

The Nuclear Option? Not Always

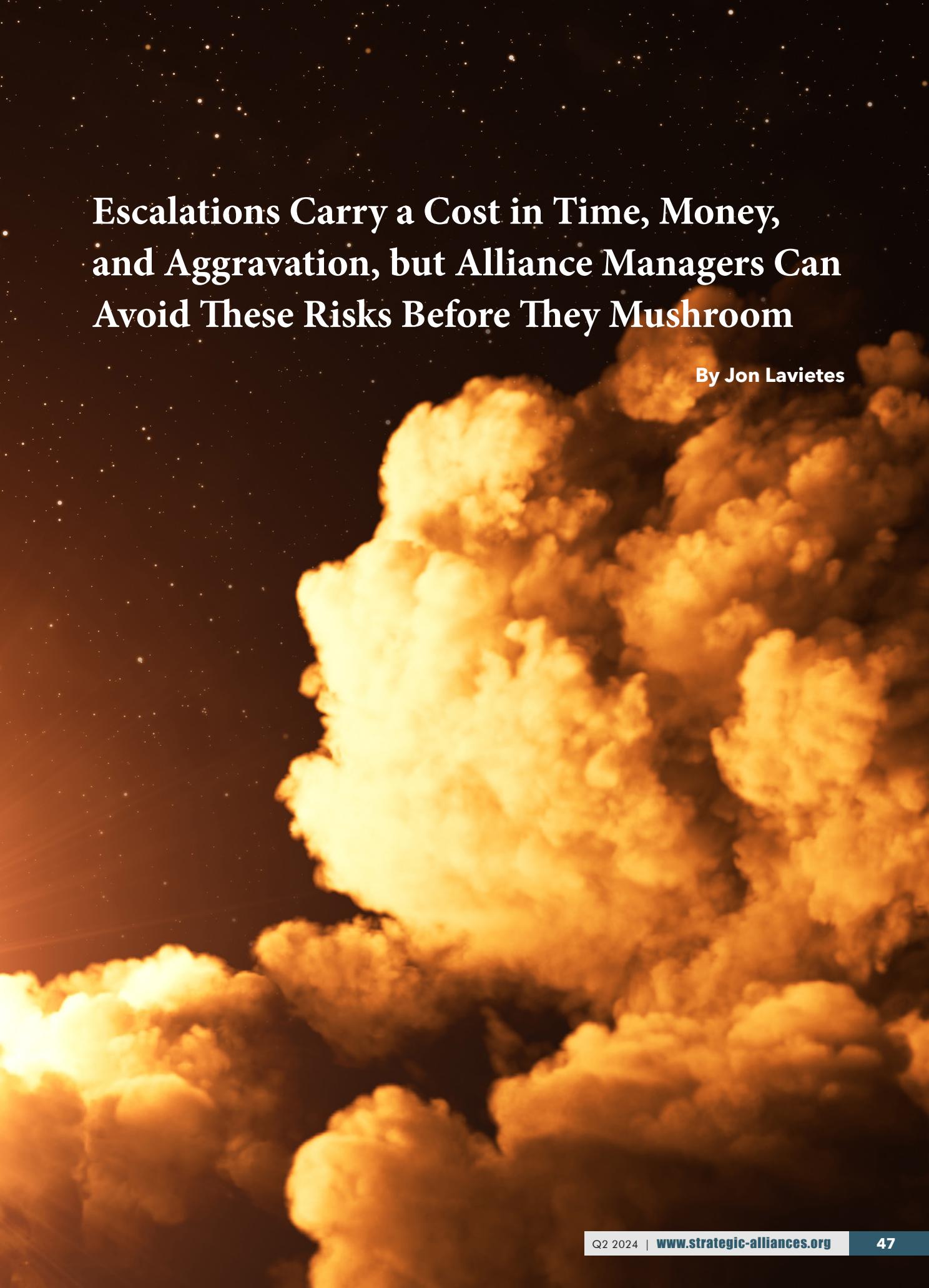


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Escalations Carry a Cost in Time, Money, and Aggravation, but Alliance Managers Can Avoid These Risks Before They Mushroom

By Jon Lavietes

Disagreements are a part of any large-scale collaboration. Alliance managers are often defusing situations that arise between and within working groups, senior executives, and alliance sponsors. Problem solving and conflict management are part of the job. (See, for example, “Cooking with Conflict,” *Strategic Alliance Quarterly*, Q2 2023.)

“Conflicts are normal in any relationships that you have, and alliance relationships are no different than any other,” said **Donna Meshaka**, head of alliances at KPMG.

But as adept as alliance professionals are at sniffing out—and snuffing out—potential disturbances, some major disputes can’t be bottled up. When discord arises around high-stakes issues or initiatives, the parties might fail to find a mutually beneficial solution, triggering an escalation to senior stakeholders through formal channels.

“Escalation” is a heavy term in alliance management—the term “nuclear option” is sometimes invoked. Although these situations are oftentimes emotionally charged, the right escalation processes provide structure for fostering a resolution between partners; they provide guidance and empower teams to solve what they thought they could not—think of it as the marriage of conflict resolution and governance.



Of course, even when handled with deftness, escalations can potentially change the dynamics of an alliance, which is why alliance managers want to avoid them most of the time.

“Once you go down that pathway, I can tell you that the alliance is never the same again,” said **Brian Stewart**, CA-AM, who has held executive director and other senior alliance management leadership positions in his career, referring to situations where escalation processes take disputes all the way to arbitration.

The Full Picture Usually Sees Resolutions

The term “escalation” can have multiple meanings in the context of alliance management. In the most literal sense of the word, any time partner team members turn to a more senior executive or internal body, it’s technically an escalation, albeit an informal one. In tech, this could come in the form of a joint sales team appealing to their respective sales leadership—say, a regional vice president or head of sales for a particular product—to rule on which company’s reps can pursue a particular client or region. In biopharma, impasses between research teams, manufacturing plant operators, or sales reps might be appealed to subteams and functional subcommittees for a verdict. This, too, is a more discreet way to resolve disagreements before they form a dark cloud over the alliance.

When more serious matters cannot be settled by and among the teams, disputes go to more formal escalation processes, many of which are detailed in the contract, particularly in biopharma. These formal proceedings come with concrete timeframes for presenting complex arguments, often with the help of legal, and they tend to have an air of tension associated with them.

The good news is that many formal escalations can be avoided with typical alliance manager diplomacy if alliance professionals have their finger on the pulse of what’s going on at the working team level. Those regular touchpoints between working groups and function heads should reveal potential disturbances well before they mushroom into collaboration-threatening issues.

“Those relationships and those types of discussions ensure you have the full picture,” said **Steve Pessagno**, CA-AM, executive director at GSK, before adding that alliance managers don’t have to be there in person for each of these gatherings: “we just need to know that they’re happening and then what comes out of them.”

"If you can tell that groups are already butting heads with one another, theoretically the alliance manager should help them at least understand where the other company is coming from."

"If you can tell that groups are already butting heads with one another and are not on the same page, theoretically the alliance manager should be doing something with that committee to help them at least understand where the other company is coming from," said **Steve Twain**, CSAP, founder of boutique consulting firm Integrated Alliance Management, who spent more than two decades in alliance management roles at Eli Lilly and Company and AstraZeneca.

In Meshaka's experience, the more common escalations "occur on a weekly basis" and for the most part can be rectified easily when the joint functional teams have built a strong rapport. "Because of that trust we are able to navigate that pretty well."

We're Out of Our Heads, and It's Out of Our Hands

Of course, alliance managers won't always be able to avoid formal escalation. There are times when the function sub-teams and leaders simply do not have the authority to dictate certain decisions or simply need a higher authority to get things moving again. (See "I Don't Believe Escalations Are the Plague," below.)

At that point, structures for formal dispute escalation vary by industry. As is often the case in biopharma, everything starts with the contract, which spells out the path and timetable for resolution attempts. Generally speaking, most agreements call for the parties to first try to resolve the issue at the relevant functional committee, such as the joint development committee (JDC), joint manufacturing committee (JMC), joint research committee (JRC), or joint commercialization committee (JCC).

If that fails, the next step is to take it to the highest committee, the joint executive committee (JEC) or joint steering committee (JSC). If the most senior committees can't elicit a decision

Escalation process (biopharma):



Escalation process (tech):



that satisfies all parties, then the most senior executives try their hand. It could be the CEOs, COOs, or other C-suite or business unit executives individually trying to devise a solution that would work for everybody.

If an armistice can't be reached, a contract may stipulate that matters simply revert back to the status quo. Or it may spell out a path to formal legal proceedings of some kind, often arbitration or mediation, which most would agree is a messy affair for many reasons, one of which is that the alliance manager has much less control over the situation.

"Oftentimes those processes get out of the alliance manager's hands because legal will take a more formal and prominent role in managing the entire process as it relates to a mediation, litigation, and so on," said Twait. "Anything the alliance manager can do early on to manage that internal escalation process is where they can be a key influencer."

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Tick, Tock, We've Started the Clock

Even if the issue doesn't reach the point of legal proceedings, triggering the formal dispute process comes with another strain.

Once the partners kick off this process with that initial functional committee hearing, "that then starts a clock," said Twait. Most alliance contracts will stipulate that "within X days, this issue will be brought to the steering committee for review, discussion, and so forth. If it's not resolved there, you have X days to get to the CEOs."

Alliance managers have to drop everything and get appropriate stakeholders on the same page, exchanging positions with their alliance counterparts and holding pre-meetings to determine how the company should respond, much like traditional JSC preparation but on an even more condensed timeline.

"Once the formal process is triggered, it's tough for there not to be stress," said Twait.

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Got Your Number: Trust the Process to Get You Through

In tech, escalation processes may or may not be written into the contract, and when they are, the agreement usually provides few details. The partners will generally build out the governance and escalation processes jointly.

"You definitely have to have something about governance [in the contract]. Not every one of them has something about escalations," said **Joan Meltzer**, CSAP, principal and founder of AtlassGTM Consulting, and a three-decade IBM veteran. "The first thing you want to do is work [the escalation process] out with your peer."

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The typical escalation pathway followed in the alliances Meltzer has managed begins with a discussion of the problem by the respective alliance leaders of each partner organization. If they can't come to an accord, their bosses, oftentimes senior vice presidents or C-suite members, will try to resolve the issue. If that group fails to foster agreement among the organizations, then the concern is turned over to an "executive steering committee" made up of select participants in the alliance's quarterly business review (QBR) meetings. If that doesn't work, additional stakeholders from product development, sales, marketing, and other relevant functions try to "talk it through." If you and your peer alliance manager are on the same page, Meltzer indicated that it's best to work this through both organizations jointly.

Meshaka listed three main components that make up KPMG's escalation resolution structure: 1) rules of engagement that apply across the firm's entire partner portfolio, 2) a governance body that includes alliance leaders, business owners (defined as service delivery and sector leaders, in the context of KPMG's business), and executive sponsors, and 3) the aforementioned inter-function trust, which alliance managers help foster by facilitating "intentionally aligned relationships" across the different functions of each partner organization (e.g., sales, marketing, product development, etc.).

The most charged conflicts might wind up being resolved at an even higher level, such as the vice chair, the executive who "owns the number" at KPMG, according to Meshaka.

“It’s those relationships [with the most senior leaders] that we really treasure to get us through these difficult escalation moments,” Meshaka said.

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Risky Routes to Escalation

Many scenarios can trigger an escalation; they can occur at every phase of the drug development life cycle in pharma, and across every function involved in IT partnerships. Twait still uses a trusty slide from his Eli Lilly days that breaks down risks into three buckets: 1) legal risk associated with the contract, 2) human risk that stems from clashes of different personalities and individual interests, and 3) business risk tied to big “decisions and issues that surface.” Simply put, escalations are born out of one or more of these categories. Alliance managers should be vigilantly identifying and proactively managing these risks to prevent stalemates that could potentially morph into an escalation.

More concisely, many stalemates simply arise from different risk tolerances—“any time you have a decision that brings in perhaps a level of risk that one company may be comfortable with and the other company may not,” said Twait.

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Partners could have different risk tolerances around the number of patients for a robust clinical trial, safety data pharmacovigilance, and how much to invest in backup manufacturing facilities in biopharma, for example. In tech, stricter data privacy standards in the EU might make a European company squeamish when a partner from another part of the world wants to base aggressive marketing outreach on liberal use of prospects’ personally identifiable information (PII).



Other escalations result from competing interests. For example, in the world of a Big Four consultancy like KPMG, escalations arise naturally due to coopetition dynamics among its major independent software vendor (ISV) partners. Meshaka gave the example of the company’s HR solutions, which can be built upon Oracle, Workday, or SAP, depending on customer requirements. There inherently will be only one winner in each engagement. In addition, most of KPMG’s 90 ISV partners have their own competing implementation services offerings, which can produce formal disputes over services business.

In pharma, boards of smaller biotechs often push harder to release data than larger counterparts because it is higher-stakes for them to attract new investment, employees, and partners. It may also be material and thus legally required.

Disparities in Strategy and Culture Eat Alliance Harmony for Breakfast

In addition to risk-related escalations, strategic disagreements over product brand names, go-to-market strategy, pricing, and basic value proposition can result in a more formal conflict. In tech, mismatched timelines around product general availability (GA) dates and security updates can turn acrimonious.

“It can really mess up your business model and has far-reaching consequences. I see it time and time again,” said Meltzer, while adding that security patch delays can end up being a “board-level” issue.

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Stewart has even seen companies suffering from buyer's remorse push an escalation as part of a broader gambit to change the language of a contract that hasn't aged well over the years.

"Sometimes a party becomes so disenchanted with terms they have agreed to," he said.

Cultural issues can hatch major escalations, as well. A rare experience that Meshaka calls the most "egregious" is seen "when one party tends to speak poorly [to the client] about some aspect of the other party—whether it's their architecture, their integration strategy, whatever that might be. That raises the seriousness of the escalation immediately. Then you're questioning the [partner's] good work," Meshaka explained. "[Those cases] get escalated all the way to the top—and quickly—so that we can understand what's going on and remediate that because now you have the client involved, too."

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Give a Little Bit: There's So Much That We Need to Share

Everyone interviewed for this piece stressed the importance of regular informal one-on-ones between each partner

organization's respective alliance managers and leaders—"penalty-free, straight-talk," as Meltzer put it—in order to prevent formal proceedings.

"Sometimes people don't want to talk in a larger venue like a team meeting."

"Sometimes people don't want to talk in a larger venue like [a team meeting]," said Meltzer, before describing the nature of these check-ins. "Are all the teams working well together? Are we meeting each other's expectations? Is there anything going on in the marketplace that we should be aware of?"

These touch-base meetings could be weekly or monthly, depending on the needs of the alliance and those leading it. Twait found these connections to be a great place and time to ask, "What are your top two or three things keeping you up at night?"

Whether you call them "back-hallway conversations" or "offline discussions," these off-the-record consultations can help alliance heads get to the root of an escalation that either is imminent or has been triggered.

"Where is your team, your company, willing to give, willing to bend, willing to lean?" Because we are all willing to give a little bit in order to get things moving forward in a productive fashion," said Stewart.

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Put It in Writing Right This Minute—or Else It's Too Late, Baby

Once an issue or dispute begins to percolate, Twait has each party fill out a worksheet of questions detailing their priorities, their pain points, and the options that have already been discussed (and rejected) up until that point, among other information.

"More times than not, when you do put some of these things in writing, just the mere doing that helps resolve this issue and we never have to formally escalate," said Twait. "People argue from their own perspective and they don't take the time to listen to what the other company is saying. Forcing groups

to slow down and document what is the issue [helps] better understand [the partner's] interests."

Aside from the meetings between individuals, Meshaka said QBRs are "the natural way to document, memorialize, and have a discussion about [an escalation]," and it is critical that either the alliance manager or another party takes "copious notes" to document everything that was agreed upon during the meeting.

Once an escalation occurs, "it's way too late to be thinking about how things were documented."

In biopharma, committee meeting minutes are "Alliance Management 101: ensuring that you're living up to contractual obligations," according to Twait. Once an escalation occurs, "it's way too late to be thinking about how things were documented." In fact, it's even more critical that meeting notes have been compiled meticulously over the years of an alliance because legal will likely be combing through all of them as the company builds its arbitration or mediation case.

Pessagno also acknowledged the importance of minutes throughout the life of an alliance, but he noted that "if you're anticipating, or you're starting to see that this could be on the path to misalignment and escalation, I do think that taking more detailed minutes than what you might normally need to is a good idea."

Thank You, We'll Take It from Here

As an escalation is in progress, the ground troops still need to carry out everyday duties related to marketing campaigns, product integrations, clinical experiments, manufacturing operations, sales efforts, and the like until told otherwise. This isn't always easy with a confrontation hanging over everyone's heads.

"It's going to be a distraction when it's happening in the moment."

"It's going to be a distraction when it's happening in the moment," Meshaka acknowledged.

Pessagno underscored the importance of alliance stakeholders viewing themselves from the outset as one team that will advocate for the alliance effectively and objectively. Ingraining this into the culture of the alliance will help the

team members stay focused on their day-to-day responsibilities, even if an escalation is triggered. If an escalation were to occur, then the alliance leaders can explain the protocols for the sake of transparency and understanding—and then emphasize to the team members that they do not need to worry about the escalation process. It's crucial to keep them engaged and laser-focused on delivering their objectives and value for the collaboration.

"You say to the team, 'We're taking this now. Thank you for all of your input up to this point. You tried to come to an alignment and didn't—and that's what happens sometimes,'" said Pessagno. "Keep them focused on delivering. 'We are going to get this resolved, so that we don't miss a beat elsewhere.' That's the spirit and intention. That's much more easily done when the alliance managers truly are operating as one team."

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"The mindset should always be planning for success. Yes, we have issues, yes, we have challenges, but we have to be planning for success," Pessagno continued. "People want to be doing what they're supposed to be doing, and progressing in our industry these new therapies for patients.... They don't want to be chatting with the alliance manager about how the escalation protocol works. They need to know that their alliance management team will handle that."

No Hanging on the Telephone

Meltzer said it's the alliance manager's job to "keep things rolling, keep everybody together" by reassuring everybody that "it's not going to impact what we're doing on a day-to-day basis." More importantly, alliance managers must use the equity they have built with cross-functional stakeholders to convince them not to engage in a game of "telephone."

"Don't gossip about it and don't pour more oil or gas on the fire. Information is power. People don't start out to do this, but that's what happens" she said. If people get too chatty, it can spill into client affairs. "Make sure this does not in any way show up in front of a client. That's really important: a unified front."

“Don’t gossip about it and don’t pour more oil or gas on the fire. Information is power.”

Meshaka said it helps to focus on the positive. These stakeholders do “so many more great things together that are going to benefit your team, our team, but more importantly, our client.” The escalations that crop up are hiccups compared to the value these collaborations bring in the long term. “Working through the roles that [they play] helps them understand the bigger picture of the alliance and how it’s important here at KPMG.”

“I Don’t Believe Escalations Are the Plague”

Nevertheless, although Stewart agreed that “there’s a lot of business that’s not going to be affected by the decisions being made [around an escalation],” it’s still better to avoid it if possible. “It’s hard. That’s why you avoid that nuclear option.”

That doesn’t mean you should always eschew the formal confrontation. Yes, escalations are something to avoid an overwhelming majority of the time, but there are exceptions.

“I hope nobody is telling you that escalations shouldn’t ever happen.”

“I hope nobody is telling you that escalations shouldn’t ever happen,” said Twait. Although it’s generally true that “no one wants issues going to your boss, your boss’s boss, or heaven forbid, your CEO—that’s career management 101,” Twait recognized that “sometimes if the reasons are legitimate and so forth, then [an escalation] does happen, and it’s fine.”



“I don’t believe escalations are the plague. Too frequent, and you’re not running the alliance properly, but escalations can be good. Not only can they get you unstuck, they can be an avenue for ensuring alignment,” said Meltzer. “I am all for the right escalations.”

“How you deal with [escalations], how you navigate them, that shows the strength of the alliance,” said Meshaka.

You’re Out of Touch, We’re Out of Time

In most cases, escalations result in “collateral damage” because “things are being drug out and prolonged—there’s a daily cost associated with that,” according to Stewart. Escalations often hamper the alliance manager’s quest to manage “the cost of time.”

But on the other side of the coin, a “cost of time” argument can be made in favor of commencing an escalation in rare instances.

“If people are purposefully kicking the can down the road,” alliance managers “should be able to objectively say, ‘This isn’t good for the collaboration.’ You could trigger the escalation just because action isn’t happening and you’re not progressing,” said Pessagno.

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In other words, there are times when “we need to cut to the chase fast on this,” Pessagno added.

When in Doubt, Say “We Can Work It Out”

Other times, escalations can help overcome stalemates.

“Where you have joint decision making and misalignments on decisions, escalations can be triggered when you can’t come to an agreement,” said Pessagno.

Still, when in doubt, do everything you can to keep the dispute from escalating when it should and can be resolved at lower levels.

“Peel the layers back. What are we really trying to solve here? Have we exhausted every option and explored every conversation before we move this up through the escalation pathway contractually?” said Stewart. ■

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As a practitioner of collaboration in a variety of perhaps non-traditional alliance functions myself, I've found so many key elements of partnering and collaboration management for synergistic outcomes were perfectly encapsulated by ASAP's offerings.

—Kevin Little, CSAP
Senior Partnership Director
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