise & Business Sector Strategies
- Clarity of Strategic Intent
- Clear Objectives & Metrics Required
- Commitment by Champion/Top Level & Operational Support
- Sharing of Alliance Process with Partner to obtain Commitment to Similar Process

Goals, Critical Success Factors and Expected Outcomes

Goals

- Ensure alignment with long-term winning strategy
- Assess options/ directions
- Clarify strategic returns
- Develop competitive advantage

Critical Success Factors

- Know the results you want
- Clearly define objectives & goals
- Know the customer needs
- Know the driving forces for the alliances
- Calculate strategic return on investment
- Build internal alignment

Expected Outcomes

- Strategic gaps validated and documented
- Strategic needs & assets confirmed
- Shared vision developed
- Objectives and goals documented
- Alignment with corporate strategy
- Value proposition created
- Value migration identified
- Champion identified
- Preliminary team identified and sanctioned
- Planning assumptions identified

Alliance Specific Strategy Process Steps

Step 1.1 Identify Key Strategic Issues

- Developing a Powerful Strategy

Step 1.2 Strategic Drivers

- What are Strategic Drivers
- Be Aware of Driving Forces
- Strategic Drivers Model

Step 1.3 Map Value Migration

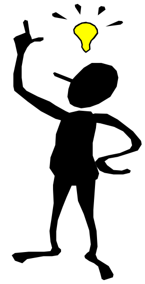
- Importance of Value Migration

Step 1.4 Alliance Stratagems

Step 1.5 Breakthrough Value Proposition

- Value Proposition
- Breakthrough Proposition

What the Experts Say…'



In Strategy…

…Timing is critical. Waiting too long to formulate and implement strategy will let strategic advantages slip further away.

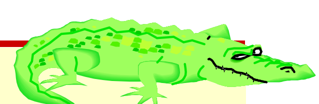
> *"You can always make up lost ground, but never make up lost time."* -- Napoleon

…Knowledge is essential. Know what you want, and know where you and your competitors are going.

> *"A thorough knowledge of one's own conditions as well as the conditions of the competitor is essential to winning. If you don't know the plans of your competitors, you cannot make informed alliances."*
> -- Sun Tzu, 300 BC

"When great intentions yield mediocre results,
When the tried and true ceases to work,
When every attempt to fix things is met with
frustration and failure…
Then perhaps the design has reached its limits,
And the paradigm is ready to shift,
Opportunity is present,
Creative vision is called for,
And bold action in new dimensions
is the nature of things…."

By Robert Porter Lynch



~TRAP~

If you don't know where you're going, any road will get you there.

Step 1.1 Identify Key Strategic Issues

Developing A Powerful Strategy

While we will engage in tactical alliances (short-term opportunistic relationships) the alliances we are primarily addressing are long-term and will have a significant impact on our business. Therefore, it is important to think strategically before initiating an alliance. There are four critical interrelationships that must be thought through carefully when designing an alliance; these were listed in the overview and shown in *figure 1.1.a* graphically.

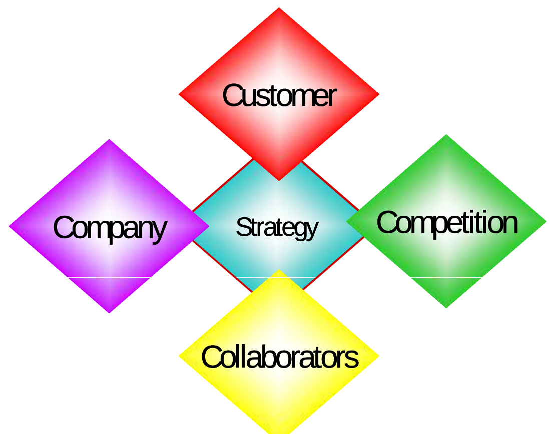
1. What are our **company's** needs for its own strategic positioning in the marketplace.

2. What are our **customers'** needs in order to see our company as their most vital provider of products and services.

3. What are our **competitors** doing in order to take away the customer base from our company. How will they respond to any strategic moves our company and its alliance partners may make?

Figure 1.1a

The Four "C's" of Strategic Positioning



4. Who are the array of **collaborators** (potential alliance organizations) that are available to our company? What are the implications of choosing one of them over another?

We operate in a highly dynamic and ever-changing environment, which requires frequent re-evaluation and repositioning in order to maintain a competitive advantage.

Many alliance relationships may be focused on developing new business models, acquiring new capabilities, and developing new technologies and delivery systems in the marketplace. Because alliances are typically focused on new and emerging market places, in the initial phase of a product's life there may be little or no competition.

As competitors emerge, products and services will often be differentiated on the basis of marketing programs. As competitors become more sophisticated in their marketing, products often are then differentiated on the basis of customer service within precise market segments and effective distribution channel management.

Step 1.1 Identify Key Strategic Issues

Developing a Powerful Strategy *(Continued)*

Strategic Fit

The most critical factor in determining success in an alliance is its strategic power, which is derived from two essential sources:

- **Compelling Competitive/Marketing Strategy** which places the alliance in the most advantageous position in relation to the customer.
  - Supports sufficient revenue and net income to result in a win/win outcome
  - Provides strong added-value to customer.

- **Strategic Alignment** of visions, goals, priorities, and commitment which includes:
  - Compatible long-term strategies
  - Complementary strategic drivers
  - Augmenting core competencies
  - Synergistic strengths & weaknesses
  - Clear Strategic Returns On Investment (STROI).

Each of these strategy issues is addressed in this section.

Use Checklists 1.1 and 1.2 to assist you in developing the appropriate set of Key Strategic Questions. These questions, and more importantly the responses to them, will help to determine whether or not you will pursue this specific alliance.

STRATEGIC VISION: By answering these critical questions, you will have addressed the fundamental issues necessary to create a powerful strategic vision for the alliance.

Step 1.1 Identify Key Strategy Issues

Checklist 1.1
Key Strategic Questions

Ask questions which have a measurable response

__ 1. What pressures are our customer facing?
__ 2. Will this alliance make our customer more satisfied or successful? How?
__ 3. What new ways of doing business should we consider?
__ 4. Is a "breakthrough" in thinking possible? How?
__ 5. Do the strategic objectives of the alliance create value-added that will yield a strategic competitive advantage?
__ 6. Is an alliance needed to accomplish our objectives & goals?
__ 7. Have we been frank in our analysis of our strengths and weaknesses?
__ 8. Do we know our potential alliance member's strengths, weaknesses, and strategy for growth?
__ 9. Do we know our competitors' present and future strategies? Are we honest and realistic in our assessment? Has it been "Devil's Advocated?" How do you know?
__ 10. What future strategic profile must we have in order to be winning in this market in 3-5 years? Is this empirically substantiated?
__ 11. Which major trends represent opportunities, and which represent threats for the alliance?
__ 12. What happens if we do nothing? Maintain current course? Go it alone?
__ 13. What can we expect our competitors to do if we form an alliance?

Ask and answer these questions before commencing negotiations.

~TIP~

Don't Ask Questions for which there is no measurable response or no actionable response. And if you don't get the right questions, its difficult to get the right answers.

Step 1.1 Identify Key Strategic Issues

Checklist 1.2
Key Strategic Issues

First, if the questions in Checklist 1.1 are not sufficient, what additional questions should we be asking? ____

____

Second, what are the best responses to the key strategic questions? (are these responses measurable?)

1. Customer satisfaction pressures/needs: ____
2. Customer satisfaction and/or success provided from the alliance: ____
3. New Business Approach: ____
4. Possible Breakthroughs: ____
5. Value-Added yielding strategic competitive advantage:____
6. Need for an Alliance: ____
7. Our Strengths & Weaknesses? ____
8. Prospective Ally's Strengths & Weaknesses? ____
9. Competitors' Strategies____
10. Our Future Strategic Profile:____
11. Threats & Opportunities for the Alliance____
12. Results from Doing Nothing/Going It Alone: ____
13. Competitors' Responses: ____
14. Others: ____

Step 1.2 Strategic Drivers

What are Strategic Drivers?

How does an alliance come together? What keeps it together? The answers to these questions reveal how powerful forces can keep some alliances together for years, while others disintegrate rapidly. We will discuss some of those drivers below.

- Customer Drivers
- Competitive Drivers
- Capability and Capacity Drivers
- Core Competency Drivers
- Planning for Value Migration
- Strategic Alignment

Be Aware of Driving Forces

"Driving Forces" keep pressure on the allies. Poor understanding of the driving forces will result in defective alliance architecture, and the venture will not endure the winds of change. Imagine these driving forces as pressure put on the two companies like clamps or a vise (see Fig. *1.2.a*).

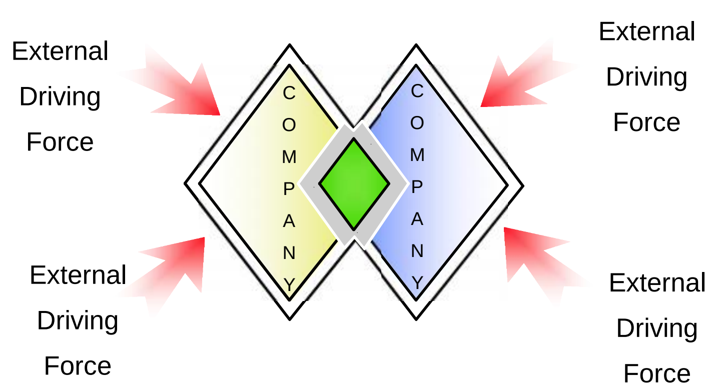


Figure *1.2.a* Illustration of Driving Forces on Two Companies

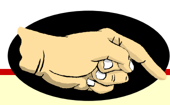
Companies will not naturally stay together for long unless there are sufficiently strong driving forces to keep them in alignment. These forces are a major component of understanding the essence of strategy formulation and the nature of the strategic "fit" element. See figure *1.2.b* that describes the four basic types of strategic driving forces.

Step 1.2 Strategic Drivers

Be Aware of Driving Forces *(continued)*

When determining whether it makes sense to commence an alliance, check the driving forces for both companies (See Checklist 1.2a). Are they sufficient to hold the relationship together? What is the expected duration of these forces? Are you aware of the forces that affect your prospective ally? Are these forces truly "strategic" or are they more tactical and operational in nature? The forces can be many, or they can be few. However it is important that the forces are powerful, strategic, and that they are expected to be somewhat permanent.

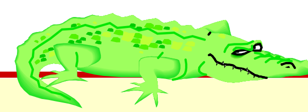
It pays handsome dividends to partake in a bit of future forecasting to determine what these current driving forces will look like in three, five, or ten years. Look to uncover any hidden opportunities for additional driving forces to build greater structural strength into the alliance.



~TIP~

DRIVING FORCES GOAL:

Maximize the number and/or the Strength
of Driving Forces on
BOTH
sides of the Alliance.



~TRAP~

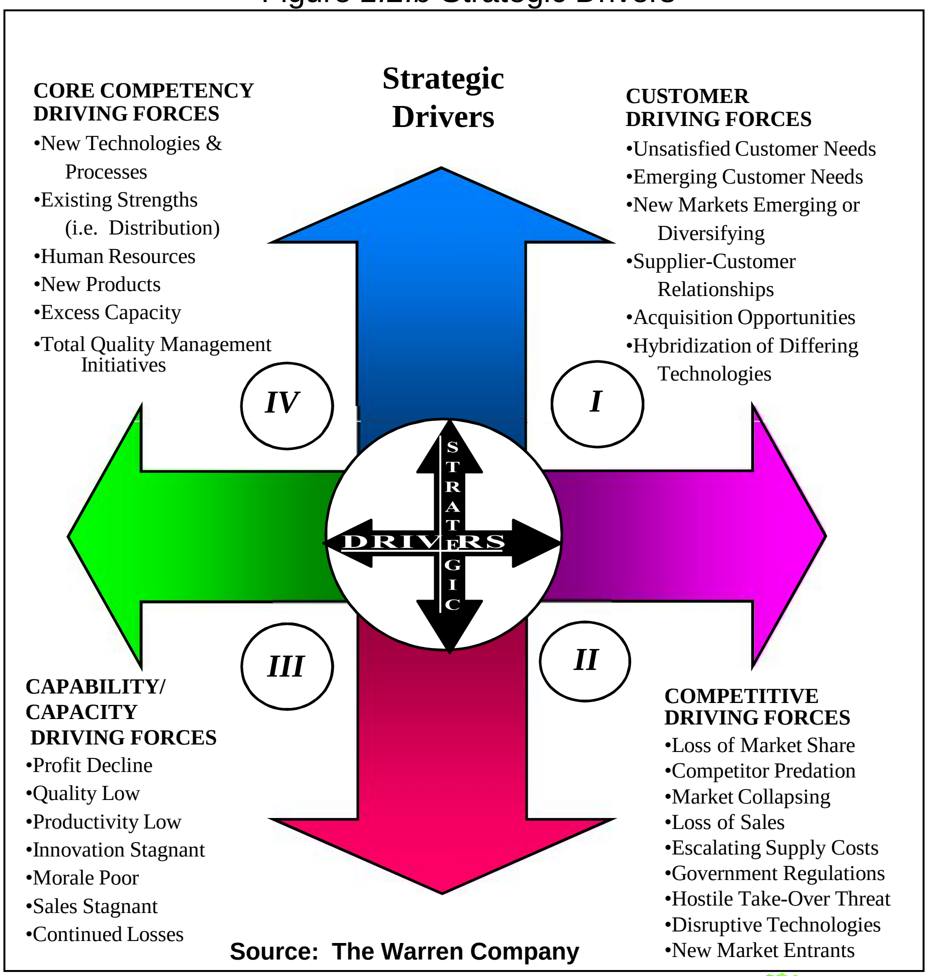
If the Driving Forces on Either Side
of the Alliance
DIMINISH,
then BEWARE.
The alliance may need restructuring
or renegotiation.

Step 1.2 Strategic Drivers

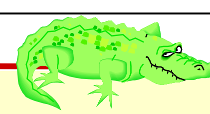
Strategic Drivers Model

While negotiating, critical questions should be asked of both companies regarding their driving forces. Once the alliance is underway, remain keenly aware of these pressures, because they are vital to the continued understanding of and commitment to the alliance's purpose by both partners' management. Figure *1.2.b* describes the four basic types of strategic driving forces.

Figure *1.2.b* Strategic Drivers



Source: The Warren Company



~TRAP~

Be cautious about alliances that are strictly problem driven (Quadrants II & III) -- they may indicate a fundamental weakness in the alliance.

~TIP~

Be sure there are significant proactive drivers to propel the alliance (Quadrants I & IV)

Step 1.2 Strategic Drivers

Strategic Drivers Model *(continued)*

Quadrant I: Customer Drivers

These are typically *Opportunities* that exist within the customers' needs and desires. Sometimes these opportunities are highly visible and recognized by the customer, but often the customer does not even have knowledge of the opportunity, especially if the opportunity is a new technology, product, or service which emerges from the firms capacity to innovate.

All successful alliances should have a sufficiently strong set of customer opportunities available, or else there will not be benefits that are great enough to propel the alliance over the long haul.

Quadrant II: Competitive Drivers

All good alliance strategies must be competitively sound. The alliance must provide better value to the customer than the best competitor. The presence of a strong competitor is often a good motivating force because it provides a *threat* if it is better than the Company's alliance, and it provides a *benchmark* for excellence.

If there is no competition, questions must be raised about either the *existence* of a market (perhaps the market does not yet, or will not ever, exist), or the *timing* of market entry (the market may be very new and require large market development expenses on the front-end).

Quadrant III: Capability & Capacity Drivers

No company has all the resources and capabilities to accomplish anything and everything. The lack of a needed capability and/or capacity is always a fundamental driving force behind an alliance. It is a combination of both *strengths* and *weaknesses* that propels an alliance.

However, beware of those alliances which are built on weaknesses which may eventually undermine the venture, particularly situations where the prospective ally is looking for someone to *offset their incompetencies,* and not simply to supplant what's missing.

Quadrant IV: Core Competencies

The best alliance allies, whether large or small companies, have a set of core competencies which add significantly to the competitive advantage of the alliance. This is the quadrant where unique strengths reside. Both companies should have sufficient core competencies to contribute which will enable innovation, spark customer excitement, and sustain competitive advantages.

These core competencies are seldom located on a company's balance sheet, and typically reside in integrated team functioning. Be sure the alliance accesses these key personnel, and that a highly effective means of leveraging capabilities is designed to provide a long-term stream of new innovations. Often these individuals will be linked directly to the customer with the sales team to maximize the creation of new products and services.

Step 1.2 Strategic Drivers

Strategic Drivers Model *(continued)*

Utilize Checklist 1.2a to assist you in analyzing the specific driving forces affecting your specific alliance. Concentrate on identifying near term versus longer term forces and how they may change over time. It is important to remember that nothing will remain a constant throughout the life of this alliance. To the extent you can, anticipate those changing forces.

Step 1.2 Examine Strategic Drivers

Checklist 1.2
DRIVING FORCES ANALYSIS

Quadrant I: Customer Driven (Opportunities)

MARKET
___ Globalization of Markets
___ Access to Markets
___ Closeness to Customer
TECHNOLOGY
___ Hybridization of Technology
___ Development of New Technology
___ Commercialization of Technology
STRATEGIC
___ World Class Company Goals
___ Profitability

Quadrant II: Competitive Driven (Threats)

REGULATORY
___ Government Prohibitions
___ Legal Requirements
___ Taxation/Tariff
STRATEGIC
___ Competitive Positioning
MARKET
___ Changing Market Share
___ Loss of Sales
___ Distribution Capabilities
COST
___ Escalating Cost Structure

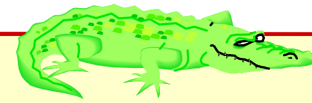
Quadrant III: Capability/Capacity Driven (Weaknesses)

RESOURCE
___ Production Capacity Limited
___ Management Resources
___ Technology Resources
___ Financial Resources
___ Territory Coverage Resources
RISK
___ Economies of Scale
___ Share Risk of Capital Expenses
___ Share Operational Risks
QUALITY
___ Increasing Quality Standards
PRODUCT
___ Increasing Customer Solution

Quadrant IV: Competency Driven (Strengths)

INNOVATION
___ New Technologies & Processes
___ New Competencies
PRODUCTION
___ Control/Lower Cost of Supplies
___ Improved Quality & Reliability
___ Design for Manufacturing & Assembly
___ Excess Capacity
MARKET
___ Customer Access
___ Market Identification (Logo)
___ Sales Leadership

Step 1.2 Strategic Drivers



~TRAP~
Watch for Changing Forces:

Every company exists at a moment in time in a particular strategic and operational environment. One thing that can be predicted with utmost certainty is that this environment will be different in the future. For some companies in dynamic markets and technologies, the future atmosphere may be rather stormy. For those in mature markets, it may be cyclical, with feasts followed by famines. And those in commodities may be subjected to great fluctuations in prices and supplies. Therefore, be keenly aware of these forces, because the ever-changing pressures require the alliance to be like a willow tree flexing in the strategic wind.

Checklist 1.2b
LIST DRIVING FORCES FOR THIS ALLIANCE

For Our Company

The forces you would like to see from a prospective ally.

Forces that would not benefit an alliance with our company.

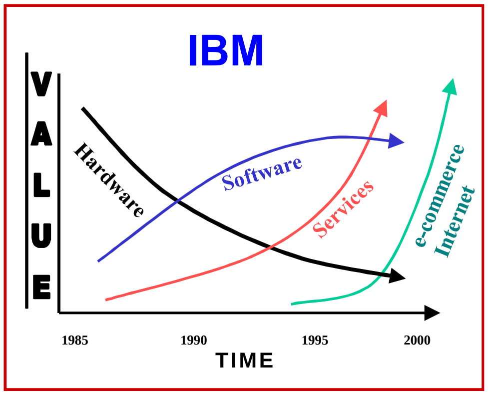
Step 1.3 Map Value Migration

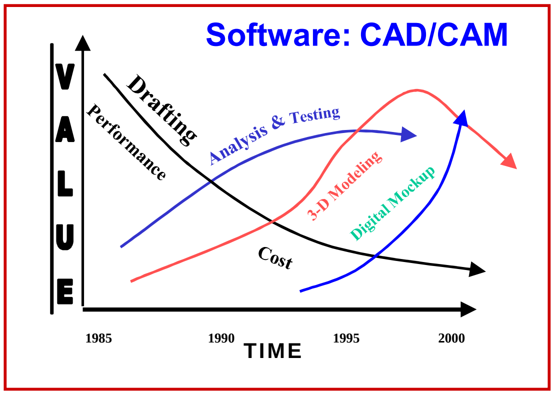
Importance of Value Migration

In designing the strategy of the alliance, one must recognize from the outset that not only will the strategic drivers be changing, but the nature of what is valued will also shift dramatically over time. This shift in what is valued is called "value migration," and its impacts on an alliance will be profound. *Figure 1.3.a* illustrates how the value has changed for two markets.

It is vital for both future alliance partners to have a common vision regarding these shifts, because both must position themselves, their investments, and their technologies to capture the value on the upswing of the curve.

Figure 1.3.a Value Migration





Alliances that ride the downswing of the curves tend to be "consolidation" alliances, where cost cutting and rationalization are the driving forces. Low margins prevail here, and alliances have less margin for error and less profit to allocate among the parties.

It is normally advisable to update and re-evaluate these value migration curves on at least an annual basis once the alliance is underway, because rapid innovation in the industry or changing customer demands may require the alliance partners to reconfigure the alliance.

Another implication of this strategic imperative is that the alliance partners must be flexible, because they will need to re-energize the alliance frequently.

Step 1.3 Map Value Migration

In mapping the value migration be sure and identify the key issues around; Customers, New Business Designs, Value Movement or other important characteristics of the market that will create change over time. Checklist 1.3 will assist you in this effort.

Checklist 1.3a
Value Migration Checklist

Customers

- ✓ Who is the Customer?
- ✓ Are decision makers and influencers changing?
- ✓ What are the Customer's needs and values?
- ✓ Which customer needs are mature and require a more cost effective solution? Which needs are emerging and require a high performance solution?
- ✓ Given the customer's needs and value profile, how are their priorities changing?
- ✓ What do you think will be the customer's most important future needs?

New Business Designs

- ✓ How many distinct new business models have been introduced in our industry segment in the past five years?
- ✓ What is their customer and economic rationale?
- ✓ How do their economics compare to ours?

Value Movement

- ✓ Map the Value Migration that enabled us to gain our present position.
- ✓ What is the total market value of our industry? What is our share of that value? Who is gaining share of value most rapidly?
- ✓ What is the next shift in value migration we can either anticipate or lead?
- ✓ How will the rules of the game change in the future based on the new value migration?

Step 1.3 Map Value Migration

Checklist 1.3a
Value Migration Analysis

1. Customer

a. Who is the Customer? ____________________

b. Are Decision Makers and Influencers changing? ____________________

c. What are the Customer's Economics and Process Flow? ____________________

d. Which customer needs are mature and require a more cost effective solution? Which needs are emerging and require a high performance solution?
____

e. Given the customer's economics and needs profile, how are their priorities changing? ____________________

f. What do you think will be the customer's most important future needs?
____

2. New Business Models

a. How may distinct new business models have been introduced in our industry segment in the past five years? ____________________

b. What is the customer and economic rationale for each new business model?
____

c. How do the economics of each new business model compare to our new business model? ____________________

d. How do customer ratings of our competitors' new business model compare to customer ratings of our new business model? ____________________

Step 1.3 Map Value Migration

Checklist 1.3a *(continued)*
Value Migration Analysis

3. Value Movement

a. Map the Value Migration that enabled us to gain our present position. ____

____

b. What is the total market value of our industry? What is our share of that value? Who is gaining a share of value most rapidly? ________________________________

____

c. What is the next shift in value migration we can either anticipate or lead? ________________________________

____

d. How will the rules of the game change in the new future, based on the expected value migration ? ________________

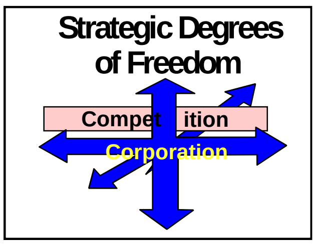
____

Step 1.4 Alliance Stratagems

Alliance Stratagems

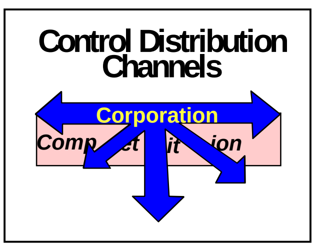
Alliance Stratagems are alternative alliance strategies that we can select among to out-maneuver our competitors. By gaining agreement on the selected alliance strategy in conjunction with our collaboration partners, we can ensure that all partners are focused on attaining the same strategic vision using the same methodologies.

Stratagems are concrete implementation pathways through which the strategic vision and value migration are brought from concept into reality. All too often "strategy" is left in a vague, un-measurable, un-actionable state of being, with no clearly defined, targetable program of action. By defining stratagem with your alliance partner, you will ensure strategic alignment, thus enhancing strategic fit.



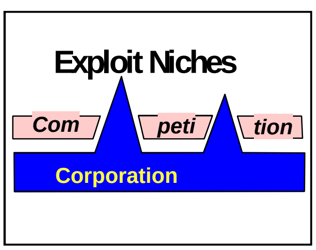
Strategic Degrees of Freedom:

Take core technologies into totally new arenas.



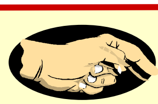
Control Distribution Channels:

Command access to major customers.



Exploit Niches:

Enter small, often low end markets, then expand into high end.



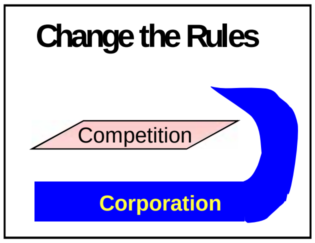
~TIP~

FOCUS ON THE CUSTOMER

It's far more important to focus alliance strategic energy on meeting new and emerging customer needs than to use the stratagems to take aim at "destroying the enemy," "dominate the market," or "make the competitor's life miserable." By focusing too much on defeating the competitor, the alliance will probably become vulnerable to misreading the direction and speed of the marketplace, and, most certainly, not recognize new competitors entering from very disparate markets and technologies.

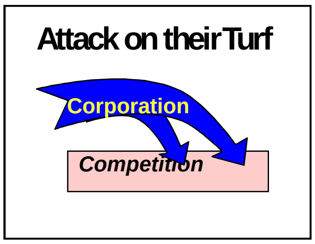
Step 1.4 Alliance Stratagems

Alliance Stratagems *(continued)*



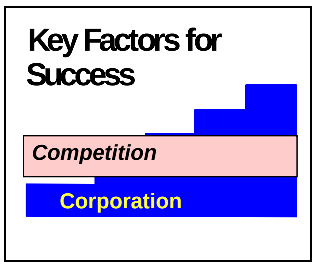
Change the Rules:

Alter the buying patterns by offering new value proposition.



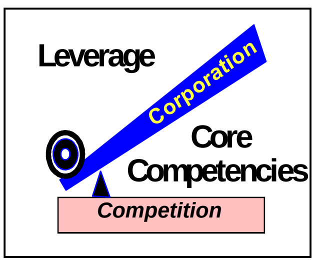
Attack on their Turf:

Force Competition to use its resources locally, sacrificing global expansion.



Key Factors for Success:

Do the job better than can be done alone.

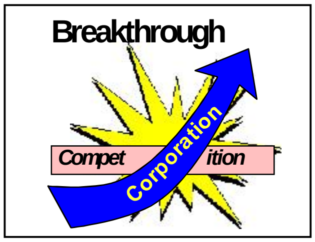


Leverage Core Competencies:

The core competencies of two companies augment each other.

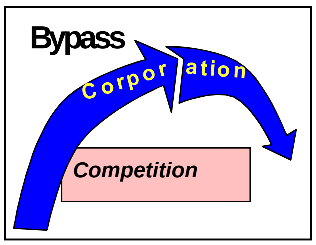
Step 1.4 Alliance Stratagems

Alliance Stratagems *(continued)*



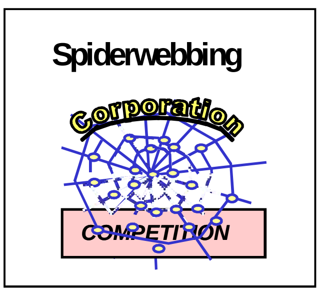
Breakthrough:

Technology of one company, with the technology of another creates totally new technology.



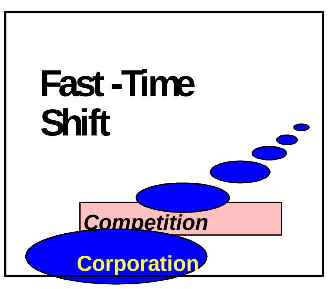
Bypass:

Outflank traditional competitors with new approach.



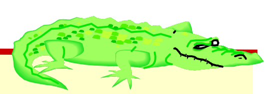
Spiderwebbing:

Build a global network of the most influential players to become dominant despite inadequate technology.



Fast Time Shift:

Dramatically decrease cycle time.



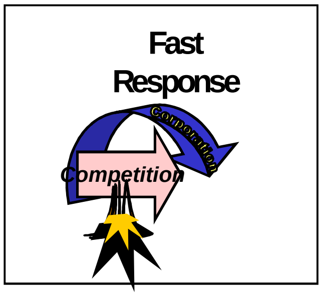
~TRAP~

TOO MANY STRATAGEMS

While most alliances apply more than one stratagem, often in parallel in the same market, don't try too many at the same time thus diverting focus and diluting resources.

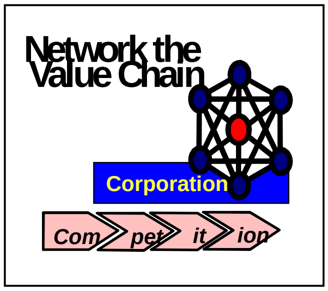
Step 1.4 Alliance Stratagems

Alliance Stratagems *(continued)*



Fast Response:

Implement strategies & technologies faster than competitors, even when competitors announce first.



Reinvent Yourself:

Reconfigure the nature of business

Step 1.5 Breakthrough Value Proposition

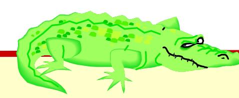
Value Proposition

The Value Proposition is the external value of the alliance to the customer. Use the alliance to profitably:

- Create the best chain of value-added for the customer;
- Be the best at every step in the value chain and be sure that our company's core competencies are superior to the competition's;
- Produce results significantly better than could be produced alone.

The Value Proposition must make it clear to the customer precisely why this alliance provides greater benefit to the customer than other competitors' offerings.

Value is the difference between Benefit and Price, as perceived by the Customer. Competitive Advantage is the difference between how well the alliance profitably provides value compared to the competition. These are the hallmarks of a "Breakthrough" Value Proposition.



~TRAP~

Value Added Proposition (VAP)

Don't let the VAP be vague (i.e. excellent quality, good service, etc.) Define VAP in terms of measurable results, so that the alliance will have clear benchmarks for its performance.

"Reasonable people adapt themselves to the conditions that surround them."

"Unreasonable people adapt surrounding conditions to [their vision of the future]."

"All progress depends on the unreasonable person."

-- George Bernard Shaw

Breakthrough Value Proposition

For an alliance, to be successful, it must be able to accomplish something that could not be done as effectively by any other means. This requires an ability on the part of the alliance to provide extraordinary value that "delights the customer". The Breakthrough Value Proposition (BVP) becomes the purpose of an alliance. The BVP is a critical unification point because it focuses externally on the customer, rather than internally on the individual allies. When frictions arise, the VAP will help coalesce the alliance. Alliance Architects need to construct the most effective value added chain which:

Step 1.5 Breakthrough Value Proposition

Breakthrough Value Proposition *(continued)*

1. Defines the target customer and the appropriate channel.
2. Develops a value proposition that profitably satisfies the customer's wants/needs and surpasses the competitors' capabilities.
3. Determines if we can/should do this alone, or if an alliance is needed.
4. Designs an alliance which provides the strongest value added.

This starts with the BVP.

~TIP~

In the rapidly changing world of global competition and technological innovation, the race will not go to the swiftest state-of-the-art technology, nor to the lowest price competitor, but rather to the alliance providing the chain of highest added value to customers.

The Breakthrough Value Proposition enables the partners to align their vision on a very specific and tangible value for the ultimate customer. This requires a clear and explicit definition of what "Value" is actually going to be produced by the alliance. Because alliances will require an extra effort and expenditure of resources by our company, it is essential that the Incremental Value Produced is greater than the Incremental Resources Expended.

IF: Value Produced > Resources Expended
THEN: Do the alliances
IF: Value Produced < Resources Expended
THEN: Don't do the alliance

~TIP~

TRADEOFFS

It's seldom profitable to "be all things to all customers." Providing products and services often requires tradeoffs to the customer. Identify the "ideal" customer benefits, then develop the VAP based on what will: 1) maximize benefits to the customer; 2) be competitively advantageous; and, 3) produce a reasonable profit for both partners.

Step 1.5 Breakthrough Value Proposition

Breakthrough Value Proposition *(continued)*

~TIP~

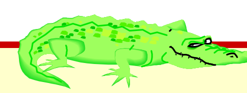
Link to Alliance Purpose

The Value Proposition (VP) is a critical ingredient in the alliance because it forms the basis of the Alliance Purpose Statement. Further, the VP focuses the alliance's attention externally, toward the customer, rather than internally on the needs of the individual sponsoring companies.

ALIGNED FOCUS: The alliance partner is linked 100% with the business sector's marketing plan, by focusing on the same opportunities. In most cases, the business owner's capabilities will continue to enhance their skills in that business segment over time.

MARKETING LEADERSHIP: Our business sector executives may have excellent leadership skills, as well as specific industry experience that may be dedicated to the profitable growth within selected segment objectives. This enhances our ability to assure mutual success.

MARKET SEGMENTATION/OPPORTUNITY IDENTIFICATION: Market research, market intelligence and account intelligence may have been completed which now can provide the business sector a competitive edge on the competition. The opportunity identification will allow us to target our marketing focus in key areas and reduce waste in resource and time. This should result in a substantial growth in various lines of business.



~TRAP~

The Term "Vendor"

Be cautious about continuing to use the term "vendor" with an alliance partner. It signifies a "low value-added," and does not generate a long-term vision filled with new opportunities. Use a more appropriate term like 'business partner," "ally," "preferred supplier," etc.

Step 1.5 Breakthrough Value Proposition

Checklist *1.5.a* should be used when developing a value added proposition. The list will provide you with key points that should be used when considering what value the relationship will have.

CHECKLIST 1.5.a
VALUE PROPOSITION

Key Questions

A. How does the alliance's product/service offering make the customer more:

-successful	-effective	-profitable
-competitive	-productive	-satisfied
-efficient		

B. Has this VP been **validated** by target customers in the segment? Does it create more:

-opportunities for growth
-opportunities to add more value
-difficulty for competitors to:
 a. enter the market
 b. match our offerings

C. The Future
The future may not be an extension of the past. What shifts in the value proposition might be expected within the next 5 years? How should the alliance prepare itself for this shift?

Step 1.5 Breakthrough Value Proposition

Checklist 1.5.b assists in clearly developing the words for each of the key categories that should be included in the VP. It is not necessary to use all of the points listed below, just those that will be crucial to the success of this alliance.

Checklist 1.5.b
DESIGN VALUE PROPOSITION

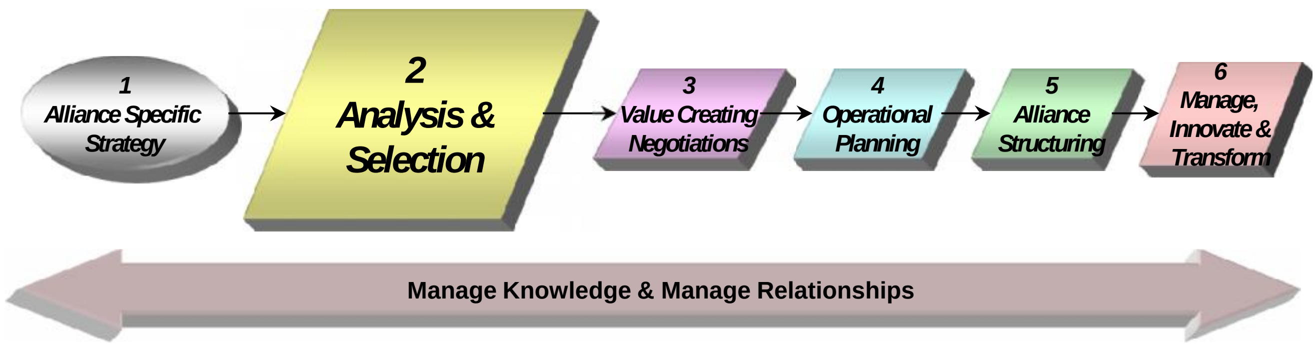
Value Added Key Characteristics

1. Explicit and Clear Benefits: ______________________________
   ____
2. Total Solution Price to Customer:______________________________
3. Target Customer: ______________________________
4. Superiority: ______________________________
5. Profitability:______________________________
   ____
6. Demand: ______________________________
7. Competitor's Position: ______________________________
   ____
8. Feasibility: ______________________________
9. Alliance Advantage: ______________________________
10. Simplicity/Elegance: ______________________________
    ____

Strategic Alliance
Best Practice User Guide

-- Contents --

Alliance Framework



Analysis and Selection Overview

As its name suggests, the Analysis and Selection phase is dual in nature.

In the first part of this phase (Analysis), performance goals for the alliance relationship are established. Those goals are used to determine the broad operational capabilities that will be required, and the targeted operational results that will be used to measure performance once the relationship is in place.

In the second part of this phase (Selection), those performance goals are used as some of the criteria to identify and evaluate potential alliance partners. The selection process begins, and the list of candidates are narrowed to a short list of finalists.

The Analysis and Selection phase begins after the core alliance development team has had an opportunity to develop a broad understanding of what the organization can achieve through an alliance relationship, and how it plans to proceed with establishing this relationship. The team's work should be based on a clearly documented charter from senior management.

In the outset of this phase, the core alliance development team creates a number of sub-teams to explore specific aspects of the business requirements in question and the potential alliance partner organizations. This phase may require people with expertise in a variety of functions. Precisely which functions to involve will depend on the business requirements. For example, an IT process would require expertise in information technology, while a financial administration process would require finance expertise.

ANALYSIS & SELECTION OVERVIEW *(Continued)*

The activities for the **Analysis** portion of this phase are:

1. Outline tentative performance goals for the business requirements that are to be obtained;
2. Establish preliminary requirements and measures;
3. Gather internal and external benchmarking data; and,
4. Develop a summary of specific performance objectives, operating requirements and measurement criteria to be used.

The activities for the **Selection** portion of this phase are:

1. Develop an ideal-partner profile;
2. Create an initial list of candidates;
3. Establish and communicate the partner-selection procedure;
4. Check the references of candidates;
5. Conduct interviews with candidates;
6. Perform due diligence; and
7. Pick the alliance partner.

Purpose:

- Establish potential alliance goals
- Identification of quantitative goals
- Preparation of Market information through benchmarking
- Identify potential alliance partners
- Develop criteria by which to make partner selection

Goals, Critical Success Factors & Expected Outcomes

Goals

- Analysis Framework for Evaluating the Alliance
- Determine the Risks and Rewards
- Build Internal Support and Commitment

Critical Success Factors

- Finding the Right Alliance Prospect
- Know Your Risk and Reward Thresholds
- Be able to Communicate What You Want
- Differentiate between a Strategic Alliance and a Tactical Relationship

Expected Outcomes

- Performance Goals to be Outlined
- Preliminary Requirements and Measurements Documented
- Gather and Document Benchmarking Data to be used in Selection Process
- Document the Ideal Partner Profile for the Alliance
- List of Candidates Identified and Screened
- Select Candidate Partner based on Documented Criteria

Analysis & Selection

Step 2.1 Preconditions for Success
- **Rules of Thumb**

Step 2.2 Candidate Research and Due Diligence

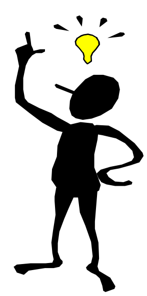
Step 2.3 Fit Analysis

Step 2.4 Risk and Business Case Analysis

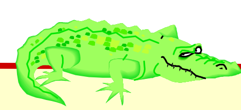
Step 2.5 Strategic Return on Investment
- **Market Growth**
- **Competitive Advantage**
- **Organizational Capability**
- **Innovative Capacity**
- **Financial Return**

Step 2.6 The Strategic Spectrum

What the Experts Say...



The two most cited reasons for success in an alliance according to CEO's in the Electronics Industry are:
- Selection of the right partner
- Commitment of Senior Management



~TRAP~

The single most cited reason for failure was:
-Overly optimistic expectation (i.e. poor planning, analysis, and coordination)

Step 2.1 Preconditions For Success

Not every alliance we engage in will achieve our level of expectations. Some alliances will fall short of our revenue goals, some will not achieve market share, customer satisfaction levels or other metrics we have established as our measure of success.

While we should never expect failure, we should be aware that it can occur. In order to reduce the number of non-performing alliances to a minimum, the following **Rules of Thumb** should be utilized.

RULES of THUMB

Rule #1: Ensure an Alliance is the Best Alternative:

Create an alliance only if it is the best alternative and would be foolish to go it alone. If in doubt, first test the waters with a single test product. If successful, consider a deeper plunge with a broader alliance.

Rule #2: Minimize Ambiguity:

The higher the future ambiguity, the higher the probability of failure. Alliances are the step-children of uncertain risks and opportunities. Uncertainty breeds ambiguity, and ambiguity is the seed of business failures. Do everything possible to limit the unexpected ruining the likelihood of success. Lower risk by building governing and decision-making processes for resolving unanticipated consequences.

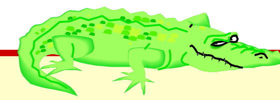
Rule #3: Conduct a Comprehensive Due Diligence:

Know your competition and your potential partners thoroughly. Due Diligence is vital to deciding whether a collaborative venture will indeed be fruitful.

Rule #4: Ensure ROI Surpasses Threshold:

The return on investment should be significant and generally should be measured over a 2-5 year period.

Step 2.1 Preconditions For Success



~TRAP~
Don’t Consider an Alliance If These Conditions Exist

- Top Management of either partner in the Alliance does not *fully understand* and give *unqualified support* to the venture.
- Poor Communications and lack of Teamwork are inherent internally within the corporate structures of either of the partners.
- The critical “Driving Forces” are essentially missing. There are internal, adversarial relations between the production and design teams, characterized by comments like “assemblers are dopes”, “manufacturing can’t do it right,” or “engineers are egg-heads with no conception of reality.”

RULES of THUMB *(continued)*

Rule #5: Be Adaptable:

Business conditions are changing constantly. As the venture matures, be willing to address new risks, and transform the structure as strategic and operational conditions change. Identify alternatives and develop implementable contingency plans. As the alliance is formed, ensure mechanisms are put in place for future joint planning.

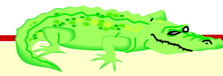
Rule #6: Ensure a Positive Impact on Market Share:

If the alliance won’t enable us to, at the very least, hold existing market share, the strategy is probably wrong and the venture will not be to our advantage.

Rule #7: Take Advantage of Emerging Channels:

Global competition is changing distribution channels throughout the world. Previously exclusive channels are opening and customer service is becoming critical to establishing alliances as a competitive weapon.

Step 2.1 Preconditions For Success



~TRAP~

"Alliances established primarily for operational rather than strategic reasons, will have a far greater likelihood for failure. Too frequently, operational (tactical) issues change rapidly in the near term, placing pressures on the venture that it was never conceived to endure."

Step 2.1 Preconditions For Success

Checklist 2.1
Preconditions For Success:
A Quick Checklist

Alliances are most advisable when conditions are right both within your company, the prospective partner company and within our target industry segment. The more “yes” answers, the better the chance of success:

Company Conditions:

___1. Our company has something very valuable to offer to a prospective partner and our company has something valuable to gain from another company.

___2. Our company has a cooperative corporate culture.

___3. Our company has insufficient resources or our company has a prominent but not debilitating strategic weakness.

___4. Our company is ready to jump into a leadership position in the marketplace.

___5. Our company knows that pursuit of a particular strategic objective is too risky to undertake independently.

___6. Our company is very doubtful of its ability to complete an important project or to obtain customer acceptance of a new product without the name recognition or support of another company.

Style of Operations:

___7. The Prospective Partners have similar goals, rewards, methods of operations,and corporate cultures.

___8. Both companies have a similar style of decision-making (both are either decentralized / collaborative companies or centralized / hierarchical).

Support:

___9. The Top Executives of the partners are in full support of the alliance.

___10. There is no apparent threat of unfriendly takeover which could jeopardize trust and a cooperative working relationship. (This should not prevent discussion of a buy-out of the venture by one of the partners.)

Step 2.1 Preconditions For Success

Checklist 2.1 *(continued)*
Preconditions For Success:

Industry Conditions:

___11. High Capital Costs and/or Direct Costs result in the need to Share Financial Risks.

___12. Rapid changes occur in Technology, Customer Traits, and the need for Product Differentiation.

___13. Decline or Maturation of an industry requires consolidation to protect market share.

___14. High Entry Costs or Entry Risks make risk sharing advisable.

___15. Major Competitive Realignments (mergers, acquisitions, foreign entry into the market) occur or there is uncertainty about a response by major competitors.

___16. The Market is expected to respond positively to the "best product" which can only be produced by a superb team combining excellent resources.

___17. There is a need for Rapid Market Entry and Acceptance.

Time Perspectives:

___18. Our definition of "long-term" means the same thing to our partner.

Financial Goals:

___19. The goal of the alliance is to seek increased market share, profit and gains resulting from customer satisfaction, rather than simply quarterly earnings.

Past Working Relationship:

___20. There is a history of collaboration between the companies that enables top and middle management to build trust and communications on an existing foundation.

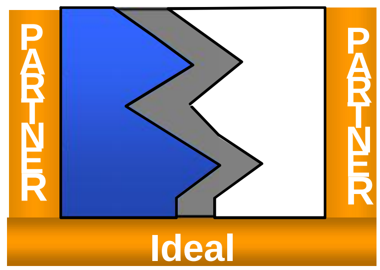
Step 2.2 Candidate Research and Due Diligence

Evaluating A Prospective Partner's Strengths And Weaknesses

Figure 2.2 a -- Sample Strengths & Weaknesses Profile

Organization A

Market Access
Management
Technology
Capital
Materials
Manufacturing



Organization B

Market Access
Management
Technology
Capital
Materials
Manufacturing

No one would ever consider hiring a corporate vice president without a clear job description. Similarly, it's vital to have a profile of a prospective partner before beginning the search.

Strategic Synergy: Figure 2.2a depicts how two organizations should compare in key functional areas of their organization. BEFORE actually courting a partner, a careful evaluation of their strengths and weaknesses is imperative. Do a value analysis, (see Step 2.2 Checklist) make a list of the value elements you can provide, and then the value you expect the potential partner to provide. Be sure your prospective partner is sufficiently different to make an exciting match, but sufficiently alike to permit a harmonious working relationship.

DUE DILIGENCE

Due Diligence is the technical term for looking into the background, capabilities, and operations of a potential ally, before beginning negotiations. It means doing more than a credit check. It maximizes the chances of a successful venture, avoiding entering into a deal that will eventually sour. Some companies perform a basic level of due diligence before even proposing the venture. That way they screen out bogus companies without expending resources on negotiations, travel, and lawyers.

Step 2.2 Candidate Research and Due Diligence

Evaluating A Prospective Partner's Strengths And Weaknesses *(continued)*

SIX TYPES OF ALLIANCE PARTNERS

Who should our partner be? A carefully selected team-mate is essential for maximizing the chances for long-term success. Several types of partners to look for are:

1) **Direct Competitor**: This ally should be chosen when the alternative is cut-throat competition. However, be cautious, because the success of one partner may come at the expense of the other. Ventures of this sort are typically more tactically oriented and short-lived, unless well thought out and the boundaries of operation are clearly delineated. This type of partner may also be chosen when attempting to introduce a new industry standard.

2) **Potential Competitor**: This is an alternative to future cut-throat competition. Unite to gain market share, and to fend off larger direct competitors. A broader alliance may result in the future.

3) **Parallel Producer/Server**: These truly complementary alliances are used to widen or integrate product lines, to capture market share, to trade on relationships, and to take mutual advantage of each partner's strengths. Many are formed when highly integrated technology is essential.

4) **Vertical (Supply) Integrator**: Rather than be bound by a rigid system of vertically integrated subsidiaries that may not be able to adapt to changing customer needs, many companies are using cooperative ventures as a better alternative. These alliances link supply, product, and market functions.

5) **Technical Developer**: Prohibitive or extremely risky development costs are the prime motivators for seeking this type of alliance partner. Generally, partners occupy parallel, but not directly competitive market niches; however, many research consortia pool direct competitors with common access to all knowledge developed.

6) **Distributor**: These can be either transitory or long-term alliances which enable parties to provide improved service and benefit from increased market performance.

Step 2.2 Candidate Research and Due Diligence

Checklist 2.2a
Due Diligence Issues

Product Line: Is it competitive or complementary to our company?

Service Offerings: Are they unique, competitive with our company, or duplicative of our line?

Corporate Ingenuity: Are their core competencies and attributes that our company would gain by if we had an association with this company?

Corporate Strategy: Is their long-term strategy likely to be aligned with ours over the foreseeable future?

Financial Condition: Are they financially stable? If not, are they profitable? Are they likely to be serious players in the future?

Industry Reputation: What do other industry leaders and customers think of this company?

Alliance Prospects: If we do not form an alliance with this company, are they likely to form one with a competitor?

Impact on Existing Alliances: If we form an alliance, what will this mean to other alliances we have? Implications for alliances the partner has? And the partner interrelationship?

Recent Sales History: What has been their sales history in the last three years?

Synergy: What are their strengths and weaknesses? How well do these match our company's? Are there any key areas of overlap? Are there any critical missing elements (especially from the customer's perspective) in this alliance?

Customer Reaction: How will customers respond to this alliance?

Step 2.2 Candidate Research and Due Diligence

Checklist 2.2.b
Sample Partner Profile

Management Style
__ Compatible Structure, Philosophy
__ Work Ethic, Operating Style
__ Strategic Planning, Culture and long-term view
__ Responsiveness to opportunities and threats
__ Values & Beliefs
__ Continuous Learning/ Organization Improvement
__ Culture

Product Development
__ Consistent High Quality Producer
__ Production Capabilities
__ Efficient State of the Art Producer
__ Technical and R & D Expertise
__ Willingness to Invest in New Product
__ Develops High Quality Long-Term Suppliers

Marketing
__ Strong Management Team
__ Consumer Marketing Expertise
__ Development & Maintenance of Competitive Advantage
__ Consumer Orientation, Market Driven
__ Innovative Market Leader
__ Understands Brand Management and Market Mix
__ Proven New Product Success
__ Track Record of Putting Strategic Thinking into Action

Finance
__ Strength
__ Solid Long-Term Growth
__ Realistic ROI
__ Pricing
__ Cost Structure

Trade & Customer Services
__ Strong Trade Relationships
__ Customer Service Driven

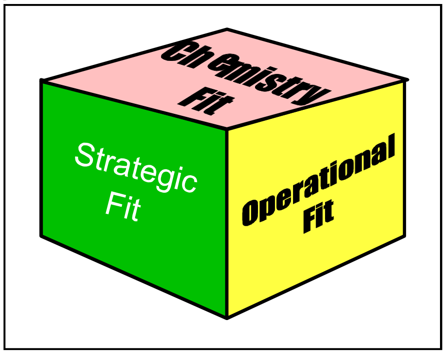
Joint Ventures/Alliances
__ Successful Joint Venture Experience
__ Enthusiastic about our Company
__ View Our Company as a High Priority Partner Profile
__ Past Litigation

Step 2.3 Fit Analysis

Best Practice: Three Dimensional Fit

Both strategic 'fit" and operational "fit" have long been thought of as the essential elements of good acquisitions. However, in alliances, there is one additional "fit" that must be included in the formulation of an alliance -- the "chemistry fit." (See Figure 2.3a) Chemistry inherently measures the quality of the relationships between the people involved in operating the alliance, particularly trust and integrity. Moreover, chemistry fit is the nature of how well the two cultures will interact. According to virtually every veteran of a successful alliance, chemistry is essential. The key elements of the Three Dimensional Fit are:

Figure 2.3a- Three Dimensional Fit



Strategic Fit:

- Future Vision & Value Proposition
- Competitive Advantage
- Customer's Needs
- Long-term Strategy and Goals
- Values and Beliefs

Chemistry-Cultural Fit:

- Structures
- Decision-making
- Trust, Culture & Teamwork
- Alignment of Systems, Processes
- Risk Preference
- Quality of Relationships

Operational Fit:

- Systems Integration
- Performance Processes
- Integrative Mechanisms
- Fast Time Implementation
- Complementary process capability

Step 2.3 Fit Analysis

Figure 2.3b depicts companies that have a good strategic fit, but a poor operational fit.

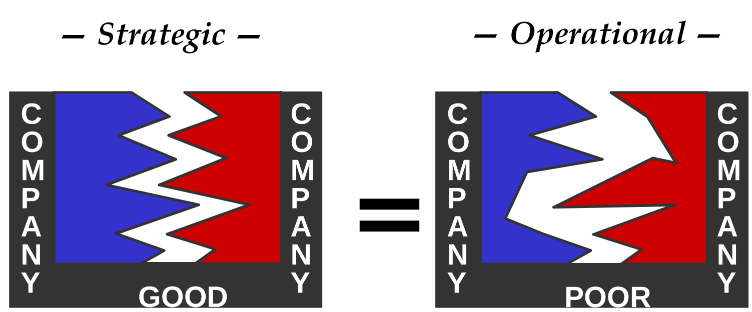
A Good Strategic Fit Does Not Imply A Good Operational Fit!

While the strategic directions of both companies should be similar, the operational strengths and weaknesses should be dissimilar.

Why?

- Mutual, quantifiable advantage must exist; potentially good partners/targets will have strengths that complement one another's weaknesses (e.g., contiguous geographic markets, products that fill gaps in a portfolio, capabilities that contribute to a customer solution, new technologies to complement more mature ones).
- Companies with identical strengths will disagree over the relative value of their contributions.
- Companies with identical weaknesses will suffer from a lack of essential resources.

Figure 2.3b

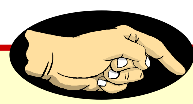


Step 2.4 Risk and Business Case Analysis

Why Risk is so Vital to Success

It should not be the intention to eliminate risk entirely from the alliance. The proper division of risk and reward serves not only the doctrine of fairness in an alliance, but it creates the proper long term motivation, an absolutely essential ingredient for success. It is important that the potential rewards are commensurate with the risks being taken.

For example, the banker, whose professional rules require the acceptance of virtually no risk, dramatically increases his chances of getting his loan repaid in full when the material possessions of the entrepreneur are at risk daily, (i.e. by requiring a second mortgage on the owner's house) and a business owner will work twice as hard to avoid losing his home and material gains. This illustrates the value of "Vested Interest Motivation," one of the vital principles which increase the chance of success of an alliance.



~TIP~
Vested Interest Motivation

Essentially, the uneven risk posture creates its own conditions for conflict. Professor Paul Lawrence of Harvard Business School advises:
"If long term motivation by top management is desired, then be sure both long-term risk thresholds and long term reward thresholds are sufficient to keep the partners engaged.."
Take away the risk from one of the partners, and the chances are great that the venture will fade away, particularly if one of the individuals who created the venture must leave the parent company. Before striking a deal, be sure both you and your partner have *vested interest motivation* sufficient to give the entire team the desire to win.

Business Case Analysis -- Examining Risks and Rewards

As alliance manager, you must determine if there is a strong business opportunity from creating a successful alliance with a prospective partner in a particular market segment. Together, with the sponsoring business unit, build a preliminary financial analysis of the alliance. A financial analysis should be built that examines:

Step 2.4 Risk and Business Case Analysis *(continued)*

- Potential Sales Forecast
- Probable Risks
- Capital Requirements & Operational Expenses
- Sensitivity Analysis on Key Assumptions & Variables
- Possible Financial Returns
- Pro Forma Financial Statements

This Business Case/Financial Model will determine to a "rough order of magnitude" whether it is advisable to move forward with negotiations. The Business Case will address key issues such as:

- Description of the business model and value proposition.
- Will the strategy translate into implementation?
- Can we make money?
- Is an alliance the best alternative?
- Is it possible to derive a powerful Win-Win-Win for our customer, company and the alliance partner?
- Determine what resources will be required and from whom.

Ultimately, the "hypothetical" case will be later compared against a more detailed business & implementation plan which is created with the other partner, once all the critical risks, requirements for performance,and resource issues can be fully analyzed.

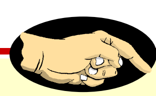
Definitions:

RISK: Variance with precise probabilities for well-defined activity.

UNCERTAINTY: Unknown probabilities for ambiguous activities.

Risk Management requires careful planning, analysis, and continuous measurement.

Uncertainty Management requires scenario analysis optional pathways, opportunity assessment, flexibility, and decentralized decision-making.



~TIP~

Distinguish Risk From Uncertainty

"Risk" is often confused with "uncertainty." It is important to distinguish between the two, because each requires a very different management approach.

Step 2.4 Risk and Business Case Analysis

Many companies, such as Hewlett-Packard, use a business case format to better grasp the issues of the alliance. Below is an alliance process which provides a map to follow when developing an alliance business case.

Strategic Objectives • Strategic • Business Unit • Driving Forces • Value Migration • Competitors Expected Response	**Value Proposition** • Breakthrough • Customer Orientation • Strategic Return on Investment	**Target Company** • Critical Data • Due Diligence • Profile • Strengths & Weaknesses	**Risk Analysis** • Alternatives • Growth Profile of Market • Key Factors for Success • Legal Protections • Contingency Plans
Fit Analysis • Strategic Fit • Operational Fit • Chemistry & Culture Fit • Business Unit Fit • Other Alliance Fit	**Financial Analysis** • Projections • Cash Flow • Investment Required • Hurdle Rates • Returns Expected • Valuation	**Planning, Implementa– tion and Integration** • Resources Required • Critical Interfaces • Cultural Issues • Leadership Issues • Organizational Structures • Governance	**Go-Forward Action Steps** • Next Steps • Deal Breakers • Approvals Required

Step 2.4 Risk and Business Case Analysis

Evaluate Critical Risks

Checklists 2.4 shown on the following page is used as a basis for collecting information that will be used in assessing the risks inherent in any new product introduction, technology development, or acquisition. Too often in the haste to introduce a new product or service, there is a tendency to skim over all of the risks in favor of the obvious rewards.

In an alliance relationship, we may be compounding our risks if the potential partner sees only the upside of the relationship and not any of the potential shortcomings. Especially if both organizations overlook the commitments required for a successful relationship.

Do not take on any type of alliance relationship based on the assumptions that there will be appropriate capital and human resources made available at a later date. Be sure and build all of the requirements for success into the business plan and the financial pro formas that should be developed.

The information to answer the questions in the following charts will come from our market research, our due diligence of our potential partner(s) and from our customers. Populate Task 2.3 with the appropriate information determined from our market research effort.

Step 2.4 Risk and Business Case Analysis

Checklist 2.4
Evaluate Critical Risks

There are generally dozens of excellent opportunities in the field at all times. Which ones should be chosen? The process of selection should start with a risk-reward analysis. Each of the following risks should be examined:

___ 1. **Market Risk:** Will the market continue to provide opportunities for us to sustain our growth? (Beware of entering new markets with new products utilizing new technology - the "compounded risk" - see note below.)

___ 2. **Competitive Technology Risk:** Will a competitor develop a technology that will make ours obsolete? Are margins sufficient in the event of a price war? Are technologies supporting our value proposition approaching obsolescence in the near or immediate term that may eliminate or reduce the benefits we seek from the alliance?

___ 3. **Cooperative Environment Risk:** What is the chance that someone or something (partner, government, subcontractors, transportation, etc.) will stop or slow down the venture?

___ 4. **Management Risk:** Are sufficient personnel available to carry out the venture? Can proper resources be obtained on a timely and cost effective basis?

___ 5. **Political Risk:** Are there governmental regulations, now or pending, that will interfere with success?

___ 6. **Resources Risk:** Will the supply of materials, or products remain available? Will the partners have the required financial, human, and intellectual resources?

___ 7. **Capital Risk:** Will inflation, exchange rates, or government policy change the investment's value?

___ 8. **Prospective Partner Risk**: Is the partner strong enough to withstand competitive pressures? Will they be stable and cooperative over the long haul? Will they maintain a strategic perspective?

NOTE: Insurmountable Risks: Some risks are insurmountable, regardless of the care taken in the formation of the agreement. This is one of the principle reasons for the failure of high risk alliances. Explorations into new technologies, development of new products for new markets, and introduction of unique, untested services are often insurmountable risks – unfortunately, often unrecognized until after the fact.

Step 2.4 Risk and Business Case Analysis

Task 2.4

Risk Analysis

1. Market Risks ______________________________________
2. Competitive Risks __________________________________
3. Cooperative Environment Risk _________________________
4. Management Risk ___________________________________
5. Political Risk ______________________________________
6. Resources Risk______________________________________
7. Capital Risk _______________________________________
8. Prospective Partner Risk_____________________________

Business Analysis

1. Marketing Study Identified:

Key Factors for Success_____________________________

Market Characteristics_______________________________

Market Size______________________________________

Top Ten Customers:

1.________________	6. ________________
2.________________	7. ________________
3.________________	8. ________________
4.________________	9. ________________
5.________________	10. ________________

Top 5 Competitors:

1.________________
2.________________
3.________________
4.________________
5.________________

2. Sales Forecast

Units ___________________________

Frequency of Sale _______________________

Sales Projections ________________________

____

____

to a "Rough Order of Magnitude" of (±%)_______

Key Sales Forecast Assumptions __________

____

Step 2.4 Risk and Business Case Analysis

Task 2.4 *(continued)*

3. Projected Capital Expenses

____

____

4. Projected Operating Expenses:

____

____

5. Business Planning Model Completed and

Forecasts/Projections done ___
Sensitivity Analysis done ___
Contingency Analysis done ___

Step 2.5 Strategic Return on Investment

Figure 2.5a - STROI

STROI is a tool that will determine how *our company and its partner derive value*.

The best tool for measuring the results that an alliance strategy will bring to our company is "Strategic Return On Investment" (STROI). STROI measures five basic dimensions that measure the results of a successful alliance. (see *Figure 2.5a*)

Notice that "Financial Return" is only one of the five dimensions. Because the primary purpose of an alliance is *strategic*, its rewards must be more than financial. Financial gain is not just a *result* of strategy but also a *measure* of the combined strategic success of the other four dimensions.

Describing the five dimensions enables the measurement of expected strategic results. The allies then know whether or not the alliance May be expected to achieve its strategic goals. In this way, the allies look for the key strategic benefits and can then measure these returns against their "investment," which can include time, people, technology, or money.

Using the STROI tool is a far more effective method for measuring success than simply using financial return methods. Four indicators (Market Impact, Organization- al Effectiveness, Innovative Capacity, and Competitive Advantage) are *leading* indicators, and are therefore more important than the financial element, which is a *lagging* indicator.

~Tip~
What STROI Does

1) Takes strategy from the warm, fuzzy stage to a **clear, crisp** state.
2) Checks underlying **assumptions**.
3) Build/establishes clear **common vision**.
4) Defines **results** - the end-state
5) Provides **bridge** between strategy & operations for design of an operations plan
6) Takes a holistic, **systems** perspective
7) Establishes **performance expectations and measurements**
8) Builds & measure **synergies**
9) **Quantifies** non-financial returns

Step 2.5 Strategic Return on Investment

Market Impact:

This is a form of "top line" (versus bottom line) management. It can indicate market share growth, 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, to name a few. The possibilities are as broad as the driving forces and inspirations of the alliance creators.

~ Tip ~

What Are The Elements Of Victory?

•Key measures of a 'Win"
You can't construct a Win-Win alliance without defining what "win" means!

•Key units of Measure…Ask:
- •How Many?
- •How Much?
- •How Often?
- •How Soon?

•What Management Information System will measure our progress?

•OBJECTIVE: Stay out in front of potential problems!
ACT -- Don't REACT!

Organizational Effectiveness:

Ultimately, all organizational strength is based not on the money in a company's coffers nor on its technology, but on its ability to marshal its human resources. Strength is *not* measured in the *numbers* of people, but in the *effectiveness* of people.

Among the components of this element of strategy can be new knowledge, heightened loyalty and commitment, teamwork, new career opportunities, adaptability to change, and utilization of resources, among others.

Innovative Capacity:

Peter Drucker says there are two basic functions of a business -- marketing and innovation. Without innovation, there is no adaptability for the future. Innovation can take a variety of forms, ranging from new technical capabilities, development of better manufacturing processes, improved service delivery capacity, new products, better quality, higher productivity, to highlight a few. Look for opportunities where the Enterprise can leverage its innovations, and current assets or capitalize on the innovations of its alliances.

Step 2.5 Strategic Return on Investment

Be careful not to view innovation simply from technical perspectives. Innovations occur everywhere: in marketing, in using human resources, in strategy -- virtually everywhere. Our alliance partners, if they are world class, will invariably have created innovations that could benefit our company. The corporation that does not see continuous improvement as a fundamental component of business strategy will soon not need strategy in the world of fast-advancing armies of international competitors (and should probably not be one of our alliance partners).

Competitive Advantage:

All strategy must give major consideration to enduring competitive advantage if it is to be successful. Business is a chess match; there is never a single “best move.” Strategy is relative to the customer, the responses of the competitor, and the forces of the environment.

By designing an alliance to be the best at every step in the value chain, we create a substantial hurdle that becomes a barrier to entry to potential competitors. And by creating efficiencies of scale that make market entrance costs excessive, we can create further hurdles.

Financial Return:

Notice that this dimension does not necessarily measure *return*, but rather *gain*, which is a broader factor. This is because the financial results can be garnered in a variety of ways through an alliance. The typical American manufacturing corporation purchases goods and services from outside suppliers that make up nearly 60% of all final sales costs. In this case, adding value by going farther than just cutting costs can significantly improve profits, thereby securing a long-term relationship.

Both alliance partners should develop a STROI matrix similar to the one in *figure 2.4.b*. By developing the STROI analysis together, the allies become unified in their goals and the methods by which they will be gaining their return on investment.

STROI not only sets the criteria for assessing a potential alliance and evaluating its results, but also becomes the framework and underpinning for an annual audit of the alliance.

Step 2.5 Strategic Return on Investment

STROI Tools

Strategic Return On Investment Matrix - *Figure 2.5b and 2.5c*

Figure 2.5b reviews the five elements of the STROI concept by providing examples of the type of responses you will need to have in order to determine what are the most strategic aspects of the relationship. It also assists you in identifying whether or not your expectations are reasonable and achievable. Task 2.5should be used to develop alliance specific STROI matrix.

Strategic Return on Investment Checklist - *Figure 2.5d*

The STROI Checklist provides you with another tool to ensure that you have covered all the necessary points to ensure a successful alliance. Remember, not all of the points indicated here are required for every alliance. Use the list as a memory aid to be sure you do not miss anything of significance while evaluating the risks and returns of the potential arrangement.

~Tip~

Alliance Management Principle

"If you can't measure it,
You can't manage it"

Establish clear criteria for success, otherwise the results will be elusive.

Step 2.5 Strategic Return on Investment

Figure 2.5b

Example
Strategic Return On Investment Matrix

STRATEGIC ELEMENT	MEASURABLE RETURN EXPECTED	RESOURCES INVESTED (Time, People, Materials, $$)
1. MARKET IMPACT	Double Sales, Increase Share from 10% to 20%	Existing Sales Force, plus Establish base in Office Market $150,000
2.ORGANIZATIONAL EFFECTIVENESS	Increase sales with no rise in fixed costs Shorten new product development cycle to 12 months by Nov, 2001	8 individuals (100% dedicated) Assign 3 engineers & one technician
3. INNOVATIVE CAPACITY	Initiate joint product development program Introduce 3 new products in Yr. 1, and 5 in Yr. 2	6 individuals (50% dedicated) 1 design engineer
4. COMPETITIVE ADVANTAGE	Lock up key distributors before competition enters market Hold position of highest equipment, plus TQM program producer	$100,000 (variable costs) $50,000 in new quality, lowest cost
5. FINANCIAL RETURN	Double Return on Sales Lower unit-marketing-cost	Total of Above

Step 2.5 Strategic Return on Investment

Using Checklist 2.5c as a starting point and the example in Figure 2.5b, create a clear Statement of Strategic Return.

Strategic Return On Investment Matrix

Strategic Element	Measurable Return Expected	Resources Invested (Time, Materials, People, $$)
Market Impact		
Organizational Effectivesness		
Innovative Capacity		
Competitive Advantage		
Financial Return		

~Tip~
Confidentiality

The analysis you have done is very valuable, and could be used against the enterprise if it falls into the hands of a competitor. Be sure to follow all guidelines for transfer of confidential material.

Step 2.5 Strategic Return on Investment

Checklist 2.5c
Strategic Return On Investment -- "STROI"

Rewards from an alliance may be measured in numerous dimensions. Strategic Rewards should be more than strictly financial. How each reward is evaluated will be custom tailored for each venture. Be sure to use a quantifiable metric for measuring each of these dimensions.

The following are SAMPLE STROI ISSUES: Your alliance will generate its own unique STROI.

Remember, STROI defines a "Win"

Market Impact
__ Penetrate into new market niches?
__ Expand market share?
__ Broaden product line?
__ Access best lines of distribution?
__ Respond faster to customer needs?
__ Raise customer satisfaction?
__ Increase sales closing rate/shorten sales cycle time?
__ Develop strong brand recognition?

Organizational Effectiveness (Not necessarily measured in quantities of people)
__ Organize talent more efficiently?
__ Improve productivity?
__ Shorten product development cycle?
__ Lower absenteeism?
__ Broaden or deepen core competencies or knowledge?
__ Increase capacity to convert ideas into new products?
__ Provide faster/more accurate decision- making?
__ Heighten levels of synergy between business units?
__ Improve commitment, teamwork, and vision?
__ Improve service delivery capacity?

Innovative Capacity (More than just technical)
__ Provide new or broader technical capacity?
__ Improve manufacturing processes?
__ Access financial innovations/continuous improvement?
__ Integrate systems for added value?

Competitive Advantage
__ Enable us to become "Best in Class" competitor?
__ Create new barriers to entry/exit?
__ Enlarge market to maximize production efficiencies?
__ Become Bet at Every Step in Value Chain?

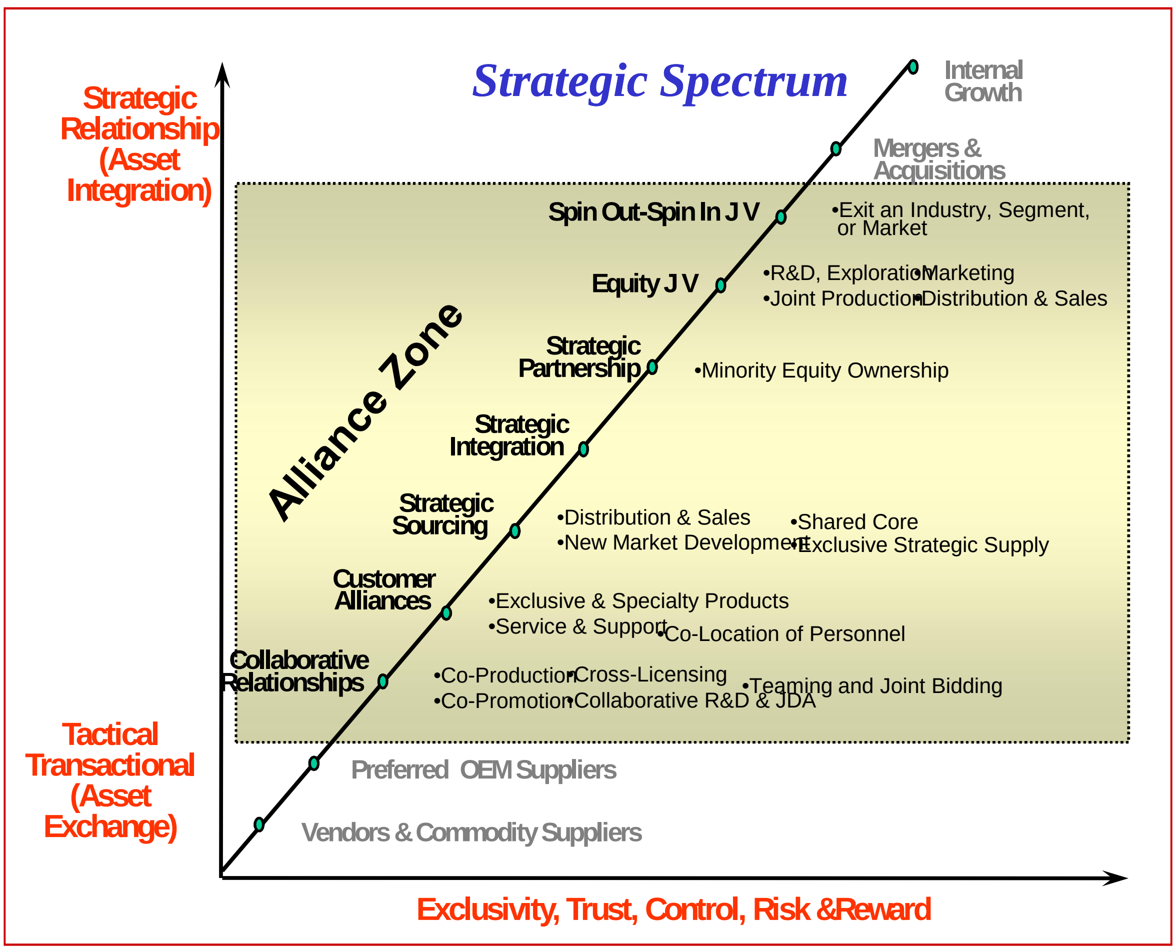
Financial Return (More than simply "profit" or "ROI")

Step 2.6 The Strategic Spectrum

Business Relationship Spectrum

Different types of business relationships can be described on a continuum representing differing degrees of collaboration, and the exchange (trading) or integration (merging) of corporate assets between participants. Strategic Alliances constitute a spectrum of business relationships within this continuum, involving more integration than a simple buy/sell transaction, but less than that of a merger or acquisition. In a merger or acquisition, only one firm remains, therefore, a merger or acquisition would not constitute an alliance. *Figure 2.6a* depicts a general view of how different business relationships might be characterized on this continuum. The examples provided are neither absolute nor evolutionary, as each business relationship is unique.

Figure 2.6a - Strategic Spectrum Continuum



Step 2.6 The Strategic Spectrum *(continued)*

Strategic Spectrum Checklist 2.6

•Critical Questions to Ask:

√ Where on the spectrum can we produce maximum value for the customer with the least acceptable risk?

√ Will the alliance migrate up or down the spectrum as value migrates in time?

√ What relationship type will produce the maximum competitive advantage?

√ What will competitors do when we form an alliance?

√ What's in it for the alliance partners?

Alliances are architected by **function**, not by **form**. What is meant by this statement is that we never structure a solution to a problem until we understand what the problem is. If we need to have timely customer response, we must first determine all the parameters of the response and then develop the solution that will meet those parameters. Not the other way around. When designing the strategic relationship, be clear about the specific factors that will define the outcomes. *Figure 2.6b* distinguishes between 1) the traditional manufacturer/distributor (vendor) arrangement, 2) a tactical (short-term) relationship, and 3) a strategic alliance. Use this chart to be sure you understand the differences in the types of relationships you can enter into, depending upon your requirements and those of the alliance partner. In reality, alliances may not fit as neatly into categories as *Figure 2.6b* describes.

Step 2.6 The Strategic Spectrum

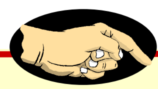
Figure 2.6b - The Purchaser-Supplier Strategic Spectrum

	VENDOR	PREFERRED SUPPLIER	ALLIANCE
Viewed As:	Replaceable Commodity	Unique Specialty	Integrated, Customized Specialty
Level of Integration	Low/Not Integrated	Loosely Integrated	Highly Integrated or Inseparable
Number of Suppliers	Many Suppliers	Several Suppliers	Very Few Suppliers
Distinguishing Features	Mainly Price Driven within min. Quality Standards.	Price plus unique offering (i.e. technology, service, etc)	Synergistic Value Proposition (i.e. mutual growth, etc)
Style of Interaction	Tactical Transaction	Preferred and/or Tactical Relationship	Strategic Synergy
Duration of Term	Short Term	Medium Term	Long Term
Value Proposition	Price and acceptable quality	Price, superior quality, and excellent service	Strategy, Cost, Quality, Reliability, Speed, Innovation, and more
Framework for Winning	Winning is essential for me, What happens to you is your business	A Win is essential for me, and I know I should let you win too if the relationship Is to survive	A Win/Win is essential for both of us and is critical if the relationship is to thrive continually
Competitive Advantage	Low Competitive Advantage	Moderate Competitive Advantage	High Competitive Advantage
Make, Buy, or Ally Decision	Seldom produced internally (not a core competency)	Often Produced Internally (debatable core competency)	Frequently has been an integral part Of the internal value chain
Trust Level	Distrust Prevalent (caveat emptor)	Trust is important to managing the relationship	Trust is essential to generating a continuous stream of new value
Difficulty of Exit	Low Impact, Excellent Ability to Switch Vendors quickly	Moderate Impact	High Impact, Switching may have detrimental impact due to disintegration of systems
Strategic Environment	Cost Driven Low Product Differentiation TCO is non-critical Relationships not important	R&D is a Distinguish Value Applications Focus Provider of Performance	Discontinuous Change in Buyer's Industry Fast Time To Market is Essential Innovation & Integration Essential

Step 2.6 The Strategic Spectrum *(continued)*

Beginning Negotiations

Once the Business Analysis, Business Strategy and our company's Strategic Return on Investment are clear, and the internal team is in concurrence with the Analysis and Strategic Return; then, it is time to begin negotiations with prospective partners.



~Best Practices Tip~

Selection of the best partner should be based on that partner filling in the missing pieces of our organization. We would not have need for an ally if we had similar strengths and weaknesses.

WHAT IF you determined you had the…?

- Right Partner
- Right Attitudes
- Right Strategies
- Right Culture

BUT INSUFFICIENT

- Skills
- Quality Control
- Alliance Experience, etc.

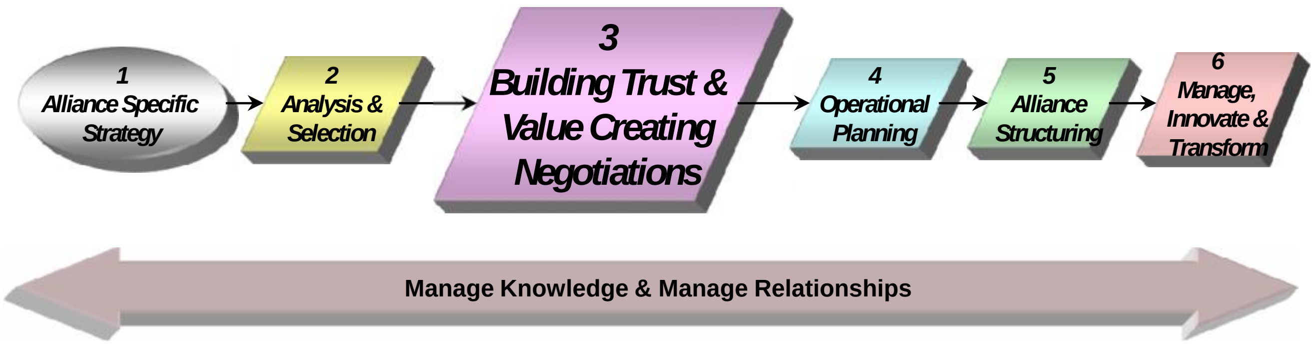
Effective alliance partners often CONTRIBUTE missing elements.

Strategic Alliance
Best Practice User Guide

-- Contents --

Phase 3 – Building Trust & Value Creating Negotiations

Alliance Framework



Building Trust & Value Creating Negotiations Overview

Trust is the essential foundation for any successful alliance. Without trust, inter-personal chemistry will collapse, no innovation will manifest, operational teams will fight, and any form of negotiations will end in bickering , ill will, and distress.

Trust will begin to be established by engaging in Value Creating Negotiations using a concept that is called "Co-Creation". Co-Creation marks a key departure from the typical head-to-head negotiations of traditional negotiating styles. Instead of behaving as adversaries, potential alliance partners work to understand each other's requirements and find approaches that will benefit both parties. The output of the Co-Creation phase is a memorandum of understanding that describes the broad goals and nature of the relationship.

In the Co-Creation phase, work is done primarily by a small Co-Creation team that is formed at the beginning of the phase. Co-Creation team members should have excellent communication and business skills, as well as skills in the business segments that are to be developed. If possible, the team should also include members who have been involved previously in other alliance or strategic relationships.

Finally, it's important to note that although co-creative negotiation is treated here as a separate phase of the strategic alliance process, it should actually overlap several other phases. From the initial meetings with a potential partner through the signing of a contract and ongoing operations, the two organizations should be working to understand each other's needs and to find ways to combine their competencies to create new opportunities.

The activities that are included within the process steps of the this phase are:

1. Plan the Co-Creation approach.
2. Conduct joint exploration and design of the venture.
3. Create a memorandum of understanding.

Purpose:

-
- Establish effective negotiating team
- Prepare negotiating strategy in order to achieve a win – win relationship
- Ensure compatible relationship exists between organizations
- Satisfy ourselves that organizations meet our due diligence
- Finalize business document called Memorandum of Understanding and Principles

~Tip~

We cannot solve the problems of today, with the same level of thinking that create the problems in the first place.

--Albert Einstein

Goals, Critical Success Factors and Expected Outcomes

Goals

- Design a Synergistic Future
- Determine if this is the Right Partner
- Build a Relationship Between Key People
- Develop Agreement Between the Companies

Critical Success Factors

- Create a Win – Win Condition
- Know the Chemistry and Culture of each Organization
- Create Value through Co-Creative Negotiations
- Development of a Teambuilding Process

Expected Outcomes

- Select Champion and Assemble Negotiations Team
- Develop Negotiating Strategy Based on the Co-Creation Approach
- Create a Memorandum of Understanding and Principles (MOUP)

Value Creating Negotiations Process Steps

Step 3.1 Champion and Negotiation Team, Teambuilding
- Alliance Management Principles
- Assembling the Negotiation Team
- Why a Negotiating Team?
- Executive Support
- Legal Support

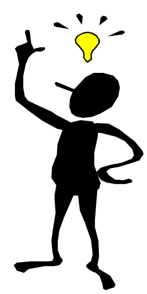
Step 3.2 Co-Creative Negotiations/Chemistry
- Watch for Shifts in Strategic Environment
- Be Sensitive to Changes
- Cooperation's "Golden Rule"
- Poor Partners

Step 3.3 Creating the Win - Win
- Critical Point for Negotiations
- Determination of Right Partner
- Building the Relationship
- Developing an Agreement

Step 3.4 Documentation and Comprehensive Due Diligence
- Purpose
- Mutual Assurances and Confidentiality

Step 3.5 Memorandum of Understanding and Principles
- Developing the Memorandum
- Key MOUP Issues
- Executive Committee Approval

What the Experts Say...



… Don't let lawyers act as key negotiators. Ultimately the venture's success lies not in the Legal agreements, but upon the fundamental Strategy and the success of day-to-day Operations.

…The real value in an alliance is to gain access To new opportunities – new markets, new Technology, new knowledge, new field of view and levels of thinking.

Step 3.1 Champion and Negotiation Team, Teambuilding

Alliance Management Principle: Alliances Require Champions

It is an inviolate law that an alliance will require:

- One champion representing each sponsor;
- Who intensely believes in the future of the alliance;
- Has the unequivocal confidence of and access to the top management of both companies;
- Has a vision for the future of the alliance along with the competencies to be respected by those committed to success; plus
- Has clear access to, and the confidence of his own CEO.

~Tip~

Profile of Champion

- Passionate Crusader
- Entrepreneurial
  - Creative
  - Risk Taking
  - Sees Opportunities
- Vision
- Leadership
- Successful Track Record

At Texas Instruments, no alliance is considered unless it has a champion. They realize that without a willing and committed champion, the alliance will probably wither and die quickly, no matter how well conceived.

No matter how well strategized an alliance is, it will not succeed unless it has a dedicated champion at the operational level who will "own" the alliance. If there is no such person, do not try to find one after the alliance is formed; do not try to "appoint/anoint" one involuntarily. Similarly, be sure your prospective partner also has a willing champion. Another important consideration is the chemistry between the Champions and the Alliance partners.

In addition, the Champion must be closely linked to the Business Sector that will ultimately "own" and "support" the alliance.

~Tip~

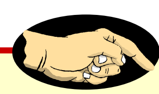
Train your negotiating team in alliance strategy and management, as well as in handling confidential material, before commencing negotiations.

Step 3.1 Champion and Negotiation Team, Teambuilding

Assembling The Negotiating Team

Next to the alliance champion, the most important person on the team will be the individual designated as the Alliance Manager who will be handling the day-to-day responsibilities and operations of the alliance. Very early in the negotiating process, be sure the alliance manager is designated by both sides. Failure to designate the individuals early on and not including them in the negotiations will invariably result in their not knowing the intent of many team's decisions. As future alliance managers they will, at best, be terribly disadvantaged, and more likely be uniformed, uncommitted, and unenthused.

The core of the negotiation team should be the operations team -- they must "own" their creation, be committed to it so strongly that they are willing to see it through birth, adolescence, and maturity; unlike the mergers and acquisition negotiations process which separates the deal-makers from those in the trenches. The operations team is comprised of individuals that represent all of the functions that will be necessary to implement and maintain the alliance relationship. Since the core players on the negotiations team will continue on as the operations team, they are using the negotiations process as the first step in developing their personal linkages that will help to make future functioning effective.



~ TIP ~

Some Advice Regarding Champions

- Surprisingly, most top managers would not have naturally chosen or expected many of the best champions who emerge for alliances.
- In Japan, a champion stays with the alliance for his entire career, the commitment is so intense.
- Always look out for a weak champion on the other side of the alliance. This is not the type of job suited for a fresh young recruit just out of graduate school.

Step 3.1 Champion and Negotiation Team, Teambuilding

~Tip~

Alliance Manager - Competencies

- Experienced business person, with knowledge of our organizational structure
- Individual has to be a recognized contributor by others within our organization
- Has to be able to resolve issues through team work.
- Has access to senior executives within our organization
- Ability to develop respect from alliance partners organization
- Believes in the value of the alliance and is willing to commit to a long relationship as the alliance manager.

Why A Negotiating Team?

There are several excellent reasons for using a negotiating team over the sole deal maker approach:

- Slows the process down to make sure all the details, contingencies, and opportunities are thought through.

- Enables the middle managers to get involved, ensuring better operational integration.

- Does not commit either company too early to something it may regret later or cannot adhere to in reality.

- Provides an opportunity to gain full understanding and commitment among all those who will have to be involved in structuring and operating the alliance.

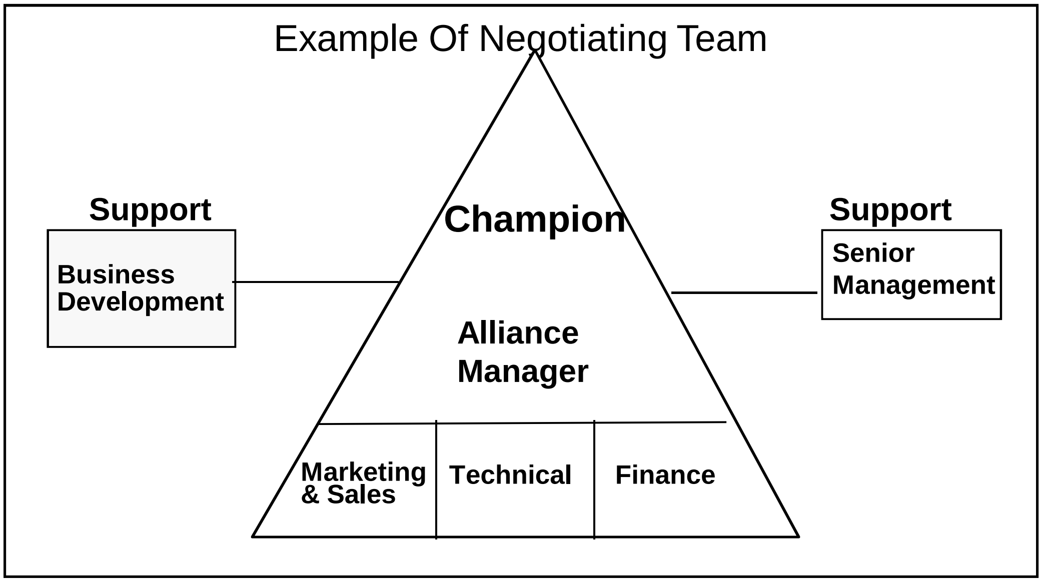
- Provides opportunities for experts within the organization to examine the alliance and determine if it makes sense from a multitude of perspectives.

- Builds the foundation for future teamwork.

- The multi-dimensional aspects of the alliance are viewed by our internal experts for evaluation and commitment.

Step 3.1 Champions and Negotiation Team, Teambuilding

Figure 3.1a



Do not forget to involve in the negotiations team, the key operational managers (*figure 3.1a)* who will be responsible for implementing contractual decisions, because their early commitment will be essential later. These operational managers will be a good barometer of whether the right "chemistry" exists below the CEO level.

Executive Support

In addition to a champion, all alliances need top rank support. This requires an important investment of senior management time. Management sets the general tone for cooperation, and middle managers will look to senior management to determine if the alliance is really critical for their career paths. Unless senior management is willing to see the alliance a a fundamental part of their strategy, the alliance will wane.

Legal Support

Do not let lawyers act as the key negotiators; this is the role of the alliance champions. However, lawyers should be involved in advising. Excessive legal documents typically result from ill-conceived back-of-the-envelope style negotiations, where a piece of paper is given to the corporate lawyer with vague instructions about converting it into a legally sound agreement. Because of their expertise, a lawyer's most valuable contribution and most valuable role is to protect their clients against unreasonable risks.

Step 3.1 Champions and Negotiation Team, Teambuilding

Legal Support *(continued)*

However, when presented with a vague idea of what the alliance is all about, instead of asking strategic and operational questions which are really needed to fill the void, the lawyer may be forced to plug the many glaring gaps with the legal equivalent of nuclear weaponry sufficient to protect their client with an overkill ratio of ten to one. Naturally, the client is pleased with the lawyers warrior instincts, and presents a portfolio of paperwork to the alliance ally, who see its as tantamount to a full blown declaration of war.

Some alliances have never gone beyond the negotiations stage because lawyers began asking the difficult questions about the real risks and how those risks would be minimized. True, overly zealous or very conservative lawyers may occasionally protect their clients right out of an alliance, but more often than not, the probing analysis of a good legal counsel has saved an idealist from a poorly conceived venture.

~TIP~

Link Operational Managers to the Negotiation Team

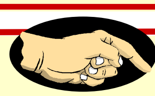
In orchestrating the highly successful Dupont-Merck joint venture, the alliance champions ensured that core people from the negotiations carried over into the implementation, because only they knew the real intent of the agreement beyond the words of the legal agreement.

~TIP~

Middle Management Support

A cooperative venture will never work unless you have the support of Middle Management.

Any Senior Executive who closes a deal with a ceremonial handshake, then turns everything over to a manager who commences operations “playing it by ear,” will soon meet disappointment or failure.



~TIP~

Good Management Begins at the Strategy Stage

Once operational, and presuming a reasonable strategic “fit,” alliances succeed because of the quality of their management, not the quality of the legal agreements. Begin the alliance on the right foot to start -- make alliance management an integral part of designing the alliance strategy.

Step 3.1 Champions and Negotiation Team, Teambuilding

Checklist 3.1
Champions and Negotiators

___ 1. Champions identified and committed.
___ 2. Negotiating team assembled and qualified.
___ 3. Negotiating team trained.
___ 4. Executive support ensured.

Task 3.1
The Alliance Management Team
(Negotiating Committee)

- Alliance Champion: ______________________________
- Services Manager: ______________________________
- Finance and Planning Manager: ______________________
- Business Unit Executive: ___________________________
- Members of Business Unit (Possible): __________________
- Technology Support Team: _________________________
- Legal (involved when required): _____________________
- Strategic Alliance Manager: _________________________
- Business Development Manager: _____________________

Note: *Core Alliance Negotiating Team includes these plus other key members who can make significant contributions.*

Step 3.2 Co-Creative Negotiations/Chemistry

Exploiting The "Chemistry Factor"

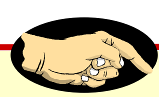
Good chemistry is both a *cause* and a *result* of a successful alliance. Chemistry is a potent tool deriving it's strength from the unification of common business goals and psychological harmony.

Chemistry works on two levels. At the first, most rational level, the alliance is formed because each party lacks certain skills and/or resources. When partners are properly matched, each partner *trusts* the other to provide the missing elements that are: "$1 + 1 \geq 3$."

But beyond this elemental rationale, at a second level, something else happens. When together in a room trying to solve a problem, minds in harmony, for some reason best explained as "psychic," tend to jointly become elevated, excited, and creative. This is often described as "synergy," or as "dynamic tension;" and it works. When strategy and structure are in harmony, when trust and integrity are foundations, when enthusiasm and desire are heightened, and when leadership and management enhance human effectiveness, chemistry is in action.

Those who have experienced chemistry know the power of this force which creates a dynamic environment for a "sixth sense" to emerge, enabling the design of unique, creative solutions. When unleashed, chemistry enables partners to generate new answers to problems that would never have been found alone.

Using chemistry in creative problem solving is one of the greatest advantages strategic alliances have over more traditional business structures. Inherently, the alliance provides a staff of experts available to tackle unique, and seemingly insurmountable problems. Without strong inspirational champions and alliance managers who can bring expert resources to the table in a coordinated and harmonious manner, chemistry in problem solving may go untapped.



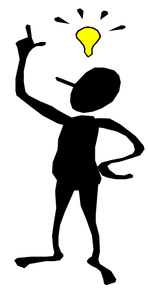
~Tip~

NOTE: Chemistry is very important in our business alliances. Business today doesn't need muscle to be successful, it requires people who sense what the customer needs, and can work in teams to provide it.

Step 3.2 Co-Creative Negotiations/Chemistry

Earlier the issue of "chemistry" was discussed as being the intangible, but essential ingredient of the alliance. During operational planning, chemistry becomes paramount.

What The Experts Say About "Chemistry"



"I know it sounds cornball, but the most important element for a successful partnership is chemistry." -- Herbert Granath, President of Joint Venture between ABC and Hearst Corporation.

Bernard Roth, former Vice President of Tri-Wall, the orchestrator of numerous successful ventures which propelled his company into a massive globalization strategy stated: "*Chemistry is the glue, but it is also the 'grease' that allows the differing cultures to work together. Cultural integration, whether between domestic companies, different industries, or social cultures, is virtually impossible without excellent chemistry."*

William Norris, the architect of Control Data's numerous ventures, advised that "*no matter how inspired the strategic alliance, it is the people who ultimately will make or break the deal."*

Honey's President, Michael Bonsingore states: *"The number one factor in achieving success…is establishing good personal relationships. The most copious legal document is not worth the paper it is printed on without trust and understanding between the partners."*

Dick Girard, Vice President of Marketing at Elmwood Sensors, a subsidiary of Hawker Siddley has negotiated a number of successful ventures. He advises: "*Don't even consider signing an agreement with your potential partner unless you can trust their handshake."* He knows from experience that no legal document is worth anything unless someone's word can be trusted.

Step 3.2 Co-Creative Negotiations/Chemistry

Watch for Shifts in Strategic Environment

Strategic “fit” is probably the most important to monitor, because when the strategic driving forces for one of the partners changes significantly, the alliance will also be under pressure to adapt. Every joint enterprise exists in a “strategic environment” which presumably made the alliance the best alternative when it was formed. Prior to the alliance’s creation, various other alternatives should have been explored, such as mergers, acquisitions, and internal expansion to be sure that the proper structure was matched to the strategic environment.

As the strategic environment changes or competitive pressures shift, the mission of the alliance may also shift to become more valuable to one of the entities, and less to another.

However, changes to the structure may be futile if it is no longer to the advantage of either one of the partner’s to be part of the alliance. Try as the partners may, they might discover that no longer is the alliance the right structure for the strategic environmental conditions. A multitude of conditions could change causing the partners to re-think the viability of the venture.

Be Alert for Changes in the Operational Environment

Even if strategic conditions remain somewhat stable, the alliance may suffer strains from operational conditions that cannot be corrected simply by mutual discussions and problem solving. Some operational conditions may require a minor re-structuring of the alliance, while other more serious problems may result in a more drastic change, such as termination of the alliance or acquisition of one partner by the other.

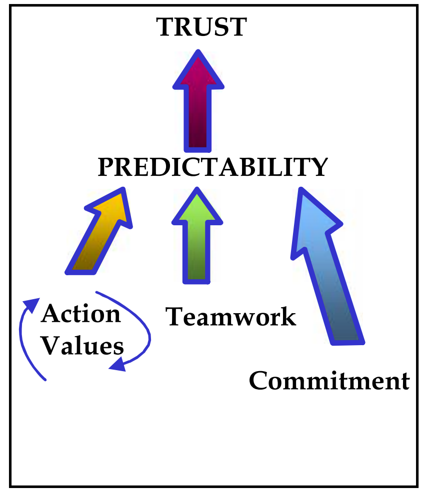
Be Sensitive to Changes in Chemistry and Relationships

Human relationships, trust, integrity, and values are essential to maintaining the win - win condition in an alliance. When forces intervene that change chemistry, the alliance must make adaptations.

Step 3.2 Co-Creative Negotiations/Chemistry

The importance of chemistry has seldom been given its due position as an essential component in the architecture and processes of alliance formation and management. As we shall see, chemistry underpins the *human* side of alliance enterprise. Chemistry defines and describes the *quality of the relationships between the people* in the alliance. It is one of the three essential "fits;" take it away and the structure of the alliance will collapse. Although intangible, it's essential as part of the "glue" that holds the two partners together.

Figure 3.2a Predictability



Without "chemistry," the energy, vitality, and trust of the alliance will be missing, and no matter how good the strategy or operations, the venture will fail. Chemistry is the psychological contract -- the energy, the vision, the trust, and the commitment. It is far more important than the written legal contract.

Like the legs of a three-legged stool, there are three critical elements that will ultimately result in trust and therefore chemistry between the organizations. These three drive predictability which is the foundation upon what trust and chemistry rely on. They are: teamwork, action-values, and commitment. (see figure 3.2a)

1) Teamwork

Can the company in question work well with our company? The answer lies first in the company's possession of its own internal teamwork. If dissention is high between departments, if edict is the principle means of leadership and control, teamwork is probably lacking. A company that has poor internal communications and coordination is probably unable to maintain the level of external teamwork necessary for an excellent alliance. During the due diligence process, be sure to check this dimension. A company with high personnel turn-over rates at the middle levels makes it difficult to build operational relationships necessary to maintain trust over the long-term.

Step 3.2 Co-Creative Negotiations/Chemistry

2) Action Values

"Action Values" demonstrate if the corporate culture's deeds are in harmony with words. Can it "Walk the talk?" Organizational schizophrenia is a common malady in companies which espouse one set of values, and act in other, incompatible, and often contradictory ways.

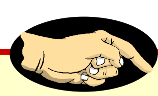
Values make up the essence of a company's inner core. If values are non-existent, vague, contradictory or not coherent with action, there simply can be no trust, and therefore no chemistry. After all, how can anyone trust something that is inherently ambiguous, contradictory, or incoherent?

Successful people make up successful alliances. Their personal value structure is their inner core, and it is their personal driving force.

3) Commitment

Commitment is the measure of desire, motivation, and integrity to honoring promises and intentions. Without it, there can be no trust. The commitments of the CEO and the Alliance Champion are the most important to recognize here.

Chemistry, like mortar between bricks, fills gaps between imperfect strategic and operational "fits" and helps keep the partners glued together when the alliance is under stress. If, perchance, the alliance strategy fails the acid test of reality, or the operational plans show themselves to be faulty, it is then the chemistry factor that is the pathway to use to rebuild, reorient, restructure, and reform the alliance. One can count on markets changing, technology becoming obsolete, development processes being superseded, political forces intervening, and any number of unexpected occurrences interfering with the alliance. Without excellent chemistry, no amount of strategic planning or crisis management can substitute.



~TIP~

Values and trust become the internal guidance system that lets the alliance achieve its goals and keep the partners in congruent alignment. Without clear, mutually held values, the alliance partners will tend to act independently in their own separate interest, and eventually betray each other's expectations.

Step 3.2 Co-Creative Negotiations/Chemistry

Cooperation's "Golden Rule"

Businesses that do not prize the value of their reputations generally do not make good partners. The partners must consider their reputations as their most important possession.

When the Golden Rule is ignominiously referred to as "He who has the gold, rules" or "Do unto others before they do unto you," we will all be done harm.

Watch carefully to see if actions and values are in harmony, and if the corporate value structure is of the highest standards. Anything less than the best will create opportunities for disappointment.

~Tip~

The Nature Of Values

Companies with mediocre values do not make good partners.

Mediocre values indicate an underlying lack of commitment to the customer, to the technology, and to the company itself.

Mediocre values usually indicate mediocre management, which will react in uninspiring ways as soon as the first crisis occurs.

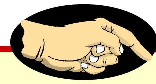
IBM's founder, Thomas Watson believed he would succeed in direct proportion to the trust customers had in IBM. Several quotes from IBM's Code of Conduct Guidelines are noteworthy because they are clear representations of a value structure conducive to strategic alliances:

"Don't make misrepresentations to anyone you deal with. If you believe the other person may have misunderstood you, correct any misunderstanding you find exists. Honesty is integral to ethical behavior, and trustworthiness is essential for good, lasting relationships."

"Never use IBM's size to intimidate, threaten or slight another person or organization."

"Everyone you do business with is entitled to fair and even-handed treatment. This is true whether you are buying, selling, or performing in any other capacity for IBM."

Step 3.2 Co-Creative Negotiations/Chemistry



~Tip~
When Examining Values

The alliance must embrace the highest values of:

- performance;
- customer service; and
- business ethics.

Regardless of whether our company or the alliance partner has the contract with the customer, the alliance is a reflection of our company. You must see values that reflect our Corporate Value Structure. If the prospective alliance partner is not familiar with these values, review them with the partner.

Step 3.2 Co-Creative Negotiations/Chemistry

Checklist 3.2a
What To Look For In A Partner

Values:
- Do they maintain the highest values worthy of our trust?
- Do their Actions match their Values?
- Are they committed to total quality management and continuous improvement?

Toughness:
- Have they been strengthened by years of competitive victories?
- Are they persistent in sustaining their efforts

Knowledge:
- Are they thoroughly familiar with customer needs?
- Are their technological capabilities considered the best in their class?

Teamwork:
- Does their corporate culture reward and reinforce teamwork and coordination?

Checklist 3.2b
Chemistry Questions

Ask these critical questions to determine if the chemistry will be positive. Do you:

- Trust the other partner?
- Have faith that your partner will do the right things – strategically and operationally?
- Know that the other party will live up to the unwritten terms of the agreement?
- Have an unfailing commitment to create a WIN-WIN arrangement?
- Cherish their reputation as a hard but fair dealer?

Do you believe they:
- Have integrity?
- Will do what they say?
- Will be creative in the face of adversity?
- Will be predictable under pressure?

Step 3.2 Co-Creative Negotiations/Chemistry

Poor Partners

Several other types of partners are unlikely to have the right chemistry, no matter how good the strategic plan:

Those not into "Partnering" :

Some people just do not have the good luck, expertise, or the desire to enter into alliances of any sort. Their experience and motivation require their sole control of the venture. No matter how well the deal is structured, their personalities simply do not lend themselves to a cooperative approach.

Dependent Companies Which Need You to Survive:

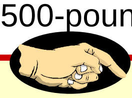
If a company is on the decline and needs you and the alliance for survival, they will make an impossible partner. Companies that latch onto an alliance to stay afloat might be better off being acquired or merged.

However,small growing companies can be an exception to this rule. The equity alliances often serve the dual purpose of both short-term survival and long-term gain. But also remember, this dependency at an early stage of partnering will send off warning lights in the executive chamber; small companies may decide to sell out, leaving our organization working with an unknown alliance partner.

Over-Dominant Ego:

The ego make-up of corporate CEOs can be a very critical factor to success. Every good CEO will have a strong ego. But the over-dominant ego may not be able to generate cross-corporate teamwork, or it may create one-upmanship, or lead to not hearing feedback that enables the alliance to make mid-course corrections.

A "strong ego" leader knows his strengths and weaknesses well, and is willing to deal with them openly. The one with a "big ego" has a 500-pound ego, and a 600-pound insecurity complex.



~Tip~

The executives who have the right chemistry will lead with vision, not coercion, they will be smart but not cold, and especially, they will be creative in the face of diversity.

Trust Supplement -- **Step 3.2 Building Trust**[1]

Ask any alliance professional about the key factors for a successful collaboration, and you can be assured that *trust* will be near the top of the list.

The alliance leader who builds trust has a powerful advantage, because when analyzed in detail, trust is shown to be simultaneously the "*glue"* that holds teams together during times of crisis and the "*grease*" that smoothes over rough interactions when cultures clash. Alliance champion Brian Ferrar recognizes how this bonding impacts the relationship between champions: "An alliance manager and his counterpart at the partner company are often closer than each may be to many of their co-workers because of the trust it takes to form the alliance." (However, this bonding across organizational boundaries can be quite disconcerting to many insiders who see this as a serious breach of loyalty)

Building trust starts and is maintained at the highest leadership positions. If leaders do not forge the bond of trust, it is highly unlikely to be found within the middle echelons. Coincidentally, there is a very high correlation between trust, relationships, and control. As trust and relationships increase, the needs for command and control diminish, replaced by coordinative interaction. This matters to leaders as they face today's compression of time and increase in speed, which force faster decision making, and today's complex interrelationships which force slower decision- making. Knowing how to manage this dilemma and balance these forces requires adroitness and a deep level of trust.

However, often building trust is elusive, filled with platitudes, slogans, and aphorisms such as "trust must be earned," "be skeptical before you trust," "be sure to have an exit strategy," "trust but verify," an so on. Unfortunately none of these approaches really produce any trust. Highly legalistic attempts to ensure against trust usually backfire and poison the well before the alliance gets started. Often, by trying to protect against distrust, we actually create the conditions we are trying to avoid, which manifests as enormous legal agreements (sometimes over a thousand pages!) and protracted negotiations that may result in no agreement at all.

Mistrust causes everything to be more complicated, slower, and far more fragmented. What's more, distrust puts a major limitation on collaborative innovation, internal teamwork, and external relationships with suppliers, customers, stockholders, and our community. Distrust is an incredible competitive *dis*advantage.

For more information, see: Lawrence, Paul R. & Lynch, Robert Porter; *Leadership and the Structure of Trust*, European Business Review, May-June Edition, 2011 (portions of this section excerpted from this article)

Trust Supplement -- **Step 3.2 Building Trust**

Ultimately, no amount of pages in a legal contract can substitute for or replace weak trust. It's the single most important thing that separates alliances that thrive from those that fizzle. Trust enables everything to move faster, more effortlessly, and with less conflict. In spite of its importance, trust is too often taken for granted.

The alliance professional that can build a strong relationship of trust can create enormous economic value. Our economic studies have shown consistently that trust can double the rate of innovation, accelerate speed of implementation by two or three times, and cut non-value-added work in half, or more. The economics of trust are compelling, especially considering that it costs little or nothing to create trust, while it is excruciatingly expensive to co-exist without it.
Synergy is the result of powerful forces within the human spirit that can be unleashed *and* replicated regularly by accessing the right combination of innate human drivers and building a systematic organizational culture of trust that supports, reinforces, and maintains synergistic interaction.
\

Underlying Causes of Distrust

What actually causes distrust?

In a word: *fear*; in particular, fear of being taken advantage of, humiliated like a stupid sucker, or fear of being hurt financially, emotionally or physically, the sense we must defend ourselves, especially when someone else's needs for power, control, resources, status, territory, or revenge, leaves us feeling unprotected and vulnerable.

Fear, focused outward on a common threat, may help overcome the threat, but, focused inside the alliance, it will certainly destroy trust and teamwork. Fear has a powerful effect by flooding the brain with chemicals that counteract other key neurotransmitters that enable both collaboration and innovation.

This sheds light on what can be done to improve trust. By examining how distrust occurs, specific behavioral actions become evident. Changing the actual behaviors of people does more to shift trust positively than to talk abstractly or symbolically about it.
Probably the most challenging and elusive objective of any leader is to create a system of strong trust within their organization – whether it is between business units, within teams, or across corporate alliances.
By becoming skillful in designing trust, an alliance leader can take trust from the vagaries of intuition to a new level where highly insightful interaction becomes commonplace.

Trust Supplement -- **Step 3.2 Building Trust**

Understanding the Four Drives: The "Nature of Human Nature"
To understand the nature of trust, it's first necessary to grasp the fundamental roots of human nature and how our brains have been hard-wired for survival by the evolutionary process. Based on extensive research over the last hundred years into the neurological process of the human brain, we can begin to understand what drives human behavior: *our ultimate innate motives*. Understanding these is vital if we are to grasp the nature of trust.

"Drives" are the ultimate, irreducible motives of human behavior, and there are four four innate drives in all healthy human beings. (Remember A, B, C, & D see Figure 2):

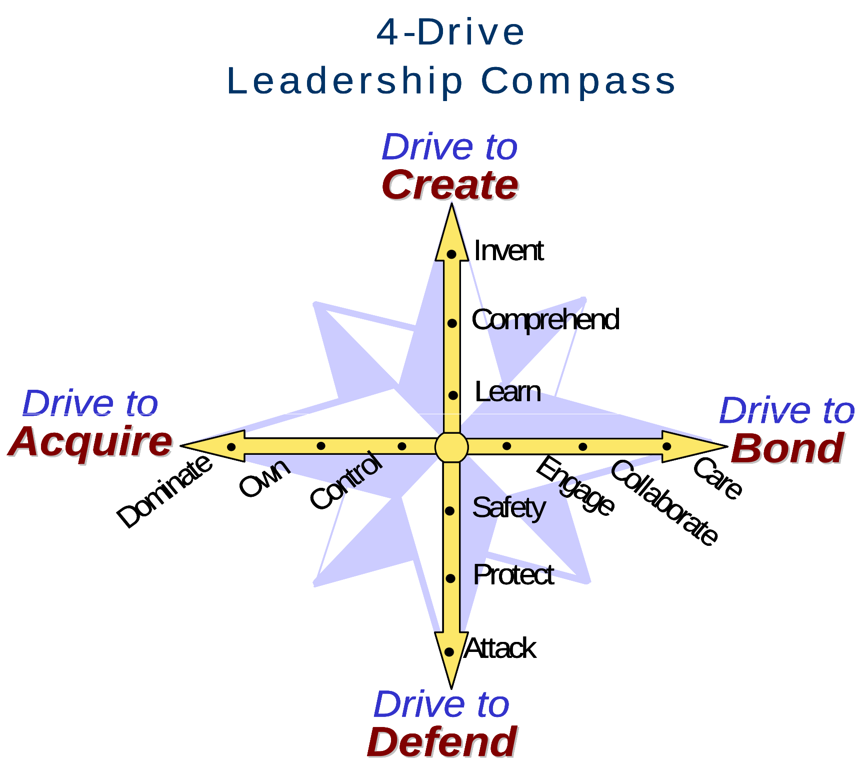


Figure 2 – Four Drives of Human Nature

Drive to ***Acquire*** – to compete for, secure, and own at least a minimum of essential resources (food, shelter, mate, etc.), to exert sufficient control over one's environment for this purpose, and, when to pushed to excess: into greed and domination. This is the source of the *competitive spirit* in all of us. When others are on the receiving end of this drive, they perceive it as aggression or domination, and typically respond with the drive to ***Defend.***

[2] All four drives evolved in humans because they all proved to be essential for survival.

[3]This approach to leadership is explained in Paul R. Lawrence's book *Driven to Lead: Good, Bad and Misguided Leadership*, Jossey-Bass (2010) Paul Lawrence contributed significantly to this section.

Trust Supplement -- **Step 3.2 Building Trust**

Drive to ***Acquire*** – to compete for, secure, and own at least a minimum of essential resources (food, shelter, mate, etc.), to exert sufficient control over one's environment for this purpose, and, when to pushed to excess: into greed and domination. This is the source of the *competitive spirit* in all of us. When others are on the receiving end of this drive, they perceive it as aggression or domination, and typically respond with the drive to ***Defend.***

Drive to ***Bond*** – to form long-term mutual-ly caring relationships, to cooperate with others, engage in teams, build organizations and alliances, and, at its fullest, to put moral meaning in all relationships. It is extremely important because it provides the natural desire for humans to *collaborate,* coordinating their actions for their mutual benefit, and the desire to work for the "greater good."

Drive to ***Create*** – the unceasing impulse of humans first to learn, to comprehend one's self a nd the world around them,then to inquire beyond, and most fully, to imagine & invent, to find meaning, to imagine a better future, to solve problems and puzzles, and to build new and better things. It is this very human drive to *Create* that every leader seeking *innovation* needs to support and catalyze along with the *collaborative* drive to *Bond.* In tandem, these two drives give people a deeper sense of meaning and purpose.

Drive to ***Defend*** – to protect from threats and aggressors to one's physical self and loved ones that will prolong our survival, to have security and safety of one's valued possessions and basic beliefs, and, pushed to the extreme: to attack.

Acquire and *Defend* are common to all mammals and reptiles, although more developed in humans, while *Bond* and *Create* are far more elevated and refined in homo sapiens than any other primate or mammal, making them almost uniquely human traits. All four drives are discussed in Darwin's work.

Each individual has their own distinctive blend of these four drives and typi-cally mani-fests them in a manner that reflects their unique culture and personal exper-iences in life. These drives must be reasonably satisfied and are independent of one another in the sense that fulfilling one does not contribute to the fulfillment of the others. Because these drives are independent of each other, they are thus often in conflict within our minds.

In any group or organization, the alliance leader must consciously work to meet the needs of every human to balance or align the drives to *Acquire* resources and *Defend* one's turf (self-interest) with the needs of humans to *Bond* with others to achieve and create something they can only accomplish together (mutual-interest). If these drives are in conflict then the leader must be resolve this or the alliance and subsequent innovation will be diminished.

Trust Supplement -- **Step 3.2 Building Trust**

Our drive to *Acquire* can obviously often be in conflict with our drive to *Bond* with others. However, with conscious awareness of the need to reasonably satisfy all these inherent drives (in themselves, as well as in other stakeholders) effective leaders, can resolve these conflicts by selecting a course of action that best satisfies all four drives. This can best be done by skillfully crafting action plans that resolve such conflicts; often The human brain has evolved over eons to enable the prefrontal cortex to assess these conflicts and appropriately select the right balance among the drives. The drives to Create and Bond – the more recently evolved capacities of the human brain are most effective in enabling this balancing of drives by emphasizing the higher-order drives to *Bond* and *Create* that make us uniquely human.

How-ever, the culture of the immediate organi-za-tion-al en-vi-ron-ment also has a major effect on these drives, either by re-in-forcing or suppressing one drive over another. That's why the same individual may behave quite differently in different organizations, or why changing top leaders can produce radically different results within the same group of people.

An organizational culture based on control and fear will trigger and emphasize the *Acquire* and *Defend* drivers, resulting in an organization that has fiefdoms and power-struggles, territorial battles as rivalries emerge between business units, functions, or buyers and suppliers.

On the other hand, trust-building emphasizes the *Bonding* and *Creative* drives that are so essential to a modern corporation. Trust unleashes human energy by aligning the *Bonding* and *Creative* drives of individuals, enabling multiple individuals to coordinate actions and innovate synergistically. In a fast moving, rapidly changing world, where flexibility and adaptability are strategically essential to success, setting a course that stimulates both the drives to *Bond* and *Create* is vastly superior to one that activates only the less flexible *Acquire* and *Defend* drives.

Alliances formed between companies whose culture is based primarily on the *Acquir*e and *Defend* drives will inevitably be more distrusting – they lack the collaborative spirit, instead being more defensive and self-oriented.

The Leadership Compass acts as a navigational instrument for leaders to determine action plans to achieve a creative balance among all four drives. Every organization creates a unique footprint based its own distinct administrative processes for measuring and rewarding the different drives. A leader must be especially cognizant of his or her relative emphasis on these measures and rewards because of their significant impact on outcomes.

Trust Supplement -- **Step 3.2 Building Trust**

Honorable Purpose

The purpose of an alliance is the promise to honorably increase the competitive advantage of each of the partners. Alliance managers and their executive sponsors must hold the idea of honor in the highest esteem.
The entire alliance team, on both sides, should then examine their proposed relationship, point by point, rigorously challenging whether their proposed strategies and actions live up the standard of honorable purpose. Only with affirmative answers to these questions can the nascent alliance successfully undertake the recruitment and alignment of other essential stakeholders.

If one starts by tricking one's partners or customers with illusory values, only temporary satisfactions, unsafe elements, misleading information, etc. how can such enterprise leaders expect to have strong trusting relationships with others? (which can happen even before the product/service weakness is reflected in falling sales)

A shared honorable purpose helps aligns other stakeholders around one central target. This enables trust by ensuring that everyone is going in the same direction for the same reasons. People's energy, commitment, and enthusiasm can rise to amazing heights when they are aligned on an honorable purpose that will truly make a positive difference by a sustainable vision that gives meaning to their work.

Balancing Self Interest versus Greater Good

No economic system or organization can thrive over the long run if it places overwhelming emphasis on self-interest (*Acquire*). This has been epitomized by the "greed is good" mantra on Wall Street that brought down the entire world's economic order in 2008.

But neither have any systems flourished that over-emphasized the sacrifice of reasonable personal gain in favor of the greater good of others (*Bond*). When people focus heavily on the greater good, they grow increasingly anxious about sacrificing their own needs.

There is nothing inherently wrong about self-interest. Prosperity is a very legitimate value. The drive to *Acquire* one's basic resources is obviously essential to survival. But if everyone works *exclusively* in their narrow self interest, severe problems will erupt: unions and management lock horns, customers and suppliers become rivals, stockholders grab for short-term profits while economic systems break down as each entity attempts to maximize for itself.

Trust Supplement -- **Step 3.2 Building Trust**

In this kind of a dog-eat-dog world, trust diminishes as everyone withdraws into their turtle-shells to protect their individual interests. We trust people who we can count on to balance self interest with the mutual interests. The same is true of corporations. [See Figure 3] Effective leaders openly balance these two, and most individuals are fully cognizant and capable of accepting and supporting this balance. Those who don't are not to be trusted.

Never Overlook the Power of Trust

Because alliances are neither commanded nor controlled by one organization, but rely strictly on *joint* engagement, their success is highly dependent upon high levels of trust. Alliance leaders must be ever-alert to sustain trust, and take specific and rapid action to rebuild trust, else the energy of the alliance will decline rapidly.

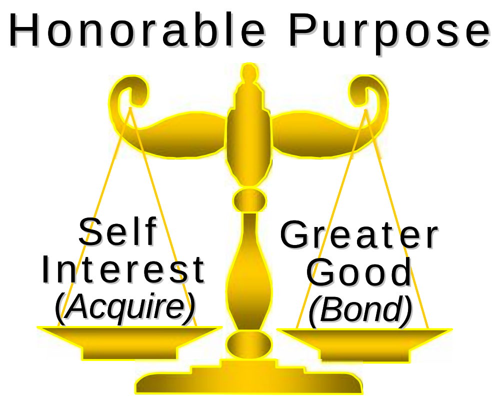


Figure 3 – Balancing the Drives

In Section 2, Phase Three – Building Trust and Value Added Negotiations, we will outline more specific issues as they pertain to trust.
It's important to understand that alliances thrive in a healthy environment of trust, and they blossom when the trust triggers and supports collaborative innovation. When trust dies, so does innovation (drive to *Create*), teamwork (drive to *Bond*), and their derivatives, imagination, resiliency, openness, courage, and determination.

Ten Foundational Mindsets about Alliance Collaboration & Innovation

Human Nature: People have evolved four drives, ultimate survival motives that need to be satisfied. Their drives to *Bond & Create* must come first if one wants high levels of collaboration and innovation. The drives to *Acquire & Defend* must *support* the first two drives, *not predominate*.

Trust: Trust is essential to innovative alliance collaboration. The basic elements of trust are fairness, honesty, respect, integrity, and empathy. When leaders start with command and control as the first principle of alignment, they quickly trigger the *Acquire* and *Defend* drives, suppressing trust. Leaders who fail to create trust limit their range of motivational options to fear and force.

Teamwork: Most people want to work together. However, be careful about putting even highly creative lone rangers in charge of allainces or project teams; they knock out the collaborative side of the performance and innovation equation.

Trust Supplement -- **Step 3.2 Building Trust**

Fear: Fear can be a tool or a weapon; it's a tool when the fear is focused *externally* to the competition, but fear is an alliance killer when used *internally*. Don't use fear as a spur, don't create artificial internal crises, and don't punish people who are well intentioned. Weed out those who believe that command by fear is the best way to get results.

Creativity: People are born creative; it's natural to want to bring new ideas into the work world. Let creativity be demonstrated by small as well as big hits within the alliance.

Alignment: Aligning people on a common goal and purpose requires they can trust each other while they walk the same path. Start first by aligning around the four drives of the customer, and then the four drives of the key stakeholders, then employees, stockholders, and suppliers.

Synergy: The attainment of synergy is possible only when built on a foundation of trust that honors differentials in thinking and the creative passion of people. If synergy is absent, look for distrust as the first culprit.

Eliminate Bad Apples: Remove senior and middle management leaders who rule by manipulation, fear, hording, or sheer power. In failing alliances, it is not unusual to find a large proportion of senior management attached to these beliefs. If these leaders are firm in their attachment to this belief, they need to find work elsewhere.

Reconfigure Metrics & Rewards: One common cause for failure is putting in place a new alliance/innovation initiative, but leaving the old metrics and rewards in place. This leads to dysfunction and frustration, for the reward system doesn't match what is truly valued. Be sure to measure and reward collaborative innovation.

Create a Four Drive Honor Code: Many organizations have created "Values Statements." While there is nothing wrong with this, the values often are weighty and abstracted from everyday life. Instead, ask people/teams to create day-to-day Operating Principles (typically less than 1 page) that will govern their interactions. We suggest looking at Part Two, Phase Five for examples of Operating Principles as a starting place, adapting it to their unique needs and circumstances.

Step 3.3 Creating The Win - Win

Critical Points For Negotiations:

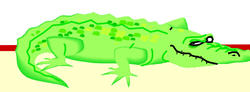
Win - Win:

Negotiating an alliance is not like buying a house or a car. It is more like arranging a marriage. It is far more important to determine if “1+1≥3,” than to “squeeze the last concessions” out of an opponent. Your objective is to create a “win - win” condition, not a “win - lose.” You are trying jointly to create as much value as possible, and not to extract as much value as possible. Remember, you will have to rely upon your alliance partners when problems occur. Make sure your alliance partner is with you, and not anxious to regain the advantages they perceived were lost in original negotiations. Win - Win results from having enough sales to satisfy both alliance partner’s revenue needs.

Ultimate Goals:

Above all else, the most important aspect of the negotiations process is to determine if your company and the alliance candidate can achieve a mutual win - win arrangement to:

1) Attain the Value-Added Proposition (VAP) for the Customer;
2) Determine if there is proper strategic synergy, and
3) Ensure that each alliance partner can attain its Strategic Return on Investment (STROI).



~Trap~

Deadly Negotiations Sins

Of the Deals That Fail…

Executives lament that during negotiations, time was allocated to:

50% on legal and tax work;

30% on selecting products to produce, market or develop;

20% on strategic issues;

0% on operations planning;

0% on building trust and teamwork;

0% on management and personnel selection;

0% on developing a strong team;

0% on practical decision-making procedures; and

0% on maintaining good communications.

To avoid these problems, allocate time during negotiations for these discussions, and designate key team members to take individual responsibility for each of these factors.

Step 3.3 Creating The Win - Win

Critical Points For Negotiations *(continued)*

There can be no reasonable strategic fit, hence no chance for a successful alliance, if these factors cannot be determined satisfactorily.

Complete Negotiations

Techniques utilized during negotiations include:

- Brainstorm options;
- Treat deal elements as potential trade-offs;
- Build from program to contract;
- Set performance measures;
- Set non-performance results;
- Consider using a third party facilitator, that both parties trust;
- Use one, iterative agreement document;
- Know when to caucus;
- Take extensive and detailed notes;
- Summarize repeatedly, listen for understanding;
- Patience & persistence are vital; and,
- Keep initial agreements short.

Building The Relationship

As in any relationship, you must communicate, listen, give feedback, and probe. Assumptions/claims should build trust, be consistent, and you should be able to deliver on commitments. The people involved should show respect, as well as command respect. Always attack the issues not the person.

~Tip~

Don't undervalue what Your company offers.

Step 3.3 Creating The Win - Win

Thoughts on Co-Creative Synergistic Negotiations:

Co-Creative Negotiations implies there will be a commitment to an alliance between the negotiating parties. The alliance implies that each will be committed to serving the best interests of the other, hence a synergistic relationship, where the whole is far more functional and valuable than the sum of the parts.

For the uninitiated, alliance negotiations will often mistakenly take an adversarial form -- posturing, using bargaining tactics, gaining advantage, and emphasizing control. However, none of these approaches have demonstrated long-term viability in sustaining success. Alliances have generated a new evolutionary form of negotiations based on approaches that seek to support long-term synergy. The methods and processes outlined below will dramatically shorten the time required to negotiate an alliance, and will produce more successful performance.

Co-Creative Synergistic Negotiations require six fundamental skills or characteristics:

1. Design of breakthroughs (generate new paradigm)
2. Vision of a new future
3. Integrity to keep to one's word
4. Synergy building to focus on $1+1 \geq 3$
5. Trust that enables higher performance and is reinforced by integrity
6. Attitude & language that create new possibilities.

Mastery of the "Synergy of Compatible Differences" - called "Dinergy "- is essential to the implementation of any co-creative negotiations.

Definition: Dinergy (from the Greek; dia = opposite and ergos = working). A dinergistic relationship between two parties requires a fundamental shift in the response mechanism from traditional ways of dealing with each other and a shift in the willingness to confront traditional paradigms.

Traditional Responses	Dinergistic Responses
- Blaming and defending	- Turn breakdowns into breakthroughs
- I'm right, you're wrong.	- Ask "what's possible?"
- You're different, therefore Bad -- Diversity is scorned	- Can we use differences to -- generate new paradigms? Turn diversity into unity
- Emphasis on importance of Knowledge and having the right answer	- Emphasis on importance of creativity and asking the fundamental questions
- Constant evaluation of right & wrong	- Ask "what's missing?" and "what's possible?"
- Desire for predictability and control	- Desire for flexibility and coordination.

Step 3.3 Creating The Win - Win

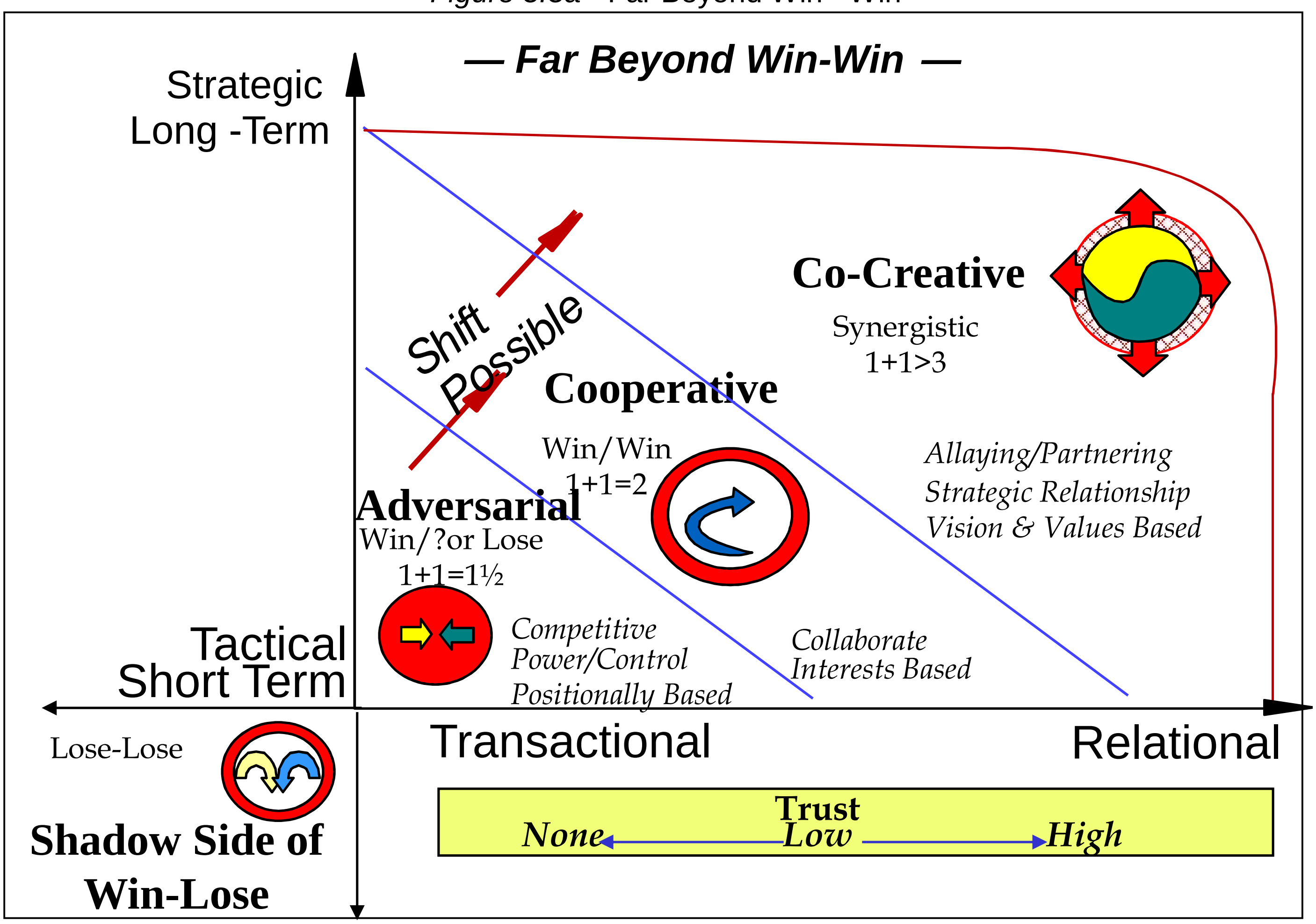
Far Beyond Win- Win

These thoughts on synergistic negotiations are represented graphically in Figure 3.3a. The graph depicts a spectrum of differing relationships, and the negotiating styles required to address them.

In the lower left hand corner of the chart, the approach is shown that we would use for a Tactical Short Term relationship, here we call it "arms length" (adversarial). It is a negotiating style used when the product or service is of short duration and price was more of a consideration than quality or long-term relationships. Buying a car sometimes falls into this category.

From a transactional relationship we move towards one that is more "Cooperative". This is a project-oriented relationship that would be for a defined time period, and that in order for success it requires good cooperation, competitive pricing, good quality and a high level of competency on the part of the parties.

Figure 3.3a - Far Beyond Win - Win

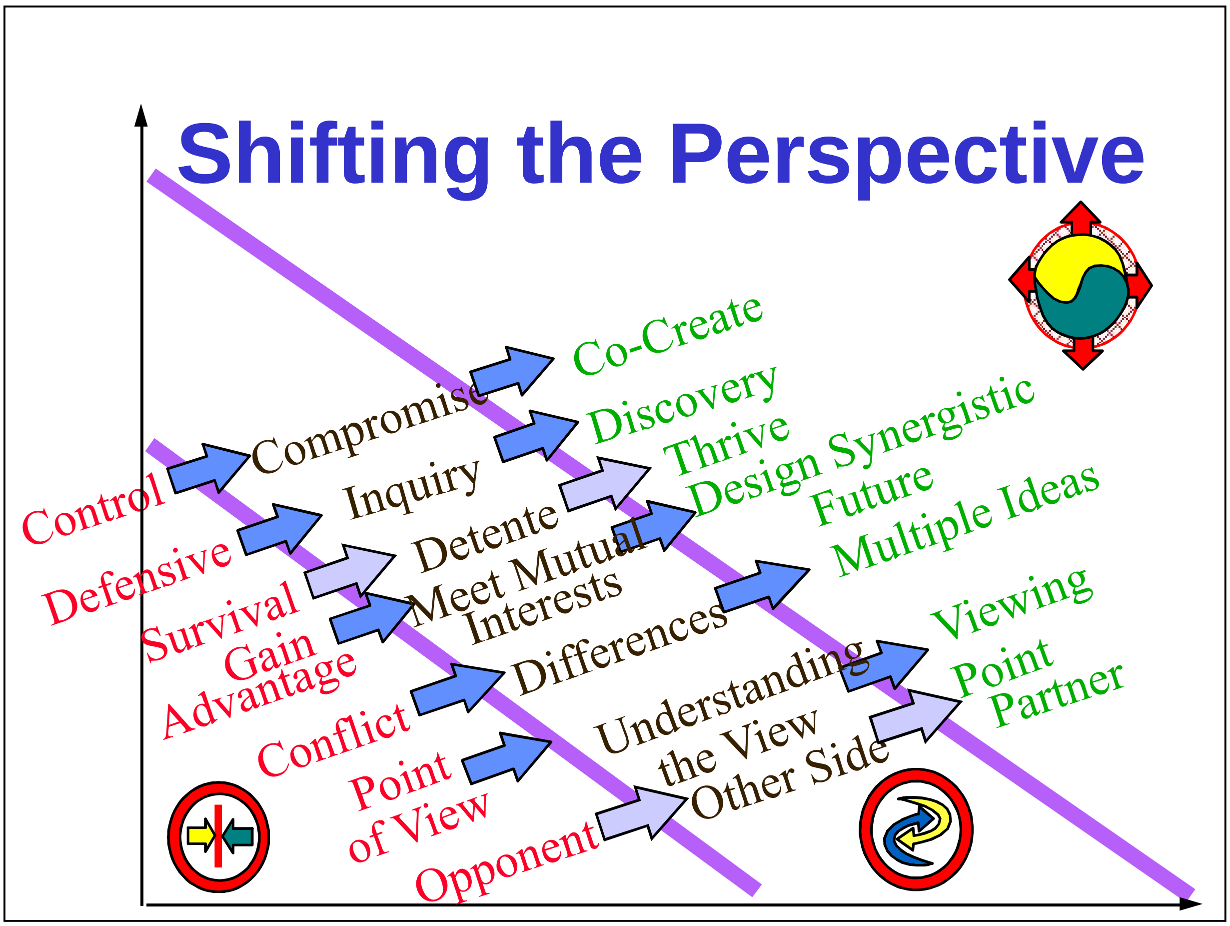


Step 3.3 Creating The Win - Win

Far Beyond Win- Win *(continued)*

As we move further towards the right on the scale, we enter the relational class of activity. It is in this area of the graph that we see the need for a more strategic relationship. One that is longer lasting and requires the sharing of strategic goals and objectives. It is also in this type of relationship where we may become dependent upon our partners willingness to invest in their competency to ensure longer term success for the alliance. Figure 3.3b provides you with the type of perspectives we will need to apply as we shift our focus to a Co-Creative relationship

Figure 3.3b - Shifting the Perspective



Step 3.3 Creating The Win - Win

~Tip~
Characteristics of Effective Co-Creative Negotiations

- Understanding the right situation to use, adversarial, cooperative, or synergistic negotiations is essential to success.
- Conflict is seldom a problem because ego battles can always be transformed.
- Designing a synergistic, long-term relationship is always built on a foundation of trust and integrity.
- Flexibility and Creativity are invaluable to building an alliance.
- Win/Win is just a starting point, there is much to be gained by pushing farther than win - win.
- Synergy is achieved by a process of co-creation of a 1+1>3 paradigm.
- Using adversarial negotiation techniques will only produce sub-optimal results when designing an alliance.
- Playing with an “open” rule book will produce better results than playing with your “cards to close to your chest.”

~Tip~
The Co-creative Negotiations Game

- Always focus on creating more -- an expansionary process -- for both parties.
- Aim for designing the future together.
- Create a culture that enables continuous improvements and breakthroughs.
- Make differences an opportunity to explore new possibilities.

~ Tips~

- Don’t change alliance negotiating team members unnecessarily
- Don’t use the good-guy/bad-guy routine
- Don’t forget your strategy and objectives

Step 3.3 Creating The Win - Win

Tactics

Negotiations as Co-Creation: Cooperation and Alliance Architecture are the methods for shifting the energy of conflict from a resistive, win-lose battle into a Co-Creative experience. Below are some terms that we should understand as part of our vocabulary when discussing negotiating tactics.

Resolving Conflict is rarely about who is right. It is about acknowledgment and appreciation of differences.

Fear will sap your ability to channel your opponents energy into a co-creative win, and breaks the co-creative connection of the heart, forcing ego to conquer ego.

Discovery is the power of opening yourself to the wonderful realm of possibility, it is a flexible, open belief system.

Defense is a rigid, closed belief system.

Strategic Future results from asking and answering critical questions about the future, such as, "*What do you want? What's your vision? What do they want? What's their vision? What's missing? What's possible? What shifts in thinking are needed?*

Chemistry and Character are essential for a long-term relationship. Therefore, create an environment where integrity and trust can prevail.

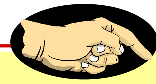
Breakdowns are when the Synergistic Processes fail to make progress. At these times use the Win-Win, cooperation style. Avoid blaming and fault finding. Use every breakdown as an opportunity to create a breakthrough.

Integration is the use of secondment (to assign someone temporarily to the alliance partner's organization) to understand what the issues and concerns of the partner are

Developing The Agreement

First and foremost, the agreement must be a win - win for both parties. Also, it must be better than any alternative for either party, and must be flexible. Keep agreements flexible enough to adapt to the changing needs of the marketplace, to respond to competitive attacks. (see Task 3.5 for the ten critical points to be included within the agreement)

Step 3.3 Creating The Win - Win



~Tip~

"C-ing Your Way To Success"

When working with your alliance partners, we encourage you to…

- Be **C**aring
- **C**ommand Respect (by giving it)
- Be **C**reative
- **C**ollaborate
- **C**oordinate
- Gain **C**onsensus
- Celebrate Success
- Be **C**onfident
- Be **C**onstructive
- Be a **C**atalyst
- **C**ompliment and **C**omplement
- Have a **C**an-Do Attitude
- **C**ommunicate
- Be **C**lient Oriented
- Be **C**ommitted

and **Not**…

- **C**ompete with one another
- **C**riticize without self-examination
- **C**ondescend
- **C**ontradict actions and words
- **C**onfuse
- **C**ompromise excellence standards
- **C**omplicate
- **C**onceal
- Be **C**ynical
- **C**ontrolling

from Keith Gaylord and Robert McCants, IBM-US

Measuring Your Bargaining Power

Use Checklist 3.3 to assess our ability to achieve all of our alliance expectations. It is important to know where we can give in as well as how hard to push for what we want from our prospective partner.

Step 3.3 Creating The Win - Win

Checklist 3.3
Measuring Your Bargaining Power

Several key issues should be analyzed in measuring bargaining power:

__ How strongly does our partner want the alliance?
__ Do they have a strong champion?
__ What resources are contributed by each partner?
__ What is the relative urgency for each player?
__ What other commitments has each player made which will consume available resources?
__ What other alternatives exist for the players?
__ How highly do the other players regard our strategic and operational strengths and weaknesses?
__ Does the other player think that our involvement will be essential to success?
__ Are their expectations for performance realistic?
__ Can we actually meet our commitments? Can they?
__ How willing are you and our prospective partner to frankly and openly assess each partner's individual strengths and weaknesses?
__ How will this affect other corporate relationships?

Step 3.3 Creating The Win - Win

Checklist 3.3b
Watching For Critical Signs

During the preliminary negotiations you should watch to see if the pre-conditions for a successful alliance are present? There are several pre-conditions to watch for:

- Does your partner have the ability to achieve things?
- Is the promptness of replies adequate to sustain energy and momentum?
- How available are the potential partner's resources?
- Who takes the ball when things need to get done?
- How are the problems addressed? By seeking solutions or by placing blame?
- How good is the quality of communications?
- What is the "Chemistry" like between the organizations?
- Is there an ability to have a marriage of multi-levels in the organization?
- Does the level of commitment match the requirements of the venture?
- Is there a real willingness to work as a team?

If our partner performs well, on these points, the prospects for a successful venture, while not guaranteed, are certainly higher. However, if negotiations drag on, if deadlines pass, if meetings are continually postponed, it is very probable that nothing will ever happen.

Step 3.3 Creating The Win - Win

Task 3.3
Analyzing The Win - Win

1. From Measuring Our Bargaining Power

How well does the Prospective Partner regard our company?

____

Did the negotiations occur within a win - win environment, or was it a tug-of-war, with each one gaining at the expense of the other?

____

As a result of your due diligence were you able to determine how significant this relationship would be to our prospective partner?

____

What areas did we identify as being crucial to the success of the alliance? ___________________________________

____

2. From Watching for Critical Signs

How did the Prospective Partner perform? _____________

____

How well would they rate you if they were filling out this questionnaire? _________________________________

Were the resources they were promising going to be available or were they tied up on long-term projects?_____________

____

Did you determine whether their operating culture would be compatible with ours? ____________________________

____

Were critical individuals made available for discussion during the negotiations? ____________________________

____

Step 3.4 Documentation and Comprehensive Due Diligence

Purpose of Detailed Documentation and Comprehensive Due Diligence

This step focuses on gaining vital information for determining if an alliance is likely to be successful by examining five key areas:

1) Market

a. Size, characteristics, & growth potential
b. Target customers and their responses to the alliance offering
c. Channel characteristics

2) Competition

a. How good is its offering?
b. What is its future Strategy?
c. How will it respond to the Alliance?

3) Prospective Partner

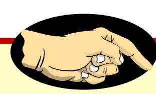
a. Is it a good "fit"?
b. What does it want?
c. Is it what it represents itself to be?
d. Where is it likely to be in the future?

4) Documentation

a. Financial conditions
b. Legal conditions
c. Organizational situation

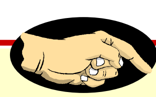
5) Business Case

a. Were the original assumptions correct?
b. What data should we be using?
c. What do the financial models say?



~Tip~
Memories Fade

Protect ourselves and our partner by writing down our agreements, even informal ones. It will be valuable to refer back to them at a later date to understand why certain decisions were made, especially after key individuals rotate out of the alliance into new jobs. Summarize repeatedly, and listen for understanding.



~Tip~

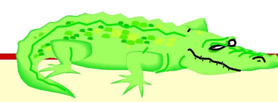
How much do you really believe in this alliance? Would you invest your own mother's money in it? If not, fix it!

Step 3.4 Documentation and Comprehensive Due Diligence

Mutual Assurances And Confidentiality

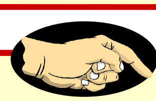
When there is highly technical, sensitive, and proprietary information that must be shared before a decision can be made to seriously consider an alliance, a Non-Compete, Mutual Non-Disclosure, and/or Confidentiality Agreement may be in order. Particularly if disclosure of sensitive data would give our prospective partner an opportunity to use the negotiations as a means of exploiting the information, then abandoning the idea of the alliance, and subsequently becoming a serious competitor.

Some organizations also use a Non-Confidentiality Agreement in the early stages of due diligence. This form of agreement restricts our prospective partner from sharing any confidential information with us without first telling us it is confidential. Using this approach minimizes any legal risk, in the event we decide not to pursue a relationship.



~Trap~

Sales Forecasts are usually the "softest" piece of data, typically filled with assumptions and wishful thinking. If you do not feel comfortable about the sales forecasts at this stage, be sure to conduct a joint market research project before finalizing the alliance.



~Tip~

Loose lips sink ships. Marketers and engineers in particular love to talk about their technical exploits and concepts. Inadvertently, they can give away very critical information, that, should the alliance not be consummated, could be very damaging.

Train your negotiations team in effective handling of confidential information. Allow only one person from each company to be exposed to technology during negotiations. And each should have signed an agreement.

If confidentiality and non-compete agreements are called for, be sure to consult with our company's legal counsel before making commitments to sign or initiate such documents.

Step 3.4 - Documentation and Comprehensive Due Diligence

Documentation Collection and Analysis

Documentation collection and the creation of new data collection and reporting formats for the benefit of the alliance are crucial to the success of the relationship. The old adage "if you can't measure it, don't do it" is an important one to remember.

If there is an agreement to pay royalties, or to pay a license fee based on usage, then there has to be a process and an appropriate reporting structure in place. To often we end up committing to pay something, and then discover our systems are not capable of recording, measuring or reporting the information that we need in order to make or collect payment.

Checklist 3.4a "Ask These Critical Questions/Collect Sustaining Data" and Task 3.4 "Documentation Due Diligence" are two tools to assist us in ensuring we ask, collect and validate not only the appropriate data, but its relevance as well.

Step 3.4 Documentation and Comprehensive Due Diligence

Checklist 3.4a
Ask These Critical Questions/Collect Sustaining Data

1) Market Data

- Size, Characteristics, & Growth Potential are acceptable
- Target customers and whether their response to the Alliance offering is positive
- Are customer surveys favorable?

2) Competition

- How good is the competition's product/service offering?
- Channel Choice?
- Channel Management?
- What is its future strategy?
- How will it respond to the Alliance?

3) Prospective Partner

- Is it a good strategic "fit"?
- Do they have clear goals and strategies?
- Are they what they represent themselves to be?
- Where are they likely to be in the future?

4) Documentation

- Financial Statements to ensure capacity to uphold financial commitments
- Relations with vendors (are bills paid on time) and relations with customers
- Court Filings -- is the company always involved in litigation?
- Industry reputation -- is it "quality"?
- Quality of the top managers -- do they have a good track record? Is there high turnover?
- Critical Strategic Decisions in the Past -- do they have a record of excellent judgment?
- Board of Directors -- does the Board support the decision to form an alliance? Will they support or undermine the CEO?
- Core Organizational Values -- do you like their:

-Reputation	-Teamwork
-Tough-mindedness	-Adherence to commitment
-Discipline	
-Integrity	-Loyalty
-Human Resources	-Enterprise

- Review of other Alliance agreements already in place (i.e. exclusivity, competitors, etc.)
- Run and Analyze Financial Models

Step 3.4 Documentation and Comprehensive Due Diligence

Checklist 3.4a (continued)
Ask These Critical Questions/Collect Sustaining Data

5) Business Case

- Were the original assumptions correct?
- What data should we be using?
- What data are still needed?
- Modifications needed to the business case?

6) Exchange of Documentation

- Market Data
- Technological Data
- Confidential Data

Step 3.4 Documentation and Comprehensive Due Diligence

Task 3.4
Documentation Due Diligence

1. Market Data
   Size and Growth Potential ________________________________
   Target Customer Response ______________________________
   Channel Characteristics _________________________________

2. Competition
   Customer's View of the Product/Service Offering _______________
   Command of the Channel _______________________________
   Channel Management Strategy ___________________________
   Expected Competitive Response __________________________

3. Prospective Partner
   Strategic Fit ______________________________________
   Chemistry Fit _____________________________________
   Clarity of Goals & Strategy _____________________________
   Accuracy of Corporate Representations ___________________
   Likely Future _____________________________________

4. Documentation
   Financial Condition __________________________________
   Legal Condition ____________________________________
   Organizational Situation ______________________________

5. Business Case
   Validity of Original Assumptions _________________________
   Data Still Needed ___________________________________
   Modifications Needed to Business Case ___________________

6. Ensure Confidentiality
   Exclusivity _______________________________________
   Non-Compete ______________________________________
   Bleed-Through (Intra-Company Leakage)___________________
   ____

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

Form (Structure) Follows Function

Once negotiations have proceeded to outline the basic terms & conditions of an alliance, many deal makers are tempted to "structure the deal," and jump to detailed legal agreements. This should be carefully avoided at this stage. Instead, a brief Memorandum of Understanding and Principles (MOUP) should be generated outlining the fundamentals of the union, including the strategic fit, the presumed operational interfaces, objectives and goals.

This is the midpoint in the alliance formation process. The MOUP now crystallizes key points and sets the foundation for finalization of arrangements. Structural issues should be only broadly outlined at this point, with final commitments to organizational form, financial investments, and legal contracts formalized after the next Phase of Operational Planning.

What Is the MOUP?

View the MOUP as a road map. It helps you set goals and broad principles for action. It is written by business people for business people; it's not a legal document and it is non-controversial. It is a means of communication for use in-house, between partners, and/or between staff.

~Tip~
Before Going To
Executive Committee

Be sure this alliance has all the characteristics of success. Compare the alliance to the 8 characteristics of Success in Checklist 3.5 at the end of this step.

What It Does

The MOUP opens communications in-house, between partners, between staffs, and/or between legal counsels. It airs concerns about what should be included and what should be left to negotiations. It also provides background for new staff. The MOUP provides a document for settling minor interim disputes, eliminates duplication of decision-making, and provides clear direction for legal counsel drafting agreements.

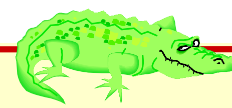
~Tip~

"If you can't write it down simply and clearly, you just haven't thought it out well."

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

How It Works

The MOUP is produced in-house with management sign-off, and the project team confirming the current position. It acts as a position paper that shortcuts posturing of newcomers, and acts as a mandate for attorneys of management, detailing the position on key basic issues. This relieves them of the responsibility of maximizing the clients position.



~Trap~
Length Of Document

Don't allow the MOUP to be more than 5 pages long. No one reads documents longer than that. It will lose its effectiveness if it isn't short and concise. See appendix for an example.

Remember, this is not the Agreement, it is just the outline of a possible agreement. The most important thing is to be sure both companies agree to the direction you are now headed in. You want to be absolutely sure there is senior and middle level leadership support, on both sides, for the current design of this alliance.

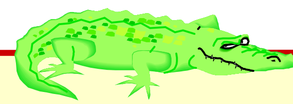
Implementation of MOUP

The pre-draft is done by the proposing party and agreed to by their top management prior to any outside contact for negotiations. There should be a discussion of the MOUP paper with potential associates. The discussion should be open to all of the parties involved with the alliance, irrespective of organizational position. Be sure to ensure confidentiality on the part of all parties. Once the MOUP is signed by the various levels of the organization, it can then be used as the basis for the Operational Planning Process. Then, allowing that "form" (structure) follows after determining "functions", the operational plan should be mutually created by the two prospective partners to ensure that the gears of the alliance mesh properly. Writing the operational plan together, the partners test the teamwork at the operational level insuring that the middle managers will be able to maximize their capabilities.

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

Best Practice Tip
Joint Presentation

Try having both champions make joint presentations of the MOUP to each company's Executive Committee. In this way, both company's get exactly the same presentation, have a chance to meet the other champion, and both champions have an opportunity to hear specific concerns of the other's approval group.



~Trap~
Statement of Intent

Beware of using the term "Statement of Intent" at this stage in negotiations. It can be ruled as a legally binding agreement in some jurisdictions, such as New York.

Stay with less legalistic terms, such as Statement of Principle or Philosophy, or Memorandum of Understanding.

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

These 8 characteristics were first discussed In the introduction. They should be the foundation of the alliance, and securely coming into place at this stage of the alliance development process.

Well conceived alliances begin with characteristics which motivate the sponsors. Elimination of any one or more of these factors will reduce the likelihood of a successful venture.

Checklist 3.5
Characteristics Of A Well Structured Alliance

1. **Critical Driving Forces:** Are there compelling forces which push the alliance together? Without these forces, there is no true reason for the alliance. Can we achieve our goals only with an alliance? Are there any negative forces which might split the alliance over time?

2. **Strategic Synergy:** Are there complementary strengths -- strategic synergy -- in a potential partner. To be successful, the two or more participants must have greater strength when combined than they would have independently. Mathematically stated: "1+1$\geq$ 3" must be the rule; if not, walk away.

3. **Great Chemistry:** Are there cooperative efficiencies with the other company? Do they have a cooperative spirit? There must be a high level of trust so that executives can work through difficulties that will arise. Don't "sell" your company's "beauty," it must be desired by the prospective partner, not sold.

4. **Win-Win:** All members of the Alliance must see that the structure, operations, risks, and rewards are fairly apportioned among the members. Fair apportionment prevents internal dissention that can corrode, and eventually destroy the venture.

5. **Operational Integration**: Beyond a good strategic fit, there must be careful coordination at the operational level where actual implementation of plans and projects occurs.

6. **Growth Opportunity**: Is there an excellent opportunity to place our company in a leadership position -- to sell a new product or service, to secure access to technology or raw material? Is one partner uniquely positioned with the "know-how" and reputation to take advantage of that opportunity.

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

Checklist 3.5 *(continued)*
Characteristics Of A Well Structured Alliance

7. Sharp Focus: There is a strong correlation between success of a venture and clear overall purpose -- specific, concrete objectives, goals, timetables, lines of responsibility, and measurable results.

8. Commitment & Support: Unless top and middle management are highly committed to the success of the venture, there is little chance of success.

Do All Characteristics Apply? If so, proceed to develop Memorandum of Understanding and Principles. If not, can anything be done to remedy the weaknesses? If not, is it wise to proceed?

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

Task 3.5
Memorandum of Understanding and Principles

A. Jointly develop a MEMORANDUM OF UNDERSTANDING & PRINCIPLES (2-5 pages long) covering at least 10 critical points: (*See Appendix C* for an actual example).

1. **Purpose of the Agreement**: Outline why the alliance is being formed and what is its perceived mission. Describe the "VALUE ADDED PROPOSITION."

2. **Spirit of the Venture**: What is the commitment to the future both companies are seeking? What valued and future vision will engender communications and trust?

3. **Key Objectives & Responsibilities**: Address what products, services, or other specific projects will be included and excluded from the venture. Identify target markets (i.e. regions, user groups, etc.), and any markets excluded that will remain the domain of the partners. If the venture has purchase and supply provisions, state who will purchase or supply specific products, services, or resources from or to the owners. Clarify and specify objectives and target goals to be achieved by the alliance, when to expect achieving these objectives and goals, any major obstacles anticipated, and the point at which the alliance will be terminated (if any). Each participant should designate an Alliance Manager who will be responsible for their company's day-to-day involvement in the alliance.

4. **Method for Decision-Making**: Describe who is expected to have the authority to make what types of decisions, in what circumstances, and who reports to whom, etc.

Step 3.5 Memorandum Of Understanding And Principles (MOUP)

Task 3.5 *(continued)*
Memorandum of Understanding & Principles

5. **Resource Commitments**: What specific financial resources, such as cash, equity, stage payments, loan guarantees, etc. are needed for the achievement of the ultimate goals. Other “soft” resources may be in the form of licenses, knowledge, R&D, a sales force contact, production facilities, inventory, raw materials, engineering drawings, management staff, access to capital, the devotion of specific personnel for a certain percentage of their time, etc.

6. **Financial Philosophy**: “Soft” resources should be quantified with a financial figure so that a monetary value can be affixed and valued along with the cash commitments to this venture. The manner of handling cost over-runs should be agreed upon. Pricing, costing and transfer pricing procedures should be explained if applicable.

7. **Assumption of Risks & Division of Rewards**: what are the expected rewards (new product, new market, cash flow, technology, etc.?) How will the profits be divided?

8. **Project Specific Issues**: Who has the right to products and inventions? Who has the rights to distribute the products, services, technologies, etc.? Who gets licensing rights? If the Confidentiality and Non-Competition Agreements have not yet been drafted in final form at this point, they should be addressed in basic form here. How will agents and distributors be handled?

9. **Anticipated Structure**: This section should describe the intended structure (written contract, corporation, partnership, or equity investment, etc.)

10. **Transformation**: What do the partners foresee as the future of the alliance? How will it evolve, or unwind? Any termination provisions should be identified.

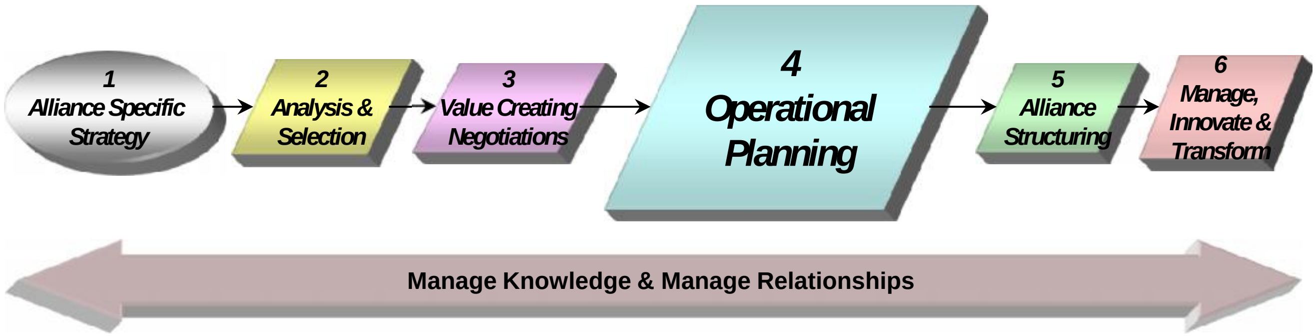
B. Present the MOUP to the appropriate executive committee for approval or revision of strategic alliances.

Strategic Alliance
Best Practice User Guide

-- Contents --

Phase 4 – Operational Planning

Alliance Framework



Operational Planning Overview

In the Operational Planning phase, the organization and its alliance partner or partners jointly establish day-to-day operational plans. They create a detailed manual that describes how the business processes will operate, and they establish preliminary designs for control systems, reporting systems and the interfaces that link customers and the providers of the business processes. The creation of these plans should be viewed as a pilot project that provides a "reality check" on the assumptions and projections made during the Co-Creation phase.

The Operational Planning phase essentially translates the Memorandum of Understanding and Principles (MOUP) into reality, adding in the "nuts and bolts" detail that will operationalize the memorandum's broad vision.

In the Operational Planning phase, the core Alliance Development Team creates an Operational Team, drawing on people with the functional expertise needed to complement the partners' capabilities and strengths. This Operational Team creates an operational plan describing how the services outlined in the MOUP will be provided. Some members of the team then remain in place during the launch and ongoing operation of the alliance in order to provide the in-house expertise needed to manage the relationship over time.

The activities included within this phase are:

1. Identify and form operational team
2. Create an Operational Plan
3. Develop an Operational Launch Plan

Purpose:

- Form an Operational Team
- Establish operational plans that will ensure smooth implementation of alliance
- Ensure functional departments, assign individuals that will be committed for the long term

Goals, Critical Success Factors and Expected Outcomes

Goals

- Build a profitable Business Plan
- Ensure Effective Alliance Formation and Management
- Clarify Roles and Responsibilities
- Establish Empowerment and Control Systems
- Ensure Added-Value to Customer
- Determine what's missing, overlaps, and integration

Critical Success Factors

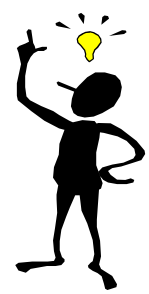
- Pay Attention to the Details
- Test Alliance's Ability to Perform
- Manage the Interfaces
- Develop Channels of Communications
- Maintain an Alliance Mindset and Spirit

Expected Outcomes

- Establishment of joint operational team
- Development of clear understanding of project plan and the roles and responsibilities associated with the plan
- Governance structure for resolving issues and addressing potential problems
- Clarity on all measurements to be used and how they will be generated and reported
- Identification of new opportunities for the alliance to pursue

Operational Planning

What the Experts Say...



"Closing the deal before creating the operational plan will double your chances of failure."

"More alliances fail because of poor operational integration than any other factor."

"People always undermine the importance, and the time required for good operational planning."

"Alliances are start-up companies, and need detailed, operational business plans to succeed."

Step 4.1 Operational Business Plan

Creation of Operational Plan

Work jointly to write an operational plan, and capture the plan in an operations manual. The operational plan turns broad plans into day-to-day activities; it translates the goals outlined in the MOUP into a detailed, workable view of how the business processes will operate, the measurement and control systems that will be used to manage the process, and the responsibilities of the various parties. The creation of the plan involves three basic activities:

1. Establish distinct, measurable, time-phased goals using a broad base of measures, such as the Strategic Return on Investment (STROI) measures described in Phase 2, which take into account factors such as penetration into new markets and increased capacity for innovation, as well as financial results.

2. Develop detailed project plans for each of the Operational Plan elements. Each plan will include all the specificity required to ensure a successful implementation.

3. Assign detailed roles and responsibilities.

A detailed, thorough operational plan provides a sound base for managing the alliance, helps ensure that the right levels of service are provided to the alliance’s customers, and highlights gaps and overlaps in responsibilities, skills, and capabilities. It also tests the validity of the alliance, helping to determine whether the "gears will mesh," whether the strategy is operationally feasible, and whether the sourcing relationship can produce the results you want.

The operational plan also provides a foundation for the Alliance Structuring phase that follows. By defining the operational functions, the operational plan helps identify any structuring issues - such as organizational shape, legal form, and tax issues - that may arise.

Step 4.1 Operational Business Plan

Creation of Operational Plan

The alliance partners must be very clear about how to handle issues that bear directly on customer relationships and satisfaction, such as

- Joint or Lead Partner Sales Calls
- Advertising Content & Costs
- Generation and Handoff of Sales Leads
- Discounting Policies
- Service Requirements
- "Who Owns" the customer

In addition, to develop the finest customer relationships, it will be necessary to jointly design:

- Call Center Responsibility
- Solution Sourcing Plan
- Customer Satisfaction Surveys
- Competitive Response Plan
- Technology requirements

Step 4.1 Operational Business Plan

Why An Operational Business Plan Is Important

Writing an operational plan is the litmus test to predict the validity of the alliance. It is an insurance policy that accomplishes several critical functions. First, will the "gears mesh?" Is the **strategy feasible operationally**? Can we produce the results we want?

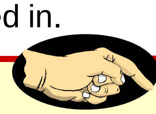
Secondly, the process of bringing the two implementation teams together to develop the detailed content of the plan **checks the operational "fit"** and serves as a barometer of whether **good chemistry exists** within and between the middle ranks, testing ideas and working relationships, so that when formally launched, the alliance staff "hits the ground running."

Thirdly, the proper systems of **leadership, responsibility, and control**, are determined and put into place. If there are conflicts over control, if leadership is not present, or if there are ambiguities over which partner will have key responsibilities, then these issues will become very evident before they can blow the alliance apart.

Fourth, will the "numbers work?" Once looked at in detail from an operational and financial perspective, is this alliance a **good business venture**?

And lastly, the "form follows function" phenomenon can be utilized. Having defined the operational functions, all **final structuring issues** -- organization, legal form, and tax issues, if any -- will become quite evident.

Checklist 4.1a should be used to ensure that all of the elements of the operational plan have been covered. To be sure that everything has been covered that should be, develop a separate checklist for each alliance we become engaged in.



~Tip~

Importance Of The Operational Plan

The Operational Plan will:

- Establish precise needs & requirements
- Ask the tough operational questions
- Build management's commitment
- Determine if strategy makes sense when converted into day-to-day operations

Step 4.1 Operational Business Plan

Checklist 4.1a
Operational Business Planning

*(**Note**: This is a blueprint to be tailored to your unique circumstances)*

1. Value Added Proposition (see 1.3) has been refined and agreed to by:
   __ Our Company
   __ Critical Suppliers
   __ Alliance Partner
   __ Customers

2. Customer Support Plan
   __ Technical Support complete and contracted
   __ Points of Contact identified
   __ Customer Satisfaction Management Program defined
   __ Request for Services Process defined
   __ Problem Support Request Program
   __ Support Team identified
   __ Back-up Support identified
   __ Business Owner and Business Specialist Approval
   __ Integrated Marketing Strategy complete
   __ Customer Service Processes Identified

3. Sales Forecasting Plan
   __ Critical assumptions identified and tested?
   __ Customer buying criteria identified?
   __ Customer will buy at price/performance/benefits/service level?
   __ Multiyear forecast developed and approved jointly?
   __ ”Optimistic” and “commit” forecast?

4. Marketing Plan
   __ Segment Strategy
   __ Service Strategy
   __ Market Support Plan
   __ Key Factors for Success
   __ After Market Strategy
   __ Advertising/Promotion
   __ Sales Plan
   __ Training Program
   __ Coverage Strategy
   __ Future Market Needs
   __ Pricing (for Profit) Strategy
   __ Competitor’s Best Offering
   __ Our projected response to future demand
   __ Customer Acquisition and Retention
   __ New customer acquisition plan agreed upon
   __ Current customer retention plan agreed upon

Step 4.1 Operational Business Plan

Checklist 4.1a *(continued)*
Operational Business Planning

5. Competitive Response
    __ Key competitors identified
    __ Potential future entrants into market identified
    __ Most challenging competitive response identified
    __ Our response to competitive pressure on margins
    __ Market's future winning strategy in 5 years.

6. Customer Acquisition And Retention
    __ New customer acquisition plan agreed upon
    __ Current customer retention plan agreed upon

7. Financial Forecast Based on Operational Plan
    __ Administrative Expense
    __ Unit Costs
    __ Productivity Measures
    __ Revenue
    __ Profit

8. Measurements
    __ Have all quantitative results been identified
    __ Are the systems and administrative personnel informed as to how to obtain data?
    __ What will the time period be for reviewing results and reporting on them?
    __ Are we comfortable that the measurements are in-process measurements and not lagging indicators. (In-process measurements allow us to determine why we are missing our targets and not just that we missed our targets).

Step 4.1 Operational Business Plan

Task 4.1a
Create An Operational Business Plan

*(**Note**: This is only a sample. Tailor this task to the unique requirements of your alliance.)*

1. Value Added Proposition (as modified by input from the prospective partner) is:

____
____
____
____

2. Solution Sourcing Plan

- Single Point of Contact is:

____
____

- Customer Relations Management Plan:
  - Care call____
  - Proactive call back______________________________________
  - Elective calls ____
  - Complaint resolution _____________________________________
- Services Request Plan:
  - Local Support Center_____________________________________
  - Training ____
  - Site Preparation____
  - Project Management _____________________________________
  - Performance Management _________________________________

Problem Support Requests:
- Support Team____
- Hardware Maintenance ____________________________________
- System Software Maintenance _______________________________
- Application Maintenance ___________________________________
- Back-up Support ____
- Our company ____
- Other Providers ____

Step 4.1 Operational Business Plan

Task 4.1a *(continued)*
Create An Operational Business Plan

3. Sales Forecasts:

Critical Assumptions:____
- Customer Requirements____________________________________

____
- We know customer will buy because:______________________________

____

Level of approval of sales forecast:
- Our company ____
- Alliance Partner ____

- Upside/Downside
  ___% Chance sales/demand will substantially exceed forecast:
  ___% Chance sales/demand will not meet forecast:

4. **Marketing Plan:**
- Market Projections for the future indicate: ________________________
  ____

Pricing Strategy is: ____
____

Service Program: ____
____

Segment Strategy: ____
____

Key Factors for Success: ____
____

Competitor's Strongest Offering(s): ___________________________
____

Product/Service Support Program: ___________________________
____

Sales Training Program: ____
____

Future Market Needs: ____
____

The Alliance's Anticipated response to future needs:_______________
____

Step 4.1 Operational Business Plan

Task 4.1a *(continued)*
Create An Operational Business Plan

Segment Strategy: ____

____

Key Factors for Success: ____

____

Competitors' Strongest Offering(s): ______________________________

____

Product/Service Support Program: ______________________________

____

Sales Training Program: ______________________________________

____

Future Market Needs: ____

____

The Alliance's anticipated response to future needs:____________________

____

5. Competitive Response

The key competitors in this segment are:
-Leader: ____
-Others: ____

In the Future, These Competitors May Be Expected to Enter the Segment:

____

The most challenging competitive response to this alliance will be:

____

If competitors engage in a price war, we will: __________________________

____

The Top Competitor's Strategies Will Be (1-5 Years From Now):

____

The top competitor's most valuable points are:__________________________

____

Step 4.1 Operational Business Plan

Task 4.1 *(continued)*
Create An Operational Business Plan

6. Customer Acquisition and Retention Plan

The alliance expects to **Acquire** new customers by: ___________________

____

The alliance expects to **Prevent the Loss** of customers to the competition by: ____

7. Financial Projections

Financial Projections Indicate: ______________________________________

____

Both partners agree on the projections: ______________________________

____

The level of confidence the partners have in the projection is:

____

____

Operational Team

The process of developing the plan is just as important as the content of the plan itself. Put the key champions and operational managers in a room together for 1-3 days to hammer out the details of the plan. This tests the intelligence, common sense, and the ability to solve problems together. Far better to go through this process before the alliance begins, than to deal with surprises afterwards.

The writing of the operations plan should be viewed as a "pilot project" between the operational managers of the prospective alliance. If the appointed operational managers cannot write the details of the plan, then obviously, they have slim hopes of managing the venture together.

The teamwork test enables operational managers to troubleshoot the plan, check "chemistry" and trust, smoke out unforeseen personnel problems, determine if the "not invented here" syndrome will smother innovation, and, if it has not yet happened, isolate the "deal killers" from the "skeptics". The process secures organizational support and clarifies future roles and responsibilities.

Step 4.1 Operational Business Plan

Milestone Management

Management will require periodic reports on the progress and success of the alliance. This is best done by dividing the objectives into very discreet and measurable goals or performance milestones. By establishing clear goals and milestones against which to measure progress, and thus help bring a project to fruition, the alliance executive management's role is made far simpler. Executive management determines the framework of interim project reports, conducts periodic performance reviews, ensures the time frames are met, and reviews the project when complete to be sure it meets specifications.

Reporting Systems

An effective monitoring system keeps energies focused upon the plan and is essential to milestone management.

Establish a monitoring, reporting and evaluation process that enables the alliance to learn quickly and easily about its progress. (Don't have two performance reporting systems, one for each of the parent companies.)

Any system should follow the line of simplicity, flexibility, and rapid response. Choose a simple, easily managed system. It is better to know quickly the few key indicators than to have cumbersome details which take months to gather and are questionable in interpretation. When you can ask three poignant questions (the questions we should ask are unique, and dependent upon the specific alliance we are involved in) and know where you stand, you've probably got a good system.

Checklist 4.1b and *c* are checklists of some of the typical issues which should be considered in developing a reporting system.

Step 4.1 Operational Business Plan

~Tip~

By developing a Project Management Plan, alliances tend to have higher levels of certainty and clarity which enable alliance managers to make more definite and specific commitments of money, manpower, materials, and market resources. Risks become relatively more predictable and quantifiable. Timetables are better adhered to, and roles are more specifically delineated.

~Tip~

If unforeseen problems arise in meeting critical milestones, managers must have a means to get a commitment of resources from executive management or the sponsors. This procedure should be planned in advance.

Checklist 4.1b
The Operational Plan

To ensure a good operational "fit." both partners should develop a plan before signing final agreements.

__ Key Objectives, Goals and Milestones
__ Financial Forecasts Summary
__ Critical Success and Risk Factors
__ Product Performance Specifications
__ Service Support
__ Competitive Analysis
__ Management Procedures & Personnel
__ Marketing Plan with Sales Projections
__ Manufacturing/Production/Engineering Plan
__ Implementation Schedule
__ Contingency Plan
__ Operational and Administrative Responsibilities
__ Prices, Payments & Ordering Procedures

Step 4.1 Operational Business Plan

Checklist 4.1c
Operational Reporting Systems

Select a common reporting system and agree in advance to what areas will be covered. Keep it simple.

__ Schedule Reviews against Key Milestones
__ Critical Issues and Deadlines
__ Monthly and Year-to Date Financials vs. Plan
__ Alliance Executive Management's Activities on the Venture's Behalf
__ Sales Review and Forecast
__ Customer Activity, especially "Target Customers"
__ Cost and Price issues
__ Quality Review
__ Shipment/Delivery/Completion Reviews
__ Technical/Manufacturing/Production Problems
__ Coordination and Teamwork Issues
__ Next Month's and Next Quarter's Expectations

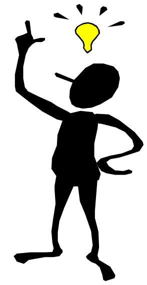
~Tip~
Translating Goals into Results

Design a crisp, clear, focused plan for action. The "goal transformation process" requires three distinct steps:

Step One:	Create Distinct, Measurable, Time Oriented Goals using Strategic Return on Investment Criteria.
Step Two:	Engineer Task Structure using Project Management Techniques.
Step Three:	Assign Roles and Responsibilities using Responsibility Charting Methodology.

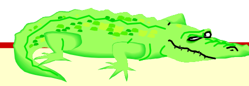
Step 4.1 Operational Business Plan

What the Experts Say...



"Don't tell me you don't one is like going to a gambling casino and rolling dice. That's not what business have time to write an operations plan. Proceeding without is all about…I want to know the full architecture -- the broad design as well as the small details. If you run out of answers before I run out of questions, you haven't through the plan through carefully."

Roy Bonner, former IBM Sr. Exec.



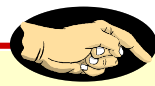
~Trap~

Alliances are start-up businesses. They suffer from all the problems start-ups have.

Step 4.2 Management Issues

Control By Collaboration and Coordination

Unlike the internal corporate organization, alliances cannot be commanded because no one company is in charge, no one is in sole control. The critical skill are collaboration and coordination. Those individuals whose skills enable them to collaborate and coordinate on activities through effective communications are the best alliance managers. It's a teamwork function. Effective alliance managers see the "big" picture, take a long-term view and talk the many languages of the venture.



~Tip~

Alliance Management and Control

Managing and controlling an alliance is a very critical and delicate issue in alliance formation and a clear concern for most companies. Experienced practitioners comment:

"We try to keep control from getting in the way of collaborative effort."

"*You can't really enforce control. You must set up the natural dynamics of the alliance so that controls are a natural part of the* management process."

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 time of crisis or urgency, the coordinator may become the decision maker.) To be effective in a highly ambiguous environment with mature people on staff, the alliance 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 insisting that the venture's goals be met.

Step 4.2 Management Issues

Clear Policies and Values

Knowing how the differing styles and capabilities of two companies will mesh in an alliance is a key to effective integration. The purpose statement created during the negotiation stage is the first step. Still, it is not enough. A set of clear policies regarding corporate interaction with the alliance and with partner companies 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. Clear policies and procedures for decision-making reinforce trust. People know where they stand, and what to expect. The future becomes less ambiguous in an inherently risky environment. Our company's customer and legal policies must not be violated by the alliance partner. Review policies with the alliance partner to ensure the highest standards are maintained.

Values engender trust, and trust is one of the greatest integrators, because it helps cast out corrosive doubt, second guessing, and hesitancy to action, while supporting healthy skepticism. Value structures also guide teamwork and thereby help maintain the alliance's chemistry "fit."

Contingency Planning

Alliances are designed to address risky situations. Each company should know its roles, responsibilities, and actions in the event should adversity strike. You **must** know how your partner will react in a crisis, or there will not be a level of trust required for peak alliance performance.

In fast moving markets, a contingency plan could spell the difference between success and failure by enabling the alliance to move quickly to solve a problem, jump on an opportunity, or adapt to a new situation. In addition to the realistic operational plan you develop (section 4.1), have an optimistic plan (outlined in broad terms) which describes how to handle exceptional success.

Step 4.2 Management Issues

Checklist 4.2
Alliance Management Issues

1. Alliance Management
   - Alliance managers are identified from both partners.
   - Alliance managers own and believe in the value of the alliance.
   - Operational Team members are identified.
   - Joint meeting is scheduled for writing a detailed Operational Business Plan.

2. Clear Policies and Alliance Values
   - Value Added Proposition are agreed upon.
   - Policies and values are agreed upon.
   - Our company's policies have been reviewed by the alliance partner and agreed to, or modifications have been approved.

3. Contingency Planning
   - A plan has been broadly outlined to handle the pressures caused by:
   - A quantum increase in sales beyond the forecast.
   - Potential problems have been identified and partner responses are mutually agreed upon.
   - A disastrous drop in the market demand.
   - A radical shift caused by the introduction of new technology.
   - A price war started by the competition.

Step 4.3 Customer Relationships

Delivering The Value Added Proposition

The critical issue here is: How can the alliances deliver greater value to the customer than any other competitor? The entire operational plan must be driven by the superior value created by the alliance.

Value will not simply be either the fastest technology, nor the most reliable system. It will be a "system of customer service," which includes price, performance, support, technical capacity, timeliness, quality, future up-gradability, etc.

Customer Satisfaction

The alliance partners must be very clear about how to handle issues that bear directly on customer satisfaction. We cannot forget that many alliances are formed to generate value through customer engagement. To the extent that the Operational Team can positively and successfully impact Customer Satisfaction, value should be realized in the form of revenues and profits.

The Operational Team therefore has to be concerned not only with delivering the product or service for your company, but to do it in such a way that our customers will recognize the added value that we deliver over your competition. A core competency is one that is recognized by your customers.

Therefore we must be aware of the issues that will bear directly on customer satisfaction. We must also be willing to challenge ourselves by establishing the highest standards possible. Our need to establish customer satisfaction metrics will be a very important element of our alliance. These metrics need to be more than just a satisfaction index, it needs to be able to measure all of the elements in the supply chain leading up to the customer. These "in-process" measurements are the key to being able to enhance and improve our customer satisfaction index and in turn improve our customer relations.

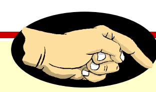
Step 4.3 Customer Relationships

Transform Cultural Diversity Into Added Value

Differences in organizational cultures can be either extremely empowering or cause frictions which can divide the alliance quickly. These differing cultures will require alliance managers to increasingly play an integrative role with their partners, bridging cultural, perceptual, and value boundaries to empower the alliance.

Alliances have an obligation to capitalize on and exploit differences, not to make the differences tools of destruction. The creative tension that can evolve in an alliance can indeed create synergies.

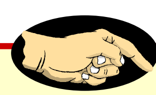
However, it is truly disappointing how ethnocentrisms and egotism -- traits sadly indigenous to every culture -- can intervene and destroy. Neither a good strategy nor a sound operations plan will overcome this destructive element. The only effective defense is first, to be sure the right chemistry "fit" exists before launching the alliance, and second, to have capable champions and alliance managers who can integrate effectively between the different cultures.



~Tip~
Customer Retention

The cost of acquiring a new customer generally is 30% higher in the first year than retaining a current customer.

BEST PRACTICE: With the alliance partner, jointly develop a customer retention **and** customer acquisition plan.



~Tip~

Understand the customer's needs in detail. Talk to the decision-makers who will buy the product, not the middle men. Know the precise reason for buying.

Step 4.4 - Integration, Empowerment and Control

Integration Issues

Figure 4.4a Good vs Bad Fit

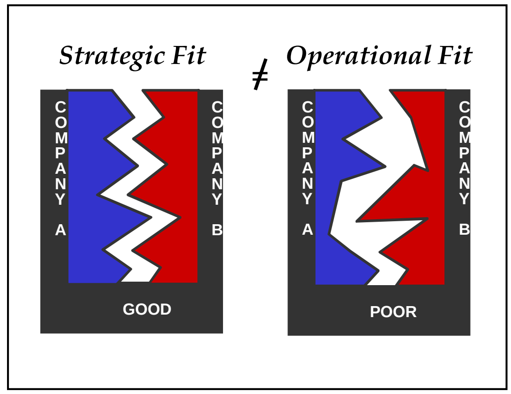
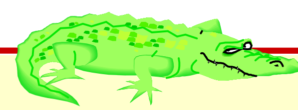


Figure 4.4a illustrates the often unobserved reality: good strategic synergy (where strengths and weaknesses complement each other) does not necessarily imply a good operational fit.

The reason is really quite simple: opposite strategic capabilities will result in highly differentiated organizational cultures. By this we mean an e-commerce company will operate in a different time horizon then will a more traditional "bricks and mortar" organization.

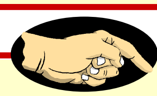
Operational disparities will need to be addressed within the operational team. Issues regarding fit will have been addressed when developing the governance portion of the operational plan. Be sure to utilize consensus techniques when arriving at the solution. Both organizations have to be satisfied with the outcome.



~Trap~

Poor Operational Integration is one of the primary causes of failure in alliances. All too often, alliance architects fatally assume that a good strategic fit of complementary strengths and weaknesses will propel the alliance to success.

In reality, the opposite is often true: differing strengths breed different cultures, making operational integration of paramount importance.



~Tip~

Assign Top Notch People
Weak management will lead down the rapid road to failure.
Remember the essential rule of alliance management:

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

The second-rate team will ruin a Grade A product, and be unable to adapt to unexpected problems.

Step 4.4 Integration, Empowerment and Control

Operational Integration

Utilize Checklist 4.4 to evaluate the operational fit of the two organizations. If a gap exists, identify it and determine how the two organizations will address the differences in operating styles. This will be a good test as to determine whether we have an alliance or a contract.

Checklist 4.4
Operational Fit

To ensure a well-structured operational "fit," examine these issues:

___ Corporate Culture: Is it compatible?
___ Time Orientation: Do we work on the same time perspectives (i.e. customer responsiveness, product development, sales call follow-up)?
___ Communications: Do we place the same value on frequent communications?
___ Product Development: Do we use compatible specs, design systems, etc.?
___ Allocation of Personnel: Have both companies appointed sufficient top-notch people to the alliance?
___ Day-to-Day Problem Solving: Is there a commitment to solving problems early, and not engage in blaming or avoidance?
___ Control Systems: Are control systems designed to reinforce performance and limit the chance of error, or are they designed to constrain and create bureaucratic inertia?
___ Production Planning: Is the production system synchronized to the needs of the customer?
___ Reporting Mechanisms: Are they simple, and oriented to leading indicators of success?

Step 4.4 Integration, Empowerment and Control

Operational Integration

Checklist 4.4 *(continued)*
Operational Fit

To ensure a well-structured operational "fit," examine these issues:

___ Product/Service Design: Are both companies committed to a design which truly meets customer needs?
___ Customer-Alliance Interfaces: Is the alliance truly "seamless" to the customer, or will the customer potentially "slip through the cracks" or get "caught in a squabble" between alliance partners authority/responsibility?
___ Responsibility Assignments: Are these clear, coordinated, and leveraging of each company's core competencies?
___ Personal Relationships: Do key alliance personnel truly trust and respect their counterparts?
___ Rate of Change in the Organization Environment: Is the pacing of the two companies similar or compatible so that there is a natural coordination of speed in production, responsiveness, decision-making, etc.?
___ Internal and Cross Corporate Teamwork: Does the prospective partner commit a high degree of internal teamwork to give sufficient indication that teamwork will be successful with Your company over the long term?
___ Absence of "Not Invented Here" Syndrome: Are there any people/groups who are resistant to the alliance because of NIH (either within your company or the prospective partner)?

Step 4.4 Integration, Empowerment and Control

Responsibility Charting

Responsibility charting reduces the ambiguity as the work group interfaces by clarifying roles and responsibilities to prevent people from tripping over each other. Use it to convert goals into specific tasks and clear roles with precise lines of responsibility. Because lines of authority are not precise in an alliance, there will often be confusion or ambiguity concerning who is responsible for accomplishing a specific task, and what exact role the participants should play.

Be cautious not to create a Gordian knot that strangles decision-making and operational integrity. This can happen if partners, in an effort to create teamwork, attempt to involve too many people at too many levels in too many decisions. Get to the meat of the critical issue: Who is responsible for what? How does their working relationship interact with others? Formulate and disseminate the Responsibility Charts prior to finalizing agreements.

Sample Responsibility Chart

Figure 4.4b illustrates a sample Responsibility Chart in its **generic** form. Each major decision or task has been outlined with the individual or organizational unit necessary to carry out that operational decision or task. Each individual is then assigned a specific functional role (and only one role per person for each task.) The role categories are:

- Leadership for carrying out program (L)
- Keep informed (after the decision) (Info)
- Input (before the decision) (Input)
- Support (be involved, but not responsible) (S)
- Approval Power (A)
- Responsible (on a day-to-day basis) (R)

(These categories can and should be modified if needed to suit the needs of our situation.)

The following example (*figure 4.4b*) illustrates this procedure in an alliance between a marketing alliance partner and a company that coordinates service and distributes products.

In this example, broad tasks are divided between organizations. A further refinement of the charting might split the broad tasks into specific activities, and assign one person to be *responsible* for achieving a specific, measurable result on a day-to-day basis. Be careful not to have more than one person responsible for any task or decision, otherwise each person will assume the other is responsible, and operations will quickly disintegrate.

Step 4.4 Integration, Empowerment and Control

Sample Responsibility Chart

Figure 4.4b Using a Responsibility Chart

Sample Responsibility Chart			
Task	**Alliance Mgmt Team**	**Alliance Company**	**Your Company**
Develop Operations Plan	R	S	S
Develop Service Strategy	L	S	R
Selection & Contract with Solution Providers	S	Input	R
Establish Program Budget	A	---	R
Manufacture the Product	Input	Info	R
Pricing the Solution	R	S	S
Budget	Info	---	R
Establish Sales Quotas/ Composition Input	R	Info	
Train Sales Reps	Info	Support	Support
Design Literature	L	R	Input

(Note: *In the task for "training sales reps," no entity is held responsible. Clearly, this task will slip through the cracks, unless someone is assigned. Fortunately, using the responsibility charting process, the problem can be identified early enough to prevent a difficulty. Be sure there are no responsibility overlaps between Our company and its allies.*

Step 4.4 Integration, Empowerment and Control

Task 4.4a
Responsibility Charting

KEY:

Leadership = **L** Support = **S**
Informed = **Info** Approval Power = **A**
Input = **Input** Responsible = **R**

List all critical tasks and/or major activities in the left-hand column. Then in each of the remaining three columns, indicate which role each of these groups has. Remember, only one column can have an "R" (responsible) for each task.

Tasks/Major Activities	**Alliance Mgmt. Team**	**Ally Company**	**Our Company**

Step 4.4 Integration, Empowerment and Control

The 120 Day Alliance Launch Plan

Imagine an alliance as a jet fighter: the greatest difficulty, complexity, and energy required occurs at the launch. Therefore, pay careful attention to the **transition** from the idea stage into the actual operational implementation.

The Plan: Once the business plan is agreed upon and the legal teams have agreed to the broad concepts of the alliance, it is time to examine, in detail, the first 120 days of the business plan. (*Note*: Very often the final structuring and legal documentation will take weeks or even months to complete. In many circumstances, the commencement of the alliance begins well in advance of the closing of the legal documents.)

Why: The 120 Day Launch Plan ensures:

- A seamless transition for the customer;
- Minimal conflict between the partners at the critical first stages of the alliance;
- A clear agreement and alignment of activities; and,
- Gaining of momentum with a continuous stream of small concrete "victories".

What: Critical trigger points are determined which will be essential for a successful launch in the immediate (4 month) window, including:

- Essential goals, objectives, and milestone results;
- Key roles and responsibilities for specific individuals;
- Most important tasks;
- Resource Requirements;
- Time-lines;
- Interfaces; and,
- Key Factors for Success.

Step 4.4 Integration, Empowerment and Control

The 120 Day Alliance Launch Plan *(continued)*

When: The plan should be developed shortly before the actual launch. It covers 120 days because this period will span a quarterly reporting period, while being immediate enough to have a sense of urgency.

Who: The plan should be written collaboratively by a team consisting of alliance managers and operational managers who will be responsible for the alliance's results. Often Task Forces are created to perform specific functions during the launch. Some examples of task forces might include a Service and Support Team, a Joint Sales Team, a Promotional Team, a Systems Integration Team, etc.

How: Typically the time needed to design the plan will take at least 2 days of alliance team meetings to cover every element of the launch period. Project management techniques are very helpful at this stage. Do not attempt to take short-cuts, seeking to write the plan in less time, or to have one group write the plan independently, and seek the approval of the other partner later -- not only will important details be overlooked, but also much of the important integration of the two operational cultures will be sacrificed. The result will be conflict and confusion later -- at the most critical period when the alliance is visible to the customer. The purpose is not just to have a plan, but to engender the full commitment of both groups of operational managers.

Remember: People Support What They Help Create!

Step 4.4 Integration, Empowerment and Control

The 120 Day Alliance Launch Plan *(continued)*

Checklist 4.4a
Meetings

1. Coordination Meetings: During this period, the alliance managers should agree upon:

    ___ The dates for a monthly face-to-face coordination and milestone performance discussion meeting

    ___ Weekly up-date phone call between the monthly meetings.

2. Key Meetings: What key meetings will need to occur in the next 120 days to ensure coordination of a successful launch?

Meeting/Topic Goals and Outline	Required Attendees	Date/Time Location/Logistics
____________________	____________________	_______________
____________________	____________________	_______________
____________________	____________________	_______________
____________________	____________________	_______________

Step 4.4 Integration, Empowerment and Control

Creating Action and Support

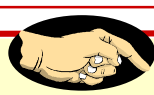
Good top and middle rank support will be essential to succeed. List the people and groups who have to be actively on board. Place an “X” in the box identifying their current level of commitment, and an “O” in the box where the commitment must be in the future for success. Draw an arrow from the present to the future to indicate the direction needed.

Checklist 4.4b
Support Groups

Key People/Groups	*Position*					*Action Required for Movement*
	Opposed	**Unknown**	**Bystander**	**Key Support**	**Key Implementer**	
1. John Jones *(example)*			X			Meet on Monday- Proposed Briefing
2. Engineering (example)				X		See Harry - Discuss Target Closing
3.						
4.						
5.						
6.						

Resource Requirements
Indicate what resource will be required and who will be providing those resources:

Resource Requirement	Provided by:	Date



~Tip~
Best Practice

Experience has shown that the first 120 days in the life of an alliance have the most influential impact on its ultimate success. Remember, an alliance like a”start-up company”, requiring attention to the details as the operational systems of Your company and all the alliance partners are integrated.

Step 4.4 Integration, Empowerment and Control

Task 4.4b
Action Issues

What action items must occur to get our alliance program going in the right direction?

	ACTION	START DATE	END DATE	RESPONSIBILITY
This week	1.			
	2.			
	3.			
	4.			
	5.			
	6.			
This Month	7.			
	8.			
	9.			
	10.			
	11.			

Step 4.4 Integration, Empowerment and Control

Task 4.4b (continued)

Action Issues

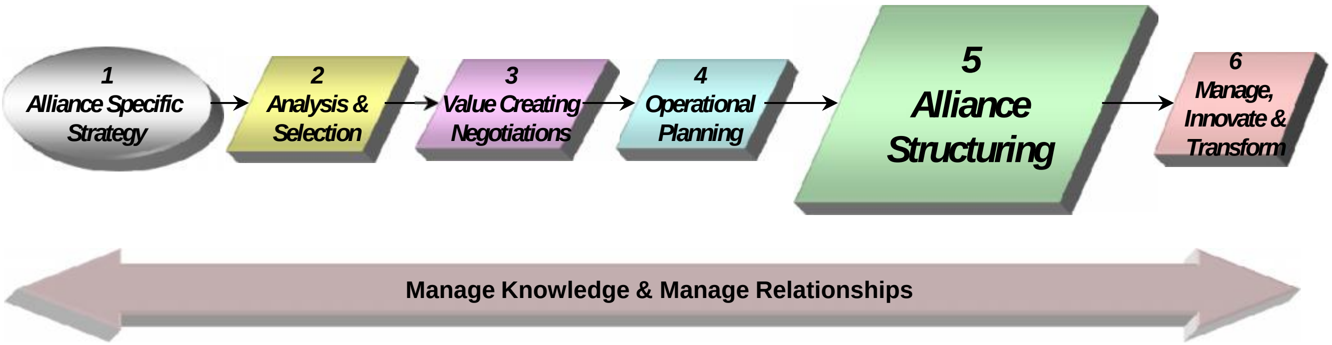
	ACTION	START DATE	END DATE	RESPONSIBILITY
Next Month	12.			
	13.			
	14.			
	15.			
	16.			
	17.			
Later	18.			
	19.			
	20.			

Strategic Alliance
Best Practice User Guide

-- Contents --

Phase 5 – Alliance Structuring

Alliance Framework



Alliance Structuring Overview

The Alliance Structuring phase focuses on creating legal and organizational frameworks for the strategic alliance relationship, on finalizing operational plans, ensuring that leaders and key managers are in place, and establishing a risk-and-reward formula that motivates both parties to make the relationship succeed. Structuring culminates in the signing of a contract.

A mistake that companies often make in developing strategic alliance relationships is trying to finalize the contract too soon. The best approach is based on the concept of "form follows function." That is, the contract should be a tool for formalizing what has already been discussed and agreed to, rather than a focal point of negotiations. An important rule of thumb: Spend 80% of your time on structuring operations, and 20% on structuring the deal. Detailed terms and conditions, and accounting considerations should not overshadow the more important drivers of strategic intent and operational performance.

The Alliance Structuring phase builds on the broad objectives and goals described in the Memorandum Of Understanding and Principles (created in the Co-Creation phase), and the detailed view of the Operational Plan (created in the Operational Planning phase) to create a framework that reflects the collaborative spirit of those two documents. Therefore, in this phase the alliance team should include individuals with financial, administrative and legal expertise, as well as people with communication skills, and the relationship-building and management experience needed to create a win-win arrangement. The team must also involve senior managers, such as the alliance managers and the champions, to ensure a focus on strategic objectives, goals and collaboration in developing the contract.

Purpose:

- Create the legal and organizational framework that will sustain relationship
- Establish governance structure that is effective and efficient
- Utilize the MOUP in aiding the development of the organizational framework
- Ensure financial systems are in place in order to generate appropriate systems
- Finalize agreements and prepare transformation strategy

~Tip~
Leveraging Learning

Companies alert to the development of core competencies establish a key member of the alliance to act as a "learning liaison". This person is responsible for disseminating the learning from the alliance throughout the parent company.

Goals, Critical Success Factors and Expected Outcomes

Goals

- Assure governance, integration and control systems are in place
- Fairly apportion risks, responsibilities, resources, and rewards
- Provide organizational, financial and legal structures which operate synergistically

Critical Success Factors

- Create Win – Win agreement
- Ensure that Control doesn't get in the way of Empowerment

Expected Outcomes

- Developed approaches to leadership and organized systems
- Risk and Reward sharing approaches will be developed that are appropriate for the relationship
- A contract developed and agreed to that embodies the above points
- A strong sense of team work between the management and working levels of the organizations
- Well documented implementation plan to execute the alliance launch plan created in the operational planning phase
- Candidate partner selected based on documented criteria

Alliance Structuring

Step 5.1 Governance, Integration, and Control
- Governance
- Empowerment or Dominance?
- Reporting Systems

Step 5.2 Organizational Structure and Support
- Organizational Structure
- Resource Allocation
- Compounded Risk

Step 5.3 Win - Win Business Analysis
- Balancing the “4 R’s”
- Valuation Issue
- Financial Analysis

Step 5.4 Legal Agreements
- Formulating the Agreement
- Legal Counsel
- Exit/Transformation Strategy
- Final Review and Approval

~Tip~
Train for Success

Strategic alliance relationships often require people to acquire new abilities and skills. It is important to consider the use of training for key individuals. For example:

- Alliance managers should be trained in successful leadership and management techniques, as well as alliance skills and relationship management.
- Teams should cross-train with their counterparts in the other organization, particularly in the areas where sales, technology development and service delivery must be highly integrated.
- Key managers should be "seconded"--that is, given short- to medium-term assignments in the partner company to learn how things work at that organization.

Step 5.1 Governance, Integration and Control

Governance

A strategic alliance relationship requires more ongoing management oversight than does a traditional transactional arrangement. At the highest level, the relationship should have a joint governance board or steering committee that includes senior executives from our company and our partner(s). This governance body should guide policy, review the relationship's performance regularly, and generally be responsible for keeping the relationship "healthy“, and focused on continuous improvement.

Alliance Executive Council

An effective Alliance Executive Council or steering committee will have five fundamental responsibilities:

- Policy Guidance: Developing and maintaining strategic and operational direction.
- Performance Review: Controlling the alliance by measuring progress against planned results and milestones.
- Innovation and Transformation: Motivating and empowering the alliance to encourage innovation and improvement.
- Problem Solving: Overcoming difficulties in operations.
- Partnership relations: Maintaining a win-win approach and keeping communications open.

Generally, the governance board will have five to seven members, including:

- Champions (in some cases, the champion and the alliance manager may be the same person);
- Alliance manager or managers who oversee the day-to-day operations of the relationship;
- Key Operational team leaders; and,
- Special task force leaders (if any).

In general, the board should meet:

- Immediately after the relationship is finalized;
- At least monthly for the first six months, to ensure that the new relationship gets off to a good start; and,
- As needed after the first six months, but never less than quarterly.

Nearly every alliance relationship incorporates meetings between the participating organizations, but enthusiasm often falls off over time, and meetings occur less frequently or on a lower and lower level, and thus become less effective. The continuation of regular meetings, even when they may not seem absolutely necessary, will help the relationship succeed.

Step 5.1 Governance, Integration, And Control

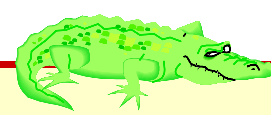
~Tip~
Power Expanders

Choose Alliance Champions and key managers who are "power expanders."

These are leaders who create the right conditions to make others around them feel more powerful and effective. This manager typically leads by giving great guidance to subordinates, by focusing on helping subordinates solve their own problems, and by staying out of the subordinate's details unless it becomes necessary.

Empowerment Or Dominance

An alliance is empowered by its ability to *share* and *expand* power, to create more value *than if working independently*. This is not an issue of dominance, placing one member in the superior position, and relegating the other to the inferior position. In structuring the alliance, it is imperative to create every incentive for both companies to *win more through the alliance than they could win independently*. This does not imply that all alliances must split the rewards 50/50, but that each partner sees their investment and value as essential to the success of the alliance. It is imperative for both members of the alliance to be sensitive to the needs, values, and styles of the other, and, in particular, to be aware of the other partners' Strategic Return on Investment Goals.



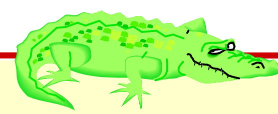
~Trap~

Be ever wary if power and control issues are not dealt with sufficiently. It may forewarn of a lack of interest or motivation, or that the partners, not wanting to offend one another, are treading too cautiously. The alliance itself must be aggressively managed to be successful.

Step 5.1 Governance, Integration and Control

Reporting Systems

A good reporting system must be established as part of the structure of the alliance to ensure the ability to manage by measuring results. A good reporting system also supports the operational plan and its policies by serving as a feedback mechanism. Therefore, the design of the reporting system should be carefully considered to be sure it is performing its integrative function.



~Trap~

Keep reporting systems simple, straightforward, and targeted on key indicators of success. Overly complex reporting will only cause difficulty or will be neglected.

Under all conditions, avoid dual reporting systems. These will inordinately confuse and complicate matters.

Step 5.1 Governance, Integration and Control

Task 5.1
Creating Governance and Control Systems

1. **Alliance Executive Council Membership**

Function	Our Company	Ally Company
Champion	________________	________________
Alliance Manager	________________	________________
Operational Team Members	________________	________________
Financial Members	________________	________________
Ex-officio/Ad-hoc Members	________________	________________
Task Force Member(s)	________________	________________
Others:	________________	________________
	________________	________________
	________________	________________

2. **Operational Integration**
   Operational Fit - are there any areas where there are likely to be clashes or incompatibilities? What are the solutions?

Area/Incompatibility	Proposed Solution
____________________	____________________
____________________	____________________
____________________	____________________
____________________	____________________

3. **Operational Reporting Systems** e.g., finance, marketing
   List the Operational Reports that will be required and by whom.

Report/Required by	Purpose	Content	Frequency
______________	__________	__________	________
______________	__________	__________	________
______________	__________	__________	________
______________	__________	__________	________

Use Task 5.1 as a guide in identifying all of the individuals who will be responsible for the various functional areas. It cannot be stressed too often that we need more than names in boxes, we need senior managers' commitment, that the individuals named will be assigned to the alliance as a priority, Rather than as an assignment on a time available basis.

Step 5.2 Organizational Structure and Support

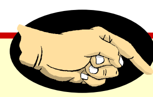
Organizational Structure/Resource Allocations

Remember the "Law of Alliance Architecture": Form (structure) follows function. Presumably, from the previous phases, the functions of the alliance are now clearly identified.

Before finalizing any financial and legal structure, the organizational structure must be mapped out. There are no firm "rules" for what the organization chart must look like, so long as both partners are committed to making it work.

The basic elements of the organization chart are:

Steering Group
Alliance Executive Council
Operational Teams
Sales Teams
Special Task Force(s)
Support Teams (Dependency)
Other Teams (as required)



~Tip~

Executive Support Required for Success

- Major Investment of Senior Management time is required, especially between the Top Managers
- Management Sets the General Tone for Cooperation and Collaboration
- Fundamental role in Strategy Development

Resource Allocations

Once the Organizational Chart is complete, be sure it truly supports the operational plan, and is designed to achieve the Value Added Proposition and the desired Strategic Return on Investment.

Then, determine what resources will be required from each of the alliance partners. These resource requirements, when analyzed along with the risks, responsibilities, and respective rewards of each of the partners, will enable the partners to derive a fair win - win balance to the alliance. Use Task 5.2 to assist you in developing the organizational chart referenced above. By understanding who is involved and what roles they play, decision making and problem solving issues will be easier to make and resolve.

Task 5.2 Creating Organization Structure And Support

Task 5.2
Resource Requirements

1. Support Needed

Indicate what support will be needed to achieve the alliance's objectives and goals

Financial: ____
____

Personnel: ____
____

Materials: ____
____

Other: ____
____

2. Training

To have the alliance "hit the ground running," indicate what training individuals within the alliance should have:

____
____

3. Learning

a. What Key Learnings from the alliance should our company be receiving?________________________________
b. How will these Key Learnings be transmitted back into our company?________________________________
c. Who will be responsible for transmitting these Key learnings?________________________________

4. Liaisons

If individuals from the alliance partner need critical information from our company, who in the alliance will help them get it?

____
____

5. Intra-Company Leaking (Control Knowledge Transfer)

How will we protect information that we do not want to flow to our ally?

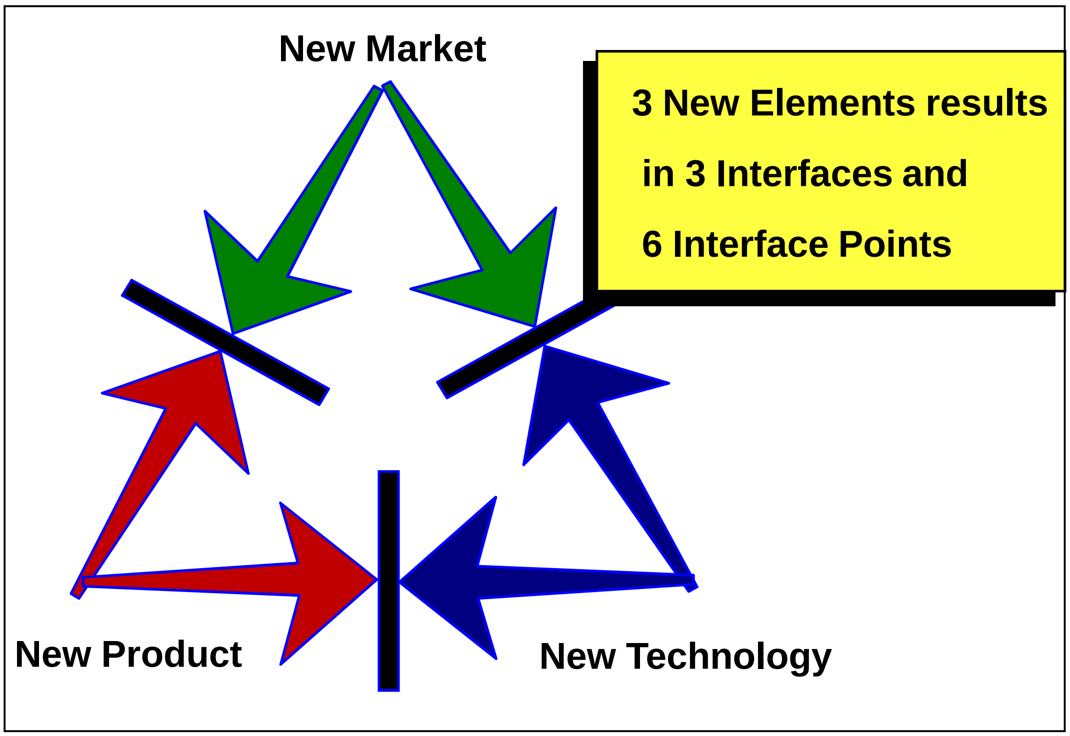
____
____

Step 5.2 Organizational Structure and Support

Compounded Risk

When too many new or unknown factors (i.e. new market with new technology with new product) combine, the risks related to the potential success of the alliance increase exponentially. Figure 5.2 depicts the type of interfaces that can occur and the resulting increase in risks.

Figure 5.2 - Risk versus number of Interfaces



Limit the Number of New Risks: Start with the fewest number of risks, achieve success, then incrementally add new or additional risks.

Interface Points are Critical: For every “new” element interacting with another, a set of interfaces is established. Interfaces are always fraught with potential danger because they mark the points in the architecture of the alliance where inherently different systems, frames of reference, language, and methods have to come together. Communications and coordination are inherently discordant at these interfaces, requiring extra management skill, time, and foresight.

Step 5.2 Organizational Structure and Support

Compounded Risk

Once an interface begins to unravel, resources are diverted from other areas, which then puts the other interfaces at greater risk by diverting focus, which in turn triggers other interfaces to fail, this sending the alliance into an often unending, irretrievable downward slide. The highest risks exist when **new products** with **new technologies** are brought into **new markets**. To reduce risks to more acceptable levels, it is best if both (or at least one) partners know the dynamics of the industry, the intricacies of the market, and their real potential to attain market share.

~Tip~

Formation and Planning Meeting

Avoid confusion and slow starting by conducting a 1-2 day alliance planning meeting which includes all key team members. At this time open communications should be the rule. All of the plans and issues should be addressed and we should ensure that responsibility and timelines have been assigned and agreed to.

Checklist 5.2

Organizational Structure and Support

_____ Have the functions and the desired results for the operational team been clarified?

_____ Are there sufficient resources allocated to the alliance?

_____ What compounded risks might emerge? Has a plan been created to reduce these risks?

_____ Are the roles and responsibilities determined?

_____ Have reporting relationships been identified?

_____ Have measurements and reporting systems been identified, and processes established to obtain them?

_____ Have staffing requirements been determined?

Step 5.3 Win - Win Business Analysis

Finalizing The Win - Win

Before formalizing a legal agreement, it is essential to ensure that this alliance is truly a win - win agreement. The "4 R's" that are essential in this analysis are:

1) Risks;
2) Resources;
3) Responsibilities; and,
4) Rewards.

~Tip~

Why Risk is Vital to Success

" If long-term motivation by top management is desired, then be sure both long-term risk thresholds are sufficient to keep the partners engaged."

-- Paul Lawrence
Harvard Business School

Balancing The "4 R's":

Avoid arbitrary determinations of win - win. Both sides should have come to the win - win arrangement in an open, reasonable, and logical manner. Figure 5.3 demonstrates how the "4 R's" of the alliance are fairly apportioned between both partners. The financial rewards should be distributed based upon the relative proportion of risks assumed, resources invested, and responsibilities for results of each company. There is no hard and fast rule for this determination, so long as it is logical, reasonable, and the arrangements keep both parties highly motivated to succeed. Remember, rewards do not have to be equal, but they must be equitable.

Like rewards, the abundance of control should go to that partner who assumes the greatest risks, responsibilities, and commits the greatest resources. However, to optimize the alliance spirit, some dominant alliance partners have shared balanced control with a less influential partner. The point being that precision in determining the balance of control may not be necessary.

Step 5.3 Win - Win Business Analysis

Figure 5.3 Balancing Win - Win

~Tip~

Be creative in designing win - win arrangements to motivate success and future growth.

Step 5.3 Finalize Win - Win Business Analysis

Valuation Issue

Determining the value of certain contributions is often the thorniest of all aspects of alliance negotiations and structuring. If all other aspects of the alliance formation process have gone well up until now, then there should be sufficient trust, creativity, understanding and flexibility so that little difficulty will be encountered at this point.

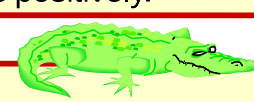
How to value the contributions each partner is making is normally achieved by breaking down each of the elements being contributed and placing a value on them. An aspect of the valuation process is the risk each organization may be taking by entering into the agreement. Lost revenue opportunity is one risk we may encounter. It occurs when our partner is given sales responsibility but does not invest sufficient resources to ensure success of the venture. How much will this lost revenue and time be worth to our organization?

Valuing monetary contributions are straight forward, we will have to work hard at ensuring a fair valuation for both parties but one that protects our interests for the long term.

Note: ***Not all alliances will require valuation of assets. However, be aware: most joint ventures, and many alliances where technology is being contributed will require valuation of assets.***

~Tip~

Valuation of Technology is one of the most difficult of all valuation questions. If there is a wide disparity in perceived value, try establishing a sliding scale which increases the value/royalty/licensing fee incrementally over time if the market responds positively.



~Trap~
Contacts with Competitors

The alliance partner may bleed through critical information (either intentionally or unintentionally) to a competitor with whom they are doing business. Prior to formalizing any alliance agreement, review the code of conduct guidelines and inform the prospective alliance partner of our company's requirements to prevent the leakage of critical competitive, confidential, and proprietary data.

Step 5.3 Win - Win Business Analysis

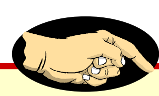
Financial Analysis

The operational planning, organizational structuring, and win - win analysis provide the architecture on which the legal agreement may be based, and formalized. In this way, the business issues have driven the legal document, rather than the reverse. A critical aspect of the structuring phase will be the identification of what financial information will be gathered, reported upon and acted on.

We will need to work with our ally to finalize the performance objectives and operating measures that will be used to evaluate the relationship and determine the sharing of risks and rewards. Many of these objectives an measures will have been tentatively established in the Analysis and Selection phase, and more clearly defined in the Memorandum of Understanding and Principles developed during the Value Creating Negotiations phase (Phase 3).

At times, rolling targets are more appropriate than fixed targets. As one executive says of his company's arrangement: "Instead of writing key performance measures, we've defined a process for setting up, measuring and reporting objectives as we go along." Because the ability to adapt to change is so important to the success of collaborative relationships, this kind of flexible approach to performance measures can be valuable.

Effective measurements will be critical to the success of the relationship. As discussed earlier in this User Guide, strategic alliance measurement systems should look at more than the costs of the relationship. Instead, they should look at whether the relationship is generating the overall business results that you want to achieve. That means that STROI measurements or some other balanced measures should be at the heart of the financial performance-reporting system.



~Tip~

- Know what "winning" means!
- Know the "Elements of Victory" for your company and its partner.
- Strategic Return on Investment (STROI) defines the win.

Step 5.3 Win - Win Business Analysis

Financial Analysis

~Tip~

The two skills critical to achieving a sustained win - win are:

1) Commitment to Creativity
2) Desire to Attain Synergy

These two skills, if exhibited on the part of the partners will add new opportunities for the alliance; the greater the ingenuity exhibited the greater the revenues that will result. By looking for synergy between our organizations costs will be minimized and profits enhanced.

~Tip~
Critical Advice

The Real Reason for Success

When all is said and done, the real success of the alliance, in the long run, will rely neither on the legal agreements nor on the negotiation skills of the partners, but instead on the strategic fit, the chemistry between the key managers and their ability to adjust the alliance to maintain a win - win result as conditions change in the competitive arena.

Maintaining a win - win perspective is the most important responsibility of the alliance champions and managers. Maintaining this win – win perspective relies not on negotiation skills, but on their commitment to “creativity and regenerativity “-- always seeking new possibilities, new opportunities, and new futures for the alliance.

Step 5.3 Win – Win Business Analysis

Utilize Checklist 5.3 to reassess the alliance's initial business plan against the current conditions. Modify the business plan if new information is now available that will affect our initial expectations and estimations

Checklist 5.3
Win - Win Analysis

1. **Value Added Proposition**:
   _____ Any modifications needed?
   _____ Is it still valid based on final market research?

2. **Strategic Return on Investment**: (see Checklist 2.4)
   Will the alliance meet its objectives, goals and milestones?

Our Company	**Ally Company**	
_____	_____	**Market Growth**
_____	_____	**Competitive Advantage**
_____	_____	**Innovative Capacity**
_____	_____	**Organizational Capability**
_____	_____	**Financial Return**

3. **Three Dimensional Fit:**
   Does the alliance meet the criteria of a good fit?

   _____ **Strategic Fit**
   _____ **Chemistry Fit**
   _____ **Operational Fit**

4. **Does the alliance meet the 8 characteristics of a successful alliance?** (Review checklist 3.5).
   _______ **Critical Driving Forces**
   _______ **Strategic Synergy**
   _______ **Great Chemistry**
   _______ **Win - Win**
   _______ **Operational Integration**
   _______ **Growth Opportunity**
   _______ **Sharp Focus**
   _______ **Commitment & Support**

Step 5.3 Win – Win Business Analysis

Checklist 5.3 *(continued)*
Win-Win Analysis

5. Sales Forecast:

Is the Sales Forecast

_____ Reasonable?
_____ Believable?
_____ Based on accurate assumptions?
_____ Are there areas that need revision/expansion?
_____ Is this a stretch goal?

6. Financial Analysis:

_____ Reasonable?
_____ Believable?
_____ Based on accurate assumptions?
_____ Are there areas that need revision/expansion?
_____ Is this a stretch goal?

Would you invest your mother's retirement money in this alliance? If not, fix it!

Step 5.4 Legal Agreements

Formulating the Agreement

As the Overview discussed the Alliance Structuring phase focuses on creating legal and organizational frameworks for the alliance relationship. Based on work previously performed in our other phases, finalizing the legal documents should become a relatively easy process. Working with our partner, the business people should take the lead in constructing the document. Legal advisors should be involved to ensure that the document contains the necessary clauses that will prevent legal actions against BCBSF in the future and to mitigate any potential liabilities that could arise from the alliance. Therefore legal advisors are necessary to develop the appropriate language in the contract.

There are times when a conflict will arise between business people and lawyers on how much risk we might wish to expose ourselves to versus what our legal advisors are saying. Under these circumstances you will have to make a business decision and be sure senior management is aware of the difference of opinion.

At this time prepare a draft of the legal agreement for the relationship, and conduct negotiating sessions as necessary. The memorandum of understanding produced in the Co-Creation phase and the joint operational plan created in the Operational Planning phase should form the basis of the legal agreement. Update any material from the MOUP and enclose any data from the Operational Plan which may be relevant.

Prepare a draft of the legal agreement for the relationship, and conduct negotiating sessions as necessary. The memorandum of understanding produced in the Co-Creation phase and the joint operational plan created in the Operational Planning phase should form the basis of the legal agreement. Update any material from the MOUP and enclose any data from the Operational Plan which may be relevant.

In addition to the standard legal and tax issues normally addressed in a contract, consider including agreements about:

- **Customer relationships.** (How will you deal with pre-existing customers, non-compete agreements and conflicts created by product or territory overlaps?)

- **Rights to new products, derivatives and intellectual property.**

- **Contacts with competitors.** (How will the "bleedthrough" of confidential information be controlled?)

Step 5.4 Legal Agreements

Formulating the Agreement (continued)

- **Conduct guidelines.** (What ethical and trust-building standards of conduct are both partners expected to maintain?)

The length of time that the contract should cover varies, but the time frame for a strategic alliance agreement is usually longer (perhaps 5 to 10 years) than it is for traditional contractual arrangements. Such long-term agreements give the relationship time to evolve, and the time needed to achieve more strategic benefits. As one executive says, "I think five years from a business planning perspective is very manageable: The shorter the duration, [the greater] the chances are the economics of the deal may not be as sound. Your partner will not be able to plan out as far in advance and have that commitment on volume and revenue to do a lot of the service piece things that they need to do."

The contract should also have adjustment clauses that require midcourse corrections. Such flexibility is an integral part of building a strong, enduring partnership.

If you are not able to reach an agreement about the shape of the contract, management needs to assess and address where the process has broken down. Have the parties been unsuccessful in building mutual trust? Is the value proposition simply not compelling enough? The use of an objective facilitator may be helpful in such situations.

Finally, continue to build on the positive momentum you have created so far. Bargaining over contract provisions will be easier and less divisive if a win-win attitude and a sense of trust are maintained throughout the final drafting of the contract.

Use Checklist 5.4 as the basis for a review of the structural issues within the agreement.

Step 5.4 Legal Agreements

Exclusivity

Often the issue of exclusivity will be a major negotiations point when structuring the alliance. Exclusivity means each of the partners will only have a relationship with one alliance partner in the target market area (much like fidelity in a marriage)

The alliance manager should be aware of the situations when exclusivity makes sense:

- Both partners are very strong in the market
- Each partner as a highly competitive offering that, when combined with the other partner, is nearly impossible to duplicate
- Large segments of customers are enamored with the market offering
- The partners will be capable of sustaining this competitive advantage for long periods of time

Advantages of Exclusivity

There are several advantages to an exclusivity arrangement:

- Creates a unique relationship/competitive offering
- Establishes deep competitive barriers
- No confusion in marketplace
- Few branding and image difficulties
- Little chance of confidential data bleed-through to competitors

Disadvantages of Exclusivity

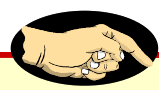
However, exclusivity may not always be the best alternative if it fails to fulfill long term strategic needs, or if the partner's product/service does not have the features desired by customers, or if the partner's distribution is limited. Further, the future may work adversely on the exclusiveness if other new competitors enter the market with more powerful offerings, thus limiting our ability to be competitive. For these reasons, be very careful about including exclusivity provisions in the legal agreements, particularly if the exclusivity arrangement will create an adverse competitive advantage later.

Step 5.4 Legal Agreements

Legal Counsel

Generally speaking, it is advisable to have legal counsel initiate the drafting of the agreement. In this way, it will reflect the terms, conditions and code of conduct that is essential in all dealings with our company, and the alliance partner will have full knowledge of our fundamental values, and ethical underpinnings.

Have legal counsels from both companies meet with both alliance champions, and alliance managers together to understand the issues and terms of the alliance from a non-legal perspective.



~Tip~
Ultimate Agreement

Regardless of the length, cost, or detail of the agreement, it is only as valuable as the commitment and fairness of the parties behind it. If the parties have to refer to the agreement on a daily basis for direction or to solve many problems, then the venture is destined for failure. The negotiations must end with both parties feeling they have obtained a good and fair deal if the partners are to have a successful marriage. No alliance ever succeeded or failed because of the quality of the legal agreements.

Step 5.3 Key Issues

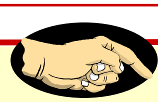
Formulating The Agreement

Checklist 5.4
Structural Issues For The Legal Agreement

Fairly allocate the "4 R's" of structuring:
- Risks
- Resources
- Responsibilities
- Rewards

Ultimately, the central issue in structuring the alliance will be how to distribute these fairly. These four issues will need to be tailored to the particular needs of the alliance -- each has its own unique script. Most arrangements are conceptually short, basic, and easy to understand. There are several questions to be weighed during the early stages:

- Who invests CASH, and how much?
- Who invests TIME, and how much?
- Who receives RIGHTS to:
    * Market or distribute products;
    * Manufacture products;
    * Acquire or license technology; and
    * Purchase future products or technology.
- Who receives TAX benefits?
- Who is RESPONSIBLE for specific accomplishments?
- What happens if more MONEY is needed?
- How are the PROFITS (and Losses) allocated?
- How is CONFIDENTIAL INFORMATION handled?
- What PRODUCTS are specifically included/excluded?
- What are the PATENT provisions?
- What are the guidelines for TERMINATION or revision?
- What GOVERNMENT REGULATIONS should be considered?



~Tip~

No alliance has become successful because of the quality of the legal agreements. However, if the alliance fails, legal documents will be absolutely essential to the reasonable dissolution of the agreement.

Step 5.4 - Legal Agreements

Final Review and Approval

Before signing any legal agreements, ensure that the authorities of both parties which will have executive oversight approves the agreement.

~Tip~

Inform both legal counsels what the time schedule is for finalizing the agreements. Gain an understanding of the importance that they hold firmly to the schedule.

Review the draft contract with the joint executive committee and other senior management, as necessary. A clear understanding of the final agreement is vital to gaining the future support of these constituencies. Use the following steps as a guide towards achieving the final review and obtaining the necessary approvals.

1) Meet with our legal counsel. Review MOUP and Operations Plan. (Include alliance partner's champion, alliance manager, and their legal counsel in the meeting, if advisable.)

2) Schedule appropriate approval meeting times. Inform legal counsel, partner, and core team members of timing for executive approvals.

3) Upon final executive approval of strategic and legal aspects, schedule a "closing."

NOTE: Determine with the legal counsel if the alliance can be "launched" before or after the closing. In some notable circumstances, launch precedes the closing if the alliance partners are sufficiently aligned, have completed a mutually agreed upon Operations Plan, have a high level of commitment and integrity, and have received top level support from both parent companies.

Review figure 5.5 to be sure that all of the documents pertaining to the alliance are complete. Make sure that all parties to the alliance have agreed to all of the expectations laid out in the Operational Plan.

Be sure and schedule all of the governance meetings out through the first six months to be sure everyone has the meetings on their calendars

Step 5.4 Legal Agreements

Exit/Transformation Strategy

Your legal counsel may tell you that the most important clause in the agreement is the "Exit Strategy." This is correct, but with some explanation. The exit strategy will be essential if the alliance collapses or no longer is strategically or operationally important or viable. The difficult questions the lawyer will ask will prevent our company from being victimized by a highly litigious former partner turned adversary. A well-formulated exit strategy will enable you to retract from the alliance without a detrimental impact. However, the exit strategy should be encompassed within a larger "transformation strategy".

~Tip~

Consult with the legal department well in advance of finalizing the legal document to be sure the direction of the negotiations will not be torpedoed in the final stages by an adverse legal opinion.

The "transformation strategy" may not be a term familiar to the legal counsel. Transformation refers to how to adapt the alliance to major shifts in the strategic, operational, regulatory or technical environments. Flexibility is a critical factor in the long-term success of alliances. The transformation strategy helps reinforce trust by outlining how the partners will change the structure, direction, rewards formula, and roles and responsibilities when the conditions around the alliance shift. (And you should expect that they will shift -- the only questions are "when?" and "in what direction?"

~Tip~

Closing or Opening?

Many alliances actually commence operations with the finalization of the operational plan (the "opening"), and the later final agreements and legal document catch up with the alliance (the "closing").

Step 5.5 Final Review and Approval

Figure 5.5 - Alliance Documents

Document Structure

Memorandum of Understanding and Principles (MOUP)
or
Statement of Principles and Understanding (SOPU)

Covenant

Legal	Strategic	Operational	Financial	Structural
Non-Disclosure and Confidentiality	Vision	Business Plan	Required Investments	Governance and Decision Making
Exclusivity	Value Proposition	Operational Integration	Return on Investment	Organizational Structure
Non-Compete	Strategic Alignment	Management and Leadership	Risk/Reward Arrangement	Structural Evolution
Ownership of Intellectual Capital	Strategic Evolution	Time Schedule	Anticipated Cash Flow	Alliance Success Measures
Contract	Competitive Profile	Resource Allocation	Reinvestment of Profits	Optional -- Initial Public Offering Intentions
Legal Structure	Competitive Response	Performance Measures	Tax & Accounting Issues	Transformation & Exit Provisions
Alliance Mediation		Alliance Culture		

Strategic Alliance
Best Practice User Guide

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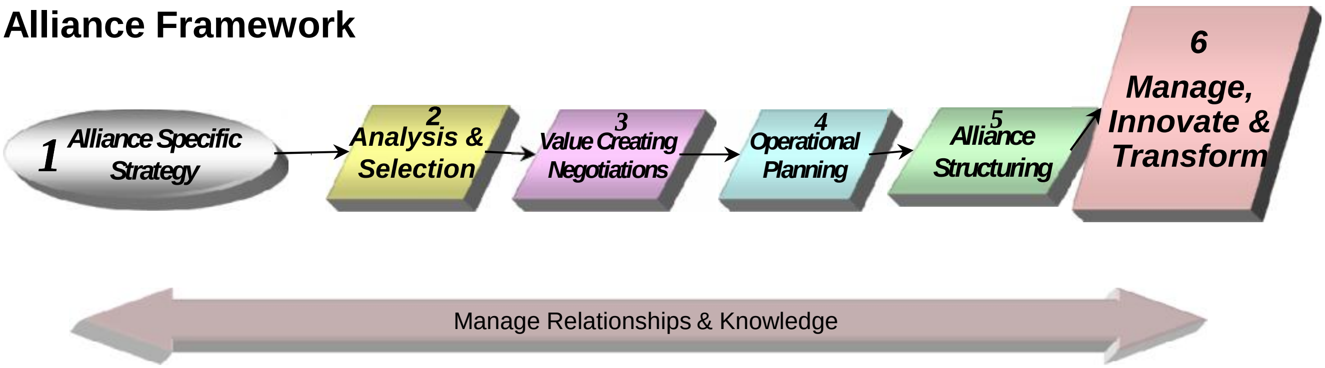
Phase 6 – Manage, Innovate, and Transform **Page #**

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

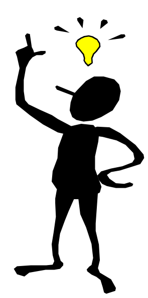
Step 6.3 Alliance Governance
- Alliance Executive Council
- Other Governance Mechanisms

Step 6.4 Creating a Collaborative Culture
- Why a Collaborative Culture is Important
- Key Leverage Points
- Diversity - The Alliance’s “Hidden Asset”
- Creating a Charter of Expectations

Step 6.5 Performance Measurement & Diagnostics
- 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.”

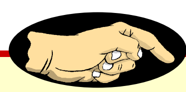
Step 6.1 Operational Team

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

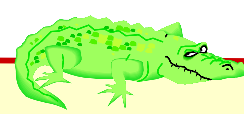
The key factor in this will be to integrate operations within the alliance so that the customer does not experience problems as the result of responsibilities "slipping through the cracks" in the alliance. The customer must see the ultimate product as totally integrated and synergistic. Anything less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

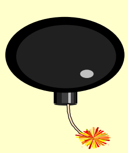
Clarify Expectations

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

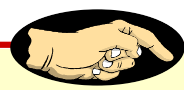
Champions

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

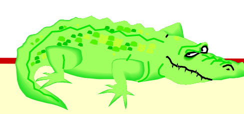
____**Executive Council**: An alliance Executive Council has been established with representatives with decision-making authority, who represent the sponsors of the alliance. Key integration team champions are assigned to the Council.

____**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:

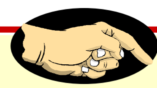
- Was there a fair profit for both partners?
- Did both meet or exceed their profit projections? if not, why?
- Was the profit reasonably apportioned/balanced between the two partners? If not, will the imbalance eventually cause friction?
- If the profit was below the projection (or negative), what are 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

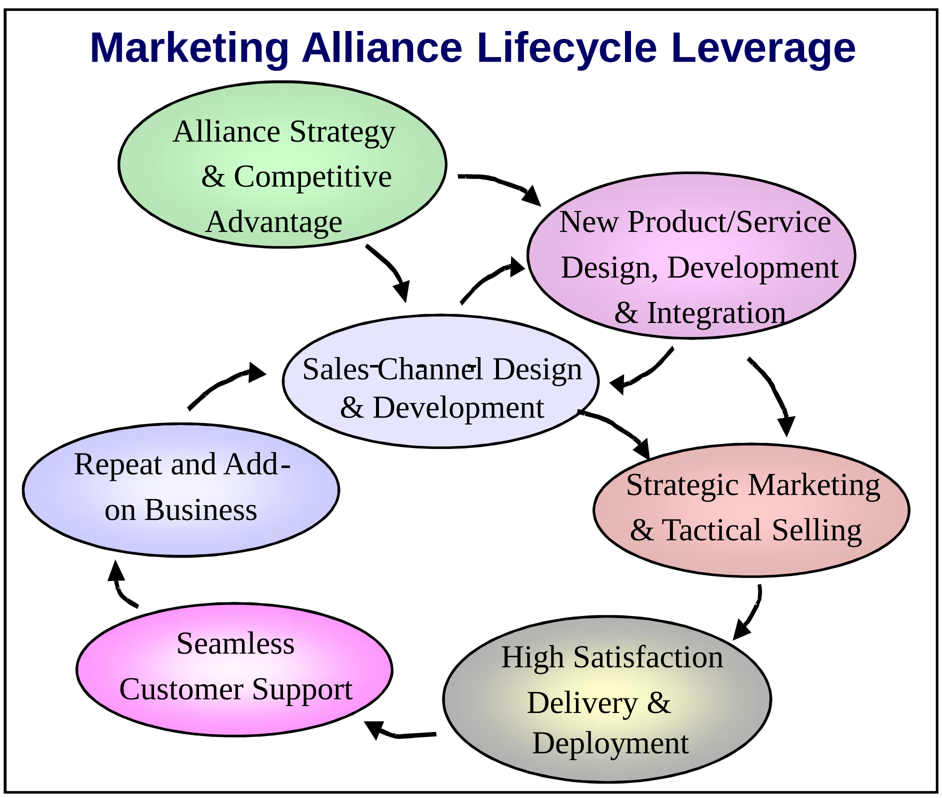
Alliances can be expected to have crises, just like any other start-up business going through its growth cycle. When it happens, use the principles of the three dimensional fit to isolate the root cause; evaluate if the failure is *strategic* (such as a change in market conditions), *chemistry* related (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.

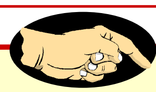
The Checklist 6.1 which follows on the next page (oriented to diagnose issues associated with the three dimensional fit model in Phase Two) will assist the alliance manager in spotting these shifting drivers.

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.

Step 6.6 - Adapting To Change

The Power of a Great Alliance Culture

In the final analysis, the effectiveness of the alliance will boil down to whether the alliance leaders built a powerful, enduring, and alluring alliance culture. The impact of culture on an organization was eloquently stated by Lou Gerstner, IBM's CEO credited with saving the company in the 1990s. He came to a startling conclusion about his role as leader in this remarkable turnaround:

> I came to see, in my time at IBM, that culture isn't just one aspect of the game – it *is* the game. In the end, an organization is nothing more than the collective capacity of its people to create value. Vision, strategy, marketing, financial management – any management system – can set you on the right path and can carry you for a while. But no enterprise – whether in business, government, education, healthcare, or *any* area of human endeavor – will succeed over the haul if those elements aren't part of its DNA.[1]

Focus on Trust, Teamwork, and Innovation

At its most basic level a culture represents what an organization values – the things and behaviors it considers important, reflected deeply in its implicit values and what it measures, rewards, punishes, and overlooks. : "the way we do things around here." The benefits of culture, on the other hand, are quite profound, because it focuses human energy on that which is valued, and then transmits these implicit values to all who enter the organization. Culture permeates everything everywhere; and unless made explicit, looks invisible.

Many authorities try to complicate the idea of culture. In our experience the culture need not be overly complicated or confusing. In building a powerful alliance culture, the alliance leadership team needs to focus on three things:

- Building Trust – which enables people to work together effectively
- Building Teamwork – which is the essence of high performance operational effectiveness
- Building Innovation – which produces continuous streams of value

All measures and rewards in the alliance (and its partners) must reinforce these three things consistently and overtly. If people are not measured and rewarded for building trust, teamwork, and innovation, no amount of exhortation will prevail.

And, just as importantly, a great alliance culture will be alluring because it attracts the best people year after year, and often that culture will be emulated within the parent organizations.

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1 Gerstner, Louis V. Jr; *Who Says Elephants Can't Dance? Inside IBM's Historic Turnaround*; Harper Business, NYC; 2002; p182

Step 6.6 - Adapting To Change

Selecting a Great Alliance Team

The first way to build trust, teamwork, and innovation is selecting the right people for the Alliance Team. Choose well and the alliance probably wins because it performs beyond expectations and adapts to changes in the strategic environment; choose the wrong people, and regardless of a brilliant strategy, the alliance will likely fail.

Who are the right people for the alliance? While the obvious answer is to find *Competent* people, competence is only a portion of the best approach. In addition to *Competence*, a culture requiring Trust, Teamwork, and Innovation must be based on selecting people who have great *Character* in their souls, superb *Collaboration* skills, and are highly *Creative*. Alliance teams with these characteristics will almost certainly build a high performance culture.

Choosing the Right Alliance Leaders

Many seasoned alliance experts would also add another “C” – excellent *Championing*[2] (see sidebar) – the “warrior spirit” that enables alliance leaders to persist day after day, based in their entrepreneurial vision, personal integrity, commitment to a win-win approach to life itself, and willingness to fight for what they believe is in the best interests of their organization. This ideas of *character, collaboration, creativity*, and *championing* were reinforced in a recently ASAP commissioned study of effective alliance leadership – *Today’s Alliance Professional….Tomorrow’s Strategic Leader*[3] -- which examined the characteristics of effective alliance leaders.

> Jack Welch, as he was retiring as CEO of General Electric described the Championing role:
>
> I want people:
>
> ▪with *Passion* -- an Inner Hunger
>
> ▪who want to Win and Make it happen – *Get Results*
>
> ▪and have *Good Values*
>
> ▪that can bring a *Strong Team* together
>
> It’s about:
>
> ▪*Energizing People*, the ability to excite people to create energy
>
> ▪*Caring about People*, which is essential to winning
>
> ▪Rewarding those who *Find Ideas*, not just those who create ideas
>
> -- Interview with Tim Russert, 11/25/01

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[2] See Lynch, Robert Porter; *How to Foster Champions*; in *Leading Beyond the Walls – How High-Performing Organizations Collaborate for Shared Success*; Drucker Foundation; Josey-Bass; 1999; pp 167-188

[3]Study done by the American Management Association and Pearson in collaboration with the Society of Human Resource Management (SHRM) and the Association of Strategic Alliance Professionals (ASAP), February, 2009 (54 experienced alliance managers, 80% holding certificate of achievement in alliance management from the Information, Technology/High Tech and Pharmaceutical Industries completed the entire assessment. 60 % have been in strategic alliance management roles for 6-20 years, and identify/evaluate new alliance candidates and negotiate agreements.). The study found that strategic alliance professionals scored identically with directors and executives, demonstrating well developed critical thinking ability, suggesting the intellectual horsepower and leadership drive needed for advancement to executive positions.

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It found experienced alliance leaders were:

- Likely to Lead and Influence others
  Willing to take the Initiative with little or no supervision
- Strategic/Global Thinkers Seeking & Creating Opportunities
  Capable of Dealing with High Levels of Ambiguity
- Highly Innovative, Dynamic, Creative, Independent Thinkers
  (may avoid attention to detail)
- People-Oriented with high empathy for others
  Highly Cooperative preferring to work in teams
- Effective at Networking across organizational boundaries
- Apt to Flex Rules to get things done (likely to suffer in bureaucratic environments)[4]

While *competency* can be very often be "trained" into people, the characteristics of *character, collaboration, creativity,* and *championing* are more likely to be innate strengths in certain people; thus people with these innate characteristics can have them strengthened, while those without them are not likely to develop aptitudes through training. Bottom line: Have the Human Resource department screen for the innate characteristics, then look for the more technical competencies required.

Changing of the Guard

A successful alliance will often spawn its own demise when the highly effective champions who launched the alliance are promoted as their achievements become noticed. Two problems often emerge:

> First, if the culture is *implicit,* it is *invisible* and the culture may quickly be eroded and disappear when leaders move on;
> Second, the selection of replacement leaders is often flawed, focusing solely on *Competence*, while not recognizing the importance *of Character, Collaboration, Creativity, and Championing*.

To prevent these problems, alliance leaders should codify the culture with specific Operating Principles (see Trust Building in Part I), and must work carefully and preemptively with the Human Resource department (both her own department and the department of her partner!) to ensure the right selection of new personnel. (It should be noted that very few HR departments have deep insights into effective alliance management/leadership, and many hold the tragic misconception that effective project management skills are sufficient to produce successful alliances.)

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[4] See Lawrence, Paul R & Lorsch, Jay W.; *New Management Job: the Integrator*, Harvard Business Review Classic, Nov-Dec 1967. (this article details the methods employed by alliance managers to build bridges across organizational boundaries, and is part of a much larger body of work called Differentiation-Integration Theory in organizations upon which much of alliance functioning is based).

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An Important Shift in Thinking

It's important to note that these areas of capability, competence and culture call upon alliance managers to shift their thinking to the larger organizational system, which is quite different than managing an individual alliance.

This requires both systematic and promotional efforts, as the end result is getting the organization to see, support, and manage alliances differently than normal internal projects.
Similarly, the very idea of *competency* in the alliance-management context is quite different and broader from its traditional meaning organizations – now embracing the essence of *character, collaboration, creativity*, and *championing*.

From the perspective of the alliance management team members and stakeholders, this shift is especially important because it requires the alliance leaders to play another vital role within their parent organizations – that of advocate, coach, and trainer of better collaboration mind-sets and skill-sets, which ultimately create *internal* alliances between departments, divisions, and business units – and thus better *internal effectiveness*. In this way the alliance best practices not only produce great *external* alliance results, but can also catalyze *internal transformations.*

While these efforts clearly draw on alliance managers' knowledge and sensibilities, they represent a different role than what has traditionally been associated with managing an individual alliance. Nevertheless, such efforts are essential if organizations are to become alliance-savvy and alliances are to become the model of the highly networked/adaptive organizations of the future.

For example, the Alliance Program at Eli Lilly has built better collaborations internally as well as alliances in the supply chain.[5]

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