



313 Washington Street, Suite 300
Newton, MA 02458 USA

PHONE +1 617.965.4777
FAX +1 617.965.8558

www.rhythmofbusiness.com

“Health Checking” Consortia

**Prepared for Bayer Healthcare, GEI&A
January 20, 2014**

**Jan Twombly, CSAP and Jeff Shuman, CSAP, PhD
The Rhythm of Business, Inc.**

Introduction

Increasingly multi-party cross sector consortia, collaborative networks and multi-party alliances are becoming the preferred means of tackling big problems. These terms are all ways of describing that a group of companies come together under a single umbrella to do something that each of them believes will benefit from having. There are usually some differences in the degree of integration among the firms participating, but common among all of them is the need for multiple parties with disparate interests and who may compete in some way with one another to come together around a common objective. Learning is always a key objective, as is leveraging resources and gaining access to key stakeholders. Even if the network or consortium does not achieve its absolute objective – which may take decades to accomplish – there must be some incremental benefit for the parties involved, otherwise they will abandon the effort.

Some collaborative networks have a network organizer, also known as an orchestrator or choreographer. Some don't have an official leader, but in practice one usually emerges. This may be the organization that initiated the collaboration and perhaps was the first to make resources available. Or it can be an organization that sees a void and, believing in the potential benefit, assumes a leadership role. One of the responsibilities of the network organizer¹ is to ensure that all members of the network are both contributing and receiving something of value and that each member believes they are getting greater value than they are giving. Like a two-party alliance, the whole must be greater than the sum of the parts to make it worth the time and effort, recognizing that in the formation and startup stages of the lifecycle, all parties may be investing, and thus contributing more than they are benefiting. When the investment begins to yield value is extremely subjective, but can be tied to milestones that have been agreed to by all parties.

Also like alliances, it is relatively easy to measure the output of a consortia or collaborative network. For example, if the purpose is to develop a new industry or economic cluster in a region, key outputs will be new ventures created, new investments in R&D, new jobs created, etc. Output measures must be tied directly to purpose. It is much harder to measure the effectiveness or health of a consortium. Alliance management has developed the concept of the health check which looks at strategic, operational and cultural alignment between the partners. The Rhythm of Business has developed VitalSigns™, a diagnostic assessment that is an evolution of the health check that moves from fit and alignment to effectiveness of alliance operations and strategic intent. The remainder of this paper explains VitalSigns and suggests an application of it for measuring the effectiveness of consortia or collaborative networks.

VitalSigns Overview

The following provides an overview of our approach to assessing the operating effectiveness of an alliance. It treats the alliance as an entity and thus relevant personnel from each partner provide input.

Assessing the “health” of an alliance relationship was pioneered by Eli Lilly and Andersen Consulting more than a decade ago. The objective was to measure the intangible of “relationship” in recognition that outcomes are influenced by the means through which they are achieved. Alliances

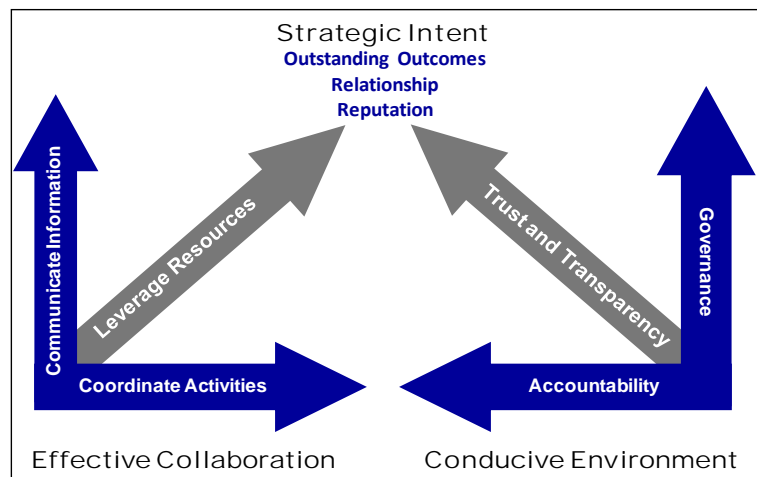
¹ See “*Designing and Managing Alliance Networks*,” Twombly and Shuman, 2012, for a description of the role of the network organizer. <http://www.rhythmofbusiness.com/articles/2012/9/4/designing-and-managing-alliance-networks.html>

are entered into to leverage financial, knowledge, reputational and territorial resources. Effective and efficient use of these resources is essential to creating value from alliances and having trusting and mutually beneficial relationships. Health checks traditionally look at the behavior of each partner, but rarely ask about the implications of that behavior on the day-to-day conduct of the alliance.

The Rhythm of Business takes a different approach in assessing how well an alliance is working. Our VitalSigns™ Alliance Operations Effectiveness Assessment moves beyond traditional health assessment metrics such as Flexibility, Respect, and Executive Support and uses measures that assess outcomes, collaboration, and the management environment.

VitalSigns Alliance Operations Effectiveness Assessment connects behavior to outcomes. It provides a picture of an alliance that communicates how well it is or isn't working from the perspectives of how people are collaborating, the alliance processes supporting the work, and the degree to which intended value is being realized.

The assessment is based on the framework for high-performing alliances depicted in the accompanying graphic. The specific characteristics of these factors are determined based on each alliance's purpose and position within its lifecycle. The assessment provides a comprehensive story that can be used to focus management efforts on driving both outcomes and the efficient use of resources.



VitalSigns Framework

VitalSigns provides both qualitative and quantitative data for evaluating the alliance as an entity. It does not evaluate each partner, does not point fingers, and takes personalities out of the picture. It does, however, highlight the impact of inappropriate behavior on the effectiveness of the alliance. It identifies sources of value the alliance may not be benefiting from and provides a window into the thinking of alliance team members that provides great insight for management. It sparks conversations about the alliance and collaboration that don't occur in the regular course of business.

VitalSigns recognizes that alliances are a strategic choice for producing desired outcomes and that collaboration is purposeful, strategic behavior. Collaboration is a means to an end, not the objective. The framework is based on our experiences operating and consulting to alliances, as well as our primary and secondary research. It has been validated in numerous alliances and collaborations, across multiple industries.

VitalSigns asks if alliance team members are collaborating effectively and if the environment is conducive to the collaboration needed to produce outstanding outcomes. The outcomes assessed are customized based on the strategic intents of the alliance. The discovery phase of the engagement provides context and background so that the assessment focuses on or places less

emphasis on specific elements of effective collaboration and conducive environment as the circumstances of the alliance require.

The assessment drills down and offers participants the opportunity to state their level of agreement or disagreement with a number of specific statements that, taken together, provide answers to the following questions among others:

Effective Collaboration

Coordinate Activities – Are the activities of the alliance sufficiently coordinated to allow team members to plan and execute in a timely manner? Are roles and responsibilities clear and adequately carried out? Are there areas of efficiency either in time or cost savings that should be pursued which are not?

Communicate Information – Is the right information communicated to (available to) the right person at the right time to appropriately inform and ensure timeliness and agility in decision making? Are there clear lines of communication and are team members knowledgeable about who to communicate with for what?

Leverage Resources – Are the financial, people, knowledge, and relationship resources of both partners being fully utilized to maximize the value the alliance creates? Is each partner equally committed to the success of the alliance and making available necessary resources?

Conducive Environment

Governance – Do the governance committees and processes provide an effective forum for the conduct of alliance team business, including routine decision making, as well as problem solving and identifying opportunities to increase the value of the relationship? Do the governance committees provide appropriate leadership? Is governance distinct from operations? Is the network organizer effectively carrying out its responsibilities?

Accountability – Do the operating norms of the alliance encourage acceptance of responsibility for individual actions or inaction? Are appropriate monitoring and measurement tools in place and are they providing timely, insightful and actionable information?

Trust and Transparency – Do alliance team members demonstrate trustworthiness, make their interests known, and refrain from engaging in alliance related activities unknown to their partners? Do the parties understand each other's' motivations and priorities? Do the parties have confidence in each other's' ability to carry out the work at a desired level of quality?

Strategic Intent

Outstanding Outcomes – Are the activities of the consortium producing desired outcomes and are the members finding ways to increase the value for all members? Do the members understand where their interests are aligned, where they diverge, and how the outcomes from the consortium contribute to achieving the overall strategy of each of the members?

Relationship – Are the members developing relationships between the firms? Are they engaging in partnering outside of the consortium?

Reputation – Does the consortium enhance each company’s reputation amongst potential external partners as an organization that is good to collaborate with?

Within each of these areas, we further identify key topics and then within each topic, make specific statements for the survey participants to state the extent of their agreement or disagreement, using a 5-point Likert scale that ranges from strongly disagree to strongly agree.

The specific topics and individual statements are determined after the discovery phase of the engagement, based on our interviews with team leaders and members and discussions with the assessment sponsors. For example, within *Coordinate Activities*, a recent assessment we conducted included the following topics and statements:

This three level structure allows us to drill down and provide in-depth analysis, identifying relationships between statements in different categories that often highlight cause and effect. The structure of the algorithm also allows us to have consistency and comparability across alliances even if the specific statements change to reflect the particular circumstances of the subject alliance. This is similar to a standardized test used in education where the questions may change some, but the subject matter being tested is the same.

| TOPIC | INDIVIDUAL STATEMENTS |
|------------------------------|---|
| COORDINATE ACTIVITIES | |
| Planning | Information is shared far enough in advance of deadlines to allow for effective planning |
| | Budgeting is based on sales goals and realistically accounts for known activities |
| Execution | As work projects are carried out, the coordination among members of both companies is reasonably seamless |
| | Work is not duplicated |
| | The alliance is sufficiently agile (move with quick, easy grace) to respond to challenges with a sense of urgency |
| Roles & Responsibilities | Intra-company coordination is sufficient to support effective coordination within the alliance |
| | Roles and responsibilities of alliance colleagues are clear and broadly understood |
| | The areas of responsibility of each partner are clear and broadly understood |

In addition, participants have the opportunity to offer open ended comments, which we analyze for trends and correlate to quantitative results. Because we promise that comments will not be reported in a manner that identifies any individual, we tend to receive very honest and insightful comments from a large number of participants.

Applying VitalSigns to Consortia

As described above, VitalSigns is administered to the alliance teams; generally the governance committees, project team and any additional support functions that have a significant role such as legal and finance. Consortia generally have one governing body with special purpose subcommittees and numerous projects occurring that may or may not involve collaboration among the parties to the consortium. In early stage drug discovery consortia, the partners may each be conducting a piece of research that all can benefit from. Thus at one level it is simpler to assess the health of a consortium because in many instances there is less collaboration joint work and joint decision making (except decisions about which projects to fund) and also less shared risk than among the members than a typical 2 party alliance.

The Vital Signs framework can be applied by adjusting the focus of the inquiry to fit the purpose of the consortium being assessed:

Effective Collaboration

Coordinate Activities – Have roles and responsibilities been well defined so that it is clear what each party is working on? Have the consortium members developed a plan with deliverables from each member outlined? Is there a common understanding of the boundaries of the consortium – what is in and what is outside its domain?

Communicate Information – Do all members have a chance to be heard? Is there an effective protocol in place to guide the flow of information? Is there an appropriate balance between open-ended discussion and purposefully driving discussion to reach decisions?

Leverage Resources – Are the partners living up to their commitments to make certain resources available? Are the resources sufficient to accomplish the purpose? Is the balance between time, money and people appropriate? Is the intended learning occurring and is there a way of assessing it?

Conducive Environment

Governance – Does the governance structure and processes provide an effective forum for the conduct of the consortium's business, including routine decision making, as well as problem solving and identifying opportunities to increase the value of membership? Does it clearly define the rights and responsibilities of each member? Does the agreement clearly define who may join the consortium and in what circumstances membership will be expanded, as well as procedures for exiting the consortium, either voluntarily or forced in the event of noncompliance with requirements?

Accountability – Are appropriate monitoring and measurement tools in place and are they providing timely, insightful and actionable information? Have operating principles been established and are consortium projects operating in accordance with those principles? Do the members demonstrate accountability for achieving the strategic intent and ensuring that all members are both contributing and receiving value?

Trust and Transparency – Does the consortium agreement contain an appropriate mechanism to safeguard members' intellectual property? Does it clearly spell out ownership of the work product of the consortium? Do the parties understand each other's motivations and priorities? Do the parties have confidence in each other's ability to carry out the work at a desired level of quality? Is there a mechanism by which to verify compliance with IP provisions?

Strategic Intent

Outstanding Outcomes – Is the strategic intent of the consortium something that is attainable, given the resources that are available to it? Is the network organizer actively facilitating the exchange of value among the members? Are the projects of the consortium producing desired outcomes and are the partners finding ways to increase

the value of participating in it for all members? Do the members understand where their interests are aligned and where they diverge?

Relationship –Are networks and relationships being built between the members? Are the members engaging in other collaborative activities, outside of the boundaries of the consortium?

Reputation – Are the leading companies consortium members? Do they promote it? Are senior leaders involved in it?

In developing an assessment tool, it is essential to start with the purpose of the consortium and how it is organized and craft appropriate questions to test how well it is achieving its objectives and to highlight where and how it may be falling short. The assessment in and of itself may not provide a solution, but it will point to where to look for one.

Administering the Consortium VitalSigns

Participation in the assessment depends on how the governance and projects are structured. It may be suitable to simply query the governing body. If projects are collaborative, then the project leads from each member involved should be included; although that instrument may need to be tailored a bit, as project leads may not be knowledgeable about the overall operation of the consortium.

It is essential that the governing body supports doing such an assessment and is willing to take action on the output. If it is led by members of the consortium, it is essential that the responses are anonymous to encourage candor. If the assessment is administered by third party, that party can provide greater insight if they know the identity of the respondents. That allows sorting and analyzing the data by any number of meaningful variables, all the while keeping it confidential and blinding the output.

Conclusion

Consortia and collaborative networks are similar to, but not identical to 2-party strategic alliances. As they proliferate within the biopharmaceutical industry applying the tools and techniques of alliance management makes sense, as long as they are appropriately customized to reflect the strategies, structures and operations of any multi-party endeavor.