

## **MANAGING INTERORGANIZATIONAL ALLIANCE TEAMS**

In one of his final articles, management guru Peter Drucker noted that “the greatest change in corporate culture—and in the way business is being conducted—may be the accelerating growth of relationships based not on ownership but on partnership; joint ventures; minority investments cementing a joint marketing agreement or an agreement to do joint research . . . alliances of all sorts.”<sup>1</sup> Indeed, just as the growth in virtual teams has exploded, one of the most important trends in the global business environment over the past twenty years has been the explosion of alliances between companies. Consider the fact that the percentage of revenues derived from alliances from the top one thousand U.S. public corporations grew from 3 percent in 1975 to almost 30 percent by 2000, an astounding growth rate that is expected to continue. Research suggests that within the top one thousand U.S. public corporations, alliances now account for roughly 35 percent of revenues.<sup>2</sup>

The growth in alliances is driven by organizations that are outsourcing activities and focusing on a narrower set of core competencies as they team with other companies with complementary skills. This has been possible because advances in communication technologies have allowed more effective inter-organizational coordination across firm boundaries. However, this has created a complicated situation in which two companies are trying to create synergies by combining their diverse skills. To achieve those synergies, the partnering organizations must create an interorganizational alliance team to coordinate the

efforts of both companies. Thus, these teams are being formed in greater numbers than ever before. The challenges that these teams face are formidable. Indeed, most studies on alliances show that 30 to 50 percent fail to meet the objectives outlined by the alliance team at the beginning of the alliance.<sup>3</sup>

Why the high failure rate? According to a PricewaterhouseCoopers study of alliances in the pharmaceutical industry (mostly between large pharmaceutical companies and biotechnology companies), the top four reasons for alliance failure were (1) differences in partner cultures, (2) incompatible partner objectives, (3) poor alliance leadership, and (4) poor integration processes.<sup>4</sup> Each of these is related to a failure in managing the alliance team rather than a “failure in technology” or “changes in the business environment” (two other top reasons), two factors that clearly can derail an alliance but are largely beyond the control of the partners. In short, the number one reason that alliances fail is an inability to manage the alliance team effectively.

In this chapter we address important questions related to how to manage alliance teams effectively:

- How does an alliance team differ from a traditional team?
- What are some processes that have been found to be effective in improving the functioning of alliance teams?
- How can team building be done on a regular basis to solve problems in the alliance team and keep the alliance on track?

## **How Alliance Teams Differ from Internal Teams**

Alliance teams differ from typical internal teams in at least four important ways.

### **Organization Culture Clashes**

The alliance team is composed of individuals from dissimilar organization cultures, meaning different contexts for teamwork

and the composition of team members. As a result, team members often have differing values and beliefs, and they come to the team with different norms regarding decision-making processes, communication, work styles, and reward systems. As a result, interorganizational teams face problems similar to those associated with culture clashes after an acquisition.

### **Lack of Trust**

Alliance team members not only must worry about value creation (increasing the size of the pie) but must also simultaneously be concerned about value appropriation (making sure their company gets a fair share of the pie). Because each company is trying to appropriate maximum value from the relationship, the dynamic is that alliance team members feel that they must cooperate and compete at the same time. Building trust is more challenging because each company is trying to capture its fair share of the pie. As a result, coordination is more difficult to achieve because knowledge does not flow as freely between team members due to lack of trust and the wish to prevent undesirable spillover of knowledge or intellectual property.

### **Shared Decision Making**

Alliance teams often have more than one level of management involved from each partner, and significant decisions typically must be approved by key decision makers within each partner organization, sometimes by those not part of the alliance team. Lack of complete control over decisions is a challenging dimension of alliance execution.

### **Team Size and Expertise Duplication**

Alliance teams are often larger than an internal project team because functional expertise is often duplicated on alliance teams

to ensure that each partner's knowledge is fully used in completing tasks and making decisions. For example, internal cross-functional teams typically include a representative from key functional areas such as research and development, engineering, manufacturing, logistics, marketing, sales and distribution, and so on. However, in most alliance teams, each partner wants a voice in the product development, marketing, distribution, pricing, and branding plans, so that they feel comfortable that the alliance plans fit their own company's strategic objectives. As a result, there are often two people from marketing on the alliance team (one from each partner), two from logistics, two from research and development, and so on. Of course, some duplication is necessary in order to achieve the desired synergies and ensure that the alliance uses each partner's expertise. But it also makes the team large, complicates communication, and often leads to conflicts due to differing perspectives across the partner organizations.

### **Managing Alliance Teams: Lessons from Eli Lilly and Company**

Eli Lilly and Company is among a small number of companies that have distinguished themselves as leaders in the management of strategic alliances.<sup>5</sup> Lilly has been featured in numerous articles and has received the Corporate Alliance Excellence Award from the Association of Strategic Alliance Professionals for having "achieved dramatic success in its alliance programs through excellent alliance management."

Lilly has been engaged in alliances at least since the 1920s, when it began working with University of Toronto scientists Frederick Banting and Charles H. Best, who had isolated insulin and demonstrated its value in managing insulin-dependent diabetes. They identified the molecule; Lilly had the capabilities to optimize its production and market it. Since then, much of Lilly's

success in diabetes care has been partnership based. For example, Genentech Inc. cloned and then licensed to Lilly recombinant human insulin (Humulin), which, with Lilly's own modified analog molecule (Humalog), accounts now for almost 100 percent of Lilly's total insulin sales.

In the mid-1990s, Lilly recognized that alliances with biotech companies would be critical to accessing a new pipeline of drugs. Consequently, in 1999 it established the Office of Alliance Management (OAM) and made a commitment to being the premier partner in the pharmaceutical industry.

During the due diligence visit to each potential partner, an OAM team member conducts a cultural assessment of the partner before the alliance is established. The team member also assigns an alliance manager to each newly formed alliance to act as an "honest broker" and help manage the complexities of the alliance relationship (the alliance manager supports the alliance leader, the Lilly person who is responsible for managing the alliance team with the partner's alliance leader on a day-to-day basis). The OAM has developed a tool kit, or set of processes, specifically designed to help manage the idiosyncratic features of alliance teams. The alliance manager's job is to become proficient with that tool kit. In the following sections we describe some of the processes that have helped Lilly become a leader in managing alliance teams.

### **Cultural Assessment: The Due Diligence Team**

After establishing hundreds of alliances, Lilly has learned that "differences in partner cultures are the number one reason for alliance failure."<sup>6</sup> As a result, after identifying potential partners, Lilly tries to assess whether they will be able to work together effectively on an interorganizational team.

Lilly has developed a process of sending a due diligence team to the potential alliance partner to do a systematic evaluation of

the partner's assets, resources, and processes and to assess the partner's culture. The team (between two and twenty people depending on the size and complexity of the partner) visits the potential partner for two to three days to assess the partner's financial condition, information technology, research capabilities, quality, health and safety record, and culture.

During the cultural assessment, the team examines the potential partner's corporate values and expectations, organization structure, reward systems and incentives, leadership styles and decision-making processes, human interaction patterns, work practices, history of partnerships, and human resource management practices. Lilly can identify potential areas of conflict if it can understand the following:

- Differences in corporate values, such as different priorities placed on growth, revenues, profitability, and innovation
- Differences in organization structure, such as whether the partner has a centralized or decentralized management approach
- Differences in decision-making styles, such as whether the partner values fast decision-making processes versus slower consensus-building processes or whether the partner values disagreement and debate
- Differences in leadership styles, such as whether the partner tends to rely on autocratic versus more nurturing leadership styles
- Differences in reward systems, such as whether the partner rewards high-performing employees with stock options or bonuses or promotions or bigger offices and titles

Nelson Sims, Lilly's former executive director of the OAM, claims that the due diligence process and cultural evaluation is

used as both a screening mechanism and a valuable tool to assist Lilly in organizing, staffing, and governing the alliance team. States former Lilly alliance manager David Haase:

The assessment is extremely valuable in helping us to select a person to lead the alliance team. We want someone who we think can work well with the particular partner . . . In one case we found that a potential partner had a culture that fostered very quick decision making, which was not particularly compatible with our decision-making processes that tend to be slower. In this case, we were able to design the governance arrangement and structure to give more autonomy to our alliance leader, and to empower him to make quicker decisions.

In short, Lilly's cultural assessment helps it understand why an alliance team may fail even before it is formed. By understanding what factors may throw the team off track, it can educate team members so that they are aware of potential conflicts and can staff and govern the team in a way that will increase the probability that the team will work well together.

### **Strategic Futures Exercise**

Once an alliance team is formed, Lilly conducts a strategic futures exercise to make sure all members of the alliance team are clear on the strategic intent of the alliance relationship. During this exercise, all team members have the opportunity to describe what they think are the key objectives of the alliance team. Each member responds to two questions:

- What specifically are the alliance team's goals and objectives next year and three years from now?
- How does each team member prioritize those goals?

After identifying and discussing the team's goals, the team engages in a discussion to identify what they think will be the key barriers to achieving those goals. These could be technological challenges, regulatory challenges, marketing or distribution challenges, or simply specific challenges associated with working together effectively. After identifying the key barriers, the team discusses strategies for overcoming those barriers. This discussion is critical because by anticipating the barriers to goal achievement and devising some initial strategies to respond to those barriers, the team is able to avoid the problems that often beset alliance teams early in the relationship. Moreover, this discussion helps the team identify the operating principles by which they are going to make the relationship work. Finally, this discussion helps build trust among team members by helping them see that they are committed to common goals.

### **Strategic Decision-Making Template**

After completing the strategic futures exercise, Lilly's alliance teams develop a decision-making template in a two-step process to assist the team with the intricacies of shared decision making:

1. Identify the key decisions or types of decisions that the team will need to make.
2. Identify which persons or organizational unit is responsible for making each type of decision (for example, steering committee, operating committee, task team, functional pairs of individuals).

The team usually starts by identifying the most important and challenging decisions and then works down to the less critical decisions. It then typically assigns responsibility for making those decisions to the cochairs of one of the alliance team's three (sometimes more) decision-making units (steering committee,



operating committee, or task team) or to a functional pair of individuals. There should be clarity regarding who signs off on changes in the project budget or allocation of funds; who makes decisions about licensing jointly developed intellectual property; who makes decisions about product pricing; who decides on the wording, content, and timing of press releases; and so on:

- *The steering committee* is the highest-level decision-making body and typically comprises senior executives from both organizations. This committee signs off on the most critical strategic decisions, such as the project budget, capital investments, deployment of intellectual property, and the product development plan.
- *The operating committee*, a step below the steering committee, comprises senior managers from both sides who are involved in the day-to-day activities of the alliance. It typically is charged with making resource allocation and personnel decisions and approves specific work plans for the team.
- *Task teams* typically are subteams within the larger alliance team that are charged with performing specific tasks, such as developing the manufacturing, marketing, or distribution plans, or working with government bodies to get regulatory approval.

Finally, within the alliance team, Lilly typically forms functional pairs, or individuals within the same function from both organizations who must make specific decisions about development, marketing, distribution, manufacturing, finance, and so on.

It is often the case that the alliance team will form a functional pair in marketing and give primary responsibility for key marketing activities to an individual at one of the partner organizations (the “lead”). This individual may then develop plans

to target specific decision makers with a particular marketing pitch through particular media. However, before making the final decisions with regard to the marketing plan, the individual must get the input and sign-off on these decisions from his or her “functional pair” from the partner organization. This is important because the functional pair understands how marketing is done at the partner organization and will know whether the marketing plan is consistent with that company’s processes and values. Disagreements on decisions between functional pairs often are then elevated to a task team or operating committee level. Similarly, key disagreements at the operating committee level typically will be addressed by the steering committee.

When the strategic decision-making exercise is completed, the alliance team has tremendous clarity on what decisions need to be made, who will make the decisions, and what will happen if there is disagreement on a particular decision. Gary Stach, Lilly’s executive director of OAM, summed up the strategic decision-making process as follows: “So you basically just map out the decisions each level needs to make, gain alignment to make those decisions, put the boundaries on them, and then let the team do its work. Of course, that’s often a lot easier said than done.”

### **Communication and Work Planning Documents**

In addition to creating a decision-making template, Lilly’s alliance team develops a communication and work planning document that (1) identifies each major task that the team needs to perform; (2) for each task, identifies who is responsible for doing the work, who is accountable for the end product, and who needs to be consulted or informed once the work is completed (Lilly refers to this as the “RACI process”); and (3) outlines the primary methods of communication, including the frequency of communication, among those who are responsible, accountable, or need to be consulted or informed.

One of the unique features of alliance teams is that they often tend to be large, principally because functional expertise is duplicated within the team. As a result, it is easy for tasks to fall through the cracks (“I thought you were responsible for that task”) or for there to be a lack of communication among those who believe that they should be consulted or informed (“You should have consulted with me about those results; I could have told you a different way to interpret the data”). Lilly has found that the RACI work planning process is extremely effective at ensuring that work planning on alliance teams is done properly. States Lilly OAM alliance manager Michael Ransom:

The bottom line is that the RACI process is basically a way to divide and assign responsibilities for the work, and develop effective work processes. Who’s going to be responsible for doing the work? Who’s accountable for the end product? Who do you need to consult with, and then who needs to be informed once you get the work done? We’ve found this to be a very effective work-planning approach. The RACI process keeps all of the right people involved.

After going through the RACI process for each task, the team discusses and agrees on how and what kind of information they are going to share with each other. This is a practical way of deciding when to use e-mail, voice mail, videoconference, electronic data interchange, and face-to-face meetings (see chapter 13 on how virtual teams use technology to communicate). Their goal is to make communication within the alliance team as open and transparent as possible. However, there is also the need for a common understanding of what kind of information or technology is proprietary to a particular partner organization and will not be shared. This helps identify the boundaries of what information can, and cannot, be shared within the alliance team.

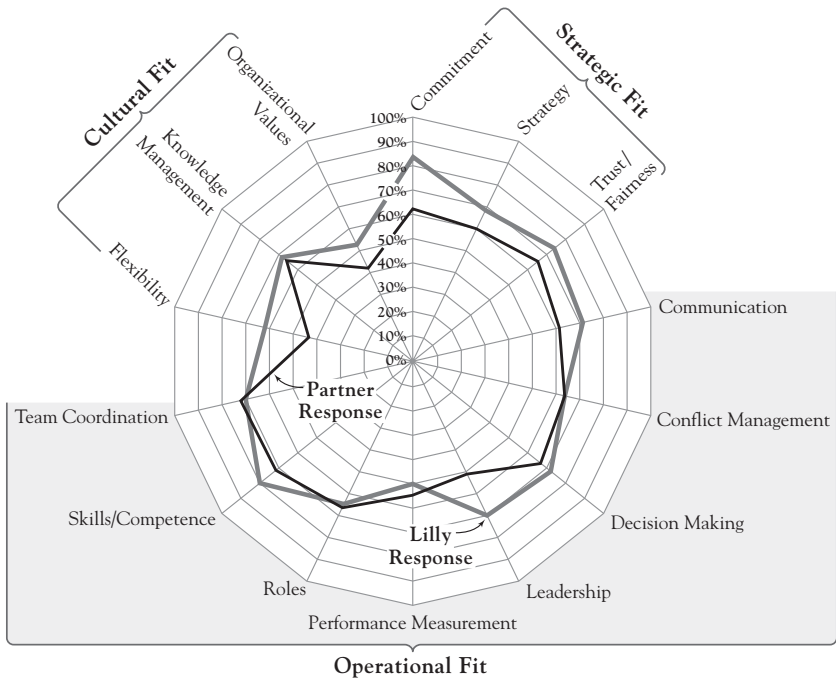
## **Keeping the Alliance Team on Track: Annual Health Check**

Lilly does regular team building on its alliance teams through a process it calls the “annual health check.” It has developed a proprietary survey to check the health of its alliance teams on an annual basis. The annual health check survey provides an understanding of how the alliance team is performing in terms of fit:

- *Strategic fit* between partners, including commitment of the partners, alignment of the partners’ objectives, and relationship qualities such as trust and fairness
- *Operational fit*, including attributes of effective organization and management, leadership, communication, and conflict management processes
- *Cultural fit*, including compatible values and ways of working together, especially ways appropriate to a knowledge industry

Lilly uses the health check survey to assess the relative health of its larger partnerships at a particular point in time. The survey captures the differences between the way that Lilly participants and partner participants on the alliance team view the partnership in terms of how well the team is working together to achieve common goals.

Conceptually, the health check survey evaluates the degree to which the alliance team is succeeding on the broad categories of strategic fit, operational fit, and cultural fit. It then defines fourteen categories that underlie those macrodimensions. For strategic fit, the Lilly survey uses three categories to define the dimension: commitment, strategy, and trust and fairness. For operational fit, the survey uses eight categories: communication, conflict management, decision making, leadership, performance measurement, roles, skills and competence, and team coordina-

**Figure 14.1 Measuring Alliance Health**

Note: Percentage of team members rating each dimension as favorable.

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tion. For cultural fit, the survey uses three categories: organizational values, knowledge management, and flexibility (see figure 14.1). To measure each dimension, the instrument asks respondents to rate their degree of agreement with specific statements or questions. For example, to measure commitment to the alliance team, the survey questions focus on such things as each partner's follow-through or understanding of the importance of the alliance for both companies. To measure knowledge management, the questions probe respondents' views on each partner's knowledge sharing and use of learning practices. Finally, the survey asks a set of broad "outcome" and "satisfaction" questions

to assess the extent to which respondents believe the alliance is achieving its goals and objectives.

Although the survey and the specific questions that Lilly asks are proprietary, we offer a sample of the types of questions that Lilly might ask in each category based on our understanding of alliance teams and the challenges they face in succeeding (see figure 14.2). The survey respondent is asked to indicate the extent to which he or she agrees with each statement. Once the data are gathered and analyzed, they are reported back to the alliance team by the alliance manager from the OAM, who facilitates a discussion of the results. The most useful report for Lilly is the “spider web” chart that graphs the findings for both Lilly and the partner on a circular grid. Using this graphic, Lilly and its alliance partner can easily see the categories that Lilly and the partner agree are strong, the categories both view as areas needing improvement, and categories that they evaluate differently—the gaps in perception. For example, in figure 14.1, at least 70 percent of the survey respondents at both Lilly and the partner give a favorable rating on skills and competence (meaning 70 percent of the respondents agreed or strongly agreed with the survey items that assess the extent to which Lilly is bringing the necessary skills and competence to the alliance). Both also view “performance measurement” as a relatively weak area, giving it less than a 60 percent favorable rating. But they have clear differences on “commitment” and “flexibility,” with Lilly participants indicating that they think Lilly is quite committed and flexible, whereas the partner does not feel that Lilly is as committed and flexible. In this case, the gap in perception on commitment and flexibility would point to areas that would be addressed in the health check review session. Of course, “performance measurement” would also be addressed since both Lilly and the partner felt this was a problem area.

The survey is used when there are at least ten direct participants on the alliance team from both Lilly and the partner. That size ensures that the quantitative results will be meaningful. In

the case of alliances with fewer than ten team members from each partner in which a large-scale survey would not be statistically meaningful, Lilly has developed a focus group process that allows the alliance manager to probe into the same issues. The initial effort was to use the survey to evaluate only Lilly's capabilities and performance as a partner, since a major purpose of the health check is to make sure Lilly is being a good partner. But in many cases, the partner requested that its capabilities and performance in the alliance be included in the survey as well. More recently, the survey has been modified so that both companies answer questions about the alliance and about the partner. The end result is the same. The survey helps pinpoint areas in which the alliance team can take steps to improve both the relationship and team performance.

Does the health check help build healthy alliance teams? Absolutely. Alliance partner respondents say that Lilly has substantially improved its ability to recognize and resolve team difficulties in the partnership at an early stage, before they become stumbling blocks. In some cases, Lilly found that it needed to replace its alliance leader. Former OAM executive director Sims said, "Through these assessments we found that we had to occasionally make some leadership changes. They were not bad leaders, just not a good fit with the particular alliance." Alliance team failure, like a failed marriage, is often the culmination of a chain of events that eventually escalates toward the collapse of the relationship. The health check allows Lilly to send in a "marriage counselor"—in this case, the alliance manager—to help get the relationship back on track before it ends in a messy divorce. Sometimes the health check session does not reveal any major problems but instead results in a simple improvement in the day-to-day working relationship. In other instances, the health check process directly improves project results and outcomes.

The case of an alliance with a small biotechnology company on the west coast of the United States illustrates how the health

## Figure 14.2 Examples of Potential Survey Items for a Health Check Survey

*Instructions:* Respond to the following statements on a scale of 1 to 5:  
1 = Strongly Disagree; 2 = Disagree; 3 = Neither Agree nor Disagree; 4 = Agree;  
5 = Strongly Agree.

### **Strategic Fit**

#### **Commitment**

- 1. Lilly is committing the resources necessary to make the alliance successful.
- 2. Lilly team members demonstrate their commitment to the alliance by following through on promises and commitments.
- 3. Lilly is highly committed to the alliance relationship.

#### **Strategy**

- 1. The alliance has a well-defined strategy for achieving the desired outcomes for both partners.

#### **Trust and Fairness**

- 1. Lilly team members are willing to make adjustments in ways perceived as “fair” by the alliance partner (Lilly is fair).
- 2. Lilly team members are trustworthy and would not take advantage of our firm in this alliance relationship even if they had the chance (Lilly is trustworthy and shows goodwill).

### **Operational Fit**

#### **Communication**

- 1. We are extremely satisfied with the communication processes that Lilly has established to maintain effective communication with our firm.
- 2. Lilly team members are open and transparent in their communications with our firm.

#### **Conflict Management**

- 1. We are extremely satisfied with Lilly’s ability to resolve disputes or disagreements that we have had during the alliance.
- 2. We frequently have conflicts and we are not effective at resolving those disagreements.

#### **Decision Making**

- 1. Lilly’s decision-making processes are efficient and timely.
- 2. Lilly’s decision-making processes are effective.
- 3. The right people are always involved in making key decisions.

#### **Roles**

- 1. Lilly is effectively fulfilling all of the obligations and the roles it was assigned at the beginning of the alliance.

#### **Performance Management**

- 1. The alliance team has clear and measurable performance metrics.

#### **Leadership**

- 1. Lilly’s alliance leader is providing effective leadership for the alliance.



**Figure 14.2 (Continued)****Skills and Competence**

1. Lilly has shown that it is highly competent and has the skills necessary to perform the tasks that it is responsible for completing.

**Team Coordination**

1. The alliance team is coordinating very effectively to achieve the alliance's goals.

**Cultural Fit****Organizational Values**

1. Lilly team members behave in ways that reinforce Lilly's espoused organizational values.  
 2. We find that our organizational values frequently clash with Lilly's organizational values.

**Knowledge Management**

1. Lilly team members quickly share whatever information and knowledge they have to help the alliance achieve its objectives.  
 2. We trust that confidential knowledge and data shared with Lilly will be kept confidential.

**Flexibility**

1. Lilly is very flexible and able to make quick adjustments when necessary.

**Overall Success and Satisfaction**

1. Overall, this alliance is on track to deliver significant value to our company.  
 2. We are highly satisfied with the results of the alliance to date.  
 3. We are highly satisfied with Lilly as a partner.

check survey uncovered a gap in communication and knowledge sharing within the alliance team. The members of the team found that the problems were created by the geographical distance between Lilly and the partner and by information bottlenecks. Key alliance members at Lilly and the partner sent electronic messages to each other but sometimes did not share those messages more broadly or in a timely way.

To solve the problem, the partnership added a new communication tool to the alliance, a discussion database software application (much like the virtual work space described in chapter 13). The discussion database eliminates the gatekeeper role in the alliance and permits data to be shared in real time

by all participants. For example, one alliance member can post a research result, and many people can read and comment on the results as well as any responses to the results. It has also increased the active engagement in the project of the scientists on both sides because the software gives them greater opportunity to comment and provide suggestions for the project. Videoconferences between scientists are more productive because the scientists now immediately post their experimental results on the database, which gives alliance team members additional time to review the results before a discussion begins. The intervention, which began with the health check survey, eliminated an important communication bottleneck and has increased the speed with which the alliance is pursuing its original objectives.

In another instance, the health check survey led to a dramatic improvement in the success of a Lilly alliance with a leading medical school. The purpose of the alliance is to determine which cancer therapies work most effectively with which patients on the basis of their genetic type. The project uses fairly elaborate tracking of cancer patients, therapies, and tumors and is heavily dependent on collecting and analyzing tissue samples from cancer patients. The survey uncovered concerns about the operational processes the alliance used to gather and record the data.

After discussions among the alliance leadership team, the alliance members together reengineered the processes used to gather and report the data. The changes resulted in a 96 percent reduction in cycle time, from 4.5 hours per patient for data management to 10 minutes, and an 18,000 percent increase in productivity, from 4 specimens and no accompanying clinical data in year 1 to 720 specimens with complete clinical data in the first two months of the following year. The medical school met its entire year's goal in just two months, which enabled the alliance to radically improve productivity without increasing cost.

**In Summary**

Alliance teams are becoming an important part of the business landscape, and organizations that are able to manage them effectively will have a distinct advantage in the marketplace. We have described some of the unique challenges associated with managing alliance teams, including incompatible cultures, shared decision making, differing goals, and large teams. In addition to the challenges we have identified, alliance teams are even more difficult to manage because they tend to be temporary and virtual. Thus, we recommend that managers of alliance teams understand how to effectively manage both temporary teams (see chapter 11) and virtual teams (see chapter 13).

Despite these unique challenges, some organizations, including Eli Lilly, have had a successful track record of creating and managing alliance teams. We believe that the process of planning and executing an alliance team that Lilly has developed provides an excellent template for other organizations to follow, recognizing that some of the steps in the process may need to be modified to meet specific needs and situations. If an alliance team regularly gathers data and assesses its performance, it then can engage in various team-building activities to improve its functioning and performance. To the extent that an organization thoughtfully creates these teams, actively manages them, regularly monitors their progress, and takes corrective action as needed, such teams can spell the difference between success and failure.