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Measuring Alliance Performance

By: Roger G. Harrison, PhD,
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Introduction

The old adage is, “If you can’t measure it, it’s not worth doing.” Consequently, many companies in the Specialty Pharma industry have set up quite elaborate ways to look at effectiveness within their businesses and to establish cultures of continuous improvement along with linked rewards for those who lead innovation that can reduce cost, improve quality, cut time, or increase quantity within the same period. There has also been an emphasis on knowing the customer and seeking feedback as a more qualitative measure of performance. However, even though alliances are proving more and more important to many such businesses in achieving their goals, there have been relatively few reports of companies consistently assessing how well alliances are working and transferring associated learning to other alliance opportunities.

Assessing Performance

Bamford and Ernst (McKinsey on Finance, Fall 2002) suggest there are three reasons that make alliance performance difficult to measure. These are: 1) because each company within an alliance typically has its own measuring and reporting processes, and may even have distinct goals for the alliance; 2) operational independence makes benefits and costs difficult to track; and 3) alliances are often non-core projects within a corporate portfolio and may not be subject to the same scrutiny as totally internal projects. However, despite challenges in establishing measures, it is clear that there can be substantial benefits to establishing processes that allow all parties in an alliance to understand progress that is being made, to intervene appropriately if issues arise, to learn from successes and failures, and to establish, from that learning, a stronger foundation for future alliances. To address the aforementioned issues, parties must work to unify performance measures, and ensure that alliances are not viewed as non-core, but instead an integrated and important part of each company’s portfolio.

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As discussed in the May 2005 issue of *Specialty Pharma* magazine, the implementation phase is critical because this is when a clear series of objectives for the alliance are established. These lead to establishing the fundamental measures of alliance performance, which are usually time, cost, revenue, or quantity based. These measures, once agreed upon, are easy to track and can be reported on in each organization. If each party to the alliance also wishes to

establish secondary parameters of specific interest to its own business, that is clearly acceptable as long as these do not obscure or interfere with the overarching goals established jointly by the parties. A common set of measurements allows for discussion and intervention as necessary, or to an amicable separation if it is apparent that objectives are not being met. It is important to establish which measures could lead to termination discussions versus those directed to course correction in order to avoid acrimony between partners. For example, in a project that is jointly developing a potential drug through clinical trials, it is important that true critical success factors are documented and agreed such that a failure to reach these is a mutually predetermined termination clause. The alliance team should also agree on how frequently, in what format, and to whom in each company these performance parameters are reported. It is important for members of the alliance team to have an understanding of the reporting mechanisms within each company, and if appropriate, to have representatives of each company at some of these reporting venues.

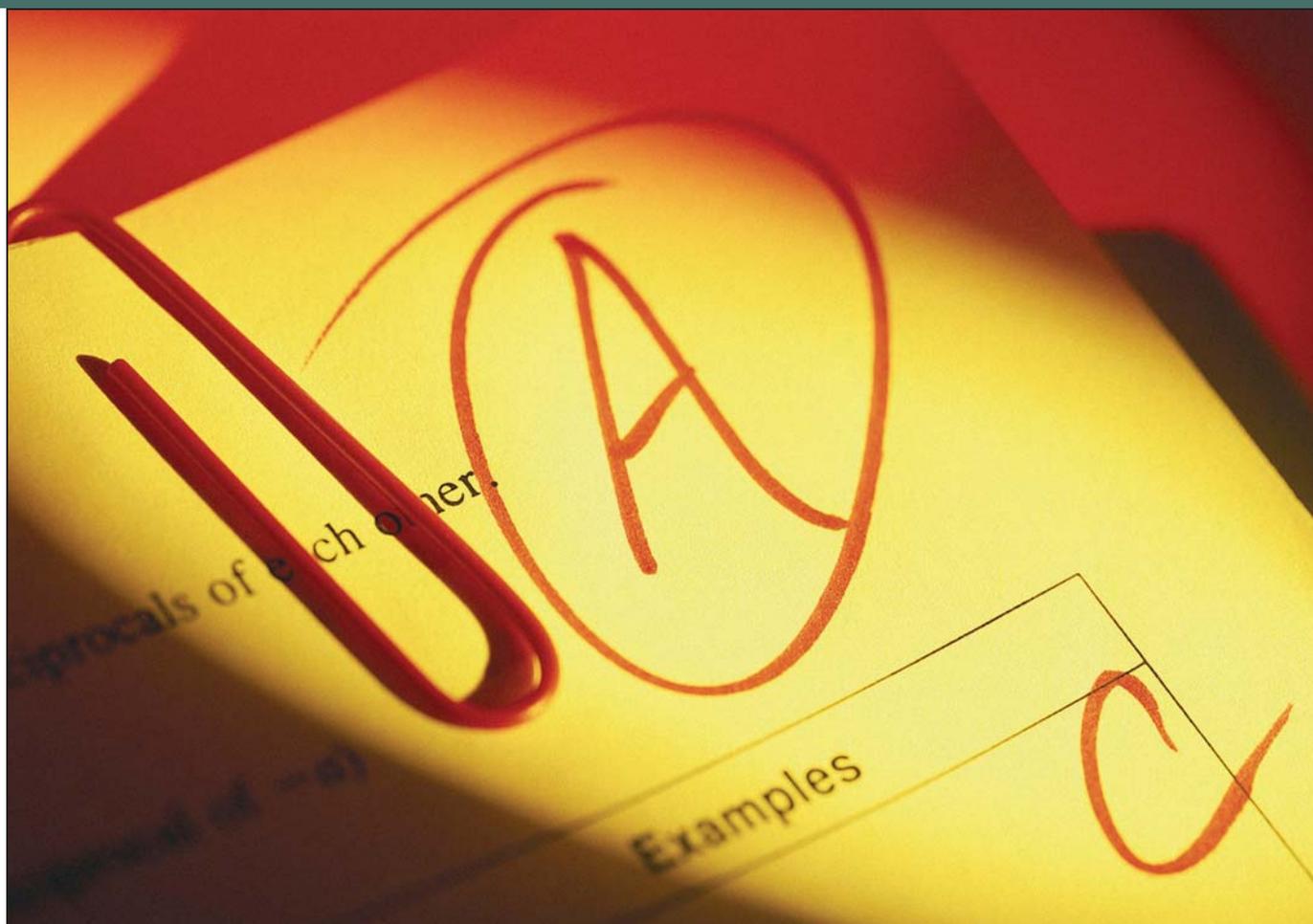
Even though these measurements are relatively standard, they are unlikely to be developed and reported effectively without a clear agreement among the alliance team members about taking responsibility for ensuring that data is collected at the predetermined intervals. Ideally, this would fall to an alliance manager who sees his role as supporting both companies in achieving the overarching goals and is prepared to act as a neutral ombudsman in any discussions. The reporting format, as mentioned earlier, should be one that meets the needs of all parties or is easily adjusted to meet the specific needs of either party.

These quantitative measures are obviously important and will, when applied correctly, ensure that management can potentially look at alliance data in the same way that internal projects are reviewed. This will also be facilitated if very senior management has made a statement of strategic intent with regard to the importance of alliances to the overall success of their businesses. Such statements also motivate team members to want to support alliances and not to regard them as secondary to their internal projects.

The second group of measurements can be even more important in that they can enable a company to build an alliance capability, and potentially support alliances in delivering results beyond initial expectations. Such measures focus on the how well the relationship is progressing and whether certain aspects of the way in which the teams are working could be negatively impacting progress. A method for undertaking this has been described in *Mastering Alliance Strategy*, by Bamford, Gomes-Casseres, and Robinson, which focuses on the methodology used by Eli Lilly and Company. Lilly periodically asks members of an alliance operational team to rate the alliance effectiveness on the parameters of a 10-point scale (Table 1).

The company then utilizes the data generated to assess the “health” of an alliance. This is referred to as the Alliance Health Survey, and the alliance manager leads its implementation. For those alliances in which there are significant differences in opinion





from each party, or in which all parties score certain parameters at a low level, then an intervention plan is agreed upon and established. An alliance leader or an alliance manager can lead this process. The impact of the intervention is evaluated in subsequent assessments. Inherent in this effort is the belief that the quality of the relationship has a significant impact on the ability of the team to deliver the desired outcomes. Results also allow understanding of relative performance of alliances and correlations, if any, to be assessed between quantitative measures and the “health” factors. When an

alliance involves a large and a relatively small company, the fact that such questions are asked and interventions subsequently agreed upon usually encourages the smaller participant to perceive itself as an equal partner in the relationship. This further helps in maintaining the enthusiasm that generates higher-level performance. Sharing of all learning on successful interventions, and other issue resolutions or prevention can be managed through an appropriate database.

The aforementioned methods described are examples of many that can be established. In 2001 Dyer, Kale, and Singh (*Sloan Management Review*, Summer 2001, Volume 42, Number 4) shared survey data from which it was concluded that 51% of alliances surveyed had no performance metrics and only 11% had adequate metrics in place. Having often invested heavily in the establishment for an alliance with some perceived outcome in mind, it is inexcusable not to have at least basic measurements in place. If alliances are critical to the future success of a company, then it is also essential that it learns from each alliance and shares such learning within the organization.

Alliances are not easy to establish, less easy to sustain, and often fail to deliver on expectations. The establishment of measurements and celebration of achievements help to build a sustainable competitive advantage in those companies that recognize the value of alliances to its future. The reputation of being a successful and fair alliance partner can also lead to further opportunities in the competitive environment for alliances. ■

Parameters Assessed in Lilly's Alliance Health Survey

- | | |
|-----------------------|---------------------------|
| ▶ Commitment | ▶ Skills and competence |
| ▶ Strategy | ▶ Team coordination |
| ▶ Trust and fairness | ▶ Leadership |
| ▶ Communication | ▶ Flexibility |
| ▶ Conflict management | ▶ Knowledge Management |
| ▶ Decision making | ▶ Organizational Values |
| ▶ Clarity of roles | ▶ Performance measurement |

Table 1