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Alliances

Adapting governance models to maximize alliance performance

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Alliances are a key part of the growth strategies for many companies on the road to high performance. Alliances, including joint ventures, can dramatically reduce the time required to develop new products or to gain access to fast-growing emerging markets. In fact, one recent study found that 20 percent of the revenue generated from the top 2,000 US and European companies comes from alliances. The problem is that that revenue number actually should be considerably higher. The truth is, many of these alliances are actually performing well below their potential.

Accenture research has identified an important root cause of underperforming alliances: an inattention to the governance processes and structures required to tend to the alliance relationship, direct resources in the proper direction and maximize its value. Based on our experience with leading companies across a wide number of industries, we have identified several key principles of effective alliance governance that can improve a company's chances for a profitable alliance relationship—and its chances for achieving high performance.

Where companies go wrong

At many companies—small, medium and large alike—the problem isn't taking an incorrect approach to governance; rather, it's not thinking much about governance at all. Some companies simply "wing it," sending occasional senior management updates, or creating a steering committee that amounts to little more than a discussion forum. Others may attempt to use a single governance model for every kind of alliance. But a growing number of company portfolios contain alliances that differ dramatically in their goals, duration, resource requirements and value. A single governance model simply won't suffice.

The dimensions of effective alliance governance

Effective alliance governance integrates several key dimensions.

Stewardship: setting strategic direction and keeping the effort on course by monitoring performance. Larger enterprises in particular may try to reduce the governance issue to matters of contracts alone. But much of governance is informal, embodied in day-to-day operating decisions and exchanges of critical information. Alliances need stewards, not just contract managers. Excessively detailed contracts actually limit the ability of the alliance to adapt to changing conditions and often create tension and frustration from which the working relationship never recovers.

Resource allocation: employing capital and people to make the effort succeed, including redirecting resources as priorities change. Alliances are growing more complex, and they increasingly tap the core capabilities of each corporate parent, so flexibility in governance is key. Changing conditions require a freer exchange of resources, especially skilled people and intellectual property.

Decision facilitation: making decisions and resolving issues at appropriate levels. The complexity of alliances today generally precludes governance by a single person or ad hoc committee. The flow of activity and information is simply too complex and important for narrow ownership. A better model is a governance structure where decisions happen at various levels. Done well, such governance is not bureaucratic. It involves the right people, leverages the right skills and information, improves communication, and eliminates missteps and misunderstandings. The overall result is faster and better decision making.

Culture management: making disparate organizations work as one, committed to acting in the best interests of the venture. Explicit actions and programs are required to harmonize the cultures of the two partners. One of the challenges of an alliance is that, unlike a merger or acquisition, the two companies maintain their separate identities even as they work to create something new where they intersect. Companies often forget that employees dedicated to an alliance must focus on the interests of the venture, not the two alliance entities. As one savvy alliance management executive put it, "When our alliance managers see a conflict, I want them to protect the venture. It's my job to run interference for them with corporate."

Tailoring the right alliance governance model

Successful alliances depend upon designing and managing an adaptable governance structure, with formal and informal elements, predicated on four principles.

1. Design governance structures according to the goals of the partnership. Different alliances need different things to succeed. A short-term co-marketing alliance, for example, needs a different governance model than a long-term research joint venture. Many factors should shape governance structure, including venture goals, number of partners and past relationships. For any alliance, two factors are particularly important: anticipated value and complexity of resource contributions. How these forces intersect should dictate the mode of governance adopted.

2. Assign clear roles and responsibilities. When alliance partners do not take the time to clearly define who has the responsibility to do what, internal conflict and slow decision-making are inevitable. The partners should collaboratively define what decisions each governance level will make, and how the different levels will participate in the overall decision-making process.

3. Organize information flows. The information relevant to monitoring the success of an alliance can be complex: it is not simply numerical data, it must be gleaned from multiple sources, and then it passes through many hands. The result can be information that is hard to transfer and easy to misinterpret. To ensure that informed decision making can take place, the alliance partners must define what information each governance level will require, determine the sources of that information and monitor its timely flow.

4. Put effective metrics in place that enable a clear assessment of alliance performance. Performance measurement is essential to correcting the course of the alliance and sustaining its success. Examples of helpful measures of governance effectiveness include:

- Issues escalated: decisions that one group has the power to make but instead refers to a more senior group (can be a symptom of dysfunctional governance)
- Number of issues remaining unresolved period to period
- Speed in making major decisions

In sum, the process of developing a strong governance structure is crucial to building an effective working relationship and to maximizing the performance of the alliance itself. Strong alliance relationships represent valuable intangible assets. Governance provides the playbook for driving high performance by tapping and sustaining the full value of strategic alliances.

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