

Q2 2003 Alliance Advisory Interview

[Alliance Sciences](#), a global leader in organizational partnering consulting, interviewed GE Plastics' Darrell Hughes, GM of Business Development for their [Q2 2003 Alliance Advisory](#) newsletter. Darrell shared how GE Plastics incorporates Equity Alliance management best practices, particularly the importance and benefit of rigorous processes, management infrastructure, organizational commitment and departmental alignment.

**Darrell Hughes**

Darrell K. Hughes joined GE Plastics in May 1999 as General Manager of Global Business Development and has completed over 30 transactions since that time. Prior to joining GE, Hughes held various management positions with Engelhard Corporation, Braxton Associates-Deloitte Consulting and Air Products and Chemicals. He has extensive experience in new ventures, corporate development, M&A and strategic planning and has been involved with commercial development and large scale capital project management. Hughes holds a bachelor's in chemical engineering from Bucknell University and a master's of business administration from the University of Chicago.

Interview

J: Why does GE Plastics incorporate equity Alliances as a part of its corporate strategy?

D: I think two of the primary reasons we pursue alliances, both equity and non-equity alliances, are IP and technology. We've looked at opportunities to leverage external IP, perhaps combine it with our own intellectual property and in so doing, go after a particular market or opportunity that we weren't able to go after before. We have had the most success where folks have brought technology to us and we can combine it with our technology, strengths in marketing, application development and distribution reach. In fact, you'll see one right now that just hit the press. It is joint development work that we have done with a company called FlexPlay around a disappearing DVD. This is a revolutionary new DVD that allows limited viewing before the DVD clouds over and can no longer be played. FlexPlay brought the concept and a GE Plastics proprietary Lexan® resin makes it work. Disney will be piloting the concept this summer.

J: OK, so usually it starts with IP and technology but that also helps you to get into new verticals or even geographic markets...

D: Absolutely.

J: GE is well known for utilizing a disciplined approach to management. GE Plastics utilizes proprietary systems & tools to assist in acquisitions and integration efforts. Could you describe the complexity of these tools and their usefulness? What's the advantage that comes from them?

I remember you had talked about the tools themselves being the Strikezone to provide you with a disciplined scorecard approach to help you determine who is an appropriate placement.

D: Strikezone is a concept that we've practiced across the company, extensively in GE Capital, as well as in this business (GE Plastics) and other (GE) businesses. It consists of looking at a set of criteria to effectively screen opportunities coming in the front end and to determine what fits. The criteria include both strategic as well as financial criteria. It's really a high level screen rather than a detailed matrix. While some people have driven Strikezone down to a "QFD Matrix" (Qualify Function Deployment) approach, we have not in this particular business. We use more high-level criteria because we don't want to screen too many things out ... we don't want to have too tight a screen on the front end.

J: And then from there do you transition into a management type of architecture, or systems you use to manage the relationship?

D: From the screening we then follow a fairly typical acquisition, venture or alliance process where we get engaged in working with the company. We use a "toll gate" process as we move things forward where we look at all the different facets of the relationship and deal. We are able to clearly determine "what the market opportunity is", "what intellectual property is being contributed", "what are we going to have in joint IP if we are doing this in conjunction with someone else", "what the economics look like" and "what's our cost position".

In parallel with evaluating all these things, we are building up a set of pro-forma financials and managing the entire collaboration and flow of documents. The entire process from start to finish is basically stage gated and supported by a series of business units and corporate level meetings that we use to review the toll gates and progress transactions. The corporate level meetings usually consist of two stages; one is a pre-approval and the other is used to obtain final approval before we actually sign a binding agreement.

J: We see a lot of companies going after increased Alliance infrastructure systems and capabilities, as evidenced by our Q1 newsletter. With the infrastructure that you have, specifically the Strikezone and Acquisition Integration Framework, what benefits are provided to you?

D: We have a dashboard that tracks deals by tollgate and organization. This data is driven by a database of our business development projects and is called E-DealRoom. We have all the data on the portfolio of opportunities that we're pursuing in one system. I have not seen the Strikezone put into a digital practice yet. There may be some GE businesses that have digitized the Strikezone, but our (GE Plastics) dashboards are pipeline metrics that describe what is going through the process. The Acquisition Integration Framework (AIF), is a fairly rigorous set of integration tools and methodologies that are codified, reviewed and updated. It is the "collective learning" of a company that does hundreds of acquisitions a year with input and perspective from every single business across the company. So it has GE Capital based experiences in it as well as Industrial business based experiences. We use the AIF to transfer knowledge and plan and manage acquisitions or alliances following signing of the contracts and receipt of appropriate consents.

J: That's impressive. Has there also been a Six Sigma process wrapped around all this?

D: Yes, there is Six Sigma rigor on the Acquisition Integration Framework. There are key issues that you need to think about as you move forward with integration, whether it be an acquisition or a partnership. All of that stuff is documented, captured ... it's really a learning document. We also use the E-DealRoom and tollgate framework to incorporate Six Sigma rigor into our deal processes.

J: I see. So it's got some knowledge management components as well.

D: Yes, knowledge management is a big deal in a company the size of GE and we view it as a real differentiator for GE Plastics and GE overall

J: We've talked about the types of data you're able to collect and manage. From this data, you're able not just to look backwards but also see how that advises you to move forward. In looking at research we have on strategic investments versus other types of investments, we've also seen that corporate venture arms are also looking at internal placements versus external. Could you speak to the types of investments that GE plastics is seeking to make?

D: Sure, we're doing far more in the strategic area, far less in the financial area. In fact, a lot of the activities within the equity portfolio (GE Equity) are starting to be run down. We are also pretty selective with strategic investments that we make right now. The economy is pretty challenging so we're really looking closely to see if there is meaningful technology or some other compelling fit. I would say we will be looking more at non-equity alliance relationships going forward.

J: So when you talk about "strategic" then there's that structure difference that's being more of an alliance than an equity play and it's also got to be tied more closely to the business.

D: It has to be tied more to the business and consistent with where we are headed, in terms of our own technology needs, assets, resources or access to a particular channel, but I would still place more emphasis on the technology area than channel access. We have pretty good market coverage in our space.

J: On the minority investment side, where you don't have a control equity interest, how do you maintain a strong link to minority investment performance? Is this going back to the tools that you've used and just making sure that you follow the same processes that you have in place?

D: Where we do have minority investments we've adopted the same rigor that exists inside the GE Equity organization. The GE Equity model involves monitoring and tracking an investment the way other active financial investors manage their minority investments. We make sure that we're rigorously reviewing the performance of each particular investment on a regular basis and that we are getting access to the board and financials that we're entitled to through our contracts. We review each investment on a recurring basis to decide if we are on course or off course and what do we need to do if we are off course

J: You'd spoken before about the systems enabling you to learn and the vast experience that GE has as a total organization within acquisitions and equity alliances. One thing that's a common concern with alliances in general, but often even more so with equity alliances, is intellectual property transfer. As you've identified, it is often a major component of an actual deal structure. Can you just speak to managing intellectual property transfer – is this an area of focus? Is this an area of concern? Is it something that has to be managed closely?

D: I think we do that by putting a heavy emphasis on that up front. As we work towards an agreement with a particular partner, we spend a lot of time discussing how the intellectual property will be divided and shared. That is an important part of the up-front discussions; who will own what space, what fields are joint, what fields are owned by one party or the other. We work hard to make sure the language around that is very clear and spend a lot of time on it so that our partners understand exactly where we are positioned with respect to IP. It's a pretty important area of focus now and we will continue to put emphasis on the IP area as we go forward.

J: That also relates to the next question with regard international alliances. As you know, different cultures approach equity alliances from a different learning standpoint. It's well known that Asian companies often refer to western organizations as coming in as "teachers" and report that they're happy to be the "learners" or the "students". What they're picking up is not only stuff that was in the deal but also sometimes significant value outside of the deal as far as IP, processes and development structures. They're learning a lot about the about what their Partners (often western organizations) are doing to attain, develop and distribute this technology in the first place. So intellectual property is often cited as a concern. Do you see culture and learning playing as key factors when you do international relationships or is that something you haven't seen as a significant factor?

D: It's part culture, but it can also relate to the legal infrastructure that exists in certain regions around the world. China, for instance, is a good example... China and Russia actually are two that come to mind. When you think about doing deals in those regions of the world you've got to be particularly careful about how you manage the intellectual property piece. In China the legal infrastructure is evolving and is being put in place as we speak. In other parts of the world the legal infrastructure may be there but compliance is lacking. Given these risks you have to carefully think through how you assure that there is not unintended leakage of intellectual property – more than you may have intended in the basic framework of the agreement. You may need to rely more on structural mechanisms and incentives and less on contracts in certain regions of the world.

J: Are there any tactical measures that you take to help do that Darrell, like tying intellectual property transfer to investments, or any other type of reward systems... like making sure that as this knowledge is transferred that's when these other components of the deal take place?

D: We are more mindful of what we put in those regions where there is uncertainty that our intellectual property and associated agreements will be enforced in the courts. Structurally we approach these situations with a greater degree of care than we otherwise would [in strict legal

environments]... in these regions our bias is toward putting less IP into the arrangement than we might in other areas where the legal infrastructure is more established

J: That makes sense. That also segues into the next question. We're really getting into what you and I have talked about before with equity alliances probably more so than any of the other types of alliances...

D: Let me just go back... I would add one more thing, Joey, and that is we have also utilized frameworks to appraise and monetize intellectual property contributions. I can site more than one example where we're able to increase effective capacity through Six Sigma processes in production. We effectively extend capacity through more stable operations utilizing Six Sigma tools. In some cases we have worked out agreements that outline out how we will be compensated for the value of the additional capacity.

J: That's interesting. Ok, good. In thinking of the structure of the deal, you and I had talked before regarding how with equity alliances, probably more so than other types of alliances, there's a focus on the deal and the transaction that exists – and that can be viewed as, “the tombstone is the deal”. With the experience that GE has, and GE is also well known for managing the acquisitions post placement...

D: Yep.

J: Can you just speak to that – of what importance GE Plastics places on the deal versus the management of the deal or in tandem to the management of the deal. How important is managing the deal or the integration itself?

D: I think we view integration as being as important, if not even more important, than the deal itself, based on our historical experience in both acquisitions and alliances. The first rule in each of these cases is to make sure we have somebody that is dedicated to the project. In the vast majority of the cases, we would insist upon having somebody dedicated who is going to be responsible for the integration activity. We're also very careful about who we pick to head up a new acquisition. This is one of the lessons learned and captured in the Acquisition Integration Framework that we talked about. We use the AIF to ensure that we benefit from the collective learning of the organization over the past and we put in place the rigorous operating mechanisms including recurring reviews to ensure that things get done.

J: Can you speak to the common mistakes people make in equity alliances, what is it that makes these things so challenging, what are the common mistakes that you see?

D: I think anytime you're talking about transactions in general, certainly where there's two parties coming together and they're going to continue to have a relationship following the deal, alignment of objectives is probably the single most critical item. You see this all the time in joint ventures and you see this in minority investments. It's getting to the heart of what the parties want to get out of the arrangement and their inherent biases. As you're moving through, there's a lot of time pressure to get the deal done – I think people move very quickly through the transaction process. They try to get the deal done and they don't revisit the basics – in our Six

Sigma language this is about getting the “CTQs”, or critical to quality factors for both sides out on the table. What are the objectives, what are the key items that each partner wants to try to accomplish through this alliance or venture and making sure that you revisit those as you move through the process? Sometimes they shift and they don’t necessarily emerge day 1 so revisiting the CTQ’s is important. Probably the single greatest mistake people make is assuming what the other side is looking to achieve and not having the conversations needed to get the issues on the table. Spend the time working on those things.

J: That goes back to the critical needs and best practices like having processes that bind and specific steps you go through as check points – as you said, the “toll gates” – that you go through and also the systems you use to manage all of this. Doesn’t that reinforce the needs for those things?

D: Absolutely.

J: Is there anything else you’d like to cover or anything about GE Plastics equity alliances that we you’d want our readers to know about or who they can get in touch with, etc.?

D: They can get in touch with me directly if there’s something they’d like to do with GE Plastics in a potential area of fit consistent with our focus on providing engineering thermoplastics solutions in the various markets we serve.

About GE Plastics

GE Plastics is a leading producer of engineering thermoplastics with major production facilities worldwide. GE Plastics materials, including LEXAN® polycarbonate, are used in a wide variety of applications such as CDs and DVDs, automobile parts, computer housings, cookware, outdoor signage, cell phones, bullet-resistant shielding and building materials. Through its LNP Engineering Plastics business, the company is a worldwide leader in the custom compounding of engineering thermoplastics. GE Plastics is also a global distributor of sheet and film products through GE Structured Products. In 2003, GE Plastics is celebrating the 50th Anniversary of LEXAN polycarbonate, discovered in 1953 by GE chemist Dr. Daniel W. Fox. The company's web site is located at www.geplastics.com, and to learn more about LEXAN visit www.gelexan.com.

About Alliance Sciences

Alliance Sciences, a global leader in Organizational Partnership consulting, enables organizations to create, implement and manage successful Partnership programs. The Alliance Sciences SAM² Methodology, the first process methodology for effective Organizational Partnering, provides the *tools, templates and processes* for effective Partnering within a logical, step-by-step process. Alliance Sciences is based in the United States with offices in Boston MA, Charlotte NC, San Francisco CA and Washington DC. To learn more about Alliance Sciences, visit their website at www.alliancesciences.com or read the popular Alliance Advisory newsletter at www.alliancesciences.net.