

BUILDING STRATEGIC PARTNERSHIPS

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1.0 Introduction

Strategic Partnerships offer significant opportunity to improve an organisation's business prospects.

They are fundamentally based on the co-operative relationships that exist between the people in the partner organisations, in particular, those boundary-spanning personnel who share goals, objectives and have common agreement on norms, work roles and the nature of social relationships.

Partner organisations can use the co-operative relationships to help gain new competencies, share risks, extend their commercial "reach" and move quickly to take up new commercial opportunities.

2.0 Why Consider Partnerships

Impacts of the global economy are now felt in every sector of the economy. Terms like "world-class" and "best practice" are now relevant to most endeavours. There is a new set of social economic and political issues influencing business and there is the need for flexibility, adaptiveness, renewed emphasis on leadership, people-based approaches and learning.

In this more complex world, competition is not merely based on price. There are numerous critical factors such as quality, service, timing, relationship, long-term sustainability, specialist advice, etc. The best commercial arrangements must be able to account for this complexity.

In fact, the business environment has changed so fundamentally, that there is a need to fundamentally change the way relationships between customers and suppliers are managed, both internally and externally. In a similar fashion, agencies with common goals should also seek to manage relationships strategically to achieve more than can be achieved by each agency.

Partnerships are essential for organisations to prosper in a future environment where institutions both public and private will be seeking the next quotient of effectiveness.

3.0 Emerging Organisation Form

There is a change in the way organisations are structuring. A new form of organisation, not based on hierarchy, but on flexible collaborative networks is emerging. Independent collaborative units made up of empowered individuals make up the networked organisation. Individuals need to learn to manage beyond hierarchy and to move beyond conventional organisational boundaries into these collaborative networks. The Institute for Health and Biomedical Innovation at QUT and the MOU between QUT Main Roads and Queensland Transport have the potential to develop significant value from these collaborative networks.

Attributes of this form of organisation are flexibility, responsiveness, autonomy, interlinking "horizontal" communications, consensus decision-making and leverage. Power is regarded as an attribute of value-adding capability rather than of position within the hierarchy.

But the big challenge is getting autonomous units to collaborate both internally in the organisation and also in loosely coupling with units outside the organisation.

Strategic Partnerships are central to the effectiveness of networked organisations. In fact, the way an organisation can extend its capability through loosely coupling internal and external units is a company's "collaborative advantage", which in turn will lead to its financial and strategic advantage.

Strategic partnering and alliancing is the mechanism by which the "new" organisations will manage and grow.

4.0 New Human Systems

With the new organisation form requires a new culture, a new mindset, an entire move away from traditional values and traditional practices that focus on self-interest, command and control, and lead to adversarial relations. This situation hinders the creation of mutual trust and respect.

Strategic partnering is a complex mix of human behaviour and organisation functioning. People and communication are the basis. People come to the relationship with a vast spread of attitudes, mindsets, personalities, ambitions, motivations, skills, capabilities and needs. Establishing and maintaining effective partnerships is therefore not easy. Fortunately, the emerging social systems are structured in a more egalitarian fashion, and are underpinned by consensual processes.

Because of the over-riding impact of people on the outcomes of organisations, it is essential to understand the interactions between humans (termed the relationship frame by Jim Varghese). These interactions are viewed in two parts; being the rational and the non-rational parts.

◆ **The Rational part (or organisational system) assists in the development of:**

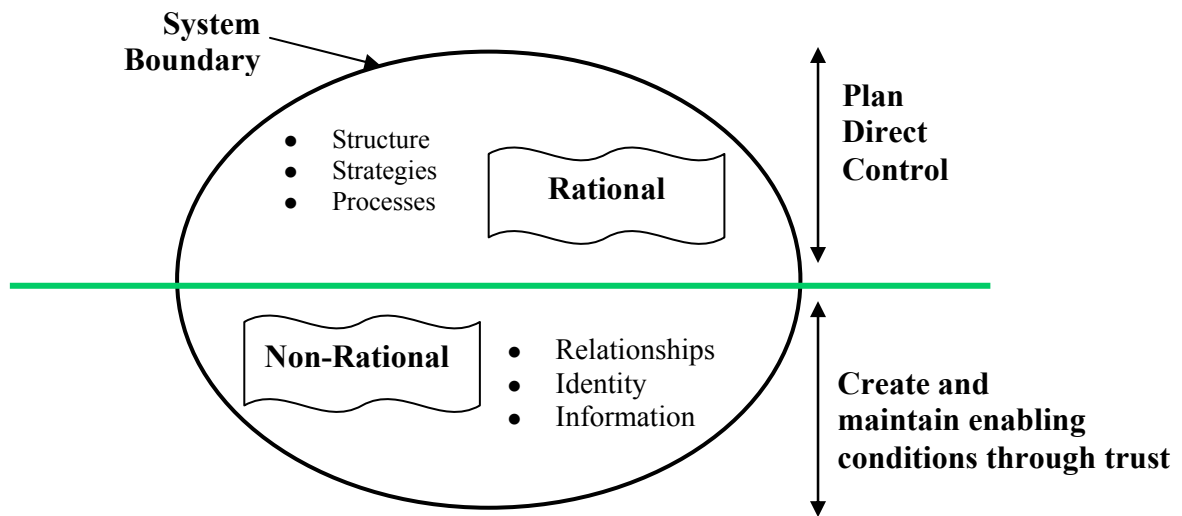
- strategy
- structure
- systems
- processes
- procedures
- policies
- standards

◆ **The Non-Rational part comprising:**

- relationships
- identity
- information
- culture
- beliefs
- courage
- faith
- trust

The normal view of organisations or teams focuses only on the rational part – i.e. the structure, the strategies, the processes. The other part, the non-rational, has been ignored because it is unpredictable and uncontrollable. However, the non-rational exists and is the "uncontrollable understorey" to the system and must be dealt with.

The whole system is depicted in this way: (Wheatley 1992)



Because the human system (non-rational) is the enabler that under-pins the whole system, it is essential that this human system be developed and be robust and that a deep trust between team members prevails before the elements of the task domain (rational) can work together in an effective way.

That is to say, *outstanding performance is dependent firstly on the existence of strong personal relationships and trust and secondly on good strategies and processes*. After that, it is like the meshing of cogs – two strong elements coming together, to mesh, and then to speed up at a surprising rate to produce exceptional outcomes.

Strategic Partnerships – i.e. the coupling of autonomous units to work collaboratively for a common goal and shared objectives, can only be effective when the human systems are as well developed as the organisational systems.

Understanding of the Human Systems as described above is at the heart of effective relationship management and the development of strategic partnerships. Indeed without an effective human system, partnerships will not be strategic or long lasting.

5.0 What Are Strategic Partnerships and Strategic Alliances?

The issues of strategic partnerships between elements of organisations can be extended to relationships between organisations. This is discussed in the next section.

The terms “strategic partnering”, “strategic partnerships” and “strategic alliances” are quite unimportant, but the underlying principles, concepts, practices, attitudes and behaviours that go into making them work are important. These characteristics apply right across the range, no matter what the specific detail of the particular relationship is. The principles, concepts and behaviours are universal.

Project partnering and alliancing is similarly based on the same principles and practices but differ in scope and time frame.

For the purpose of this paper, we will define a Strategic Alliance as “a co-operative arrangement between two or more parties that forms part of those parties, is consistent with

their overall strategies and contributes to the achievement of their major goals and objectives. The co-operative process is based on the open sharing of information, sharing common goals and objectives and working within an environment of trust and teamwork”

A Strategic Partnership can be expected to have a relatively long life (5 years minimum), but it is also possible that a specific term is not specified, relying instead on an understanding that either party can terminate the arrangement depending on its circumstances.

Good strategic partnering will have all the appropriate documentation (specifications, project plans, business plans and other information) needed for effective management and development of the relationship.

It is very common that a project partnering/relationship has traditional contract documentation, often based on competitively bid tenders. However, if partnerships are to be successful, the legal contract must “give way” to the moral agreement based on trust and fair dealing. The legal contract needs to become redundant for the purpose of resolving issues and removing disputes. In essence, co-operative, supportive behaviours take over, moral values prevail and the work gets done, long before issues become legal or contractual. The traditional contract becomes a safety net only, or hopefully, irrelevant.

The language, intent, format and provisions of partnering or alliance agreements are quite different to the traditional legal contracts.

Partnering/alliance documents are positive in nature, expressing sentiments like collaboration, breakthroughs, continuous improvement, risk sharing, pain/gain sharing mechanisms.

Conventional contracts tend to be most effective in simple buyer/supplier situations where the essence, intent, scope, etc. can be fully captured by the black-letter style of contract. However, in today’s world where unknowns abound, complexity and ambiguity defy quantification or description, partnering and alliance agreements based on unrestricted, unqualified and unconditional trust will work best. The trust must be based on the competence as well as the character of the people involved, and must be understood in terms of beliefs, actions, principles and values.

Of course, partnering and alliancing, dependent as they are on human systems, behaviours and beliefs are not easy and success cannot be guaranteed.

It is worthwhile pointing out some obstacles. To do this, we need to investigate the different categories:

- project partnering
- project alliances
- strategic partnering/alliancing

These categories are based on the construction industry.

(a) Project Partnering

Project Partnering became quite popular early in the 1990s in the building and construction industries as word of broad scale success in the construction industry in USA reached Australia (Colonel Charles Cowan).

In broad terms, project partnering applied once construction projects were bid and won in open tender competition using conventional black-letter law contracts. This is to say the partner was selected on the basis of price.

Thus, the project partnering approach focuses on “putting the handshake back into business” once the partner had been selected. Essential elements of partnering in the construct industry were:

- commitment from all parties – Partnership Charter
- shared mission and common objectives – focus on WIN:WIN outcomes
- trust and communication – teamwork
- joint implementation including conflict resolution
- effective review and evaluation of relationships

Whilst this form of partnering is always worth doing in its traditional scenario, it is not always successful. However, the parties are unlikely to be worse off for trying. Reasons for the sporadic results are:

- lowest-bid tender selection is an inferior selection process
- fundamental goals are misaligned – i.e. self-interest is not the same as “best-for-project” interest
- low price tenders stifle creativity and innovation
- short-term or non-strategic approach to relationship building.

(b) Project Alliances

Project Alliances are usually totally scoped around a particular project, which usually has a specific time frame, at least during the construction phase. Whilst they are becoming increasingly popular in both the private and public sectors, they tend to be used on projects of high complexity or large in scale and therefore a fairly limited application at this time

The success rate in terms of meeting or exceeding key performance targets (KPI) targets and in building lasting relationships is very good, with only isolated and obscure examples of failure being reported.

The major obstacles, impeding the more widespread use of project alliances appear to be these:

- costly and time consuming partner selection process
- costly and time consuming development process for the Agreement
- reticence in parts of the public sector to accept the process up front as complying with best-value objectives
- the increased need for probity checks throughout the process, particularly in the public sector
- the reluctance to accept the need for the extensive effort to develop and maintain deep trusting and enduring relationships

(c) Strategic Partnering/Alliancing

The term “strategic partnership” tends to be used for relationships between customers and suppliers, whilst the term “strategic alliances” tends to be used for relationships between suppliers of like or unlike products and services servicing the same market sector. The petroleum industry has been collaborating with the distillation and warehousing of fuels for some times.

This form of relationship has extensive application in the private sector and is becoming increasingly more important as the hierarchical management style gives way to the collaborative network organisation.

The public sector is making tentative use of these forms of relationship particularly in internal customer/supplier arrangements where service delivery is becoming increasingly more complex and where demonstrated performance levels are being demanded.

Major obstacles at present seem to be:

- a lack of appreciation generally of the critical significance of effective human relations to produce high levels of performance
- a lack of knowledge and skill in developing the essential relational skills, behaviours and attitudes
- a lack of confidence in the power and effectiveness of non-legal relational agreements
- a lack of persistence to ensure that complete alignment of vision, objectives and principles is achieved and is maintained throughout the relationship.

6.0 Stages in Developing a Strategic Partnership

The strategic partnering process includes the way partners are chosen and the way relationships are developed and managed.

The process needs to be flexible so it can adapt to particular situations.

The authors have identified the following stages in establishing an effective strategic partnership:-

1. Review the strategic direction and intent of your team or organisation. Is there sufficient motivation to pursue Strategic Partnerships?
2. Decide on the best type of relationship for the situation – e.g. strategic or project alliance.
3. Assess the readiness of your team for partnering
 - attitude/culture/beliefs
 - capability
 - resourcing

This is largely done through an internal review

4. Engage with your partner(s):
 - assess their readiness
 - assess their motivation
 - assess strategic alignment

Partner selection process may be required

- 5 Undertake a scoping workshop with partner(s):
 - review current and future states
 - establish the characteristics of relationships
 - agree on the elements of a Strategic Alliance Agreement

6. Take the GO/NO GO decision based on the decision above

If it is decided to proceed then

7. Conduct an alliance/partnering workshop to clarify
 - principles of operation
 - charter
 - commitments of members /partners
 - development of integrated team approach
 - commercial arrangements
8. Develop the formal agreement from the workshop outcomes in 7. This will contain
 - an alliance/partnering charter
 - Commercial arrangements specifying:
 - risk/reward
 - KPIs; targets
 - performance evaluation
 - remuneration
 - Operational framework detailing the structure
9. Sign partnering/alliance agreement

This agreement will then require on-going support

10. Ensure total alignment of goals/objectives of the
 - lead team
 - alliance teams
 - roles and accountabilities
11. Establish and maintain relational skills
12. Establish alliance/partnering support
 - alliance/partnering managers
 - communications strategy
 - measure performance
 - balanced scorecard assessment

13. Implementation of the

- business systems
- short-term/long-term processes

Review and evaluation of

- reporting mechanisms and performance outcomes
- relationships
- skill development and management
- information management systems

7.0 Some Important Implementation Issues

Every alliance/partnering situation will be different, depending on the teams involved, their culture, their approach and their business.

However, the elements of successful arrangements are the same; and so it is possible to identify a number of critical issues which have the potential to be “show-stoppers”.

The following are examples:

1. Strategic Fit

Because ultimately all team members must proactively share a vision and objectives, it is critical that a tight strategic fit in terms of purpose, mission, commitment and ownership exists between the parent organisations. There are some analytical processes to assess this.

2. Readiness

Clearly, only a limited number of organisations are ready for the cultural leap to alliances/partnerships. It is essential, in order to save frustration and possible failure downstream, to evaluate the potential partners on their ability to behave relationally, openly, honestly and to be able to build trustful partnerships. Mechanisms exist to be able to measure and test for readiness.

3. Business Plan

The new entity (partnership) will need to be effective right from the start. As part of the readiness step, a consolidated Business Plan needs to be agreed by the parties for the new entity. The design of the entity must be about delivering that Business Plan.

4. Governance

Also from the start, governance of the entity must be firm. This includes:

- An organisation chart
- A Board or Leadership Team composition and role
- Roles and accountabilities of partners

- Resourcing
- Business Systems
- Reporting/conformance
- Review, audit, improvement.
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5. Review and Evaluation

A learning environment is required where skills (competence and relationship) are continuously developed to support ongoing innovation and partnership. The process must reliably track performance as well as relationships on a regular basis. Dedicated personnel are required to manage this.

6. Relationship Skills Development

Very few parent organisations possess a depth of relational skills that will be required in an effective alliance/partnership. Positive steps are required to identify the relational behaviours and skills necessary and to plan to develop them.

7. Performance

Only KPIs appropriate for the business should be chosen. Only those that directly assess the real performance of the partnership are useful. The choice of KPIs and the associated targets must be done carefully and with the involvement of the full alliance team. It is essential that, through involvement, we get commitment and ownership to the targets.

8.0 Some Experiences with Strategic Partnering

The principal author's personal hands-on experiences relate to the Public Sector through his association with Main Roads. The particular cases discussed below,

- the CQ Strategic Partnership and
- the AAPA/Main Roads Strategic Alliance

embody the elements discussed in this paper, with the exception of course of a robust partner selection process, because the relationships already existed in a basic form.

8.1 CQ Strategic Partnership

The partners in this Agreement are:

- the Central Queensland Region of corporate Main Roads, the Agency accountable for the provision and operation of the road network in Central Queensland, and
- the units of Commercial Operations, the commercialised delivery arm of Main Roads.

The public sector commercialisation reforms of the 1990s had created a wall between the two arms of the Agency, which was designed to meet the separation

requirements of the Queensland Competition Agency when open competition with the private sector was occurring.

However, the corporate arm had a need for on-going efficient servicing in the areas of:

- minor emergent works
- critical maintenance and rehabilitation work
- technical support and advice in areas like design and constructability.

These areas were not of a nature suitable for open competition; rather the imperatives were:

- responsiveness to emergencies
- flexibility to deal with complex situations and to meet the exigencies of the system
- efficiency in delivery of small scale work
- people satisfaction.

It became clear that a co-operative form of Agreement based on collaborative working arrangements, trust, openness and commitment to excellent performance was needed to maximise the outcomes in these areas of endeavour.

The mission adopted is:

“Our mission is to work together collaboratively in a manner that delivers the best possible outcomes for Main Roads. We will deliver our shared business objectives while also recognising the commercial nature of our relationship.”

The objectives are:

- maximise the use of Main Roads resources
- minimise duplication of effort
- develop Main Roads capabilities and share learning opportunities
- deliver a better road network at best overall value to the road users
- meet competitive neutrality requirements
- identify and be responsive to the changing work environment.

To set up this Partnership Agreement a series of workshops were needed

- scoping workshop – 5/01
- Foundation Workshop – 11/01
- Implementation workshop – 2/02

A work program of change projects designed to modify the culture away from the “rules-driven” bureaucratic approach towards an open, supportive and committed environment, was part of the implementation.

8.2 AAPA/Main Roads Strategic Alliance

The partners to this Agreement are:

- the Association of Asphalt Producers of Australia (AAPA), and
- the Department of Main Roads
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Member organisations of AAPA frequently contract with Main Roads or its prime contractors on a project basis to supply and place asphalt and bitumen. This work is quite complex and sensitive to many variables such as atmospheric conditions, weather. Accordingly, the materials and techniques are continually developing and it is a challenging task to keep designs, specifications and documentation relevant and up to date. Failure to do this causes frustration and ambiguity in the industry as well as overall sub-optimal outcomes for road users.

Main Roads was being continually challenged to keep its documentation and requirements up to best industry practice while the industry experiences difficulty in competing on equal terms and in providing consistent performance across the State.

Clearly, close collaboration between the parties at the industry level was the way to keep the parameters and the technology in step and to overcome the insoluble issues that frequently arose from these circumstances.

Indeed, a committed co-operative arrangement would provide the vehicle for the best talent, knowledge and wisdom to come together from the respective parties and to solve problems in a routine manner.

The parties agreed to develop a Strategic Alliance and the following mission and objectives were set:

“To provide superior flexible pavements for the community which provide best value for Main Roads and ensures a sustainable business environment for AAPA members through collaboration and total commitment.”

Objectives are:

- to stimulate innovation that improves flexible pavement quality and safety performance
- to improve the technical capability of industry by targeted research and technology transfer
- to create a sustainable business environment by influencing road project programs and design strategies which maximise value to the community
- to create a superior delivery environment (including bidding processes) through an equitable risk/reward structure
- to enhance capability and processes through learning together.
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The Agreement was created through a two-stage workshop process

- scoping workshop 11/00
- Foundation Workshop – 5/01

8.3 Reported Case Studies in Strategic Partnering

Mr Tony Lendrum in his comprehensive publication “The Strategic Partnering Handbook” has documented several case studies including:

- Alcoa and Honeywell
- Transfield and Worley
- Fluor Daniel and Generation Victoria
- Ford Australia and BTR Automotive.

9.0 Conclusions

Strategic Partnering is a modern business strategy that will prove effective in these times of complexity, network organisations and social system change.

Such co-operative relationships can help organisations gain new competencies, increase their commercial “reach”, share resources and risks, and to move more quickly to take up new opportunities.

However, these partnerships will fail to meet expectations, if too little attention is given to developing and maintaining relationships and interpersonal connections that unite the partnering organisations. Strategic Partnerships, i.e. the coupling of autonomous units to work collaboratively, can only be effective when the role of people and their importance in the management of inter-organisational relations. In fact, the human systems must be at least as well developed as the organisational systems.

So strategic partnering is a business approach that is fundamentally based on inter and intra-personal relationships.

The principles, concepts and processes of strategic partnering are universal, but the form is flexible and should be developed and modified to suit the circumstances and the situation.

Critical important issues in succeeding with Strategic Alliances are:

- recognising the critical significance of people relationships
- gaining confidence in the power and effectiveness of informal psychological “contracts” over formal legal contracts
- ensuring the full alignment of vision and objectives and the adoption of sound business and governance measures.