

OUR APPROACH TO DIAGNOSTICS

Based on the results of over 20 years of learning, experiment, and refinement, The Warren Company has developed an approach to diagnostics that is an integral part of strategic alliance capability building.

Part I – Overview of Diagnostic Issues

Value of Diagnostics: Being able to understand what is going well, or poorly, in an alliance is critical to all innovation practitioners, particularly when many alliance members are spread around the globe and things have a propensity to change rapidly. A good diagnostic instrument must be a powerful tool providing an ability to see deeply into the inner workings of an alliance just as an MRI combined with lab tests and blood samples, see into a human being.

Types of Diagnostics Instruments: The two most common diagnostic tools are surveys and interviews. Each has its pros and cons.

- Surveys (usually done over the internet now) are fast, relatively inexpensive, and can create excellent baseline benchmarks for trending. Experience has shown that individuals will provide a better level of information via a strictly confidential internet survey than written questionnaires. As a quantitative instrument, surveys lack the ability to gain deep insight into critical organizational issues.
- Interviews can derive rich information, are interactive, and, when done by a skilled interviewer (who knows the industry and alliance field) can provide deep insight into issues, motives, and solutions. However, interviews can take a long time to set up, compile, and analyze, thereby becoming costly due to the high labor expense. (We have also observed that many interviewers are hired because of interviewing skills, but often they lack an understanding of both alliance and the specific industry, thus missing many of the nuances of their subjects.)

After years of using both methodologies, we have found that high stakes alliances can best be served by the right combination of the two approaches: a set of 4-5 telephone interviews with key leaders on both sides of the alliance couple with an internet based survey reaching to the far corners of the world into the depths of the organization. This hybrid approach is both economical and effective.

Applications of Diagnostics: We have found that Diagnostic Assessments can be used successfully in a wide-variety of strategic alliances including:

- Innovation Assessments
- Supply Management
- Strategic Sourcing Agreements
- International Joint Ventures
- Research & Development Alliances
- Marketing & Sales Agreements
- Internal Business Unit Alliances
- Channel Partnering

Our clients have used diagnostics in a multitude of different ways, depending upon the critical issues, industry dynamics, and competitive dynamics. Here are some of the approaches we've addressed (each is discussed below):

1. Alliance Health Assessment
 2. Industry Comparison of Corporate Capabilities
 3. Readiness Analysis
 4. Internal Assessment of Capabilities
 5. Early Warning System
 6. Tool for Idea Generation/Introduction
1. Alliance Health Assessment: The most frequent use of diagnostics has been to determine the *health* of an alliance, thus providing a snapshot of key issues and a handle on how to fix problems. We look for several key factors that will tell us the health of the alliance, and pinpoint key areas that are either malfunctioning, or, conversely, functioning effectively. Periodic surveying of the relationship can create benchmarking data to determine *trends*: which dimensions of the alliance are improving or deteriorating.
 2. Industry Comparison of Corporate Capabilities: Diagnostics have been used to *compare corporate capabilities* as a pre-cursor to a “partner of choice” program, such as has done in the pharmaceutical industry to determine which industry players are best positioned to attract and retain R&D partners. By using diagnostics to compare your company to others, you can gain important insights into what needs to be done to be best-in-class as an alliance partner.
 3. Readiness Analysis: We have used diagnostics to determine a company’s *readiness* to engage in an alliance or if there is a perceived need that an alliance will truly create a competitive advantage. This is particularly useful if a company’s internal team is inexperienced, or if there are a multitude of global teams (each with very different needs and capabilities) that must be coordinated to start the alliance,
 4. Internal Assessment of Capabilities: Diagnostics can also be used to *assess internal capabilities* or business development’s ability to set up alliances. This is particularly useful if a company is getting ready to embark on a strategy of that will engage in alliances heavily, but there may not be sufficient expertise to be successful.
 5. Early Warning System: Another very effective use of diagnostics is as an *early warning system*. By a frequent use of surveys (annual or semi-annual), difficulties in an alliance can be spotted early. This approach will enable the global manager to spot difficulties that may otherwise go undetected until the problem is terminal.
 6. Tool for Idea Generation/Introduction or Strategic Repositioning: A survey instrument may be used to introduce a new idea, perspective, or frame of reference, or to test the waters before embarking on a new idea or program. Depending upon the acceptance level, leaders will learn where pockets of resistance may lie, or what parts of their ideas are likely to survive. Surveys can ask open-ended questions to surface new ideas. Similarly, by seeding a survey with some new ideas, new ways of thinking can begin to be imbedded in an organization.

TWC has brought new concepts, such as “alliances as engines of innovation” or “total cost of ownership” into the alliance’s thought process by a survey instrument. The data from these types of questions can then be used as the beginning of a process to strategically reposition the relationship.

The Diagnostic Myth: One key myth about diagnostics is that, in and of themselves, diagnostics are important. The harsh reality is that diagnostics for their own sake are actually harmful if problems are uncovered without a follow-up program of corrective action. Here's why: Expectations are raised whenever someone probes into problem areas; what might have been subliminal difficulties are now poignant, and old hurts are renewed just by asking questions. Consequently, we build in a feedback and action-planning program into every diagnostic program we do.

The Diagnostic Process: There is a fundamental rule in diagnostics: "You get what you measure." Therefore, understanding the underlying metrics and expectations of a survey instrument before bringing it to the participants is essential. Otherwise, the wrong expectations can be raised, with very frustrating results. Inexperienced surveyors fail to realize that every diagnostic intervention will generate expectations for correction of any problems surfaced by the survey. Therefore, there must be sufficient executive support for addressing a problem; otherwise leave it alone.

PART II – Diagnostic Service & Action Planning Process

Overview: Managers know an alliance is a complicated endeavor. Daily, they walk a tightrope to balance people, working relationships, and their alliance partners' goals and needs.

When an alliance shows signs of fraying, however, managers are often at a loss for identifying the individual threads of a problem, and less equipped to understand how to reweave it into an even a better alliance than the original.

Critical Question: More importantly, we asked ourselves the question:

“Could a poor-performing or failing alliance actually be transformed into a high performer?”

Through years of development and refinement, we developed the STRATEGIC RELATION*Shift*SM program composed of a powerful front-end diagnostic survey & interview process followed by a feedback, problem solving, and action planning workshop. The front end diagnostic uses an internet based survey with carefully selected in-person interview protocols to probe strengths and weaknesses of alliance relationships, revealing critical insights in the areas of strategy, finance, market and alliance architecture.

Presented, in part, with lucid graphics to aid the manager in action, the guide also provides benchmarks so managers can evaluate the alliance's progress months down the road and continue to build alliance capabilities.

Launching a Diagnostic and Action-Planning program involves three or four key phases:

Phase One - Analysis: Alliance Performance Diagnostic

Phase Two - Feedback: Determination/Identification of Points of Leverage

Phase Three - Action: STRATEGIC RELATION*Shift*SM Program

Phase Four - Additional Follow-up Services



Phase One - Analysis: Alliance Performance Diagnostic

We invite up to 50 stakeholders on *both sides* of the alliance to answer the specially designed survey, which is housed on a secure web site. The web-based Alliance survey uses a set of 35 *baseline* questions. Drawn from our proprietary alliance architecture, these questions readily identify the critical success and failure factors of your alliance and prescribe the best practices and best processes for improvement. Up to fifteen *additional* questions can then be customized to target specifics of major alliance and joint venture relationships. Baseline question areas include:

- *Three Dimensional Fit*
 - Strategy Fit:
 - Aligned Strategies, Competitive Advantage, Compatible Business Models, etc.
 - Chemistry & Culture Fit:
 - Trust, Cultural Compatibility, Leadership, Governance, etc.
 - Operational Fit:
 - Performance, Teamwork, Financial Results, Integration, delivery, etc.
- *Strategic Return on Investment*
Investigation of a richly defined Strategic Return on Investment to develop leading financial and performance indicators that position the relationship for significantly higher levels of performance including:
 - Market Impact
 - Competitive Distinctiveness
 - Organizational Effectiveness
 - Innovation Capability
 - Financial Metrics
- *Priority-Conflict Analysis*
In any relationship (including spouses, families, teams, communities, and alliances), a common source of difficulty will be conflicting priorities. In any survey, several questions should be custom-tailored to determine the impact of these priority conflicts on performance. Example of priority conflicts include:
 - Is it more important to have low cost or high innovation?
 - Is it more important to get to market fast or to have a fully functional product?
 - Is it more important to gain the support of internal engineering or to bring in innovations from the outside?

Phase Two - Feedback: Determination/Identification of Points of Leverage

Data is collected in a database. If desired this information can be run through a sophisticated statistical analysis software program. This core database can then be expanded upon in the future. We suggest initially conducting pilot studies with three important alliances to investigate some strategically pressing hot spots/issues. Once the surveys/interviews are completed, our standard practice is to convene a core team of senior internal alliance leaders, aided by a Warren Company external consultant, to review the collected data and isolate points of leverage for significantly improving the performance of the alliance.

This is an important discussion which enables the alliance leaders to privately examine what might be causing the problems, what options might be necessary for correction, and what leverage points they have for change. By giving the alliance leaders a preview of the data, they

are not blind-sided or caught flat-footed when the problem-solving session begins in the next phase.

We then create a succinct executive report to the sponsoring management, targeted at informed decision making. We can present the report to management, if desired, in an Executive Briefing and Action Planning Session. Included in the report are follow-on activities that we can directly implement to advance your alliance capabilities for your other alliance relationships.

However, the most valuable next step is to engage in an Action-Planning workshop with the Alliance teams on both sides of the alliance. We call that program “STRATEGIC RELATION*Shift*.SM”.

As a matter of policy, we tend to shy away from any diagnostic work unless there is a commitment by senior management to engage in some form of sessions to address problems if they are surfaced by the survey. Otherwise, expectations are raised, hopes are dashed, and the alliance can actually be further damaged if no action is taken.

Phase Three - Action: STRATEGIC RELATION*Shift*.SM Program

At this stage, the leadership for each side of the alliance is equipped with clear and concise data to jointly develop strategies and tactics. More often than not it's vital for the leaders to have their entire leadership team embrace the results and, using the principle “people support what they help create,” jointly design the corrective solutions/actions.

The STRATEGIC RELATION*Shift*.SM session is generally 2 ½ - 3 days long. The first day corrects and resets the Strategic Fit issues of vision, strategy, value propositions, and value creation. The second day ensures a great Chemistry-Culture Fit by developing the proper foundations for trust, leadership, high performance teamwork, decision-making, and alliance governance. The last day is devoted to using the results of the first two days as the foundation for re-launching the Operational Initiatives of the alliance.

Phase Four: Additional Follow-up Services

After the STRATEGIC RELATION*Shift*.SM session, sometime our role ends as we have completed the assignment. For other companies, we have provided a number of additional follow-up services.

A sample of additional services includes:

- *Collaborative Innovation Processes*: We put innovation processes and practices in place to enable the alliance to capture a continuous stream of innovations. This keeps the alliance competitively positioned and generates new value, thus regenerating the alliance over its lifecycle.
- *Alliance Catalyst*: We will act as a catalyst for the sustained exploration, planning and implementation of a “high power” alliance, right through negotiations, legal structuring and operational rollout, where most alliances begin to lose momentum. We will provide fair witness and coaching as capabilities and resources are selected and integrated.
- *Balanced Scorecard*: We will design and deploy a real time, internet-based balanced scorecard (or other measurement system) to support the management of multiple alliances within an extended enterprise model. This involves working with your team to select the right performance hierarchy, a set of financial and social measures, and historical and predictive metrics. We supply the enabling policies, and best practices and procedures to ensure accelerated alliance performance.

- **Total Cost of Ownership:** For many alliances, it will be vital to shift the costing model to gain a better perspective on real costs, and then be able to share any real cost gains among the alliance partners. Measuring the real costs (sometimes referred to as total life cycle costs or total systems cost) focuses on indirect costs, consequential costs, and relative cost benchmarking.
- **Driving Proven Practices into the Operational Level:** Once the STRATEGIC RELATIONShiftSM program is complete at the senior level, alliances with a large number of personnel in the field are often faced with the daunting task of building alliance capability at the site-level. We have developed a highly effective 2-day Proven Practices Action-Planning implementation program that carries the spirit and priorities from the STRATEGIC RELATIONShiftSM Program to the field. This is often coupled with an Alliance Capability Building initiative to be sure critical mid-level leaders have the right skills and abilities to manage the alliance effectively.
- **Implementing a Partner of Choice Program:** Companies that wish to become the most attractive to new partners (often in the R&D&C or Sales & Marketing segments) are, more and more, electing to create a broad-scale, systematic program which includes:
 - Alliance Management System
 - Alliance Portfolio Management
 - Best Practice Implementation
 - Information Infrastructure
 - Human Resources Program
 - Value Chain Reengineering
 - Corporate Wide Capability Building

Part III - Diagnostic Tool Usage

The diagnostic process can be introduced to prospective alliance partners at the very outset of the relationship as a way of establishing a set of visions, ideals, and opportunities for the relationship. In fact, it can be viewed as part of the benefits associated with working with your company. As an organization, you care enough for the vision and relationship that you feel it is important to implement a strategic positioning/base line survey at the outset. Such a survey can be targeted to either different business or employee segments.

As the alliance progresses, you can use the survey to understand how well different phases of the alliance architecture have been implemented, much like “instant polling” during the transition phase. This could provide insightful information to correct issues before they become a major impediment to success.

Once the alliance is underway, the survey process can serve as an Early Warning System to identify emerging problems before they get out of hand, particularly those that might be happening in isolated areas of the organization where your people are not directly connected.

In addition to understanding whether the “in process- measurements” are being achieved, the Alliance Diagnostic tool can be customized to address output-related information to determine whether you are achieving stated financial goals. Using a survey, coupled with interviews and analysis, you will be able to assess qualitative levels of expectation that are agreed upon at the outset of an agreement, draw quantitative, statistically supportable *conclusions* about the alliance performance, and address issues of concern in a timely manner.

In conclusion, diagnostics are an essential component of any robust alliance program. Diagnostics can assess a great variety of issues, from alliance health, readiness for action, capabilities to perform, or to trigger collaborative innovation. With a commitment to follow-up action, diagnostics provide a strong return on every dollar invested.

Part IV: About The Warren Company

The Warren Company works with senior executives in organizations that are committed to achieving extraordinary results through breakthroughs generated from a foundation of collaborative innovation. We are dedicated to the universal adoption of the architecture, skills and philosophies of strategic alliances and collaborative innovation to think, create and work together, producing results far beyond what would otherwise be possible.

We provide each of our clients a unique set of

- architectures,
 - strategies,
 - systems,
 - structures, and
 - solutions
- of collaborative innovation that underpin the world's most successful alliances.

Our workshop framework

- Creates strategic & operational alignment,
- Is action oriented,
- Uses best practices to ensure long term success,
- Ensures high performance,
- Minimizes future breakdowns, and
- Creates pathway & guidance for legal contracts.

We concentrate on the Key Factors for Success which seasoned managers affirm as the essential ingredients to effective alliance and collaborative innovation implementation:

- Properly trained innovation champions, and project managers,
- Powerful strategic imperative to guide the effort,
- Clear operational performance processes with breakthrough measurements,
- Effective innovation management process designed for the alliance, and
- Proper leadership support.

Unlike consultants, we are "Architects and Capability Builders" who deliver a tested and effective *strategic system* and *process methodology* that harnesses the innovative power of differentials in thinking across internal and external boundaries.

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