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Dr. Roger G. Harrison has more than 30 years of experience in the pharmaceutical industry. He earned his PhD in Organic Chemistry from the University of Leeds, in England in 1971, and then conducted post-doctoral research at the University of Zurich in Switzerland. He joined Eli Lilly & Company in the United Kingdom in 1972 as a Medicinal Research Scientist, subsequently transitioning into management, where he had responsibilities for research, product development, and regulatory affairs. In 1984, he moved to the headquarters of Lilly in Indianapolis, and remained with the company until early 2001. During this time, Dr. Harrison had leadership responsibilities in research, product development, project management, global team leadership, and alliance management. Dr. Harrison became CEO and President and a member of the board of Antares Pharma, a publicly traded Specialty Pharmaceutical company in 2001, and led the company through development of successful partnering programs and fund raising before leaving in September 2004. He currently acts as an industry consultant. He has numerous publications and patents in diverse fields and has co-authored four books. He is recognized as knowledgeable in most areas of pharmaceutical research, product development, regulatory affairs, and development of medical devices.

Alliance Management: Making Partnerships Succeed

By: Roger G. Harrison, PhD, Industry Consultant

Introduction

Specialty Pharma companies bring value-adding drugs to the market. But not all such firms are self-sufficient enough to achieve this. Thus, strategic alliances can be important in enabling companies to most effectively achieve their goals.

Alliances between companies are celebrated at their initiation by mutual congratulations, plaques, press releases, and other signs of enthusiasm. However, very shortly after, the attention of at least one of the alliance partners, typically that with the broader and more diverse portfolio, moves to the next project, and the operational teams are left to work through the process of delivering the anticipated value of the relationship. Despite the clear recognition of the importance of alliances to many networked companies, the ad hoc nature of alliance formation and subsequent management lays a foundation for an inevitable high failure rate. Estimates indicate that as many as 60% to 70% of alliances fail to deliver on expectations, and some may, unfortunately, end in acrimonious legal wrangling. However, some companies do have a more successful track record, and those that have processes in place for building and sustaining alliances are claimed to have a 90% success rate compared with less-experienced companies, according to a survey published in the Spring 1998 issue of *Strategy and Business*.

There is no doubt that the knowledge and technology base required by many industries has expanded beyond the capability of a single firm to remain competitive without a network of external relationships. Many large companies will have more than 100 such alliances, and smaller companies may have their future success virtually entirely dependent on key alliances. With this level of importance to large and small companies, and the substantial investment in time and money, companies must understand how to establish, sustain, and measure progress with their alliances, and, at the same time, ensure that learning from one alliance relationship is transferred to others.

Table 1: Reasons Partnerships Fail

1. Cultural Differences
2. Lack of Strategic Alignment
3. Poor Leadership
4. Poor Process Integration
5. Change of Perception of Value
6. Technology Failure
7. Change of Business Environment
8. Poor Governance

Source: Adapted from PricewaterhouseCoopers' survey of biotechnology company alliances with pharmaceutical companies, 1999.

Laying A Foundation For Success

"An alliance is a long-term, mutually beneficial relationship between two or more partners, in which resources, knowledge, and capabilities are shared with the objective of enhancing each partner's competitive position," as defined by Eli Lilly and Company. This limits the scope of alliances to preferred provider agreements, research and development agreements, licensing agreements (in which the licensee retains some active involvement), and co-marketing agreements, while excluding mergers and acquisitions, straightforward purchase agreements, and provision of services. The companies that successfully manage alliances are those that have established internal procedures and measures that focus on how value will be delivered. However, those same companies typically plan for success before the alliance is initiated. This means that such companies have a method in place for evaluating opportunities, ensuring that these are aligned with the company's strategy, and that a competitive business case (particularly compared with internal projects) is developed.

Once a potential partner company has been identified, a key next step is to ensure that there will be no obvious disconnects in culture, strategy, or operational aspects. Perhaps, surprisingly, cultural differences (respective reward and recognition processes, team behaviors, decentralization, decision-making authority, value systems, and how a sense of urgency is created) are cited as the most significant reasons for alliance failure, according to PricewaterhouseCoopers (Table 1). If so, time spent on ensuring an understanding of respective cultures will be well worthwhile. An understanding of cultural differences will avoid future misunderstandings. No attempt should be made to change the culture of a partner company, although one can anticipate that a high performance alliance team may develop its own subculture. Occasionally, the cultural differences identified in an early due diligence process may be sufficient to discourage the formation of an alliance, and the parties would be better advised not to move forward, despite what may appear to be encouraging strategic and operational synergies.

Table 2: Citation Frequency of Reasons for Alliance Failures

Mismatch of partner strategies	55%
Partner unable to deliver on expected competencies	53%
Operational problems	52%
Mismatch of partner cultures	52%
Lack of trust	45%

Source: Adapted from de Man and Duysters, 2002.

The next important stage of ensuring alliance success is negotiating contract terms. Each company involved in the negotiation should propose fair conditions so that the final contract is a win-win for all parties involved, and creates a foundation for trust as the companies move forward. When contract terms are agreed upon, legal teams can prepare the final contract. Much of the contract can include standard language, but two important facets should be considered.

First, not every contingency can be anticipated within the initial contract. Changes are likely to occur within the document over time. Alterations can also be managed quite rapidly, if the teams have developed appropriate trust. Note that the underlying financial terms should be fixed at the outset.

Second, attention should be focused on the governance structure for the alliance. A steering group (responsible for strategy, policy, and financial oversight) and an operational group (responsible for delivering the plan) are critical. Each of these teams should have representatives from each partner company, and should be able to maintain decision-making authority. Clarity in decision-making, particularly in relation to contract changes, is critical to success and trust within the alliance.

Implementation

The operational team should deliver on expectations. Companies that successfully implement their partnerships have learned why alliances fail (Tables 1 & 2) and have put structures in place to avoid, or manage effectively, these issues. For example, companies that build a dedicated alliance management department have a 25% greater success rate than those that do not, according to an article titled "How to Make Strategic Alliances Work" in *MIT Sloan Management Review*. Alliance managers should be independent from other functional organizations and have a high-level reporting relationship within the company.

In addition to dedicated alliance management, companies boasting a 60% success rate have other tools and processes in place (Table 3). Consider Eli Lilly and Company's Lilly Alliance Management Process (LAMP), established to provide tools and a framework to improve its alliance capabilities. LAMP emphasizes alliance planning and organization and alliance start-up (post the contract phase and prior to the implementation stage). After signing the contract, operational teams are often anxious to move the project forward. This is a critical period; the alliance teams must share strategic intent, specific objectives, roles, and responsibilities; communicate planning; and develop measurement processes. With these in place, the team can assure successful implentation.

Many experts stress the need to have appropriate measures in place to ensure that the alliance is meeting or exceeding performance goals, but not all emphasize the importance of assessing the health of the alliance: How well are the teams working together; has the level of trust anticipated been developed; how well is the team leadership performing; and how good are the skills and competencies within the alliance. Regularly addressing these questions enables alliance partners to fully understand whether ultimate objectives are being achieved. Developing a high level of trust and confidence between partners can not only lead to success for the current alliance, but also establishes the basis for additional relationships between the companies — a true measure of success.

Table 3: TOOLS USED BY MORE SUCCESSFUL COMPANIES

Alliance database
Joint evaluation of alliances with the partner
Standard partner selection process
Employees have access to company specific alliance resources
Responsibility for alliance within strategy function
Transfer of knowledge about national differences to international alliances
Alliance managers exchange experiences
Alliance Managers
Alliance Metrics

Source: Adapted from de Man and Duysters, ASAP Summit Chicago, March 2002