New Alliance Management Study — Success rates increase but challenges remain

By Stuart Kliman and Stuart Price

Vantage Partners recently completed a new cross-industry study of alliances and the practice of alliance management. The study is based on a nearly 500-respondent survey and a series of practitioner interviews. In this short article, we focus on several key aspects of the study — in particular, several key findings related to:

- Alliance success and failure rates
- Key challenges associated with alliance failures
- Underlying organizational root causes of alliance execution challenges (the top identified cause of alliance failure)

Note: The final study report — which includes other topics such as the impact of specific alliance execution challenges and insights into organizations’ alliance management capability maturity — will be available shortly; please reach out directly to sprice@vantagepartners.com if interested in receiving a free copy.

Alliances are achieving objectives at higher rates

As we know, alliances have historically failed to achieve objectives at a high rate. Indeed, in our last alliance management study published in 2006 — “Managing Alliances for Business Results” — Alliance Managers reported that 57 percent of alliances failed to achieve their objectives. These rather dismal results derive from the inherent challenges alliances pose for organizations — partners must intimately collaborate in a structure where corporate strategies, structures, processes, risk positions, capabilities, and norms (implicit and explicit) are different than their own.

In our current study, however, respondents report that 81 percent of alliances realize at least partial achievement of their alliance objectives (41 percent fully achieve objectives and 40 percent partially achieve objectives), and only 19 percent generally fail to achieve objectives. This success rate — given the unique challenges alliances present and the fact that technical and scientific causes of alliance failures were assumed in — is encouraging and we believe is testament to organizations’ increased awareness of, focus on and skill at managing alliance challenges. At the same time, organizations have room to continue to enhance their alliance management capabilities, as less than half (41 percent) of alliances are fully achieving their objectives. This notion is particularly important given the increasing strategic importance of alliances and growing organizational investment in partnered products.

Interestingly, this assessment of alliance success and failure rates appears rather consistent across industries. Across the top seven reporting industries, respondent alliance success rates (based solely on alliances that fully achieved their objectives) range from 52 percent (Healthcare) to 39 percent (Pharma/Biotech). On the other hand, alliance failure rates range from 19 percent (Pharma/Biotech, IT, Telecommunications, and Insurance) to 15 percent (Healthcare). Pharma/Biotech reports the lowest pure success rate and highest pure failure rate, yet has the highest percentage of alliances that partially achieve objectives across top-reporting industries (42 percent).

Execution challenges are the foremost cause of alliance failure

Underlying the 59 percent of alliances that partially or generally failed to achieve their objectives are, of course, different causes that inhibit alliance success. During our study, Vantage tested five such causes of alliance sub-optimization: 1) partnering was the wrong strategic choice; 2) we did not choose the best possible partner for us; 3) deal terms and conditions were flawed; 4) challenges during execution got in our way; and 5) external

![Figure 1: 81 percent of alliances see at least partial achievement of alliance objectives](image-url)
factors outside of any partner’s control got in our way. When asked to distribute 100 points across the five causes, respondents across industries reported that “challenges during execution got in our way” (e.g., poorly managed conflict between partners) was the foremost causes of alliance failure (27.4 percent across the five causes). Five of the seven top-reporting industries (IT, Financial Services, Manufacturing, Telecommunications, and Healthcare) reported execution challenges as the foremost cause of alliance failure, with Healthcare reporting the highest percentage (42.3 percent across the five causes). The two other top-reporting industries — Pharma/Biotech and Insurance — reported execution challenges as the second most significant cause of failure. For Pharma/Biotech, the increased significance of “external factors” relative to other industries appears unique given the industry’s high concentration of R&D alliances, which are inherently prone to scientific and technical failure.

This main finding — that alliance execution challenges are the foremost cause of alliance failure — has several important implications. The data suggests that alliances fail to some...
degree due to upstream strategic and contracting decisions and inevitably can fail due to “external factors”, yet the greatest cause of failure is sub-optimal alliance execution between partners. While alliance success rates tend to be increasing over time — in large part due to the structure, tools, and processes put in place by Alliance Management — organizations still struggle with mitigating execution challenges.

Organizations’ internal operating models create alliance execution challenges

Vantage developed a set of six potential root causes of alliance execution challenges to test in our study. These six causes focused on ways in which entire organizations — not just Alliance Management, day-to-day individuals working on alliances, and alliance governance bodies — create execution challenges. Of the six root causes we tested, we found one cause — internal operating models do not reflect the importance of external partnering — to be most significant (22.5 percent across 100 points — see Figure 4).

This important finding maps directly to challenges we see organizations (even those with mature alliance management capabilities) facing today. Said simply, for organizations to take their next step in alliance maturity — and therefore increase their alliance success rates — it will become ever more important for them to ensure that they are proactively creating an alliance-enabling operating model that takes into account the unique challenges of partnerships.

Conclusions

Historical efforts across industries to build alliance execution capability — focused primarily on putting in place Alliance Management functions and developing tools and processes to enable alliance success — have resulted in increased alliance success rates, with respondents reporting 81 percent of alliances fully or partially achieving alliance objectives. Nonetheless, in alliances that fail to achieve objectives, alliance execution challenges continue to be the most significant cause. Despite the efforts of Alliance Management, a more partner-focused organizational operating model and mindset is needed across organizations to address the core root cause of alliance execution challenges and help enable full realization of alliance value.

Figure 4: Failure of internal operating models to reflect the importance of partnering is the most critical root cause of alliance execution challenges

<table>
<thead>
<tr>
<th>Root Causes of Alliance Challenges</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal operating models do not reflect the importance of external partnering</td>
<td>22.5%</td>
</tr>
<tr>
<td>Not sitting down with our partners to agree on the details of how we will work together</td>
<td>17.7%</td>
</tr>
<tr>
<td>Organization relies on Alliance Managers in a place of a true organizational capability to manage alliances</td>
<td>16.9%</td>
</tr>
<tr>
<td>Alliances have governance but lack joint leadership</td>
<td>16.5%</td>
</tr>
<tr>
<td>Corporate culture works against external collaboration</td>
<td>14.2%</td>
</tr>
<tr>
<td>Do not treat the management of our alliances with the same professional rigor or expectations that we do...</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

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