

Steady as She Goes

How Focus, Discipline Help an Alliance Stay on Course

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Between the “Start-up” and “Wind-down” phases, the “Steady State” can last decades in some partnerships.

While the term “Steady State” implies a comfortable period in which everything is running along smoothly, that same period in the context of an alliance can prove to be anything but relaxed. In fact, managing an alliance during its Steady State could be inserted into the pilot’s adage that describes flying a plane as hours of mild boredom interrupted by moments of sheer terror.

Governance Design Part III. The third in a four-part series on alliance governance, which examines the “Steady State” phase of an alliance. In between the “Start-up” and “Wind-down” phases, the “Steady State” can last decades in some partnerships. At certain times, this stage of an alliance can be anything but smooth.



For the purposes of this article, we'll bring ourselves back to earth and define Steady State as the time between Start-up and Wind-down, which in many alliances can run for years and sometimes even decades. Because this much ground is difficult to cover—in one article as well as in one's career—we'll focus on a few major concepts that we hope alliance managers at all levels can use to help steer their alliances safely down the long and winding road of the Steady State stage.

Concentrate on High-Value Activities in the Steady State

In previous issues of *Strategic Alliance Magazine*, we have framed potential problems in three categories: human risk, business risk, and legal uncertainties. Issues that arise during the Steady State follow this same pattern, as you can see in the following excerpt from our Alliance Risk Matrix:

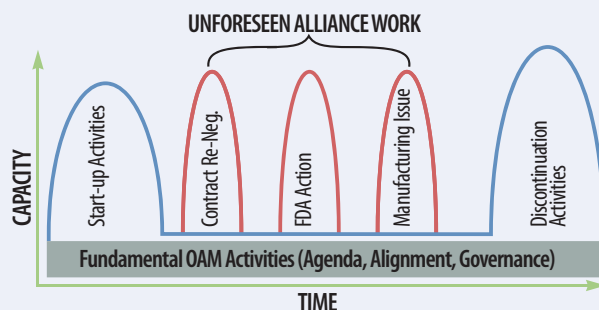
	Human Risk	Business Risk	Legal Uncertainties
STEADY STATE	<p>On/offboarding at all levels (team and leadership)</p> <p>VOA™ implementation and interventions</p> <p>Dealing with personnel performance issues at all alliance levels</p> <p>Reputation for being a fair/unfair partner is established</p>	<p>Execution of plans by crisis management team (process/internal/external)</p> <p>Governance assessment and evolution (structure will likely change several times over life of alliance)</p> <p>Trajectory of alliance performance is established</p> <p>Managing strategic changes experienced by each company (e.g., tensions created by downsizing, restructuring, change of control, etc.)</p>	<p>Audit preparation</p> <p>Contract amendment negotiations/processing</p> <p>Potential contract disputes/mediation/arbitration</p> <p>Managing changes due to companies' evolving strategy and tactics</p>

These risk factors present themselves during the Steady State phase because of the time period and nature of the work involved. Personnel turnover, performance issues, and contract amendment negotiations, for example, are developments we can expect to see. Other events, such as major changes at one or both partner companies or a crisis precipitated by negative study results or government action, might not be predictable but must be prepared for nevertheless.

It is helpful to recognize that these factors all present themselves within the overall flow of the Steady State. While several dynamics are at work during this phase, the first and most obvious to alliance participants is the formation of an alliance rhythm (see Figure 1.)

Team members have become acquainted, various groups have collaborated for a period of time, and what we might call the culture of the alliance has begun to take shape. Standard processes and procedures have been established and implemented at various levels of efficiency and effectiveness.

**FIGURE 1:
NATURE OF ALLIANCE WORK**



From Figure 1 it is easy to visualize this rhythm, with the blue lines representing the Start-up and Wind-down of an alliance and the red spikes representing unforeseen alliance work. Typically the spikes are the result of negative developments, and the alliance manager must focus squarely on managing any resulting crisis.

The second dynamic is the nearly imperceptible drift in three areas: operational rigor, strategic focus, and cultural openness between the companies. One could liken this concept to the drift that takes place in the Earth's continental plates—no one really notices a change until the morning everyone is awoken by an earthquake. In alliance management, if the strategic focus of the two companies drifts apart over time, one partner might begin acting in odd ways and the other partner might be in for a rude awakening. The 3-D Fit tool referenced in our last article is a great tool to identify and combat this drift.

For the purposes of this article we will focus primarily on the rhythm of an alliance during the Steady State and the approaches and actions that are needed to help keep that rhythm sound and healthy. (While we briefly discuss the slow, difficult-to-spot drift later in this piece, it will be covered in greater detail in a future article.)

Taken together, these spikes and drifts illustrated in Figure 1 provide the backdrop—and the impetus—for the actions alliance managers need to take to keep a partnership on track and moving forward.

Before we move on to discuss examples in each category, it is important to recall and emphasize an overarching principle of alliance management: Whether an alliance manager is addressing one of the spikes or the general tendency of relationships to drift, it is essential to focus on improving the areas in the alliance's value chain that matter most. As with any process, value is not created or destroyed equally in all of the interactions and decisions that affect value in an alliance. The best alliance managers identify the value inflection points early and spend a great deal of time making sure that these processes and events run smoothly and that decisions are made in a timely and effective manner. The following sections describe key inflection points that can, if managed well, yield superior value for the alliance.

I. The First Governance Meeting

Because the first governance meeting will establish the process and meeting rituals for all future governance meetings, proper planning and execution are extremely important. In the weeks before the meeting, be sure to set the appropriate expectations regarding meeting tone, discipline, and effective follow-up. Establishing this foundation should always be undertaken with the full involvement and commitment of each partner.

The meeting agenda should be challenging but achievable and agreed upon well in advance. Avoid walk-in topics if at all possible, and plan for sufficient breaks. "The mind cannot absorb what the backside cannot endure"—a phrase dating to Prince Philip, Duke of Edinburgh—should be your watchwords. Agenda topics should be a good mix of decisions that must be made by the governing body with a healthy dash of information sharing. Good pre-reads sent out well in advance will go a long way toward making the meeting more productive.

Prior to this first meeting, gather all participants from your side of the alliance and make sure that everyone is on board with the agenda and well versed in the various topics. Determine who will be the "voice" for each of the topics to address any potential questions or objections that might be raised by the partner.

If possible, plan for your governance meeting to be conducted over two days. Ideally you can begin the meeting the afternoon of the first day, have dinner together that night, and continue the next morning, concluding around noon for lunch.

This type of meeting schedule accomplishes several important purposes. First, it allows time for subgroups to meet face-to-face before or after the meeting. Second, it allows a dinner to be shared and provides a more informal setting to solve issues that may have arisen during the first day. Third, if the meeting is structured appropriately, the most difficult topic will be discussed at the end of the first day, allowing for further discussion over dinner, a night to sleep on it, and a continuation of the discussion in the morning. Fourth, a shared meal again at lunch allows for a pleasant end to the meeting. If the agenda is structured well, the topics that are addressed at the end of the meeting will be simple ones that the two parties can agree upon. In musical notation, this meeting flow would form a crescendo and decrescendo, starting soft and slow, building to a climax, and ending soft and slow.

In addition to an agenda, we recommend using a meeting-minute template that will enable future alliance participants to easily go back and see how and why decisions were made. We have found that a best practice in managing governance meetings is to document the decisions or action items at the end of each topic during the meeting. Ask the participants—the committee co-chairs in particular—for agreement on the exact wording of decisions and action items, with the aim of avoiding disagreements in the future.

Finally, be a student of body language. If the members of the governance body that you are facilitating appear tired, take a break. If a governance team member is upset and wants to ask a question, pause and welcome it. Always help your governance team make the most of their time together. Setting a strong example of what all governance meetings should look like reduces business risk, human risk, and legal uncertainties.

II. The First Dispute

The first dispute is likely to happen shortly after deal signing. It is important that the experience be kept as positive as possible. It is completely natural that two parties can have differing views on any particular subject. Be respectful of



those views. Assume innocence as to the motives underlying the dispute. Before locking into a hard position, be patient and wait for the facts to come in. Be gracious, even if your partner is not. Keep in mind the adage to “choose your words carefully, as you may have to eat them later.” If this is starting to sound like your grandmother’s advice—well, she was right! If the first dispute is handled well, it increases the likelihood that future disputes also will be settled successfully.

Once you’ve reached a resolution, make sure that the dispute is appropriately documented. If the topic warrants, have the documents reviewed by both your legal department and your partners. Produce one set of documents that both parties agree captures the essence of the dispute. These documents might be used in the future as pre-reads for the escalation process, and often in the process of producing these joint documents the disputing parties find they have resolved the disagreement and no further work is needed. The first dispute is the perfect opportunity to set the right tone and continue to reduce business and human risk, and legal uncertainties.

Consider and Manage the Consequences

When things go badly, one thing is certain: having a crisis management process already in place will pay for itself many times over. The establishment of an alliance crisis management team should include two parts. First, each company should have its own crisis management team in place for the alliance. Second, there should be a joint crisis management process in place that clearly ties each individual company’s processes together. The group should meet—at least over the phone—to go over the process. There should be an agreed-upon “communication tree” that can be used to rapidly bring the appropriate people together. Since crises do not typically limit themselves to standard working hours, detailed contact information will need to be exchanged by members of the crisis unit.

A member of our Office of Alliance Management, **David Herrin**, is also a lieutenant colonel in the U.S. Army Reserve. He has served with honor and has been awarded a Bronze Star Medal. During one of our many conversations about leadership and the characteristics that make a leader great, he mentioned an ability that we believe is inherent in great alliance leaders. He described the attributes of someone who can foresee the first-order, second-order, and third-order consequences of an action and can modify his or her behavior to avoid the negative aspects of these consequences. Here

is an example of thinking through these consequences in an alliance situation:

A senior governance member is upset with a partner’s lack of responsiveness to reviewing and approving press releases. He decides to “teach the partner a lesson” by sending a letter to the other company’s CEO, skipping the escalation process as outlined in the contract. It is the senior member’s hope that this embarrassment will speed up the process. In that letter the senior governance leader cites the contractual language that specifies the time allotted for certain activities and alludes to this as being a “technical breach of the contract.”

- **First-order consequence:** The CEO is both embarrassed and upset by the letter and calls his staff in to discuss the allegations.
- **Second-order consequence:** During the course of the follow-up meeting, the CEO learns that the senior governance leader’s company has been late making payments associated with their alliance, also in violation of the contract.
- **Third-order consequence:** The CEO responds to the senior governance leader, first thanking him for the letter and then admonishing him for not following the contract’s escalation process. A few weeks later the senior governance leader’s company receives a bill for the penalties associated with the late payments.

The ability to think through the first-, second-, and third-order consequences is a good first step in demonstrating solid judgment and the acumen that will ultimately reduce business and human risks and legal uncertainties.

III. Alliance Drift

As we mentioned earlier, strategic drift, operational drift, and cultural drift are continuously unfolding during the life cycle of an alliance. And while drift in each of these areas is related, the consequences of each unfold at different times and rates. Operational drift, for example, usually happens more quickly than strategic drift, and strategic drift happens more rapidly than cultural drift. In the case of an alliance, the first sign of a strategic shift is likely to be seen in the operations of the partner company. Operational issues such



as budget cuts, leadership turnover, or team restructuring may occur well in advance of less widely known corporate strategic shifts.

During the Steady State phase, alliance managers should pay careful attention to the operational dynamics between the partnered companies. Using Voice of the Alliance™ surveys and similar tools can be helpful in spotting shifts. It is also helpful to develop a strong relationship with the finance department and the team members that usually coordinate these types of activities. Doing so can give an alliance manager advance warning of “tectonic” shifts going on in an alliance from the perspective of operational drift. Although drift can have an upside—namely in creating an awareness of new opportunities—if managed poorly, unrecognized drift can lead to messy and untimely Wind-downs. Paying attention to drift pays off in reduced risk for the alliance.

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Summary

- Focus on improving the areas in the alliance’s value chain that matter most.
- Be an expert at planning, running, facilitating, and recording the output of governance meetings.
- With your partner, arrive at a common understanding regarding the spirit that should prevail during disputes and how best to assure that the parties will maintain that spirit.
- Handle each dispute carefully, assuming innocence until proven otherwise.
- Think through the first-, second-, and third-order consequences of alliance interactions before committing to a decision.
- Be aware that underlying corporate drift is occurring constantly; become a student of its leading indicators and develop risk-mitigating plans.

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