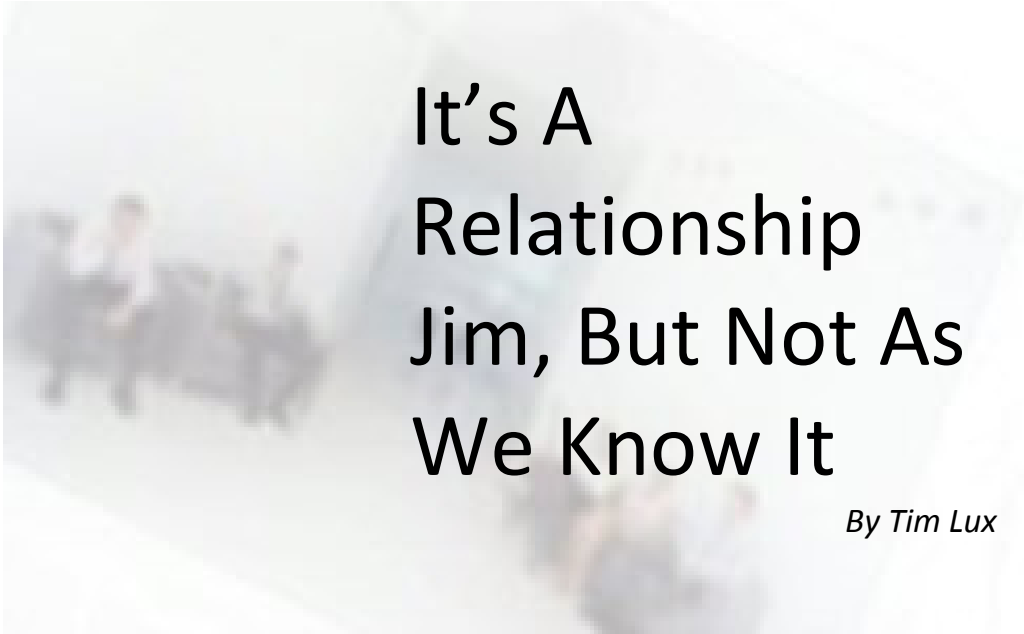


INSIGHTS



It's A Relationship Jim, But Not As We Know It

By Tim Lux

The high failure rate of partnerships is down to more than just “not getting on”. Too many relationships do not progress beyond a personal relationship to a corporate relationship. In fact, says Tim Lux, the true value from partnerships can only be achieved by making this critical shift.

Alliances and Partnerships Are Valued Despite Their Track Record

Partnerships mainly fail to deliver against promises, yet are valued by investors

Literature and the web are awash with statistics confirming/ denying pretty much everything. There's a lot of truth in the old adage; "you can cut it any way you want it". One area they all tend to agree on, though, is the pitiful track record of success with partnerships and alliances. Most sources claim 70 – 80% of alliances fail, some as much as 90%. Frankly, whether it is 70% or 90% is almost immaterial; the message is clear, the majority fail.

Strategic Alliances have been around for a long time, and much has been written about the sense in using them. Despite their, frankly, woeful track record of success, stock markets generally appear to prefer them to mergers and acquisitions (which in turn have a woeful record of destroying shareholder value). They seem to prefer alliances with a significant gap between the partners' individual propositions. But more than anything, alliances and partnerships are significantly more flexible than acquisitions, and there is some evidence to suggest that stock markets value this flexibility. You can back out of an alliance or partnership easier than you can reverse an acquisition. There are other significant advantages for alliances however, particularly in an economic climate in which acquiring funding is challenging. Firstly, you normally don't need significant investment, thereby avoiding funding issues, and secondly, it's a relatively low risk and flexible way to test out new or adjacent markets, and products.

So we have an apparent dichotomy with alliances and partnerships. On the one hand, they have a poor track record of success; on the other, they are valued. The trick, therefore, is to use them successfully, in which case, what does it take to get it right ?

Shifting From Personal To Corporate Relationship

Basing a partnership on a personal relationship is likely to lead to failure

So, where does it all go wrong ? There are 4 main reasons:-

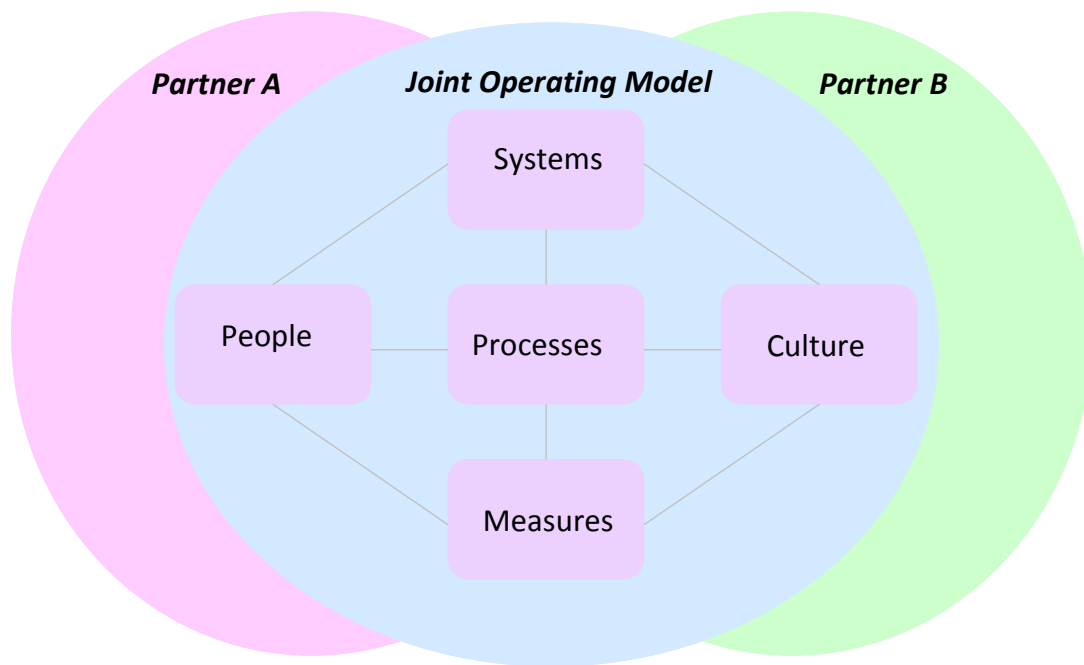
- All the parties don't understand what they and their partners want out of the arrangement,
- Even if they do, they aren't aligned on how they know when they're successful, and perhaps more importantly, how they know when they're not successful, and what they should do about it (how many partnerships have you been involved in that have had a formal exit plan for instance ?)
- Nobody really knows who is supposed to do what
- There is a lack of insight into the relationship's alignment both before the partnership is formalised, and during the lifecycle of the partnership

Often, when you read about alliances, the magic word "trust" crops up time and time again. People focus on building trust; getting to know their partner so that they feel they can be trusted. In their eyes, they're managing the relationship. The result is invariably a good personal relationship between two people, one from each enterprise. However, therein lies a key problem.

Here's an example of the problem in action: about a year ago I had a meeting with a senior person from a company that shall remain nameless. "We used to have terrible problems with our IT managed service provider. If we'd had this conversation a month ago, I'd have asked you to help us, but we've fixed it". Intrigued, not least because I'd just missed out on a potentially interesting piece of work, I innocently asked, "how?". Back came the reply "I found the right person to yell at. Now we have a great relationship". Somewhat taken aback at this radical, but not uncommon, approach to relationship management, I hesitated before asking my next question, "what do you do when he's not there?". After what seemed an eternity, back came the reply "I'll always be able to contact him".

The problem is very simple: too many relationships stop there. They don't go from being a Personal relationship to being a Corporate relationship, in which it doesn't matter if the right person is there or not. In a Corporate relationship, the joint operating model manages the relationship, not one or two key individuals. There is a clearly defined way of doing things – business processes, measurement & management systems, clear roles and responsibilities and so on (see Figure 1 below). It is no different to an internal operating model. The partnership team needs to operate within a single, defined, set of ways of working, in which all parties are aligned, even if they don't agree on everything. Only then can the relationship be truly managed to drive a successful partnership.

Figure 1 : Joint Operating Model Illustration



You Get What You Measure

Wrong Performance measures drive the wrong values and behaviours

The other source of problems is Performance Measures, notably Service Level Agreements, Key Performance Indicators, and Contractual Obligations. The problem is you get what you measure: often these measures drive the wrong behaviours and values, and the more hard-wired they are, the greater the adverse effect. For example, if they are an integral part of the contract, they can only be changed through a contract renegotiation; time consuming, distracting, and at risk of destroying a partnership.

Setting up a contract for a long term partnership in the same way as for a short term transaction is unlikely to work. It does not normally drive behaviours that will encourage all parties to look for, and share, long term success. Finding the right corporate lawyer, who is experienced at partnership based contracts, is a good start. Perhaps even better, though, is all parties knowing, BEFORE they sign a contract, how it will be managed, and which values and behaviours they need to encourage and discourage. Of course, you can't just set up measures without considering the rest of the operating model. Simply changing one element of an operating model gives you short term change at best, because this change will reverse itself if the rest of the operating model isn't also changed (this is the basis of reengineering incidentally). Even if the joint operating model can't be designed before signing contracts, there are least needs to be a reasonable understanding of what it will look like.

By all means have measures, just make sure they are developed with your partner, and ensure they drive the right behaviours and values ("culture") in all parties. If possible, model the relationship before the contract is written and signed, and better still, select your partner(s) using a relationship model, not the normal comparison against selection criteria.

Use A Relationship Model To Select Strategic Suppliers & Partners

There is a better way of selecting partners and strategic suppliers

The vast majority of long term suppliers, strategic suppliers or partners, are chosen using some form of Request for Proposal or Tendering process. The normal method of selection is to pre-select a set of criteria, and compare bids against the criteria. Sometimes, but not always, once a short list has been agreed upon based on comparison against criteria, the prices are driven down using a reverse auction, and a final selection is made using a plot of score against criteria vs price. The problem with this approach is that it fails to take into account the potential relationship between the bidder and the buyer. In effect, key decisions on long term supplier contracts are made blind. How many IT outsourcing deals have been made in the full knowledge of how aligned the relationship between the two parties will be, and perhaps more importantly, which areas the parties need to work on to ensure the relationship will be a long term success? Far better to enhance the traditional selection criteria approach with one in which a relationship model is

developed of the ideal relationship between the customer and its ideal partner. Then bidders can be compared against this model to enable the best fit bidder to be selected. And all done BEFORE a contract is structured and signed.

Look For Alignment In The Relationship Model

Relationships will fail without alignment on all 7 relationship levers

So what does a relationship model consist of ? There are 7 levers of alignment that relationship managers should look for. Without alignment on ALL of these levers, the relationship will fail. Using relationship modelling software such as Enterprizer ® allows these points of alignment and misalignment to be made visible to all parties: a common point of focus based on facts and data, thereby removing emotion from the process.

1. **Strategic** – is there consistency in the direction of all the parties involved ? If you are a food producer aiming for the high value market, and your IT partner is focused on providing low cost services for the high volume, low price, market, there is an inconsistency in strategic direction that will ultimately kill off the partnership.
2. **Commercial** – there has to be a win-win for all parties. Some of the issues seen with major retailers and their key suppliers have been around the win for the retailer, but a loss for the supplier.
3. **Ways of Working** – organisations generally work in their own way. Are the ways of working complementary ? Does your organisation manage by process, and your partner organisation by function for instance? If so, you may be incompatible long term.
4. **Values and Behaviours** – or “culture”. Mismatch between cultures, perhaps a centrally driven hierarchical organisation trying to partner with a loosely formed, decentralised organisation, will fail.
5. **Performance Measurement and Management** – you get what you measure. Do your joint measures and metrics support the right behaviours and commercial goals ? And many partnerships forget about performance management; what happens when targets are missed ?
6. **Contract Management** – is the contract itself structured so as to promote partnership ? It is a key driver of behaviours, and needs to be structured appropriately right at the outset.
7. **Exit Plan** – how many partnerships do you know have an exit plan ? A key source of failure is not knowing when the partnership has reached its natural (or otherwise !) conclusion. A formal plan allows all parties to monitor against this, and stop end of contract drift occurring.

If any one of these fails, the relationship will ultimately fail, so these levers should be carefully considered at the start of the relationship, and regularly revisited to ensure alignment.

During the partnership lifecycle these levers can be regularly revisited, and where necessary remedial action can be taken to ensure the partnership remains on track. The table below illustrates the attributes observed in different stages of a relationship. Note that the key shift is the transition from it

being based on a Personal relationship, to a Corporate relationship. Where are your alliances and partnerships on this matrix ?

Figure 2 : Attributes of Relationship Types

		Stage in Relationship			
		Stage 0	Stage I	Stage II	Stage III
		<i>Dis/ Mis-Engaged</i>	<i>Transactional</i>	<i>Anticipatory</i>	<i>Business Innovation</i>
Relationship Lever	Strategic Direction	Internal only	Selected External Overlap	Collaborative Design – Enterprise Integration	Business Functional View – Joint Design and Development
	Commercials	Beat them up	Fulfil contractual obligations only	Look for ways of improving value for both	Skin in the game, shared risk and reward
	Contract Management	Confrontational, non-existent	Customer-Focused, Data-Based Initiatives	Outcomes focused, reward & recognition	Joint outcomes, team measured
	Values and Behaviours	Avoidance, aggression, don't care, closed	"get it done", measure, implied threat	Collaborative, improvement, value	"in it for us", optimise value for both, open
	Performance Measurement and Management	Negative energy, no management	Contract SLA's, KPI's, "manage by contract"	Team measures, reward/ recognition, positive	Business focus, hard wired to pay and rations
	Exit Plan	Lower price, slightest excuse	Perceived better value elsewhere, apathy	Forward planning, based on joint value	Based on business outcomes, formally measured against
	Ways of Working	Order and Deliver	Fair overlap, formal review process	Well aligned, complimentary	Joined at the hip, look the same
Relationship Type		Personal → Corporate			

Proactively manage relationships around the joint operating model

If you manage or are thinking of managing a partnership, alliance, JV, managed service provider, strategic supplier or whatever, here's a 5 minute test for you to apply to see how well its doing....

This test gives a quick and dirty indication of the potential for failure in your partnership, alliance, JV, supplier relationship etc.

Answer yes or no (be honest with your scoring !). 5 points for yes, 0 for no.

1. If you and/ or your opposite number went on holiday for 6 months would everything keep operating as normal or better ?
2. Do you know your partner's corporate and business strategies ?
3. Do you know how your partner makes money from the partnership ?
4. Do you know what failure means, and what you should do about it when you see it ?
5. Can you pull up a complete set of business processes for the partnership's operating model within 3 clicks of a mouse ?
6. Does your partner know the values and behaviours that should be encouraged within the partnership ?
7. Is there a commercial win-win ?
8. Do you know the full extent of your partners' technical capabilities ? How do you know that ???

9. Is one partner more influential than the other ?
10. If you walked up to the most junior member of your partner's team and said "tell me what my role is", would they answer it correctly ? If you don't know it yourself, score – 10 points.

If you scored between 40 and 50 ...

You have a relationship that is in the minority. It appears to be a Corporate relationship, rather than a Personal relationship. It stands a good chance of surviving long term.

If you scored between 15 and 35...

You have a Transitional relationship, displaying elements of a Corporate relationship, but still some worrying traits of a Personal relationship. It may survive a while, but eventually it is likely to fail.

If you scored between 0 and 10...

You have a typical relationship in line with nearly every other in the corporate world, a Personal relationship. It is highly likely to fail.

Summary

In summary, too few Corporate Relationships are that: a Corporate level relationship, in which the operating model manages the relationship. Too many are reliant upon, often, a single Personal relationship. Failure to make that transition is a key element in determining failure rates of 70% + in partnerships and alliances.

The combination of establishing and managing your partnership as a Corporate Relationship, and looking for, and constantly striving for, alignment between partners, will significantly increase your likelihood of being successful.

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About the Author:

Tim Lux has directly managed alliances and partnerships as a line and relationship manager in blue chip companies and leading consultancy firms. As a consultant he has helped clients rescue, improve, select and implement alliances, partnerships, strategic suppliers and joint ventures. As a recognised expert in sourcing and outsourcing, he combines relationship management and sourcing skills to help firms achieve measurable benefits through effective use of corporate relationships.

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About Enterprizer® :

Enterprizer is an innovative modelling system combining a structured framework with a powerful scoring system for multi-parameter analysis of stakeholders and success factors, Enterprizer® enables you to assess performance, determine success, and develop optimised strategies for improvement and implementation. Pathfinders and Enterprizer are partnered to provide a relationship modelling tool targeted at alliances and partnership based sourcing.

