



# Goodbye for Now

## How Effective Alliance Wind-Down Can Put You on Course for Future Success

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Life is full of inflection points. Some of the most important are those experiences so many of us share, like marriage, the birth of a child, a change in employment, or the death of a loved one. Given the depth and breadth of our corresponding human reactions, it comes as no surprise that entire industries have formed—and a vast array of products and services have been designed—to help individuals handle the emotions and coordinate the logistics of each of these life events.

**Governance Design Part IV.** The authors of this four-part series on alliance governance deliver the final installment, which examines the “Wind-down” phase of an alliance. This article offers direction to the alliance manager tasked with handling the logistics and emotions of an alliance that has been terminated. Like the “Start-up” and “Steady State” phases, the Wind-down contains significant business and human risk, along with plenty of legal uncertainties. Effectively managing this phase is important to set the stage for success with future alliance partners.

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Alliances, too, experience major inflection points. As we have discussed in previous articles, alliance managers help design and implement a governance framework and then lead a partnership through the Start-up and Steady State phases. As the last major stage in the alliance life cycle, the final Wind-down can have long-lasting ramifications for both alliance management groups and parent corporate entities as well. In this article, our goal is to offer direction to the alliance professional tasked with managing the wide range of emotions and logistics surrounding an alliance Wind-down.

Often a metaphor can be helpful in organizing our thoughts. To better understand the psychology and physiology of an alliance Wind-down, we'll use the metaphor of a ship that for some reason is being decommissioned or must be abandoned.

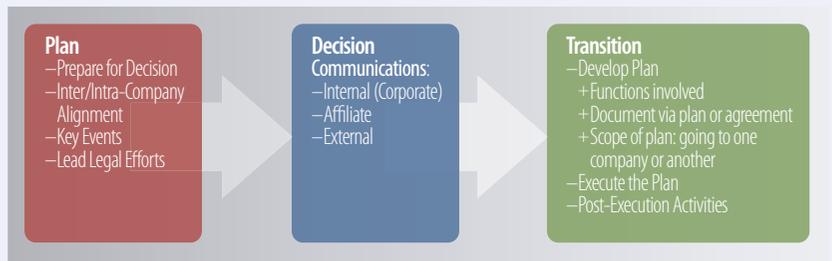
To start, it is useful to recognize that the passengers and crew of a vessel that is headed to its final resting place do not want to go down with the ship. So it is with alliances, in which—career-wise—we usually see a rush to the exits. While such self-preservation behaviors are understandable, they must be addressed by the alliance manager who, in all likelihood, will be the last person to disembark. The alliance manager must manage the risk that is associated with the ship's new purpose (perhaps as scrap metal or as the foundation of a new coral reef), the passengers' and crew's welfare, and a safe and constructive exit for the alliance manager himself. In this metaphor, the final disposition of the ship provides a useful vehicle for the Wind-down's business risks and legal uncertainties, while the passengers and crew can be used to discuss the human risk.

**Start with the Big Picture**

Depending on your role, the length of your tenure, and the trajectory of the alliance to which you've been assigned, your first reaction to learning that your partnership has been decommissioned or terminated can range from a shrug of the shoulders to total shock. Once you've digested the news, your first task should be to lay out and follow a simple planning process like the one depicted in Figure 1.

In the following sections of this article, we offer more

detail on each of these categories. We also highlight key risks and potential solutions that you might find helpful during the final phase of your alliance.



For each group listed above, make sure to think through the business and human risks as well as the legal uncertainties that could be created or exacerbated. At this stage it is also useful to identify members of a joint crisis management team that can be called on to help manage any unforeseen events.

**Figure 1: Wind-Down Planning Process**

**Use Governance Structure to Minimize Human Risk, Offboard the Alliance**

If established and implemented correctly from the outset, the alliance governance framework can be used to provide structure and organization during the Wind-down phase.

Most alliances end only after a partnership has existed for years, and in some cases even decades. Over time, the companies and the individuals assigned to the alliance have established means and methods of working together. These networks of interactions might have been planned and formalized in the contract, or perhaps they have developed informally and out of necessity over time. Like oft-repeated emergency drills aboard a ship, these paths of communication have become second nature to the personnel of both companies. The skilled alliance manager will take advantage of these networks of people and processes and use these natural allies to help facilitate the Wind-down phase.

With the established structure in mind, one of the easiest ways to unwind an alliance is to put together the basic plan, agree upon it with your partner, and turn the alliance governance process on itself. In other words, the lowest level of governance (e.g., a manufacturing working team) shuts down its area of responsibility under the direction of the next layer of governance. This process is repeated until the senior-most governance body meets for the final time, producing at its conclusion a final set of minutes that declares the alliance Wind-down complete.

In this way, the co-chairs (one from each company) are responsible for “turning off the lights” within their jurisdiction and for reporting back to the next level of governance

## CONSIDERATIONS FOR DISENGAGING THE ALLIANCE INCLUDE:

### Consult and obtain advice from these functions before taking any action

- Corporate Business Development – on how best to capture key points of learning that can be used in future alliances
- Legal – to minimize uncertainties covered by the contract
- Investor Relations – to make sure that there are no surprises
- External Panel of Experts – it could be prudent to convene such a “brain trust” prior to making a final decision to terminate if the decision requires certain criteria to be in effect
- Corporate Communications – to begin to generate an external communications plan prior to informing the partner of termination; this plan may include plans to notify other partners that could be affected by the announcement

### Decision to disengage

- Review and fully understand the reasons for the disengagement.
- Ensure appropriate communications plan is in place if the decision to terminate is material to either company.

### Contractual considerations

- Review and thoroughly understand the termination provisions in the contract.
- Ensure that there are plans for completing residual obligations.

### Information technology (IT) and equipment

- If hardware has been purchased and installed at the partner’s facility (e.g., servers and video-conferencing equipment), work with the partner and IT to have it returned.
- Notify collaborations supported by IT so that any infrastructure in place can be removed. Accounts should be terminated promptly.

### Maintain an ongoing dialogue with the partner’s legal department as appropriate

### Summary

- Take broad measures to mitigate human risk, business risk, and legal uncertainty (see Figure 2).
- Use the governance process to unwind the alliance at the end of its life cycle.

	Human Risk	Business Risk	Legal Uncertainties
WIND-DOWN	<ul style="list-style-type: none"> <li>Managing mass offboarding of alliance personnel</li> <li>Establishing guiding principles to manage behaviors and actions during the wind-down</li> <li>Allowing for long-standing relationships to celebrate past successes</li> <li>Rewarding the people who are leading the wind-down</li> </ul>	<ul style="list-style-type: none"> <li>Leveraging the existing governance to execute the wind-down</li> <li>Chunking the wind-down into manageable categories and work streams</li> <li>Reevaluating financial processes to enable speed over precision</li> </ul>	<ul style="list-style-type: none"> <li>Acknowledging each company’s document retention policies</li> <li>Parties agree on appropriate side amendments to original contract</li> <li>Ensuring that both companies understand ongoing responsibilities and are staffed appropriately to manage</li> <li>Ensuring that wind-down activities satisfy legal obligations (each country’s laws)</li> </ul>

Figure 2: Broad Objectives for Wind-Down Phase

- Assign the co-chairs of each governance body responsibility for shutting down their areas and for reporting back to the next level of governance.
- Use checklists similar to those used by M&A groups to make sure that you are not missing critical or significant steps.
- Establish a process that will fulfill all contractual obligations that exist after alliance Wind-down.

that all agreed-upon tasks have been completed successfully. This process reassures line management and relieves alliance management of a significant burden by ensuring that the ownership of the Wind-down rests with those who have the deepest understanding of their local activities.

For example, an international alliance that has operations in all major countries might begin the unwind first by geography, and then by shutting down the corporate support functions that are no longer needed to support the geographies. Next it might dissolve the lower-level corporate governance teams and then finish by having the senior-most governance body declare that the alliance is officially over.

It may be necessary to enlist the help of a project manager to keep track of key events and details, depending on the skill or time commitment of the alliance manager

responsible for the overall Wind-down. This approach provides an extremely effective and efficient way to make sure all passengers and crew make it off the ship in a safe and orderly fashion.

Maintaining such organizational composure during the Wind-down also goes a long way toward ensuring a relatively positive exit from the partnership. This is not always easy because an alliance can end for many reasons, ranging from the natural end of an asset’s life cycle to an unexpected and bitter court dispute. But regardless of how, why, and when a partnership concludes, the way in which an alliance





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is shut down will live on in the memories of all parties. Always keep in mind that a good—and by that we mean professional and constructive—dissolution can open the door to future collaborations, even if the alliance being shuttered was not commercially successful. An organized closure process can also help lessen the chance of future legal uncertainties.

As you might imagine, positive closure is not always easy to achieve. While emotions can sometimes run high, you must maintain composure, even if the other party is behaving badly. You don't have to be the other company's doormat, but you do need to be absolutely professional in your approach to solving any issues that arise. (Think of a ship's heroic crew that sees first to passengers' safety and then to their own.)

Another element important to a Wind-down is the single point of accountability for each partner. In the first article in this series, we recommended designating one person from each party to act as co-chair for any standing committee. While its importance might be more obvious in the Start-up and Steady State phases, having a "captain of the ship" from each company is critical to the efficiency of the process. If each co-chair has the responsibility to gain consensus regarding an issue and its resolution, each can then commit to a decision on behalf of his or her company. This structured approach saves the time and expense of convening entire committees and facilitates efficient decision making as well.

Just as the co-chairs were called upon at various points of the alliance life cycle to interact quickly and come to agreements that moved the alliance forward, so too can they be called upon at any time during the unwinding process. They can also ensure the completion of everything necessary for a successful Wind-down, as was the case during the Start-up and Steady State phases when efforts were focused on achieving commercial success. Because the responsibilities of alliance co-chairs are clear and held at all governance levels, the power and influence of the co-chair pairs can be leveraged during the partnership's denouement.

### **Manage Business Risk by Capturing Maximum Value**

Even when a ship will no longer be in use, it can have residual value. A terminated alliance can have value too, although the assets to be assessed can at times be abstract and take different forms. Nevertheless, the alliance manager is responsible for capturing as much of that value as possible. The copper cables in a ship must be untangled and appropriately scrapped, for example, just as the intellectual property and financial

agreements between the parties must be disentangled and accurately valued. In addition, you need to ensure that any obligations that have a life beyond the alliance's termination will be adequately met.

Another way to mitigate business risk is to develop a checklist of all essential activities that is focused on capturing as much value as possible from the now-defunct alliance. The good news for alliance managers who work in companies large enough to have a mergers and acquisitions (M&A) function is that they will have lists that can give you a headstart. M&A departments' lists are often exhaustive and will need to be customized by the alliance manager. Such lists do, however, provide a great place to start.

### **Consult Counsel to Manage Legal Uncertainties**

Just as the captain of a ship needs a first mate, an alliance manager needs someone he or she can count on for honest, detailed advice at many junctures of the Wind-down. Given the hundreds of pages of contracts, amendments, side letters, and other agreements generated during the life of the alliance, managing the legal uncertainties in an alliance Wind-down can be quite complex.

Alliance managers need to ensure that legal obligations are carried out, documented appropriately, and completed within the timeframe specified in the contract. In complex partnerships, a separate termination agreement is often negotiated to resolve issues not contemplated in the original contracts. This extra step often uncovers important points that should be considered the next time a new alliance is established.

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