Four Critical Skills for Managing High Performance Innovation Alliances

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originally published in "The Allianced Enterprise: Global Strategies for Corporate Collaboration, Duysters, de Man, & Vasudevan, Editors, Imperial College Press, Netherlands, 2002

More and more, innovation is being developed between companies that bring different skills and points of view together. Sharing development risks and bringing diverse intellectual resources together can be a very fruitful strategy.

> For example, in health care, bio-tech companies link with pharmaceutical companies; in computers, hardware companies link with software; in robotics, computer firms join forces with hydraulic and pneumatic expertise.

While these are excellent strategies to create the hallowed synergy of differentials in thinking, the results fall far short of the lofty vision that glorified the publicity when the venture was launched. What went wrong? How can such great goals be realized more frequently?

Senior executives all-too-often fail to realize their vision because of ineffective skills in alliance management. Typically the business development and legal team that formed the alliance has jumped to their next deal, the alliance is never placed on an organization chart, thereby gaining little attention from senior management, and the human resource department has no idea of the critical factors for success in assigning the right people.

Facing the Innovation Management Problem

Placing too little effort on managing innovation alliances results in comments like these:

> *"We know how to create alliances, but don't know how to manage them!"* reflected one American top executive, who lamented the lack of success in achieving his alliance's primary goals.
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> *"It looked great on paper, but it was a terrible fit in reality. Our cultures clashed on every issue from decision making processes to rewarding our sales force.*" stated a dejected alliance manager in the pharmaceutical industry.
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> *"During negotiations, the deal makers poisoned the well, and we haven't yet recovered. We had to undo all the damage caused by the adversary legal jargon."* was the battle-weary response of the president of a multi-billion dollar international joint venture.
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> *"Alliances are an unnatural act for us. They are extremely difficult to manage; we'd prefer to do acquisitions.*" complained a senior vice president of a large German chemical manufacturer. Later, he noted that 30% of his revenues and nearly 50% of his division's profits came from alliances, but *"we spend only 5% of our management time on them."* For some inexplicable reason he failed to allocate management resources to the highest profit generator in his business.

These types of comments are all-too-common. Each executive fell into the alliance management trap. None of the executives had considered the fact that alliances must be managed, and that the most critical management issues should be an integral part of the negotiations that form the innovation alliance at the outset.

Innovation alliances are a very different form of business genre than managing innovation in an internal business unit. Fundamentally, executives who have been managing traditional hierarchical command and control companies are befuddled when given an alliance assignment. In too many instances, the synergy they seek from the alliance remains elusive; cultural differences become insurmountable obstacles; project management turns into problem management; and the bureaucracies of the two parent organizations become a quagmire of politics.

However, not every innovation alliance must face such impasses.

> *"I am amazed how well our two companies are working together. We are actually ahead of schedule, and have had relatively few difficulties;"* was the delighted comment from the alliance manager of a strategic sourcing venture composed of European food service company with an American partner. Several years later, the same executive said: *"Doing it right had incredible value. I look back at the last five years and see that the work we did up front to create the right strategies, roles, relationships, and interaction has paid enormous dividends. We forged a truly strong bond with our partner. I use it as a model of what others should do if they really want to get it right. Our alliance stood the test of time as people came and went; we always could count on the right foundation and operating principles."*

> *"After only 6 weeks of working together, it's hard to tell the difference between the employees of their company and ours;"* explained the director of an international mining company, commenting about his innovation alliance with an electronics firm. Several months later they discovered the technical breakthrough that they envisioned.

These innovators achieved success because insisted their joint teams spend ample time understanding the unique aspects of alliances, building cross-cultural teamwork, and establishing processes and skills to access the unique value of an alliance.

Our experience has shown that there are four critical skills which are often overlooked that enable alliance managers to produce high performance results -- skills at managing:

- differences
- breakthroughs
- speed
- transformation.

Skill in Managing Differences

The fundamental reason why innovation alliances are formed is to access a capability within another company, thus finding the magical synergy, the 1+1=3 potential. However, this means capturing the value of differences.

Lying within the inherent capability differences is the promise of the alliance to create bold new futures, or conversely (if things go poorly), to implode upon itself. These cultural differences are derived not just from ethnic and national sources, but also from corporate and industry cultures. As more and more companies globalize and form cross-industry innovation arrangements, being able to capitalize upon cultural differences, and avoid cross-cultural implosion, will become a critical competitive advantage.

Traditional approaches to managing cultural differences have focused on becoming sensitive to differences, cross-cultural training, understanding linguistic nuances, and acculturation. While these methods have their worth, we have found three very essential elements are often overlooked.

First: The Power of Vision. The universal vitality of focusing on a powerful common vision, backed up by a dynamic and inspiring value proposition that speaks to the customer shows no cultural boundaries. For example, take this typical vision for alliances: *"We will be the technical leaders in our industry."* It presents a "vision vacuum" by saying nothing, containing no commitments, and inspiring neither the alliance partners nor the customers. Devoid of a powerful vision, everything defaults to politics, manifesting as cultural differences, which then divide the alliance partners against themselves. As the old adage from Alice in Wonderland states: "if you don't know where you are going, any road will get you there." And that road will be fraught with in-fighting, subversion, despair, and confusion, all of which will ultimately lead to the ruin of the alliance.

Contrast the weakness of a faulty vision with the motivational force of a more commanding perspective: *"Our alliance will create 10 new innovations each year that will reduce the costs to our customers by 25%, while accelerating their throughput by 50%."* By having a powerful central vision, alliance partners focus differences on how to achieve the joint goal, rather than arguing amongst themselves as to whose way is the "right way."

Powerful visions are all founded on belief in the ability to discover the unknown, accomplish the seemingly impossible, and overcome the apparently unattainable. Therefore, strong alliance leadership must be present to build such a vision and to unify and align the alliance's differences for a common purpose.

Second: The Synergy of Compatible Differences. Synergy does not just occur as a natural byproduct of alliance formation. Rather, it must be designed with architectural aplomb. But more, synergy must be activated by a powerful set of actions founded upon the understanding of how differentials produce the 1+1=3 effect.

"*If two people in the same room think alike, one is unnecessary,"* commented the philosopher Ernest Holmes. The eminent psychologist, Carl Gustav Jung foresaw the potential of alliances when he said: "*The greater the contrast, the greater the potential. Great energy only comes from a correspondingly great tension between opposites."* Joel Barker, in his groundbreaking work on paradigms recognized that new paradigms originate from outsiders who think differently, not from insiders who see their world from an old and tired perspective. Each of these men understood the profound impact differences can have on the co-creation of bold new futures.

Invariably, however, ethnocentrism attempts to enforce its mighty hand. Some members of the alliance may begin making judgments regarding the other side's culture, branding it as strange, wrong, inefficient, bad, or unproductive. As soon as this begins, fear, uncertainty, doubt, and distrust begin to fester, innovation is replaced by an "us versus them" attitude, and the collaboration begins to unravel. This calls for strong action.

Adept managers, leveraging the vision for the joint effort, will call for creating a "synergy of compatible differences" in which differences are:

- respected as the deep source of innovation,
- cherished for their ability to break paradigms, and
- expected to produce creative solutions.

The manager's ability to create this new "super-ordinate" culture enables the joint innovation teams to produce at higher performance levels than either parent company can achieve. (This assumes both organizations are exceptional at what they do. The adage: "The mating of two turkeys doth not make an eagle" is true.)

Third: Highly Differentiated Alliances Require Integrators. Not every successful line manager, project manager, or technical expert makes a great collaborative innovation manager. Because alliances cannot

be commanded, the mechanisms for leadership and control are dramatically different compared with most conventional organizations. Great alliance managers tend to be "integrators," possessing outstanding skills in bridging differences through their ability to translate across cultural boundaries. The greater the differential between cultures, the greater the need for highly skilled integrators.

For example, in a genomics alliance, bio-technologists will be neither versed in the intricacies of computer database analysis nor will information systems specialists understand the complexities of cellular biology. This alliance requires an integrator who understands both biology and computers to connect across the cultural divide.

Good integrators usually have had zig-zag careers. Perhaps they've held a technology degree, but spent extensive time in marketing and sales. Integrators are often exceptional coordinators. Yet their bridge building often looks invisible to outsiders, and thus is seldom rewarded.

Often the effective integrator will develop principles and values for the alliance that forge unity of vision and purpose. Integrators know "people support what they help create." Thus, they use techniques is to ask unifying questions that draw out the answers from their teams.

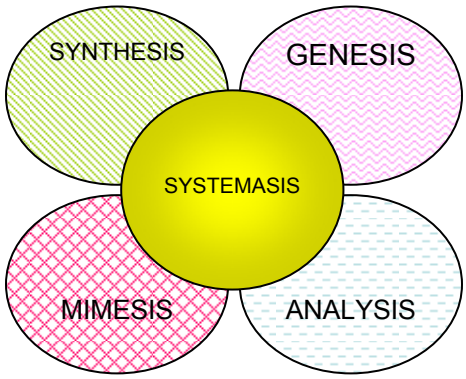
Whenever conflict arises (and it will, for wherever there is change, their will be conflict) the integrator is careful to focus conflict on ideas and issues, steering clear of ego entrapment games, such as "who's right or wrong," or "what's good or bad."

Fourth, Innovation Teams Need a Blend of Thinking Processes. In one chemical company, when tested for their thinking processes, 96% of all the senior executives were dominant in analytical processes. This meant they were logical and linear in their thinking. Sadly, they could only produce small, incremental extensions of their technology, because they rejected other forms of thinking from the outset.

Great Innovation teams co-create because they have alchemy of thinking, something the Greeks, when they began the First Age of Innovation, about 500 BC had discovered. This co-creative alchemy teamed people who were adept at:

- Analysis -- breaking things down into component and logical construction,
- Synthesis – bringing together often diverse or divergent elements into a unity
- Genesis – creation anew from totally original thinking and frameworks[1]
- Mimesis – imitation of something from another field

When these four styles populate your innovation team and are respected by each member who holds a different mind-set, truly unique breakthroughs are possible, because they enable a fifth type of thinking to emerge from the collective minds: systemasis – the holistic interconnecting of the entire entity.



Skill at managing diversity of thinking is a fundamental underpinning in the next skill-set, because paradigm shifting is essential to all breakthrough innovation.

Skill in Managing Breakthroughs

[1] Newton and Einstein, two of history's greatest scientists, created their breakthroughs because they started with genesis, moved to synthesis, and ended in analysis. To illustrate, one cannot build the energy equation $E=mc^2$ by starting at analysis. Einstein had to begin with genesis and synthesis, and then, after the fact, make his mathematical proof using analytical processes.

Once the foundation is laid for managing differences, then the joint innovation effort is poised to design and create breakthroughs. What many don't realize is that breakthrough innovation, more often than not, actually come through design, not chance. In fact, according to one report, 40% of all breakthrough technology is now being developed through alliances.

The originator of breakthrough design was Thomas Edison, the holder of over one thousand patents. When he established his first laboratory in Menlo Park in 1872, it was staffed by a team of a dozen diverse technical specialists -- a mechanic, a chemist, a glass blower, a machinist, among others. Edison, carrying his small notebook everywhere, would give assignments to his teams, and, as they worked, he would circulate among them, asking questions, taking in information, making notes, assimilating ideas. All this time, he was co-creating with his team. Using his power of inquiry, Edison was able to pose questions that stretched the minds of his team. Then, taking their highly diverse inputs, ideas, and perspectives, Edison would craft the next phase of the experiment, until he was able to make the invention emerge from the great confluence of all their collective ideas.

The first step in launching a breakthrough project is to declare a breakthrough goal. Upon opening his laboratory, Edison announced: *"We will create one minor invention every 10 days, and one major invention every 6 weeks."* Similarly, one hundred years later Gordon Moore at Intel proclaimed: *"The speed of a computer chip will double every 18 months, and the cost per byte will be cut in half."* A breakthrough declaration derives its power by aligning people's minds in the same direction, by creating a quantum jump objective; by making the goal highly measurable; thus motivating the mind to action.

Next, alliance managers will also make it possible for breakdowns to become the source of creative energy. While it may surprise many, high performance teams actually have more breakdowns than low performance teams. The difference is how breakdowns are handled. Effective alliance managers energize creative forces by focusing on how to turn breakdowns into breakthroughs, by seeking hidden meaning, and expanding learning by asking lots of questions, such as "What's missing?" "What's possible?" "What shifts in thinking are required?" They focus on team responsibility, not the individual. Blame is seldom, if ever, used as a management technique. Creative "dissidents" are often members of breakthrough teams because their ideas keep the breakthrough teams on its toes. The alliance's corporate sponsors support the use of breakthrough teams by avoiding too much bureaucracy and slowness of decision making, seeing see the alliance as a laboratory of experimental change.

Setting the stage for a Breakthrough Innovation Project requires certain conditions be present. Something must trigger action – there must be some breakdowns or conditions of stress present. For example: "customers are complaining," "competitors are devouring our market share," or "our products are malfunctioning." Then top management must demand extraordinary action: "our survival is a stake," "we must take emergency action," "time is running out," "you have only 3 months to design and implement a program."

Once triggering conditions in place, collaborative innovators will establish a Breakthrough Project Team comprised of members with diversity of input and viewpoint that are to confront traditional paradigms. They must have a propensity to diagnose problems and seek new patterns, while making a powerful commitment to the project, with a clear vision of what is possible, and a real belief that new levels of achievement are possible.

The Breakthrough Team will first focus on an achieving a short-term performance breakthrough aimed at getting quick results, thus building trust, confidence, and strategic momentum for the long term goal. Don't throw lots of money at such a team, minimal additional resources actually forces greater creativity. The idea is to *produce better results with the same resources.*[2]

[2] The classic example of this technique is the invention of the first IBM personal computer in 1982.

Breakthroughs are beyond what is predictable. Breakthrough Teams all comment that they may not know how to attain a breakthrough when they start, but the very process of committing to a breakthrough tends to make unique things happen. All sorts of creative forces then come to play.

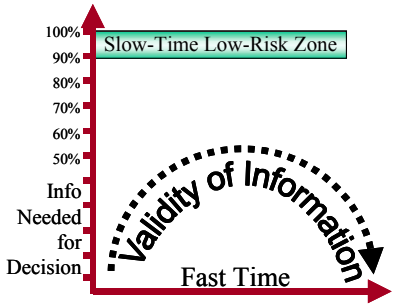
Skill in Managing Speed of Decision Making

One of the most dramatic business changes in the last decade has been the unprecedented shift in the "clock speed"– the underlying velocity at which decisions and change has accelerated. As one innovation manager humorously commented: "*One day my boss asked me to submit a status report to him concerning a project I was working on. I asked him if tomorrow would be soon enough. He said, 'If I wanted it tomorrow, I would have waited until tomorrow to ask for it!'*"

This almost shocking rate of change and speed in the business environment has had massive implications on the way alliances are being managed.

A slow moving world allowed decisions to be based on a linear progression of information. Where the future was more predictable and somewhat certain, after gathering information, the risk of most decisions could be analyzed, discount factors could be applied to financial evaluations, and corporations, in their ponderous way, would move forward with their strategic plans marked out in five-year increments. Slow-time managers wanted no surprises, with risk control reigning supreme.

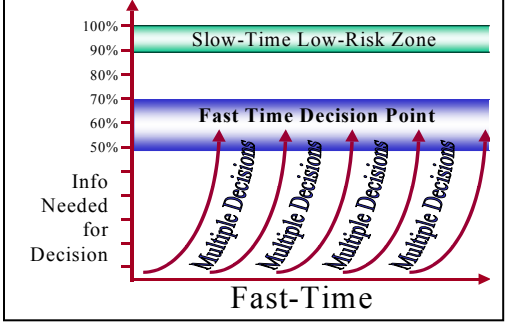
Figure 1 – Information Validity in a Fast-Time World



However, everything has been altered in the fast-time world of the new millennium. The linear analytical skills necessary are no longer as useful, and in many cases are obsolete. No longer is it possible to base valid decisions on sufficiently good information, because, in today's fast-time world, the longer one takes to gather information, the more the world changes, and the less valid the information originally gathered. In other words, delay decision-making in the hope of gaining accuracy, the *more inaccurate* the information becomes and the *riskier* the decision. (see Fig. 1) Anyone expecting to gather facts to gain surety of their decision will always be too late to capture opportunities. Innovation leaders who have worked in traditional, slow moving industries, such as paper and chemicals, have experienced this phenomenon when trying to negotiate with telecom and computer companies. While grinding out tedious five-year financial analyses, the traditional companies watched the business models of the fast companies morph several times, often losing out to other faster, less risk-averse competitors. The skills that served the conservative planner in the slow-time world is nothing more than analysis-paralysis in fast-time.

This fast-time phenomenon calls on innovation teams to develop and nurture a very different set of skills (many of which are not likely to be cherished in all but the most advanced companies). Some of these new alliance management skills include the ability to move adroitly in a highly unpredictable world, where there may be multiple alliances to handle multiple future scenarios, high tolerance for ambiguity and uncertainty, less analysis and more synthesis, and fundamentally more non-linear thinking.

Figure 2 – Multiple Alliance Decisions to "Hedge Bets"



In this fast-time environment, risk management must rely more on systems analysis, multiple and parallel options, and methods that enable flexible decision points and rapid redesign. (see Figure 2) In an environment where multiple alliances will be used to hedge against multiple potential futures, instead of managing single efforts, as was the norm in the slow-time world, the alliance manager is

faced with managing a large portfolio of alliances, often among competitors.

Lastly, in managing speed, corporate sponsors must be careful not to overlay both their management reporting systems on the innovation team, thereby creating a dual reporting system for managers. What's more effective is to determine leading indicators of success, such as critical market impact factors, innovations created, more effective organizational resource utilization, or relative competitive advantage. In a world that's moving faster and faster all the time, it's undesirable to manage by lagging indicators, such as past financial performance.

Skill in Managing Transformation

A fast moving world causes the strategic driving forces that formed the essence of the alliance to be in a constant state of flux, serving as a major destabilizing factor, like a rogue wave trying to capsize a boat. Thus, any business relationship between companies is in constant need of transformation. Innovation leaders must be monitoring the shifts in the strategic environment regularly, and repositioning their parents and partners to align with the shifts.

One very valuable tool to track the fluctuating forces is value migration, which tracks how the essential ingredients of value to the customer change over time as new technologies change the rules of business, or as new competitors drive down profit margins, or fragmented solutions become more integrated. Figure 3 illustrates how IBM was faced with massive value migration shifts, which fundamentally changed the nature of its business and strategic alliances. Astute alliance managers are tuned to the leading indicators of these shifts, so that they can be proactive, rather than reactive, in responding to changes. As one manager of a 10-year old successful alliance in the chemicals industry saw: *"Value Migration is changing my entire alliance. We will be obsolete and competitively disadvantaged in a year unless we reconfigure the entire strategy and bring in new technology."*

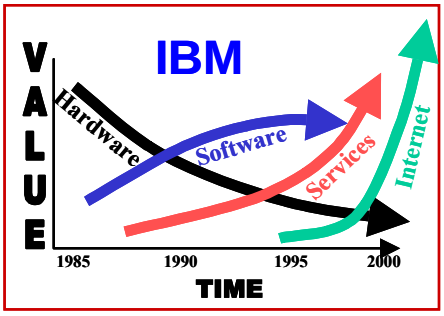


Figure 3 – Value Migration Curve faced by IBM

Developing a set of value migration curves for an alliance is more an art than a science, but it causes alliance partners to project the future, position resources, plan strategies, and respond to competitive incursions adroitly.

Because the alliance must transform itself frequently or lose its competitive edge, repeated renegotiation of strategic, financial, market, and operational interests should be expected. Therefore, alliance managers must establish a culture of visioning, breakthroughs, and co-creation as a foundation for their renegotiations. Negotiating styles that are overly legalistic, win-lose, or adversarial in any way will be highly detrimental to the overall health of the alliance in an environment of frequent repositioning. As one telecom executive said of his alliance in Poland: "*No one knows what the future will look like. But if we don't talk about it, we will end up someplace else."*

The Alliance Advantage

Innovation alliances, by their very nature, possess a unique "hidden asset" -- diversity of viewpoint -- which, for the most part, goes either *untapped* or is *seen as an obstacle.* However, in the high performance alliance, diversity is a unique opportunity to capitalize on breakthroughs. By investing in effective best practices for alliance innovation management, this asset can produce a long stream of innovation and competitive advantage.

Today, the rate of change in the business world is far faster than the speed at which the traditional organization adapts to change. Consequently, organizations that have mastered success in one era easily become burdened in the next era, as the ebb and flow of paradigm shifts hit at shorter and shorter intervals. For these companies, adeptness in the art of managing alliances enables the creation of bold new futures and rapidly regeneration.