Governance by Design

How Well-Established Principles and Practices Set The Stage for Alliance Success

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Strong governance and operating structures form the basis of all successful alliances. As a system of processes that enables partners to effectively and efficiently make decisions and coordinate work, governance is central to all alliance management work. While simple in theory, the subject of governance has generated a wide range of disparate views and complex theories. Ultimately, the scope of governance activities is vast—managing an alliance's start-up, anticipating and resolving issues that arise, and handling the administration that surrounds an alliance's dissolution.

The first in a four-part series on alliance governance, this article offers an overview of the most important elements to consider when designing structures and processes to guide a partnership throughout its life cycle. The authors offer practical strategies and tools that alliance professionals can use to anticipate and mitigate risk from multiple sources, including interpersonal relationships, business risk, and legal uncertainties. By designing and implementing a strong, principle-based system of governance, alliance professionals can establish a lasting foundation and a flexible framework that serve as integral components of a partnership's ultimate success.

In this article and in the three to follow, we have chosen to focus on a straightforward, practical approach to governance—concepts and ideas that have been proven effective in the fires of actual implementation.

Mutual Goals

Before setting out to define a system of governance, the partners must first come to agreement on mutual goals. We believe that alliance governance must:

— **Protect** each partner's interests
— **Establish** management oversight to allocate necessary resources
— **Provide** mechanisms to mitigate the human and business risk as well as the legal uncertainty that is naturally created in the process of bringing parties together
— **Maintain** a strong decision-making framework at each stage of the alliance's life cycle

Phased Approach

Effective governance bodies anticipate the three basic phases of an alliance:

— **Start-up:** a positive yet stressful time spent getting an alliance up and running
— **Steady State:** boredom interrupted by sheer terror when the unexpected occurs
— **Wind-down:** a stressful time in which many people exit the alliance and many hours are spent untangling intellectual property

FIGURE 1:
NATURE OF ALLIANCE WORK

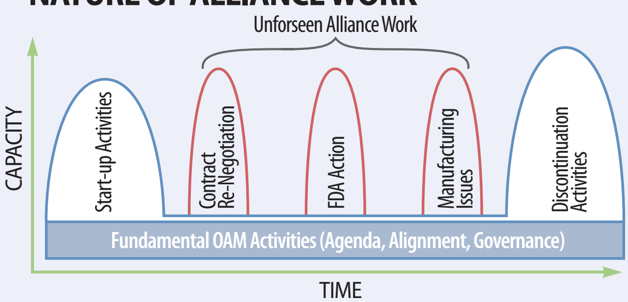


Figure 1 illustrates the flow of alliance work during each stage.

Before identifying and addressing the specific governance activities needed at each alliance stage, it is helpful to have a common vocabulary and agreed-upon design principles that can be used when beginning discussions with a potential partner. These principles are the building blocks upon which alliance partners can construct a collaborative governance structure.

Principled Design

To be effective, governance processes and structures must:

1. Effectively implement the purpose of the alliance—that is, to maximize the value of the asset—in accordance with the letter and spirit of the parties' agreement
2. Be implementable, operational, functional, and efficient
3. Create focus, alignment, and accountability within the alliance and among the partners
4. Require parties to assign employees with authority to commit resources to agreed-upon plans
5. Be able to execute a consistent worldwide strategy in development and commercialization if the relationship is global in nature

These are the core principles of governance design:

Maximize the Value of the Governed Asset

To achieve the objectives spelled out in the partnership agreement and to create value from a project or asset, each partner must balance the priorities that compete within their organization with those created by the agreement. It is the responsibility of the members of the governance organization to ensure that both the letter and the spirit of the contract that binds them are met, specifically as it pertains to value creation.

Make the Governance Structure Implementable, Operational, Functional, and Efficient

Any good design must fit the needs of the participants who are actively involved in the act of governing. By definition, effective governance leaders hold power within their organizations, and they must be able to exercise influence both within their company and within the governance structure created by the alliance. This inherent tension requires that organizational design—including timing, length, and location of activities—must be administered so that it protects each governance participant's time, health, and general well-being. This helps ensure the sustainability of the governance structure.

For the sake of efficiency, governance meetings should be structured to keep topics relevant to attendees. Strict meeting discipline must be enforced (and even welcomed) to ensure that meetings meet their objectives and do not

TERMS OF THE TRADE:

The senior level team/committee meets once or twice per year. Its primary purpose is to build senior leadership relations and to resolve disputes that cannot be solved at a lower level. This group is small—usually consisting of two to four persons who are official members. While some companies believe that majority voting should be used at this level of decision this level of decision making, our experience has shown that it is better to have one person per company designated as accountable, and that this executive must speak on that party's behalf.

The primary governance team/committee meets regularly and deals with the major decisions facing the newly created alliance. This group approves budgets and strategy and makes tough makes tough trade-off decisions. Each company has one chair who speaks on its behalf.

The working team/committee does the work of the alliance. The team is organized into working groups and task forces that are focused on specific areas relevant to the project.

Each of the teams or task forces is chaired by one representative from each company, unless the working chairs have agreed otherwise. Each company has one chair who speaks on its behalf.

The working group focuses on a specific area or concern such as medical, marketing, manufacturing, and so forth.

The task force operates similar to a working group, but it has a fixed point at which it dissolves.

Nemawashi governance, borrowed from the Japanese, is an intra-company team that meets prior to major governance meetings, with the goal of ensuring that the company is aligned regarding specific decisions to be made about the asset. This team's primary objective is to solve intra-company conflict prior to meeting with a partner. This team is responsible for connecting to come to an agreement about all necessary decisions, including resource commitments. This team usually includes the members of the primary governance team as well as other key decision makers and resource holders that influence the asset's fate within the company.

in themselves become a distraction to maximizing asset value. To avoid unnecessary stress, disputes must be resolved quickly at the lowest level possible. Disputes that cannot be resolved in a timely manner should be escalated and rapidly resolved. After a dispute, after-action reviews should be conducted, with feedback on the effectiveness and appropriateness of dispute resolution provided to those involved.

From time to time, it may also be necessary to reevaluate the governance design and make adjustments that reflect the reality facing the participants. Changes in the business or regulatory environment or progress in the state of an asset's life cycle may necessitate a range of modifications.

Create Focus, Alignment, and Accountability Within the Alliance, Ensure Governance Members Have Authority to Commit for Their Company

When two or more companies join together to create value from a project or asset, one of the greatest risks is creating an environment in which responsibility is diffuse and participants become distracted—both by the politics of their own company and by those of the newly created governance organization.

To prevent this situation, good governance design must foster and maintain focus, alignment, and accountability within the partnership. Experience has demonstrated that this usually translates into having only one person from each company accountable for each level of governance. This person may have support from additional team members from their home organization, but when a decision is to be made, those designated as accountable are the only ones who can officially commit on behalf of their companies.

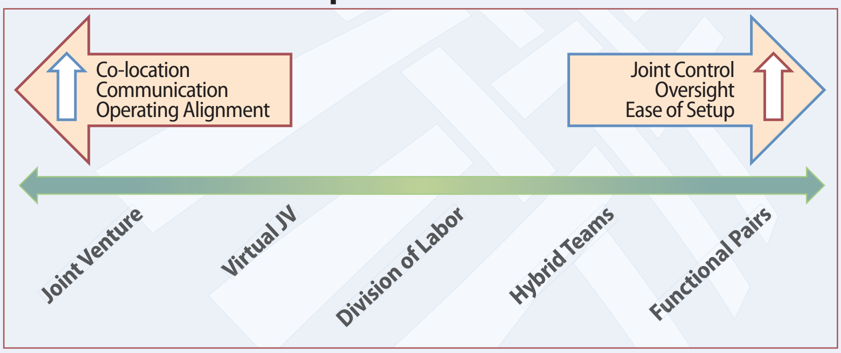
The other team members have the responsibility of keeping their respective leadership informed and up to date on the issues facing the alliance. They also are responsible for questioning and calling attention to any deviations in focus and alignment that would interfere with maximizing the value of the asset being governed.

The designated members of the alliance's governance structures also must have the power to commit resources to the agreed-upon plans and to create focus and alignment within their home organizations with regard to the execution of those plans.

Execute a Consistent Global Strategy in Development and Commercialization

Governance members who participate in multinational agreements are accountable for committing to and ensuring the execution of global strategies in development and commercialization. In other words, the internal negotiations that need to occur within a company to align its various regional components to the agreed-upon global strategy are the responsibility of the respective governance members. Decisions taken at governance meetings carry with them the expectation that both companies are aligned and will be focused on implementing the decision.

FIGURE 2:
Governance Structure Options



Design Options

When you have the opportunity to build an alliance from the ground up, never lose sight of the basic precept that form should follow function. Alliance governance structure should be based on what is needed to maximize the value of the asset as well as the characteristics, capabilities, and strengths of the partner companies. While a tendency exists to complicate both process and structure, in many cases, simpler can be better. The range of governance options (see Figure 2) includes:

— Joint venture
— Virtual joint venture
— Division of labor
— Hybrid teams
— Functional pairs

Design Governance to Mitigate Risk at Every Alliance Stage

In a previous article (*High Risk to High Reward: How to Dig In, Solve Problems, and Create a Valued Alliance Management Function," Strategic Alliance Magazine, Q3 2011*), we covered the sources and types of risk that are generated by any partnership. The next three articles in this series will discuss the ways in which good governance design can facilitate success by anticipating and mitigating problems in all three phases of an alliance's life cycle—**Start-up, Steady State,** and **Wind-down.** The articles will reveal the principles of constructing and maintaining governance structures that alleviate human risk, business risk, and legal uncertainty.

Summary

Develop a common lexicon for talking to your partner about governance design.

Spend sufficient time to understand the types of issues your alliance will be facing before locking in on a structural design.

In governance, having a single point of accountability for each partner has many benefits.

Structure is important, but process is more important—form should follow function.

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