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QUARTERLY Q3 2022

The Trust Factor

Abstract Concept? Not in Alliances. Without a Firm Grip on Trust, Success May Slip from Your Grasp

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- Succeed or Fail? Five-Year Alliance Forecast
- Across the Multiverse of Biopharma Partnering
- Go for the Gold! Alliance Management Meets M&A

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- *Editorial Supplement:* Great Expectations: The Key to Value Creation in Alliance Management and Psychology

Go for the Gold:

What Alliance Managers Can Learn from M&A Experts

The World of M&A Has Much to Teach the Partnering Profession, but Putting Its Lessons into Practice May Require an Attitude Adjustment

By Steve Twait, CSAP, and Nick Palmer

One of the best business talks I've ever heard came from **Bart Conner**, 1984 U.S. Olympic gold medalist in gymnastics. His topic was the difference between earning a score of 9.6 and a "perfect 10."[1] He had two key messages: First, what it takes to get from an 8.0 to a 9.6 is fundamentally different from what it takes to drive that 9.6 toward a 10. "More of the same" is not the answer—nor is the suggestion that he could somehow work "twice as hard as the Russian." Second, making that change required being open to questioning *everything you think you know*. Not because it's "all wrong," but because some of it will prove to be the baggage that's keeping you stuck at 9.6.

There are lessons here for the alliance profession and its practitioners. Alliance management is almost by nature an upbeat, positive profession. Alliance managers and their teams look for new opportunities, develop new products and services. They partner. They innovate. They create value. They collaborate, and they compromise when it is in the best interest of the alliance. Metaphorically, they work together to make fields of vibrant new flowers grow.

By contrast, M&A is a darker, more dour process. While M&A is certainly about value creation, there is often significant loss along with the gain. It's more like pruning and grafting branches—painful surgery performed to spur future growth. In its wake as well come fear, uncertainty, and the feeling that there's too little time to do everything necessary.

Despite the differences—obvious and not-so-obvious—M&A experts can actually help alliance managers achieve impressive improvements, and maybe even reach that "perfect 10." As alliances become increasingly important, increasingly complex, and increasingly diverse, a thoughtful "mind meld" between alliance management and M&A has already helped some alliance stars shine more brightly.

At AstraZeneca one of us led the combination of alliance management and post-merger integration into a single group. The combination has led to greater success in both areas, as well as refined skills for practitioners who have learned from each other.

Changes in Attitude

People simplify the difference between alliance management and M&A integration as being the difference between a "process" and an "event." While accurate, this is incomplete. It misses the vast differences in attitude between teams, leadership, and stakeholders in each situation.

Are there things that successful alliance managers can learn from their M&A brethren? Are there tools and approaches from M&A that could drive greater alliance management success? We believe the answer is yes. This article will outline some key areas where M&A experts could help alliance professionals up their game.[2]

Maturation Process

Alliance management has matured dramatically in recent years. Skilled alliance managers and their teams—with great help from the Association of Strategic Alliance Professionals (ASAP)—have built alliance management from a niche skill into a true profession. Since the late 1990s, leading practitioners have tested and standardized alliance management practices. Companies and organizations now offer well-honed training programs, and in industries where alliances are central to strategy, internal career management identifies, fosters, and develops alliance managers. With ASAP's leadership, there is even an ISO standard for alliance management.

In parallel, leading alliance practitioners have moved on to more senior roles. A number are now CEOs at the helm of exciting companies. Some alliance management leaders report directly to the C-suite of global-50 organizations.

So alliances and skilled alliance management are here to stay. Alliances will continue to be central to growth and innovation in pharmaceuticals and biotechnology, software, high-tech, and even in more staid industries like financial services and manufacturing.

Altering the Approach

There is significant room for alliance management to continue its own innovation and improvement. To follow this path, however, requires a change in approach. Many of the tools, processes, and skills developed to date are sufficient to today's tasks. But new tools, new skills, and new attitudes will be needed to take alliance management to a new level and grapple with tomorrow's challenges.

As with Conner's 9.6 gymnast, rising to this challenge will require altering traditional approaches. "More of the same" won't cut it. You may need to question some of your most closely held assumptions. Most difficult will be modifying your own personal behaviors—as an alliance manager and as a leader.

Under cost and competitive pressures, alliance management groups face new demands to demonstrate their value. While both alliances and M&A are important elements in companies' growth strategies, M&A groups typically receive greater funding, staffing, and attention than alliance management groups. (And as one pharmaceutical executive noted, "Few alliance management groups survive the departure of their founder. The few that do are notable as exceptions.")

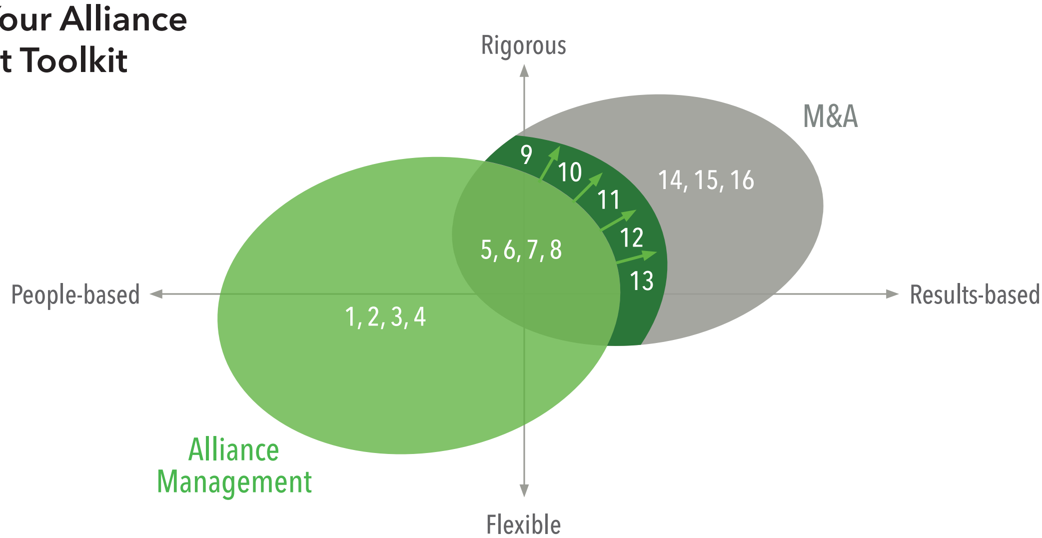
Alliances may be less visible than M&A, but often they are just as important to the companies involved as their M&A activity.

In some ways this isn't surprising. Acquisitions are highly visible. Checks are written and a lot of money changes hands. Assets change owners. Boards, shareholders, and outsiders—including the headline-hungry business media—ask not-always reasonable questions.

With most alliances, funding and formality (and headlines) are less visible. Yet many times, alliances are just as important to the companies involved as their M&A activity. Whether as engines of pharmaceutical innovation, to bring products and services to untapped markets, to open new channels to software customers, or to offer customers customized bundles, alliance activity has never been greater. The success of the past 25 years has brought new avenues and new types of alliances into companies' strategic equation.

The lesser visibility of alliance management's contribution can have deleterious medium-term effects. BTD's white paper "Behind the Camera or On the Podium"[3] highlights the

Expanding Your Alliance Management Toolkit



Applied principally to Alliance Management

1. Designing Governance Structure
2. Co-operating with Competitors
3. Managing Organisational Alignment
4. Managing Alliance across a Value Network

Applied to both Alliances and M&A

5. Designing Metrics and Value Measurement
6. Resolving Conflicts
7. Managing Corporate Relationships
8. Identifying, Assessing and Conducting Due Diligence on Targets

Needed to enhance Alliance Management performance

9. Strengthening Accountability and Executive Governance
10. Establishing More Consistent, Centralised Decision-Making
11. Creating a 'Get-It-Done' Culture
12. Adopting a Formal Change Management Approach
13. Demonstrating a Return on Invested Capital

Applied principally to M&A

14. Designing, Planning and Governing Integration and Transformation
15. Assessing and Designing the Operating Model
16. Modelling and Valuing Synergy

behind-the-scenes nature of an alliance manager's role. Often, she is at her most effective when others get credit for alliance successes. This builds others' skills and ignites their enthusiasm. But it can create a perception that "alliance management didn't really contribute much." In times of belt tightening, such attitudes can lead to slashed budgets, or even disbanded teams.

Boiling It Down

Those "dour" M&A professionals, it turns out, may have some things to teach alliance managers after all.

Facing an increasingly complex, evolving future, alliance managers should enhance their skills and alliance management teams should sharpen their tools and approaches by capitalizing on the disciplines of M&A planning and integration. By doing so in a thoughtful fashion, even the best alliance professionals will achieve better, more consistent results. As an added benefit, alliance management teams will be well positioned to support a variety of deal types as their company strategy evolves.

BTD's research, client experience, interviews with more than 40 senior alliance and M&A executives, and workshops with many more boils down to three key recommendations:

1. *Go Formal*: Add greater discipline and structure to alliance governance, operations, and reporting.
2. *Get It Done*: Dial back the search for consensus; push for quicker decisions.
3. *Argue, Productively*: Manage energetic conflict to drive better outcomes.

The diagram[4] on the opposite page shows the overlap between the competencies associated with effective alliance managers[5] and those for great M&A integration professionals. You will first note that the M&A competencies "oval" is both rigorous and short-term results focused. This only makes sense. M&A integrations are much broader in scope and complexity than alliances, involving elements like finance and general ledger, ensuring follow-through on everything from paychecks to health insurance to parking lot permits. M&A is also time-boxed, usually with extremely aggressive timelines. Rigor and results are expected—and quickly.

Alliances play out over time. In this sense they are indeed a "process" rather than an "event."

By contrast, alliances play out over time. In this sense they are indeed a "process" rather than an "event." Building relationships is critical to ensure people's commitment and interest over sometimes extremely long time periods. The results will come, but some delay can be acceptable in the interests of that longer-term performance.

BTD's most recent research highlights five M&A competencies where M&A practice could enhance alliance management performance. While these are present in many alliance settings, M&A demands a far greater emphasis on them.

1. Strengthen Accountability and Executive Governance
2. Establish More Consistent, Centralized Decision Making
3. Create a Get-It-Done Culture
4. Adopt a Formal Change Management Approach
5. Demonstrate a Return on Invested Capital

Building these competencies is not as simple as just saying "Do it!" Fortunately, our experience shows that by focusing on the first three recommendations in this article, alliance managers can make dramatic progress enhancing all five competencies.

Go Formal

Add greater detail and discipline to alliance governance, operations, and reporting. Review and manage those processes more regularly and formally. Pay particular attention to the financial and operational metrics on whatever "balanced scorecard" you've chosen. You may object that you already do this, but a quick visit with your M&A colleagues should disabuse you of this notion. M&A-speak is unabashedly shareholder value focused: EBITDA, free cash flow, EPS, and multiples.

Enough with trust already—show me the money! Drive benefits or synergy tracking into both greater detail and more frequent review. Add hard operational metrics monitoring hours, productivity, and problem resolution. Build short-term aspects into each of these areas, providing early warning of impending problems.

Our research and experience indicate that most alliance scorecards focus on intermediate-term, high-level financial and operational factors. When interviewed, alliance teams and alliance managers appear to spend too much time trying to refine "relationship" metrics and too little developing and managing the others.

Alliance teams appear to spend too much time trying to refine "relationship" metrics and too little developing and managing financial and operational factors.

This does not mean that relationship metrics are unimportant. Far from it. It means that if you are a skilled alliance manager, you are probably already doing a good job on this dimension. Making an investment in educating and managing alliance teams in the areas of operational and financial performance can lead to a far greater performance leap than any granular refinement of your "trust score."

Learn from success. Reach out to your M&A colleagues. Perhaps even consider cross-staffing opportunities.[6] Look into the tools and frameworks they use in their daily work. Recognize that alliance management and M&A are different. To capitalize on M&A practices will demand thoughtful adaptation, not simply cut-and-paste adoption of "best practice."

Look carefully at the work planning, cross-initiative governance, and benefits tracking methodologies in M&A. You'll quickly discover a much finer level of detail, and quite a few "intermediate" metrics that can give you a heads-up on potential problems. Constantly ask the question, "How can I know that our work is on track?"

One particular high-value area is financial benefits tracking. The visibility and nature of M&A make ROIC—Return on Invested Capital—the gold standard. That is the number requested by board chairs, investors, and analysts. Do you, and does your team, understand ROIC—what it is, how it's calculated, and how your daily work impacts it? Merely by beginning to think in these terms, you'll find your teams making smarter, clearer decisions.

A common objection is that alliances, by nature, do not have the clearly defined assets, investments, and returns of M&A. And they play out over longer time scales. Thus, the reasoning goes, to use ROIC would require a whole lot of assumptions and even guesses.

Here's a dirty little secret: M&A analysis is often plagued by guesswork.

Here's a dirty M&A secret: M&A analysis is often similarly plagued by guesswork. It is really not the "number" itself that is of value in an ROIC calculation, it is the ability to evaluate tradeoffs between different courses of action or different events. It's not the accuracy of "the ROIC is 23.4 percent" that matters. It is that a three-month acceleration of sales in the western region could double the year-one ROIC, or that the need to increase the number of participants in a clinical trial would cut the ROIC by a quarter.

In addition, the rigor demanded by these M&A tools forces you to document many assumptions that typically go unspoken in alliances. This discipline alone, particularly getting teams to agree to those assumptions, can have exceptional value.

Standardize. If you haven't already done this with alliances, insist on a high, almost excessive degree of commonality in alliance tracking, reporting, and planning. Drive this down to common dashboards, and even standard reporting decks and charts. You'll look more professional and analytical—and better yet, you will be.

Get It Done

Dial back your search for consensus. Make quicker decisions. If you're a top-notch alliance manager, it is likely that your "aggressiveness meter" is calibrated differently than most. Try to focus more on short-term results.

This will feel uncomfortable at first. There is a real danger of going too far. Obviously, do not start with make-or-break decisions. Track your progress, noting successes and failures.

Recognize that most decisions are between two or three perfectly sensible options, not a binary choice between "good" and "stupid." Often our clients find that simply flipping a coin would render a reasonable decision. Oddly, managers tend to spend more time deliberating over decisions that make little difference than they do over the more significant ones.

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Personnel turnover and terminations are an important area where M&A practitioners are far more comfortable than most alliance managers. Most M&A integration involves planned, managed personnel changes. People lose jobs, sometimes involuntarily. Planning for and accommodating this turnover is part of the job. In alliances, the turnover that does occur is usually passive. People rotate through jobs over time. New opportunities, retirements, or changing alliance skill needs are principal causes. Alliance managers react to that turnover. Rarely do they drive it.

Get help. Let your team, from both partners, know you're committed to this. Ask for their understanding, solicit their feedback. By reaching out to them you will avoid surprises and receive more elbow room. You'll build stronger relationships, as they participate in your growth as a professional.

Use the mirror. Formally identify and track your decisions. Daily. Record the situation, options, your decision and timing, and the outcome. Also record your feelings before and after. How comfortable did you feel? What surprised you? How did people react?

You will likely find that you overanalyze too many decisions that are only moderately important. By keeping a log, you'll quickly see that you can free up a remarkable amount of time by making those decisions on the spot, and investing your valuable time on the few that really matter.

Argue, Productively

Surface and discuss potential problems sooner. Work less "behind the scenes" before raising issues to the group. Challenge your colleagues. Acknowledge that problems occur. Turn them into opportunities.

Work over the past decade by psychologist **Vickie Dalton** and Lilly's chief alliance officer, **David S. Thompson**, CSAP, and their colleagues demonstrates that conflict, when well managed, actually improves alliance performance.[7]

You will need to take the lead—and the risk. Our research suggests that many alliance managers take great pride in their ability to identify and resolve situations before they rise to the level of actual conflict.

As an alliance brings two or more cultures together, it is highly unlikely that each approaches conflict management the same way.

This impulse runs a great risk of preventing your teams from developing the problem-resolution skills needed for success. As an alliance brings two or more cultures together, it is highly unlikely that each approaches conflict management the same way. Successful companies' cultures always include highly evolved mechanisms to identify and resolve conflicts.

Even two successful conflict-resolution approaches will rarely be compatible. The steps—formal and informal—roles, and even vocabulary can vary widely. In your role as alliance manager, an early task should be to begin to develop the conflict-resolution approach most suitable for the alliance. Testing and discussing that approach on low-risk conflicts will best prepare your team for the inevitable major problems.

Upping the Alliance Management Game

Alliance managers have earned the right to be taken seriously. Alliances have changed from something companies do "when they must" to well-honed strategic tools. They've found new purposes, become more sophisticated, and driven extraordinary value for many companies.

Like the gymnast who has finally made the Olympic team, however, the new challenge for alliance management is taking its game up several notches. Facing new threats—external and internal—today's alliance managers need to build on their successes by questioning some of their assumptions.

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Decades of M&A integration practice provide learning opportunities for alliance management experts. In M&A they'll find practitioners facing extreme scrutiny and intense time pressure. They have developed tools, approaches, and attitudes that are attuned to their environment. Underlying elements of those tools, approaches, and attitudes can actually revolutionize alliance management.

Already skilled alliance managers can refine their skills and approach with the help of these world-class M&A experts. While the two disciplines are different, the similarities offer openings to develop truly differentiating capabilities. It won't be as simple as cutting and pasting, or merely "adopting best practices." This refinement of alliance management must be built on a dialogue between top practitioners in area.

What's needed is the will to get started and an openness to questioning basic assumptions. Today we have examples of alliance managers who've moved in and made a big difference in M&A. Over the next few years, we expect that more of the top alliance managers will "go for the gold" by learning from M&A success. ■

Steve Twait is a pharmaceutical executive with more than 20 years of experience in integration and alliance management at AstraZeneca and Eli Lilly and Company.

Nick Palmer is a partner and managing director for North America at BTD Consulting, with more than 25 years of experience in alliance management and M&A.

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[1]Back in the days when I could understand Olympic gymnastics scoring: a simple zero to 10.

[2]Likewise, the converse is also true: Alliance managers can and do help their M&A colleagues to better achieve their objectives—personal and professional. This article, however, will focus solely on what alliance management could learn from M&A.

[3]"Behind the Camera or On the Podium," © BTD, 2020.

[4]See "Expanding Your Alliance Management Toolkit," BTD, 2021.

[5]These are drawn from the ASAP Alliance Manager Competency Model.

[6]Note that some companies are finding great success integrating M&A integration and alliance management, at least at a senior management level. Their experience suggests significant learning possibilities.

[7]See, for example, David S. Thompson, Gary Butkus, Alan Colquitt, and John Boudreau, "The Right Kind of Conflict Leads to Better Products," *Harvard Business Review*, Dec. 23, 2016, as well as the series of editorial supplements on alliance conflict that appeared in *Strategic Alliance Quarterly* in Q1 2020, Q3 2021, and Q1 2022.

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As a practitioner of collaboration in a variety of perhaps non-traditional alliance functions myself, I've found so many key elements of partnering and collaboration management for synergistic outcomes were perfectly encapsulated by ASAP's offerings.

—Kevin Little, CSAP
Senior Partnership Director
Novo Nordisk

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Contact our team at +1-781-562-1630 or visit **www.strategic-alliances.org** today!

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