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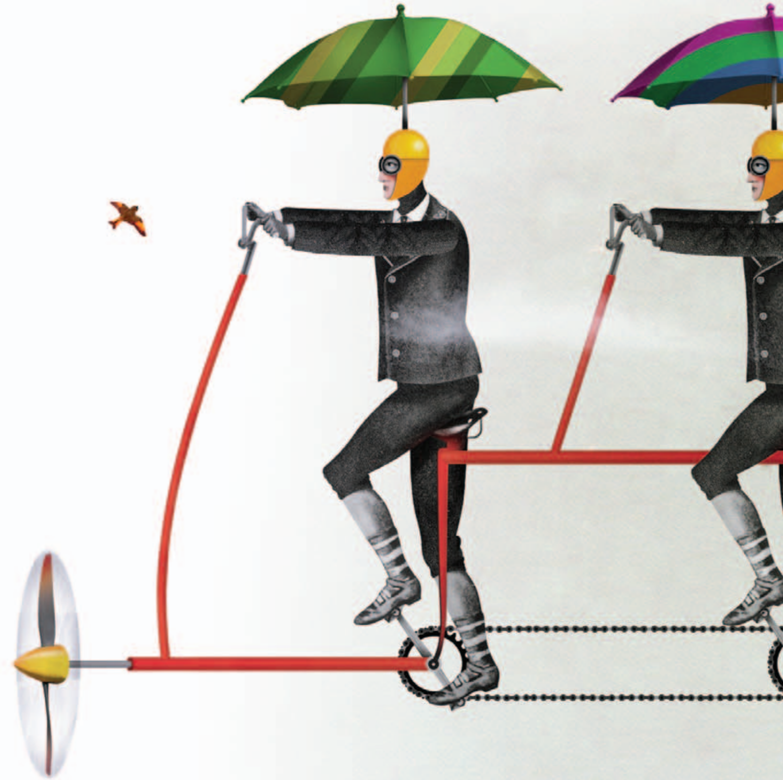


Managing Alliances with the Balanced Scorecard

Fifty percent of corporate alliances fail. But you can increase your partnership's odds of success by applying these techniques. *by Robert S. Kaplan, David P. Norton, and Bjarne Rugelsjoen*

ILLUSTRATION: BRETT RYDER

Corporate alliances are a 50/50 bet—at least according to a recent study by McKinsey & Company, which found that only half of all joint ventures yield returns to each partner above the cost of capital. That's worrying, given that partnerships and alliances are central to many companies' business models. Originally used to outsource noncore parts of supply chains, alliances today are expected to generate a competitive advantage. So it is necessary to dramatically improve their odds of success.

Why do alliances fail so often? The prime culprit is the way they are traditionally organized and managed. Most alliances are defined by service level agreements (SLAs) that identify what each side commits to delivering rather than what each hopes to gain from the partnership. The SLAs emphasize operational performance metrics rather than strategic objectives, and all too often those metrics become outdated as the business environment changes. Alliance managers don't know whether to stick to the original conditions or renegotiate. By that time, the companies' leaders have returned to run their own organizations and haven't followed up to ensure that their vision for synergies is being realized. The middle managers coordinating the alliance, who have no clear way to translate their leaders' vision into action, simply focus on achieving the operational SLA targets instead of working across organizational boundaries to make the alliance a strategic success.

The Alliance Strategy Map

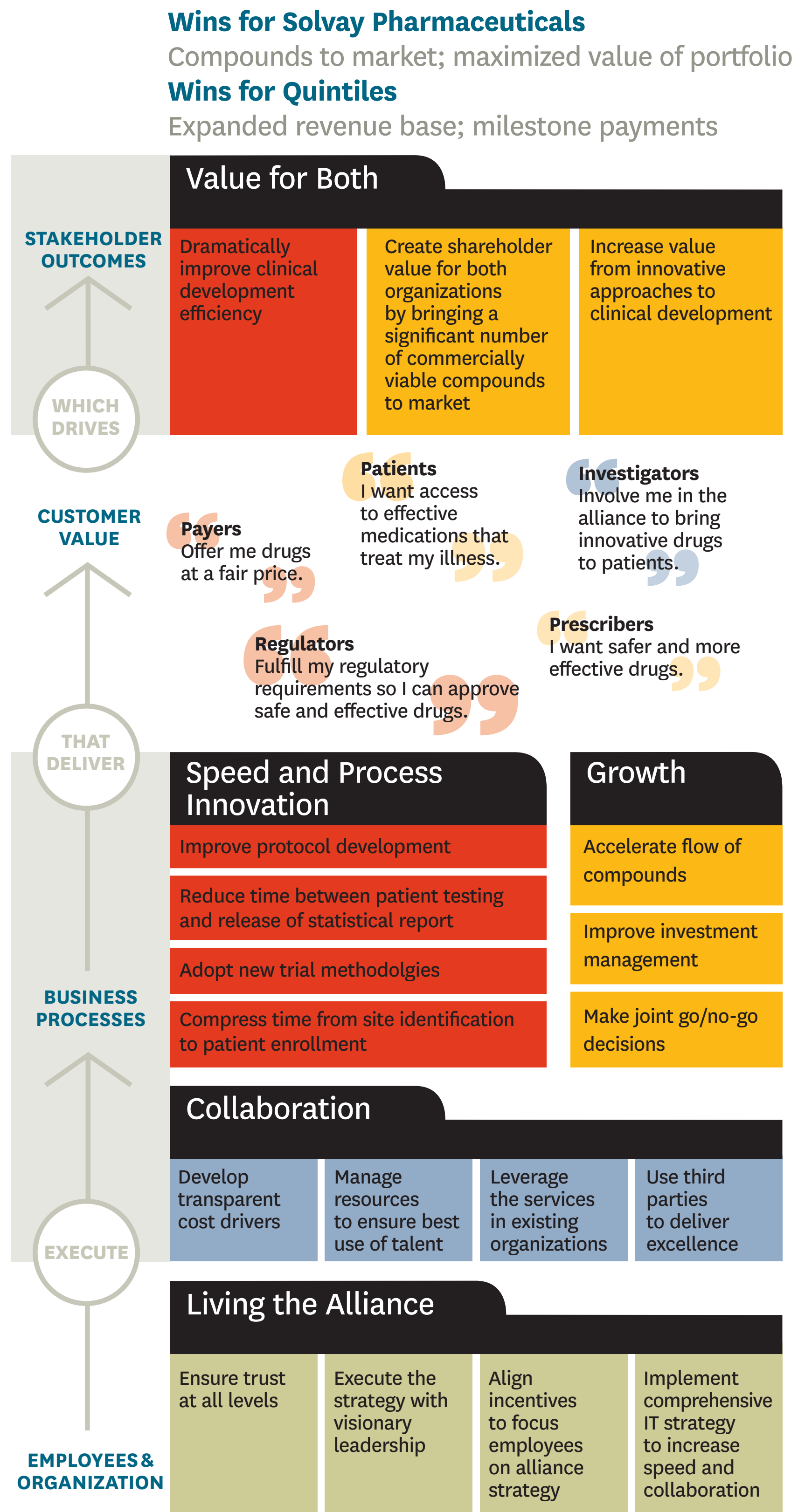
A strategy map brings together all of a company's strategic objectives to illustrate causal linkages. It allows managers to see how attaining objectives at, say, the employee level helps the firm achieve business-process, customer, and, ultimately, financial objectives.

The chart to the right presents the strategy map created by Brussels-based Solvay Pharmaceuticals and North Carolina-based Quintiles, a biopharmaceutical services firm, to manage execution of their alliance strategy. It identifies the five strategic themes of the partnership and shows how achieving them would translate into real value for both companies. To reach consensus on joint objectives, measures, targets, and initiatives, participants engaged in candid dialogue, which helped to increase trust and improve collaboration.

We have color coded the strategic themes to make it clear how each one relates to the various strategic perspectives. Some themes reside only in one perspective; others span multiple perspectives.

The project team regularly updates the map with traffic lights (red, yellow, green) adjacent to each objective to signal what has been achieved and which performance issues need executives' attention.

The chart reads from the bottom up.



Idea in Brief

A recent study by McKinsey & Company found that only half of all joint ventures yield returns above the cost of capital. That's a problem, given that partnerships and alliances are a central part of almost any company's business model.

An alliance usually gets defined from the start by service level agreements about what each side will contribute, not by what each side hopes to gain. The agreements focus on operational metrics rather than on strategic objectives.

The balanced scorecard management system can help companies switch their alliance management focus from contributions and operations to strategy and commitment.

Solvay Pharmaceuticals and Quintiles used the balanced scorecard tool kit to manage their alliance and together reduced the total cycle time in clinical studies by 40%.

And because the managers usually remain under the HR policies and follow the career development paths of their parent organization, they have little incentive to commit much energy to the project.

With this dynamic in place, it's easy to see why most alliances deliver disappointing performance. But the problems can be remedied if companies switch their focus from operations and contractual obligations to strategy and commitment. In the following pages we show how the balanced scorecard (BSC) management system helps companies create better alignment with their alliance partners. Drawing on the experience of two strategic partners, Solvay Pharmaceuticals and Quintiles, we demonstrate how applications of BSC techniques can clarify strategy, drive behavioral change, and provide a governance system for strategy execution.

Anatomy of a Strategic Alliance

Solvay, a top-40 pharmaceutical company, develops leading neuroscience, cardio-metabolic, influenza vaccine, and pancreatic enzyme products. Headquartered in Brussels, it employs 10,000 people worldwide.

A research-driven organization, Solvay has formidable competencies in the drug discovery process. But the average cost of bringing new drugs to market has escalated to more than $1 billion per successful compound, making it harder for Solvay to capitalize on its research skills. Clinical trials require access to patients, physicians, and health care organizations, areas where Solvay has less of an advantage. Historically, it had selected clinical trials suppliers through a competitive bidding process for each new compound. In 2000, Solvay's R&D unit worked with 50 different suppliers. It's no wonder executives believed that Solvay could be more efficient and achieve better results if it could outsource the management of all clinical trial work to a single partner.

Solvay began the transition to this model by choosing Quintiles, one of its existing suppliers, to perform all stages of the trial process. Based in North Carolina and employing 23,000 people in more than 50 countries, Quintiles has helped develop or commercialize all of the 30 best-selling pharmaceutical products and nine of the top 10 biologics (medical products created by biological processes). In 2001 the two companies moved from a transactional relationship to a preferred partnership. Under the terms of the agreement, Solvay consolidated a significant number of its outsourced projects under Quintiles in return for reductions in Quintiles's normal prices. The two companies formed a joint clinical team for each compound in order to manage strategic and operational aspects of conducting clinical trials. They also formed functional teams, staffed by employees from both firms, to improve the major processes in the drug development cycle, such as procurement of clinical supplies and alignment of finance and human resources practices. A joint development committee provided oversight, set milestones, and monitored progress.

The initial five-year contract worked well. But when it came up for renewal in 2006, both companies thought that they could generate even more value if they could upgrade their partnership to a true alliance. An integrated development platform—leveraging each company's respective strengths—would provide opportunities for gains in productivity, efficiency, and development speed above and beyond traditional outsourcing. Both parties were also willing to share development costs for certain Solvay products, thus increasing Solvay's development capacity and sending more work to Quintiles, which generated more opportunities for milestone payments, should successful outcomes be achieved.

The alliance's proponents had to overcome concerns within Solvay about loss of control as more

of its in-house activities got outsourced. Senior executives of the two companies had to endorse and commit to the alliance strategy, which included sharing profits and risks. The companies knew they would have to change the way they worked together. Armed with knowledge gathered from the McKinsey study and others about the likely shortfalls in alliance outcomes, executives identified the following problems that had to be overcome:

- focusing more on the contractual terms of the alliance than on a joint strategy;
- spending more time and effort selling the alliance internally than managing its strategy;
- concentrating more on controlling the alliance and extracting returns than on removing barriers to the successful execution of the strategy.

The executives believed that a management system based on the tools of the balanced scorecard, which both companies already used internally, would help address those issues. From past experience with the system, both sides felt that jointly drawing up a balanced scorecard and a strategy map would promote consensus on and alignment with the goals of the alliance. The scorecard and strategy map would also serve as a framework for a governance system to monitor progress toward goals and create incentives for both parties to achieve them.

Building the Alliance Scorecard

A seven-person joint steering committee (JSC) oversaw the creation of the map and scorecard and, subsequently, led the governance process. Chaired by Solvay's head of R&D, the committee included Solvay's head of clinical research, its CFO, the president of Quintiles's clinical development group, and its executive vice president of corporate development. Two "alliance managers," one from each company but agreed on by both, rounded out the team. The alliance managers were responsible for driving the implementation of the strategic objectives set by the JSC. They oversaw projects, developed management structures, implemented performance management tools, and served as the primary communication contacts for alliance participants.

The JSC appointed a project team consisting of the two alliance managers and employees from both organizations' strategic planning, project management, and corporate communications departments. An external consultant provided an objective perspective and helped negotiate agreement on joint goals. Team members conducted one-on-one interviews with key executives, asking questions such as, "How can we create shareholder value for both companies?," "How do we create differentiation in the marketplace?," and "What issues and current problem areas should we address?" The discussions uncovered some negative aspects of the companies' five-year partnership. The Quintiles alliance manager observed, "There are still pockets of people not working strategically within the alliance. We need to help them understand that this

The Collaboration Theme Scorecard

Once you have sorted your strategic objectives into themes and mapped them, you need to create metrics that enable you to track your progress on the objectives in each theme. You also need to select initiatives that will drive improvement in the scorecard metrics.

Collaboration

PROCESS OBJECTIVE			
1 Develop transparent cost drivers	2 Manage resources to ensure best use of talent	3 Leverage the services in existing organizations	4 Use third parties to deliver excellence
JOINT WINS			
Create a development plan that ensures commercial viability and regulatory approval	Put the right people in the jobs they are best suited for, reducing the need for oversight	Increase probability of success by improving access to diverse information and expertise	Increase probability of success by engaging key external stakeholders Leverage opportunities outside the alliance
METRICS			
Quality and risk assessment score of development plan Trust and transparency survey score	Skills and capability index % Duplicated activities (% of activities in value chain unnecessarily carried out at both Solvay and Quintiles)	Viability risk score (experts' assessment of viability: scientific, commercial, regulatory, and market access) Net present value of compound Loyalty index	% Stakeholder coverage: key stakeholders (investigators, regulators, patients, health agencies, and so on) involved in the process
INITIATIVES			
Create a new development plan process	Establish a resource management program Map the value chain Map RACI (responsible/accountable/consulted/informed) overlap	Design a new expert-led end-to-end challenge process	Promote early engagement with stakeholder process

alliance is different from a traditional, transaction-driven, customer-vendor model."

After a series of workshops and interviews with each JSC member, the project team identified the alliance's strategic objectives. Following BSC practice, it sorted those objectives into five strategic themes:

Living the alliance: Ensure that we have the right culture (including trust), communication, leadership, people development, IT, and rewards and recognition.

Collaboration: Create the transparency we desire and make the best use of resources and services across organizations and third parties.

Speed and process innovation: Do things right; leverage our global expertise; and improve the start-up and management of studies to achieve breakthrough results.

Growth: Create the right portfolio of new products; collaborate on decisions to develop compounds; improve investment management; and accelerate the flow of compounds into the clinical development phase.

Value for both: Create value for both organizations by jointly driving all these activities.

The project team next worked with the JSC and the employees who would be involved in the alliance to draw a complete strategy map that showed how the objectives embedded in these various themes would collectively deliver value. In the exhibit "The Alliance Strategy Map" on page 116, the map is broken down into four areas (or perspectives, in BSC parlance) that show how the objectives for the employees and organizations feed into the objectives for business processes, which satisfy the needs of the alliance's customers. Fulfilling customer expectations, in turn, creates value for the alliance's stakeholders. These four perspectives correspond closely to those on a conventional map or scorecard, except here, the stakeholder perspective replaces the financial one.

Three of the themes contain strategic objectives that cross multiple BSC perspectives. The speed and process innovation theme, for example, includes objectives in the business-process, customer, and stakeholder perspectives. Two themes exist in only one of the four perspectives. To further clarify joint expectations, the project team placed the expected "wins" for each company next to each objective. These served as helpful reference points when the companies negotiated targets.

The process of reaching consensus on the themes, the objectives within each theme, and the overall strategy map created buy-in and understanding among all participants. Alliance employees engaged in candid dialogue during joint working sessions about the potential benefits for each company. Having such frank conversations was the first step toward achieving greater transparency and establishing trust.

Next, the functional teams (which already existed under the preferred partnership arrangement) put together scorecards for the five themes, specifying metrics, targets, and initiatives for each objective. (The scorecard for one theme is shown in the exhibit "The Collaboration Theme Scorecard.") With the complete map and the five theme scorecards in hand, the alliance managers could then determine the personal objectives of and rewards for each of the more than 500 employees involved in the alliance. Each company, of course, had its own incentive and reward system. But now the performance metrics for employees in the alliance were aligned with those identified in the map and scorecards.

The functional teams used the map and scorecards to identify best practices and to redesign key business processes. All the joint clinical teams then implemented the improved processes in the trials for their compounds.

Finally, the alliance managers, with help from both companies' internal communications departments, led a major push to promote the message to alliance employees. Ambassadors used such tools as laminated strategy maps, video presentations by company executives and alliance leaders, and even an alliance game to make sure all stakeholders understood the mission and the goals of the partnership. The ambassadors followed up with periodic newsletters and e-mails touting progress made on the five strategic themes.

Establishing the Governance Structure

Although drawing up the map and scorecard got the two companies and alliance employees on the same page, participants recognized that they needed a governance process to continually monitor the partnership and to keep it on track. The alliance managers asked five senior executives to become "theme leaders"; each would be accountable for one theme's objectives and would oversee related cross-functional initiatives.

The executives were supported by theme teams, employees who worked to ensure that the functional

Here are the teams and committees that keep the Solvay-Quintiles alliance on track.

JOINT STEERING COMMITTEE (1)
Governs the alliance, provides leadership, and defines strategy

JOINT DEVELOPMENT COMMITTEE (1)
Provides oversight, sets milestones, and monitors progress on clinical trials

PROJECT TEAM (1)
Facilitates creation of alliance strategy map, strategic objectives, and scorecard of measures and targets

THEME TEAMS (5)
Align functional and clinical team efforts with each theme's cross-functional objectives

CLINICAL TEAMS (1 PER COMPOUND)
Manage strategic and operational aspects of conducting clinical trials

FUNCTIONAL TEAMS (MANY)
Improve the major processes in the drug development cycle

FOR FURTHER READING
More than a decade ago, Robert Kaplan and David Norton introduced the balanced scorecard (BSC), which has transformed companies by helping top executives set corporate strategy and translate it into objectives, measures, and targets that the entire workforce understands.

To learn more, consult the following articles, which are available at www.hbr.org:

"Putting the Balanced Scorecard to Work" (HBR September–October 1993)

"Having Trouble with Your Strategy? Then Map It" (HBR September 2000)

"How to Implement a New Strategy Without Disrupting Your Organization" (HBR March 2006)

"Mastering the Management System" (HBR January 2008)

and joint clinical teams contributed to the theme's cross-functional objectives. For example, the speed and process innovation team held regular meetings to stimulate ideas on improving and accelerating clinical trials and to share those suggestions with the functional and joint clinical teams. The theme teams also solicited suggestions from the functional and joint clinical teams on ways to achieve the theme's strategic objectives. Theme team members presented the most promising initiatives to the joint steering committee. When proposals were approved, the theme teams then monitored their execution by the functional and joint clinical teams.

The Solvay-Quintiles joint steering committee meets quarterly to discuss the alliance's progress. With input from the theme, functional, and joint clinical teams, the JSC monitors achievements, addresses emerging relationship issues, reallocates resources, and makes decisions on any unresolved issues. It serves, in effect, as a court of final appeal over disagreements about what projects should or should not be carried out by the alliance.

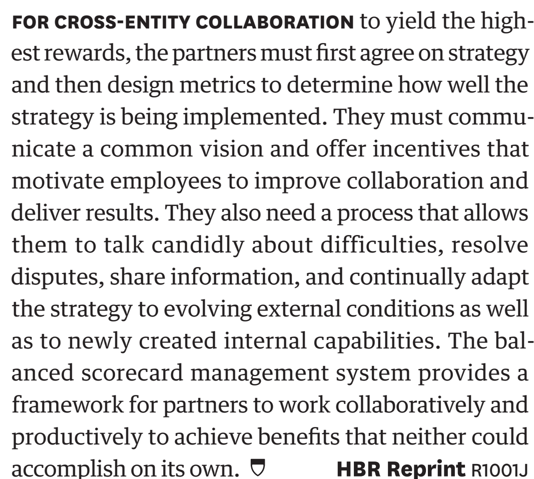
The theme team meetings and JSC reviews help the two companies resolve problems that, if left unchecked, would undermine the collaboration required by the alliance. For instance, the theme teams realized that security systems and firewalls blocked employees of one company from accessing information stored inside the other. Because all sides had agreed that information sharing was a strategic priority, the JSC felt empowered to work with the IT functions in each company to overcome their resistance to giving alliance employees access to Quintiles's operational dashboards. Now members of the alliance can easily monitor the progress of clinical trials.

The Payoff

The new approach has yielded impressive results. The alliance reduced total cycle time for clinical studies by approximately 40%, an achievement that brings new products to market much faster and leads to tremendous cost reductions. Three global registration programs were completed from 2003 to 2007, a much faster rate than the companies had previously achieved. In addition, one functional team developed a new way to manage nonperforming sites (those recruiting inadequate numbers of patients). That led to the alliance halving the number of nonperforming sites and saving €25,000 to €35,000 per site (a study can have 20 to 150 sites). Moreover, the teams felt that the shared understanding of joint objectives on the strategy map empowered them to make strategic and scientific decisions much earlier in a clinical program's design—saving time and money and, more important, keeping everyone's focus on delivering the alliance strategy.

Members of the joint steering committee acknowledge that building the alliance strategy map and theme scorecards required more time than any map or scorecard built within their own companies. The process required aligning two organizations with entirely different business models and cultures—one is a research-driven pharmaceutical company, the other an operationally oriented services company. Yet the JSC is so pleased with the benefits of the new management system that it is replicating the process with several key customer groups, medical specialists in the world's leading academic medical centers, and payer organizations.

We've described in detail the Solvay-Quintiles experience of using balanced scorecard techniques to create alliance value. But this experience is not unique. Infosys, the Indian IT services provider, has built more than two dozen "relationship scorecards" with customers and uses these in quarterly meetings with executives in its client organizations (see A. Martinez, "Infosys's Relationship Scorecard: Transformational Partnerships," HBS Case 109-006). LagasseSweet, a $1 billion wholesaler in the building services industry, also collaborates with its leading trading partners—manufacturers and distributors—to produce scorecards to measure performance. As a result it has saved millions of dollars and improved responsiveness, service, and availability up and down the supply chain. What's more, it has identified $150 million in new revenue opportunities.



FOR CROSS-ENTITY COLLABORATION to yield the highest rewards, the partners must first agree on strategy and then design metrics to determine how well the strategy is being implemented. They must communicate a common vision and offer incentives that motivate employees to improve collaboration and deliver results. They also need a process that allows them to talk candidly about difficulties, resolve disputes, share information, and continually adapt the strategy to evolving external conditions as well as to newly created internal capabilities. The balanced scorecard management system provides a framework for partners to work collaboratively and productively to achieve benefits that neither could accomplish on its own.

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