Implementing Alliance Metrics: Six Basic Principles

A White Paper

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As companies engage in greater numbers of alliances, and as alliances become increasingly important in terms of strategic and financial impact, senior management has begun to pay more attention to alliance performance metrics. This is a welcome development, for as the old adage goes: if you can't measure it, you can't manage it. A number of authors have advocated the development of a balanced scorecard approach to the development of alliance metrics.[1] Common categories of performance measurement include financial results, non-financial (strategic) value, operational effectiveness, and the health and quality of the relationship between or among partners.

In our experience working with our clients, the biggest challenges related to alliance performance measurement are not analytical. This is not to say that measuring the hard and soft costs of an alliance is always straightforward, nor that quantifying the strategic value an alliance provides in terms of competitive positioning is simple. Nonetheless most companies possess the financial, systems, and strategic expertise to define meaningful alliance metrics; after all, companies have been creating metrics to monitor the performance of their own companies for quite some time.

However, alliances pose some unique challenges when it comes to performance measurement, and these have a great deal to do with the *process* by which metrics developed, and by which they are implemented. Alliance metrics must be created and used in a context which by its nature crosses both external and internal organizational boundaries, and in our view, this reality needs to be understood and managed if companies are to successfully implement metrics on individual alliances, and across their alliance portfolio.

6 Principles for Implementing Alliance Metrics

1. **Ensure comparability of metrics across alliances**
2. **Define and discuss metrics with alliance partners**
3. **Ensure clarity around implications of alliance performance**
4. **Implement a process for auditing alliance performance**
5. **Link alliance performance with individual performance evaluation**
6. **Create a forum for reviewing and acting on alliance performance data**

Figure 1.

We recommend that companies pay close attention to the process by which alliance metrics are developed, as well as the process by which they will be deployed and utilized. Below we share six basic principles to keep in mind in undertaking such efforts.

1. Ensure Comparability of Metrics Across Alliances

Limitations of an Ad Hoc Approach

Even those companies that do define alliance metrics tend to do so on an ad hoc, alliance by alliance basis. Such an unstructured approach is both inefficient and unreliable. It typically puts the full burden of developing metrics on the alliance manager, an individual who may or may not have managed an alliance before, and who may well retain his previous job's responsibilities even as he takes on additional responsibility for the management of an alliance.

Creating metrics starting from scratch increases the odds that an alliance manager won't find the time to define metrics, or will define them with less than optimal care and precision. And even with the best of intentions, few alliance managers have all the expertise to define a balanced complement of metrics to effectively assess financial and strategic performance, and relationship quality and effectiveness. Moreover, on alliances that cut across functional or organizational boundaries, an alliance manager can easily spend weeks negotiating with various internal stakeholders trying to get alignment around targets and measures of success, and end up, at best, with an ungainly, lowest common denominator compromise.

Additionally, the one-off approach misses opportunities to leverage organizational knowledge and learning across alliances. While each alliance is unique in some ways, there are always transferable lessons among at least some of an organization's alliances. Knowledge about useful metrics is one of the easiest forms of learning to capture from alliance to alliance, and one of the easiest to leverage. Measuring hard to quantify factors like strategic value or relationship quality is a competence that companies can hone over time, but only if they systematically capture, document, and transfer such learning across alliances.

Finally, a completely decentralized, one-off approach to developing alliance metrics severely hampers an organization's ability to spot trends and make

1. See, for example, James Bamford and David Ernst *Managing an Alliance Portfolio*

comparisons across alliances. As companies wisely begin to take a portfolio view of their alliances, senior management needs to be able to look across alliances and analyze which are delivering more or less value, and which are consuming more or less resources (money, staff, senior management time, and the like). But when, as we have often observed, certain alliances track only direct costs, and those that do track indirect costs count them in different or even incommensurate ways, such analysis is made difficult if not impossible. Equally important, without basic consistency in how operational effectiveness and relationship quality are tracked and measured, a company misses the opportunity to spot trends that would help it learn about its own strengths and weaknesses in working with alliance partners.

Enabling Comparability of Metrics

Companies that define alliance scorecard templates and document illustrative metrics can avoid some of the inefficiencies of an ad hoc approach to alliance metrics, and significantly increase their ability to compare alliance performance and effectively manage their alliance portfolio. In many cases, a company may find it useful to define multiple templates, and articulate examples of different kinds of metrics for different types of alliances. For example, a company's R&D alliances are likely to need substantially different performance metrics from its co-marketing alliances. Guidelines for which metrics are most appropriate in different contexts, as well as examples of, or specifications for how to define, such metrics are an invaluable resource to alliance managers.

Providing alliance managers with a greater sense of direction when creating individual alliance metrics also streamlines the process of reviewing them and getting approval from senior management. Of course, such an approach requires an upfront investment of time among key executives to align around what aspects of alliance value and performance they care about measuring, and agreement on standards for how measure them. Over time, companies should document metrics used on each of their key alliances, periodically review them, and update their repository of scorecard templates, guidelines, and illustrative metrics.

Most importantly, an investment in standardization driven by senior management helps to ensure that individual alliance metrics will aggregate up to allow meaningful comparisons across like alliances. By undertaking such an effort, companies can also ensure that the expertise of multiple disciplines (for example, finance, marketing, R&D, Human Resources or OD) are fully leveraged in the development of effective metrics across the various dimensions of alliance performance.

2. Define and Discuss Metrics with Alliance Partners

While companies should create internal standards to aid alliance managers in development of metrics, it is also critical to engage partners in robust discussions about how both sides will measure alliance performance. Such conversations should be part of the negotiation and launch of any important partnership. Too often, partners discuss their goals for an alliance, but fail to have sufficiently concrete conversations about how they will measure success against those goals. In many cases, partners stay in alliances for years without realizing that they are making little progress toward their objectives. In other cases, radically different ideas about how to measure success lead to damaging and unnecessary conflict as partners apply (explicitly or implicitly) different and incompatible yardsticks to assess an alliance's performance and value.

In most cases, metrics should be explored from two distinct perspectives. On the one hand, alliance partners should create a shared picture of success and develop a common set of metrics that they will apply to the alliance as a single, collaborative entity. On the other hand, it is equally important for partners to acknowledge their different, independent success criteria for an alliance — and in most cases to share those with their partners.

Define Common Metrics with Partners

The case for common metrics is relatively straightforward. Partners who lack a shared set of metrics typically find themselves working at cross purposes. Even if the architects of the alliance were clear on common goals, such clarity is hard to transmit to those working on the alliance interface if common metrics are not defined. Moreover, as the alliance evolves, a defined set of shared metrics helps to ensure that partners address changes in their objectives and continually work to maintain alignment on how the alliance should be aimed and managed. In the absence of a common scorecard for measuring performance, individuals working across the alliance interface are more likely to focus on their own company's success, rather than the success of the alliance itself. Such an attitude almost always leads to disappointing results for both sides in business arrangements where the success for either partner depends in part on the success of the other.

Acknowledge Independent Measures of Success

But common metrics are not the end of the story. It is a rare alliance where partners do not, in addition to their shared goals, have different individual goals as well. Take the small biotech company that is seeking to acquire knowledge and skills about running clinical trials from its big pharma partner, or the manufacturing company seeking to increase its return on underutilized assets while its partner, another manufacturing firm, entered into the alliance specifically because it was capacity-constrained.

Alliances in which partners do not explicitly discuss their independent metrics for success put themselves at risk. In the absence of such disclosure, the pursuit of goals by one partner of which another partner is unaware can lead to unnecessary conflict, damaging perceptions, and breakdowns in trust. Indeed, while the above examples of different goals for an alliance seem obvious, once various people from each partner begin working together, the original rationale for the alliance often retreats into a hazy memory. Instead, incomprehensible or frustrating behaviors become front and center on the alliance interface.

Consider the situation noted above. The team from the big pharma company knows it is being held accountable for completing clinical trials as quickly as possible. Naturally they focus their efforts on conducting clinicals in the most efficient manner possible. They are baffled and frustrated that their small biotech counterparts are always asking to be included in meetings, calling with questions, or requesting documentation which really isn't relevant to their role in the alliance. But their counterparts are being held accountable by their management for gaining knowledge about conducting clinical trials. By failing to formally discuss and share their different goals and metrics for assessing the value of the alliance, these partners created an environment in which a lack of transparency generated a breeding ground for conflict.

Finally, if partners are aware of each other's independently held success criteria, they can look for ways to add value to each other at little or no cost to themselves. In many alliances, as much value is created thorough such actions as is created through joint efforts working on common goals. Of course, there are some instances, particularly when a partner is a direct competitor, when the risks of sharing independent alliance goals and success criteria outweigh the potential benefits. In our experience, however, this is the exception, not the rule.

3. Ensure Clarity Around Implications of Alliance Performance

Even when companies define effective alliance metrics, they rarely explore and ensure common understanding of the implications of missing goals - or of achieving them. Obviously, conversations about missed targets are never easy. Consequently, the best time to discuss the consequences of underperformance (by a partner, or by the alliance itself) is before such a situation occurs, rather than in the heat of the moment when it may be difficult for either side to be objective, and difficult for either side to give a fair hearing to their partner's perspective.

Ideally, partners should systematically explore and document the consequences associated with missing targets, or underperforming based on agreed upon metrics at the outset of an alliance. Alliance managers and other key stakeholders should consider not only what happens if one or more key indicators is below target, but also address questions like:

- "What will we do if the alliance underperforms according to some metrics but over-performs on others?"
- "Is a minimum level of performance against certain metrics essential, regardless of how well the alliance is performing according to other measures?"
- "Under what circumstances would we terminate the alliance, versus shift its focus?"

It is equally important for partners to explore the implications of success:

- If the alliance hits certain targets, will funding by the partners increase or decrease?

- What kind of performance, if any, might lead to expanding the scope of the alliance?
- If the alliance meets major product development goals, or market penetration goals, should it be expanded? Or shut down? Or perhaps have its operations folded back inside one or both partners?

Defining good metrics is essential for making good decisions about alliance management, but implications of performance against those metrics that seem obvious to one partner may not be obvious, or might even come as a shock to the other. As a result, explicit conversations about how metrics will be used to guide decision-making on an alliance are crucial.

4. Implement a Process for Auditing Alliance Performance

The most carefully defined metrics are of little value unless they are used. This requires that means are in place to collect needed data and convert it into scores or values up against defined metrics. Just because metrics have been defined doesn't mean performance tracking will automatically happen. Given the virtual, boundary-crossing nature of alliances, ensuring effective data gathering and analysis is often a non-trivial task.

In many cases, data needed for financial, operational, and even some strategic metrics can be culled from extant systems (project management tools, CRM applications, financial reporting packages) at one partner or the other. In some cases, partners may need to modify their systems to capture or split out different data, or they may need to build simple collaborative tools to use together to track critical information that they will need to assess the performance of their alliance. Regardless, careful planning about how metrics will be implemented is as important during alliance planning and launch, as is discussing and aligning around goals and metrics themselves.

Part of the process planning around metrics should address questions like:

- "How often will we collect and analyze data and report against our metrics?"
- "Who will be involved in any interpretation of data and creation of scorecard reports?"
- "To whom will such reports be delivered?"

Without clear answers to such questions, metrics are unlikely to actually be utilized.

As much as possible, data collection and analysis should be a joint activity. Figuring out performance against many metrics often requires some amount of interpretation. While a useful design principle for alliance metrics is that anyone who calculates them should arrive at a materially similar answer, the process of scoring alliance performance is still one that involves a measure of human judgment, and one that may have important implications for one or both partners (milestone payments, allocation of financial returns, etc.) As a result, partners are usually better off undertaking performance assessment as a joint activity and maximizing the transparency of that process so that each side is likely to have confidence in the results.

Because alliances depend on a spirit of collaboration between partners, performance tracking or assessment processes that feel one-sided can have serious negative implications. Many alliances die a slow death as partners descend into a style of interaction that is more like a client-vendor relationship, and efforts to assess alliance performance that feel like an IRS audit of one partner by another are a prime way to initiate or reinforce such a cycle. By contrast, a well designed process of joint assessment tends to reinforce a sense that alliance partners are engaged in a common enterprise.

5. Link Alliance Performance with Individual Performance Evaluation

Failure to align individual performance evaluation with alliance goals is one reason that performance of, and commitment to, many alliances erodes significantly over time, irrespective of the basic value proposition to partner companies. Of course, designing effective evaluation criteria and incentives for staff is not a simple task, even within a company's own walls. Nonetheless, it is recognized as an important activity, one to which management devotes significant time and resource.

At one level, then, it is surprising how few alliances are staffed by individuals whose personal scorecards in any way reflect the role they play on an alliance. Admittedly, there are complicating factors. In many cases, alliances are staffed virtually, by individuals from partner companies who spend some, but not all, of their time on directly alliance related activities. But the fact that any solution is apt to be imperfect does not mean that nothing should be done. No executive would invest in creating a new department or function, and staff it without ensuring basic alignment between individual performance scorecards and organizational mission. And yet this is essentially what happens with a great number of alliances.

Based on our experience, alliance managers and executive sponsors of alliances should invest the time and effort required to review the performance scorecards of individuals who will spend significant time working on an alliance, and work to ensure a basic degree of alignment with the goals of the alliance. In some cases, it may make sense to require such individuals to include the alliance manager, or counterparts from the partner, as part of their 360 degree review process, even if they spend only a portion of their time working in support of an alliance. Regardless, the success of an important partnership should not depend on the actions of individuals who are not held formally accountable for it, or who may even be evaluated in ways that penalize them for the kinds of behaviors required to help make the alliance succeed.

6. Create a Forum for Reviewing and Acting on Alliance Performance Data

On Individual Alliances

In order for such value to be derived from alliance metrics, there must be at least some basic infrastructure to support the review of metrics and problem solving and planning based on what those metrics reveal. Many of our clients have found it useful to synchronize periodic planning meetings with partners (anywhere from once per quarter to once per year) with joint assessments against the performance metrics for their alliance. Data is gathered in time to create reports a week or two before scheduled planning meetings, and alliance managers and their teams use such reports as a key input to planning. The use of a structured agenda and effective problem diagnosis and decision-making tools is critical to ensure that such data is used in support of effective dialogue, learning, and operational decisions about what to do.

In some cases, a required output of such review and planning meetings is a joint report to senior management at both partner companies. Making alliance teams jointly responsible for a single report to their respective management teams helps to ensure that alliance performance tracking is actually done, reinforces a sense of common purpose among those who manage the alliance interface, and minimizes the chance that different, incomplete, or potentially biased reports of performance will be provided to senior management at each partner.

At the Alliance Portfolio Level

Assuming some degree of commensurability across alliance metrics, companies stand to gain tremendously by periodically convening a group of senior executives and/or managers of critical alliances to look across performance data, identify trends, share learning, and act to ensure the value of a company's portfolio of alliances is maximized. For such a forum to be effective, performance data and information from alliances needs to be reported to such a group. Typically it is useful to define a standard template for alliance managers to report information in a consistent format to make comparison and analysis easier.

For some companies, such a forum begins primarily as a relatively informal way for mangers and perhaps executive sponsors of key alliances to meet to share lessons, and coordinate their activities. Such a group might look for ways to leverage a strong relationship with one partner to influence another partner with whom it has a close relationship. Where multiple, different relationships exist with a single partner, such a forum is a valuable way to share information internally, avoid mixed messages or inconsistent behaviors in interactions with the partner, and, where appropriate, leverage linkages and trade-offs on key issues across disparate relationships with the same partner.

As companies become more disciplined in the management of their alliance portfolio, a more formal alliance portfolio review board might comprise executive representatives from each business unit and major functional group within a company. Such a group would typically convene on a regular basis to make and adjust alliance portfolio investment decisions, identify areas of current or potential overlap in alliance activity, analyze portfolio risks, spot activities with one partner that could jeopardize a relationship with another, resolve escalated portfolio conflicts ("Shall we develop a new solution with Partner X or Partner Y?"), and the like.

Conclusion

For some companies, alliances are only now becoming important enough to warrant investment of time and effort in the development of performance metrics. Nonetheless, the fact that many alliances exist in the gaps between organizational lines of accountability, or cut across them, has made metrics more difficult to put in place, and more likely to be neglected. In the absence of a larger process framework for developing and making use of alliance metrics, the effort to develop them will often not be expended, and even more importantly, the ability to leverage them to support alliance management is significantly compromised. Moreover, without consideration for how the process of defining and utilizing alliance metrics may impact relationships with alliance partners, the value of alliance performance metrics is apt to be significantly reduced.

About Vantage Partners, LLC

Vantage Partners helps leading organizations around the world more effectively manage their most valuable and important relationships — with customers, suppliers, and alliance partners, and within the organization, across divisions, functions and geographies. We help our clients build the necessary systems and structures, tools, skills, and mindset, to consistently and on an on-going basis, create and capture value through collaboration.

Please contact us for more information on how Vantage Partners might assist you with improving your alliance relationship management capacity or other relationship management issues.

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