A NORMATIVE MODEL FOR ALLIANCE PARTNERING IN THE SOUTH AFRICAN ENGINEERING & CONSTRUCTION INDUSTRY

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ABSTRACT

ALLIANCE PARTNERING IN THE SOUTH AFRICAN ENGINEERING AND CONSTRUCTION INDUSTRY

To maintain and improve competitive positions and to satisfy the ever changing market demands, international service offering and contracting strategies has undergone an evolution over the past two to three decades. This evolution includes a change from a self sufficiency strategy to opportunistic outsourcing followed by vertical integration and long term contractual relationships which emphasises the lack of alignment and synergies between the engineering service providers and the client companies. This situation most often resulted in win-lose situations, mistrust, additional cost, poor performance and litigation.

The need for maximum value-add through-out the engineering value chain for purposes of improved competitive advantage and overall business performance, has placed an emphasis on alliance partnering strategies to be implemented to the benefit of the service provider as well as the client company.

Although alliance partnering has been the topic of various literature studies and although it has been implemented in a number of developed countries in various industries, there appears to be no uniform approach to the concept, as well as disagreement on the successes proclaimed in theory compared to the nature and extent of real benefits experienced by alliance partners in the Engineering and Construction Industries in South Africa.

The main objective of this study is to develop a generic normative model for alliance partnering suitable for application in the Engineering and Construction Industry as a service industry to the Petrochemical Industry in South Africa.

Key conclusions drawn from the findings of a literature study as well as an empirical study on this subject were used to develop a generic normative model for application in the initiation, development and management of an alliance partnership in the engineering and construction industry in South Africa. The normative model also reflects the secondary objectives of this study, namely:

- determining and defining the benefits of alliance partnering in terms of which alliance partnering are considered to be successful; and
- determining and defining the factors impacting on successful alliance partnering.

It is clear from the research results that reciprocal value addition between service providers and owner companies can be managed more effectively by implementing an alliance partnering strategy. It is however noted that despite the inherent benefits of an alliance partnering strategy, the failure rate of this strategy is reported to be significant.
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CHAPTER 1
THE NATURE AND EXTENT OF THE STUDY

1.1 Introduction

The South African petrochemical industry is dominated by a few major companies which include Sasol, Engen and Shell. Prior to 1990, the industry was characterised by monopolist elements and companies were structured to be self-sufficient in terms of operational, maintenance and engineering services requirements.

Engineering service delivery to the South African petrochemical industry has its origins from the industry's past self-sufficiency strategy. With the change in political dispensation of South Africa in the early 1990’s, the opening-up of the global marketplace redefined the rules of the game and emphasised sustainable competitiveness.

Engineering service offering is a key component in the value chain of the petrochemical industry. The current levels of national- and international competition requires the South African petrochemical companies to obtain maximum gain from the potential offered by their service providers, especially the engineering service providers focusing on engineered growth through production facility expansion and/or optimisation.

International service offering and contracting strategies has undergone an evolution over the past two to three decades, to maintain and improve competitive positions and to satisfy the ever-changing market demands. This evolution includes a change from a self-sufficiency strategy to opportunistic outsourcing followed by vertical integration and long term contractual relationships. This emphasised the lack of alignment and synergies between the engineering service providers and the client companies which most often resulted in win-lose situations, mis-trust, additional cost, poor performance and litigation.

The need for maximum value-add throughout the engineering value chain for purposes of improved competitive advantage, has placed an emphasis on alliance partnering strategies as an option to be implemented to the benefit of the service provider as well as the client company. This has become an absolute requirement for sustainable competitive advantage, not only from a direct cost point of view but also from a “money value of time” point of view in terms of engineered opportunities and solutions. The ideal is therefore to devise mechanisms and strategies which will facilitate the integration and alignment of petrochemical companies' needs and opportunities with the potential offered by engineering and construction
service providers to realise benefits which could not have been achieved by one party alone.

The concept of alliance partnering in the engineering and construction industry has gained popularity in the developed world and specifically in the engineering and construction industry. This is mainly due to the scarcity of knowledgeable and experienced engineers in the industry as well as the need for the transfer of knowledge and best practices.

The concept has been introduced in South Africa but the progress up to date has been very slow and is characterised by a host of problems and limited or even a lack of real success. Different approaches to alliance partnering resulted in recorded successes elsewhere in the world.

1.2 Problem statement

Engineering and construction service providers within the petrochemical industry operate in a strong competitive market within which their service offerings are managed through strong contractual requirements by the owner. This clear and strong contractual relationship is often characterised by disputes, claims and litigation due to among others poor work delivery, cost overruns, schedule overruns, poor design standards and others. All of this prevents realisation of value-added engineering solutions by way of integrated engineering and construction service offerings in the business development and implementation strategies applied in the petrochemical industry.

The extent of the problem is that limited growth is experienced in the value-addition by engineering and construction service providers at great cost to the petrochemical industry in South Africa. This is mainly due to the lack of or inability to optimally utilise and employ the engineering and construction expertise through their service offerings in the South African petrochemical industry. Service provider value addition as a strategic focus of petrochemical companies has become a pre-condition for improvement of competitive advantage. This will ensure realization of cost savings, optimisation of capital investments and sustainable growth over the long term.

As part of the world economy and in order to effectively compete in the global arena, South African petrochemical companies need to develop and adopt best practices and suitable strategies to ensure and improve their competitiveness in the long term. Alliance partnering offers a suitable competitive strategy through which petrochemical companies can improve their competitiveness through engineered value-addition by engineering and construction service providers.
Although alliance partnering has been the topic of various studies, and although it has been implemented in a number of developed countries in various industries, there appears to be no uniform approach to the concept. There is disagreement as well on the successes proclaimed in theory compared to the nature and extent of real benefits experienced by alliance partners in the Petrochemical – and engineering and construction industries in South Africa. Hence the relevance and importance of developing a generic normative model for alliance partnering in the South African engineering and construction industry.

1.3 Study objectives

The objectives of this study are formulated against the background detailed in the problem statement.

Main objective: The main objective of this study is to develop a generic normative model for alliance partnering suitable for application in the engineering and construction industry as a service industry to the Petrochemical Industry in South Africa. This model will mainly rest on best practices derived from theory and application and recommendations as to how these theory and practices can be best applied to benefit the South African engineering and construction industry as a service industry to the petrochemical industry.

Secondary objectives: The following secondary objectives are in support of the main objective:

- to determine and define the benefits of alliance partnering in terms of which partnering is considered to be successful;
- to determine and define the factors impacting on successful alliance partnering.

1.4 Scope of the study

This study concerns alliance partnering in the design and construction engineering industry as a service industry to the South African Petrochemical Industry.

The study, however, includes an understanding of the basic principles of alliance partnering across industry and geographical boundaries.

The following aspects of alliance partnering are covered in this study:

- an understanding of the concept of alliance partnering;
- why companies consider an alliance strategy;
- what is to be gained from an alliance strategy;
- types of alliance partnerships and alliance characteristics;
factors impacting positively as well as negatively on alliance partnering; and

theoretical and practical models for partnering development.

### 1.5 Research methodology and layout of the study

This mini-dissertation consists of a description of the nature and extent of the study, a literature study, empirical work, an analysis of the information and findings as well as the development of a generic normative model for alliance partnering in the South African engineering and construction industry as a service industry to the petrochemical industry in South Africa.

**Chapter 1** describes the nature and extent of the study, including the problem statement and study objectives;

**Chapter 2** contains the literature study in which the following aspects pertaining to alliance partnering are investigated:

- an understanding of the alliance partnering concept;
- motivation for and objectives of alliance partnering;
- types and levels of alliance partnering;
- characteristics of alliance partnering;
- factors influencing the success and failure of alliance partnering;
- benefits and risks pertaining to alliance partnering;
- theoretical models for alliance partnering;
- learning points from research done on alliance partnering.

**Chapter 3** details the findings from the empirical work in which various major role players in the South African engineering and construction industry as well as the petrochemical industry were interviewed during personal visits to their facilities. These interviews were structured as a 'reality check' for the findings from the literature study.

**Chapter 4** evaluates and integrates the findings from the literature and empirical studies and develops a generic normative model for alliance partnering in the South African engineering and construction industry in South Africa as a service industry to the petrochemical industry.

**In conclusion**, this study endeavours to develop a logical framework for alliance partnering as a competitive strategy focused on sustained engineered value addition to the petrochemical industry in South Africa, taking into account the motivations for, objectives, risks and benefits of and factors impacting on a typical alliance partnership.
CHAPTER 2
LITERATURE STUDY

2.1 Introduction

According to Deering and Murphy (2003:1) there is a business strategy that can bring you 25% more financial share value than that of your competitors. They claim however that 70% of companies can't make this strategy work. The strategy, of course, is alliance partnering.

Companies must look beyond their own corporate boundaries and seek to create win-win relationships with other companies who can provide complementary capabilities. The ability to create value through the skilful management of portfolios of business partnerships is an important source of competitive advantage essential for business success in the new millennium.

Despite the risks involved, there is significant evidence that partnering is on the increase. Alliances accounted for 26% of the average Fortune 500 company's revenues in 1999, up from 11% in 1994 and accounted for 6 to 15% of the market value of the typical Fortune 500 company.

Although there is no generally accepted body of partnering 'lore', there is no shortage of opinion about partnering. There are passionate evangelists and passionate sceptics; there are those who see it as strategic and those who see it as little more than a label with which to embellish outsourcing arrangements and acrimonious negotiations with suppliers. There are those who advocate intimacy and those who urge arm's length relationships; those who believe in sharing everything with their partners and those who jealously protect what they see as their 'core competences'.

Within the UK construction industry traditional management philosophy has placed too much emphasis on the ability to plan and execute projects while similar emphasis on strategic management is curiously curtailed. But in recent times organizational structures and work methods have changed significantly with a shift occurring towards the widespread adoption of specialization and flexible working relationships. Large corporations, once the bastion of rigid corporate hierarchical structures and fixed procedures are evolving themselves into more flexible business entities.

Historically the construction industry utilised extensive contractual arrangements that have encouraged clients and contractors to perceive themselves as adversaries. Despite the development of new alternative and less adversarial
contractual arrangements, the industry continues to be affected by problems of project time and cost overruns and consequently, client dissatisfaction.

The fragmentation and division of labour between professionals and other members of the client's team, contractors and subcontractors/suppliers is a major contributor to these types of problems. In addition, clients find it difficult to define their requirements in advance. This lack of specific definition results in later attempts to "fine tune" the project delivery through design variations and additional work. In turn, time and cost overruns result, which might lead to expensive claims and legal dispute.

Recent developments in engineering and construction management, suggest that clients are adopting more sophisticated and pro-active project management approaches. These include transforming the traditionally adversial relationship between contractual partners to one based more on partnership and trust.

Kubal (1996:45) is of the opinion that long term partnering relationships, comprising early-on participation by every entity involved in a project are 'the wave of the future'.

The adoption of partnering into the engineering construction industries of the USA, Australia and the UK can be attributed to the fact that relationships in these industries were commonly lacking trust, respect and honesty between professionals as well as main and sub-contractors. The consequence of this is problematic and ineffective, poor quality project execution and delivery with litigation and unsatisfied clients being commonplace.

A significant body of literature presumes or implies that implementing partnering is essentially a technical-managerial problem, involving the application of appropriate tools and techniques to bring about change in motivations, attitudes and expectations. It is clear that such emphasis on tools underplays the important social dimensions of partnering in practice and the complexities and dynamics of relationships between organisations and individuals.

The literature study that follows focuses on alliance partnering literature mainly from the United Kingdom and the United States of America. In this literature study, the following aspects of alliance partnering are addressed:

- Definition of alliance partnering;
- Reasons for and objectives of alliance partnering;
- Benefits, disadvantages and risks of partnering;
- Types and levels of partnering;
- Characteristics and principles of alliance partnering;
- Success and failure factors of partnering;
- Theoretical models of alliance partnering;
- Learning points from research.
The literature study is centred on the abovementioned aspects in order to develop a generic normative model for alliance partnering suitable for application in the engineering and construction industry in South Africa.

2.2 Alliance partnering defined

A review of the literature reveals little common understanding of what precisely is meant by the term "partnership". The legal definition of a partnership in terms of a profit making business highlights that all the partners are jointly and severally liable for both the successes and failures of the venture.

It has been suggested by Wilson and Charlton (1997:10) that a partnership should "seek to achieve an objective that no single organization could achieve alone". This is a common concept in business where strategic alliances and joint ventures are only entered into when there is added value to be derived from organisations working collectively. Drawing on the legal definition above, the risks and benefits of the venture need to be shared, so when success is achieved all partners are better off. This implies that there needs to be a degree of mutuality of benefits across partner organisations.

Wilson and Charlton (1997:10) further define a partnership as: "Two or more organizations acting together by contributing their diverse resources in the furtherance of a common vision that has clearly defined goals and objectives".

2.2.1 Alliance partnering defined from a relationship perspective

- Spekman, Isabella and MacAvoy (2000:37) emphasise the relationship aspect of partnering in their definition of an alliance as "a close collaborative relationship between two or more firms with the intent of accomplishing mutually compatible goals that would be difficult for each to accomplish alone".
  - "Collaborative" implies that a set of operating norms exists among the partners and also implies a notion of voluntary involvement rather than coercion and the expectation of reciprocal behaviour.
  - "Mutually compatible" suggests that there is alignment among partners such that each can accomplish its objectives within the framework of the alliance.
  - "Difficult to achieve alone" recognises that each partner is not only dependant on the other but acknowledges that their individual fates are linked. Each admits that costs are prohibitive, time too precious, expertise too limited, management time and other resources too scarce to attempt to achieve the goals of the alliance without a partner.
This relationship approach is echoed by Abudayyeh (1994:27) in defining partnering as "a commitment to recognise owner-contractor relationships as integral parts of the daily operations involved in construction".

The Construction Industry Institute (as quoted by Li, Cheng and Love, 2000:77) states that the alliance partnering relationship needs to be based on trust, dedication to common goals and an understanding of each others individual expectations and values. This requires changing traditional relationships to a shared culture without regard to organizational boundaries.

Thompson and Sanders (1998:75) refer to alliance partnering as a coalescing relationship that involves re-engineering processes to fit cultural integration. In this view, the relationship aspect of partnering is stressed in terms of the organisational cultural impact.

2.2.2 Alliance partnering defined from a process perspective

Frankle, Wipple and Frayer (1996:48) describe an alliance as "a process wherein participants willingly modify their basic business practices to reduce duplication and waste while facilitating improved performance." Implicit within this perspective is a focus on long term, mutually satisfying goals rather than short term, self serving objectives.

According to Crowley and Karim (as quoted by Li, Cheng and Love, 2000:76), partnering can be defined in one of the following three major ways:

- The anticipated outcomes or attributes of partnering, such as compatible goals, mutual trust and long term commitment.
- The process that lead to the outcomes where partnering is used as a verb to indicate an action, such as developing common goals, processes and systems and functional interface management.
- The organisational interface that generates the new organisational interface and the new organisational structure.

2.2.3 Other perspectives on defining alliance partnering

Cowan (1992:7) defined partnering as “a cooperative approach to contract management for the purpose of reducing costs, litigation and stress.”

Saad and Hancher (1998:82) see partnering as an effective tool to navigate the project management process from the planning, design, procurement, construction and commissioning phases, since it can be incorporated into each of the five phases.
Partnering is further defined by Bennet and Jayes (1995:16) as "a management approach used by two or more organisations to achieve specific business objectives by maximizing the effectiveness of each participant's resources." The approach is based on mutual benefits, an agreed method of problem resolution and an active search for continuous and measurable improvements. Partnering can be based on a single project (project partnering) but greater benefits are available when it is based on long term commitment (strategic partnering).

2.2.4 Distinction between project partnering and strategic partnering

Beyond a single project, partnering can be formed in strategic terms. The Construction Industry Institute (CII) provides a definition of strategic partnering that brings together the essential components to define such relationships as well as the arrangement requirements and potential benefits. The CII (as quoted by Li, Cheng and Love, 2000:77) defines strategic partnering as: "A long term commitment between two or more organisations for the purpose of achieving specific business objectives by maximising the effectiveness of each participant's resources".

Lawrence and ul-Hag (1998:15) defines a strategic alliance as: "a durable relationship established between two or more independent firms, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more of the partners for their mutual economic advantage."

Stevenson (1996:8) distinguishes as follows between project and strategic partnering:

- Project partnering: a method of applying project-specific management in the planning, design, and construction profession without the need for unnecessary, excessive, and/or debilitating external party involvement.

- Strategic partnering: a formal partnering relationship that is designed to enhance the success of multiproject experiences on a long term basis. Just as each individual project must be maintained, a strategic partnership must also be maintained by periodic review of all projects being performed.

2.2.5 Partnerships versus alliances

According to Farell and McDemott (as quoted by Halman and Braks, 1999:72) partnerships and alliances are "arrangements which include a structure to share reward and/or risk between an operator (oil and gas company) and contractor(s). If the risk/reward relationship is between an operator and a single contractor, it is called a partnership. If there is interlocking risk/reward among multiple contractors and the operator, it is called an alliance."
2.2.6 Conclusion

In conclusion, it can be stated that there is no fixed definition used when defining alliance partnering although common themes and elements prevail:

- From a relationship perspective, emphasis is placed on a common understanding of the ‘balance’ in the relationship to facilitate effective collaboration and co-operation, in which cultural compatibility and cultural change are key success factors;
- From a process perspective, partnering is seen as a verb and includes development of shared goals, defining input requirements and transforming processes and systems to facilitate effective goal achievement;
- In the process of building the partnering relationship and during the partnering process, an alternative approach to contract management, project management and business management is developed which can provide a competitive advantage to the alliance partners.

2.3 Motivation for and objectives of alliance partnering

2.3.1 Motivation for alliance partnering

A number of factors have over the past two decades, encouraged engagement in partnerships, including the following:

- Globalisation: business organisations need to keep up to date with what is happening across the world, but without incurring fixed cost. They need a partner to be active and alert them to further developments. This requires real insight and involvement by both parties, which can only come from emotional commitment, full disclosure of information and perceived real benefits to both sides.
- Risk mitigation: To actively manage increased risks, many companies are looking at the partnership route as an alternative to the more conventional corporate development avenues of growth by start-up or acquisition.
- Expertise: In an increasing number of industries, there is a finite and limited pool of key and specific expertise required to compete successfully, especially in the areas of intellectual property and human resources. Partnering can provide a useful way of accessing this expertise, as an alternative to the often more costly expedients of outside recruitment or acquisition.

Reuvid (2000:8) suggests that, in considering partnering, most or all of the following questions need to be answered in the affirmative:

- Is the relationship going to add value to the business?
- Does the firm lack the competence in-house?
- Do we actively need to manage our risk profile in this area?
• For this relationship to work; do we need to work with people who share our values?
• Is the partnership expected to deliver synergy?

A recent study by Coopers and Lybrand (as quoted by Spekman, Isabella and MacAvoy, 2000:25) of the CEOs of firms identified as the fastest growing businesses in the US (1995-1996) reveals the following reasons for partnering:

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<th>Frequency of Response</th>
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<tr>
<td>decrease cost of existing operations</td>
</tr>
<tr>
<td>improve employee skills</td>
</tr>
<tr>
<td>improve operations or technology</td>
</tr>
<tr>
<td>create more new products/lines of business</td>
</tr>
<tr>
<td>increase sales of existing products</td>
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<tr>
<td>improve competitive position</td>
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</table>

According to Hymes (1995:13), the motivation for partnering is found in the conflict, disputes, delays, disruption, cost and schedule overruns, claims and deficient items/work which characterise the industry.

These industry characteristics as highlighted by Hymes can be ascribed to the following reasons:

➢ There is inherent conflict between many of the parties' goals. The service providers (engineers, architects and contractors) have profit as their goal whilst the owner has a completed facility at minimum cost as a goal. Faster is better for many service providers which often result in low quality and rework and non-achievement of the owner's goal.

➢ The construction industry has a well deserved reputation for conflict, mistrust, claims and litigation. The very confrontational and conflict-orientated methods which firms use are the result of having been 'burned', and sued in the past. This embedded sense of mistrust is what partnering must overcome to be effective.

From a competitive advantage point of view, Spekman, Isabella and MacAvoy (2000:7) are of the opinion that alliances are viewed as a key element in growth strategies by:

○ Focusing on core business activities where the firm lacks expertise, cost advantages or scale;

○ Leveraging the skills of partners to develop and introduce new products and services and enter new market segments;

○ Accelerating the firm's revenue opportunities through the addition of complementary skills and expertise;

This has brought about a change in the adversarial relationships that used to exist between manufacturers and suppliers/distributors, where each party has
tried to maximise its gain to the detriment of the other resulting in the loss of potential synergies and a degrading of competitive positions.

In the view of Ngowi (2001:243) the primary motivation for forming an alliance in the engineering & construction industry is the advantage attainable by pooling together the resources of the participating partners in order to form a team that has a competitive advantage. Each partner in the alliance has, however, its own competence and market share that does not necessarily fall under the alliance as common resources. Therefore, although the competitive advantage aimed at when forming an alliance is for common benefit (e.g. profit) each partner has the possibility of using it (the competitive advantage) for private benefits (i.e. activities that do not fall under the alliance). The motivation to partner disappear once one of the partners in the alliance can create the competitive advantage in question on its own. This organisation will opt out of the alliance through such mechanisms as withdrawing some of its key contributions to the alliance.

Boddy and Macbeth (2001:17) argue that four principal motivations for creating inter-organizational alliances are "resource dependency, spreading risk, speed to market and lower costs."

2.3.2 Objectives of alliance partnering

It is the partnering process which seeks to discern what all the parties’ goals are and to educate all parties accordingly and to mould them into common goals and a common mission.

The following partnering objectives are derived from differing motivations for partnering (Li, Cheng and Love, 2000:78):

<table>
<thead>
<tr>
<th>Motivation for partnering</th>
<th>Objective of the partnership</th>
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<tr>
<td>Access technology</td>
<td>Enhanced competitive position</td>
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<tr>
<td>Share risks</td>
<td>Increased market share</td>
</tr>
<tr>
<td>Secure financing</td>
<td>Obtain new work / projects</td>
</tr>
<tr>
<td>Enter new markets</td>
<td>Broaden client base</td>
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<tr>
<td>Serve core customers</td>
<td>Increased cultural responsiveness</td>
</tr>
<tr>
<td>Improve competitive position</td>
<td>Reduce risk, increased profits,</td>
</tr>
<tr>
<td></td>
<td>increased labour productivity</td>
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</table>

2.3.3 Conclusion

It can therefore be concluded that the quest for competitive advantage (lower cost, increased productivity), competitiveness and skills (critical knowledge and know-how) as well as the company's risk profile, are considered key issues for organisations when engaging in alliance partnering.
2.4 Types / levels of partnering

2.4.1 Introduction

Peng (1999) as well as Hallman and Braks, (1999) identifies two main types of partnering namely:

- Project partnering that is suitable for a single project; and
- Strategic partnering that focuses beyond partnering on the future competitive advantages and long term benefits to the partners.

As the construction industry is dominated by one-off projects, it would appear that project specific partnering will likely take the leading role in promoting a closer relationship in construction projects. This was echoed by Bröchner (as quoted by Li, Cheng and Love, 2000:78) who stated that there is a need for the formation of “project-specific networks”. It can be added that these networks, however, need to be maintained and improved over time to add increased value to project partnering and to be able to progress to higher levels of partnering (strategic partnering).

2.4.2 A development framework

According to Li, Cheng & Love (2000:86) a learning life cycle is crucial to not only improve construction performance but also to build a much closer relationship between owners,(clients) and engineers / contractors. They identify three major relationship levels which suggest that by learning about the practicalities of partnering, an alliance can “climb up the ladder.” Low performance, however, might result in “rolling” down the ladder. In addition, each level of partnering requires a different set of performance measures. This is illustrated in figure 2.1 below:
Figure 2.1: A partnership development framework
(Adapted from: Li, Cheng and Love, 2000:87)

Partnering Ladder

Strategic Partnering

Project Partnering

Pseudo-Partnering

Anticipated Performance

- Always success in meeting budget and schedule;
- Reduction in sales expense;
- Reduction in site work;
- Reduction in project cost;
- Improvement in worker utilization rate;
- Reduction in total manhours.

Low Performance: partnering roll-down

- Often success in meeting budget and schedule;
- Common measurement system for the projects including schedule reduction, cost reduction, and request for information turn around time.

- Non common project measures between parties;
- Other pitfalls include: no common goals; little/no improvements; competitive relationships; cost overruns; schedule slippages; disputes & litigation.

More learning: partnering advancement
The 'pseudo-partnering' relationships that are created for the execution of a project consist of maintaining an arms-length relationship. Ellison & Miller (as quoted by Li, Cheng and Love, 2000:87) call it the 'adversarial arms-length contractual relationship', i.e. the traditional construction relationship that raises competition among involved parties. At this level, partnering cannot be found mainly due to the following reasons:

- Each party has defined responsibilities (as stated in the contract) and abides by the contract only;
- Clients (owners or developers) always execute their coercive power to monitor and inspect their contractors;
- All parties look for short-term benefits and pursue their own concern at the expense of other parties;
- They have no common objectives and goals, little or no trust, no shared benefits or risks and no shared vision;
- They often confront each other, creating adversarial relationships, and often create disputes or even litigation;
- Considerable time and energy is devoted to legal protection against claims from other parties; and
- The construction parties are strong in bargaining power (thus they do not need to integrate with others) or focused in narrow market niche (thus they can retain their competitiveness without sharing their expertise with others).

Project partnering is the most popular because it suits every single project. In the project partnering relationships, parties have common objectives that are project-specific. Trust has started to establish. More communication and understanding among parties are expected. Inter-organisational relationships have been improved and more effective decision making process evolve. This can be referred to as the co-operation stage in the process of developing long term partnering relationships. Li, Cheng and Love (2000:88) see this as the formative partnering stage where the boundaries of the parties merge together and become permeable. The permeability of the boundaries can be adjusted to cater for the specific needs of the project and the parties themselves, resulting in the shift of modes within this level of partnering. The following are typical attributes:

- Co-operation between parties extends beyond the signed contract;
- An inter-organisational team is established;
- Information, resources and even risks are shared among all parties within the team;
- Claims and win-lose mentality are replaced by incentives and mutual give and take, respectively;
- Project objectives are clear and accepted by all parties;
- For a higher level of project relationship, the team should develop a longer term of partnership, a generic set of goals beyond individual project objectives and a set of partnership measures different from those used on individual projects; and
• The higher the level of the partnering relationship, the more the cohesion of the team members, approaching the formation of an integrated team, which needs trust and accepts collective accountability.

- **Strategic partnering** is increasingly encouraged by updated published work. It requires a long-term commitment and trust by the parties involved to extend their relationships beyond the successful completion of a single project to the formation of an alliance. This alliance further extends its concern on project-related matters to performance improvements in terms of products, services and work practices/processes. It intends to achieve the missions on high quality and core competence to succeed in the ultimate goal of customer satisfaction.

### 2.4.3 The development gap

Kubal (1996:48) stated that in recent years, much attention has been focused on the single-project form of partnering, to the neglect of the long-term partnering concept. Kubal refers to this long-term partnering as 'second level partnering' which calls for the development of mutually beneficial relationships which transcend the life of any single project.

This focus on single project partnering has caused a time delay (figure 2.2) in the development of effective partnering competencies:

*Figure 2.2: Partnership effectiveness: the development gap*

(By the author)
A successfully completed project can lay the foundation for the ongoing development of partnering relationships which comprise second-level partnering. This requires that a firm should not remain stuck in the project-specific type of partnering but should rather maintain and strengthen its complementary relationships, processes and skills and develop new competitive strategies focused on the long term. These longer term relationships endure partly because they are based on an atmosphere of trust and open communication — a basic in any partnering program. Such relationship development goes beyond first level partnering by providing a win-win situation for all parties involved. For example, engineers seek to do business with clients who allow them to make a reasonable profit over time for their work. Similarly, owners must in turn, receive quality projects which meet their needs as intended through value added services.

Implementation of higher levels of partnering eventually lead to strategic alliances. Kubal (1996:49) states that strategic alliances are “more formal arrangements than partnering in which the team members agree to strategically share corporate abilities and information to better serve the customers to meet the challenges of the virtual age”.

Kubal's (1996:48) reference to ‘higher levels of partnering’ corresponds with other author’s distinction between the ‘degrees of intimacy’ of the partnering relationship. This can also be seen as a relationship development process as illustrated by figure 2.3 below:

Figure 2.3: The relationship development process
(By the author)
Ngowi (2001:243) highlights the degree of hierarchical elements in alliances by distinguishing among alliance structures in terms of the degree of hierarchical elements they embody and the extent to which they replicate the control and coordination features associated with organisations. At the one end there are joint ventures which involve partners creating a new entity in which they share equity and which most closely replicate the hierarchical control features of organisations. At the other end are alliances such as partnering with no sharing of equity and having few hierarchical controls built into them.

2.4.4 A biological framework for alliance types

Spekman, Isabella and MacAvoy (2000:42) use a biological framework (fig.2.4) to help to differentiate alliance types in the same way that a biologist attempts to sort out the differences and similarities amongst animals:

Figure 2.4: A biological framework for alliance types
(Spekman, Isabella and MacAvoy 2000:42)

From the illustration above, it is clear that the term "alliances" covers a number of different kinds of relationships that span a continuum with the least formal non-equity alliances on the one end and joint ventures (equity based ventures) on the other end.

Ngowi (2001:244) describes partnering structure by using an analogy of organisations in cell-like form, where the contact of their boundaries determines the level of partnering.
These boundaries’ deformation implicitly reflects the breadth, stages and the types of partnering:
- Parties in arms-length distance where boundaries are protective and impermeable;
- The formative partnering state where the united boundary is still impermeable, but some internal resources are reorganised by individual parties and reserved for the group use (informal partners);
- Complete partners where the boundary is permeable for the inter-organisational exchange to occur.

2.4.5 Conclusion
It is concluded that alliance partnering is taking place at different levels of intimacy which determines the level of the arrangement / association among the parties involved. Each level has distinct characteristics and goals and is suitable for different business strategies. The different levels of partnering can also be seen as a staged process through which a partnering relationship can be developed to the ultimate level of a strategic alliance.

Li, Cheng and Love, (2000:87) however also confirm that although companies might be aiming for higher levels of alliance partnering, they might get stuck at or ‘roll down’ to lower levels due to the gap between the actual nature of the relationship and the partnering intent, and / or lower levels of performance that do not satisfy the requirements necessary for higher levels of partnering.

2.5 Alliance characteristics

Spekman, Isabella & Macavoy (2000:76) compare an alliance’s business and relationship activities as follows with that of a DNA molecule: “Like strands of DNA, business and relationship activities are intimately entwined with the other, difficult to isolate or separate from each other and most certainly, working together to create the entity. Within the DNA molecule, there are special “connectors” that serve to fasten together the chains of DNA and determine the molecule’s internal structural coherence. Metaphorically, alliance spirit is like these “nucleic connectors” determining the coherent structure of the alliance”.

Kubal (1996:48) characterises partnering as a cohesive boundary to strengthen an organization’s competitive advantage in order to achieve its business targets and to prevent attacks from competitors.
In the traditional sense, partnering returns to the good ‘old-fashioned’ way of doing business, with a return to the basics in business relationships. According to Pheng (1999:155) it attempts to restore trust in a business agreement and opens up further channels of communication which were once closed.

Pheng (1999:157) also highlights the change in mindset required to achieve the advantages associated with partnering by comparing partnering and traditional practices in table 2.1 below.

**Table 2.1 Partnering compared to traditional contracting practices**

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Partnering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suspicion and distrust. Each party wary of the motives and action by the other</td>
<td>Mutual trust forms the basis for strong working relationships</td>
</tr>
<tr>
<td>Each party’s goals and objectives, while similar, is geared to what is best for the individual party</td>
<td>Shared goals and objectives ensure common direction</td>
</tr>
<tr>
<td>Communication is structured and guarded</td>
<td>Open communication avoids misdirection and bolsters effective</td>
</tr>
</tbody>
</table>
Single project contracting

Objectivity is limited due to fear of losing and lack of continuous improvement

Limited access with structural procedures and self preservation taking priority over total optimisation

Sharing limited by lack of trust and different objectives

Routine adversarial relationships for self-protection

Duplication and/or translation with attendant cost and delays

Normally limited to project level personnel

Long term commitment provides the opportunity to attain continuous improvement

Objective critique geared to candid assessment of performance

Access to each others organisations & sharing of resources

Sharing of business plans and strategies

Absence or minimisation of contract terms that create an adversarial environment

Integration of management & administrative systems and procedures

Total company involvement and commitment by all functional and senior management to the team

Table 2.2 below (Li, Cheng and Love, 2000:92) lists specific attributes of key partnering characteristics.

Table 2.2: Attributes of key partnering characteristics

<table>
<thead>
<tr>
<th>Key Characteristic</th>
<th>Associated Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual trust</td>
<td>Developing confidence&lt;br&gt;Encouraging open communication&lt;br&gt;Exchanging ideas&lt;br&gt;Sharing of resources</td>
</tr>
<tr>
<td>Long-term commitment</td>
<td>Constant improvement of technology and methods&lt;br&gt;Reinforcing the mutuality of the parties&lt;br&gt;Reducing the rivalry of the traditional contracting system&lt;br&gt;Reducing the attractiveness of litigation&lt;br&gt;Producing feelings of camaraderie among the parties</td>
</tr>
<tr>
<td>Shared vision</td>
<td>Setting common project objectives and goals&lt;br&gt;Alliance formed by consensus through open expectations&lt;br&gt;Alliance established within a candid</td>
</tr>
<tr>
<td>Environment</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Win-win attitude</td>
<td>Neither party wins due to the other's loss</td>
</tr>
<tr>
<td>Conflict resolution</td>
<td>Differences expected to be jointly held problems but not individual disputes</td>
</tr>
<tr>
<td>Freedom of speech and Openness</td>
<td>Parties being encouraged to identify and address problems</td>
</tr>
<tr>
<td>Innovation</td>
<td>Open exchange of views and ideas solving day-to-day problems</td>
</tr>
<tr>
<td>Equity</td>
<td>The needs, concerns and objectives of each party being co-operatively addressed</td>
</tr>
<tr>
<td>Shared risk</td>
<td>The uncertainties of project life being jointly shared</td>
</tr>
</tbody>
</table>

Neo (as quoted by Pheng, 1999:157) notes that while the contract sets out the legal relationships, the partnering process attempts to establish working relationships among the parties through a mutually developed strategy. It can be added that work-systems and procedures should be flowing freely from the partnering interaction. The partnering interaction process should be allowed to create an environment where trust and teamwork prevent disputes, fosters a cooperative bond to everyone’s benefit and facilitates the completion of a successful project or series of multiple projects over an extended period of time.

According to Pheng (1999:157) partnering aims to:

- meet the project objectives through co-operation, team building and trust rather than by confrontation;
- develop a co-operative culture;
- place value on long term relationships;
- develop long term profitability;
- encourage innovation;
- improve constructability;
- lower project cost;
- reduce project completion time;
- improve quality engineering and construction;
- eliminate contractual disputes;
- establish clear line of communication;
- create a learning environment for added value to the individual parties.

Combining the strengths of firms that provide complementary services through alliance formation is one way to provide these services. However, according to Ngowi (2001:244) alliances are characterised by common activities and private activities (activities that do not fall within the scope of the alliance) which create varying degrees of competition and cooperation between the firms in the alliance.
2.6 Factors that influence the success and failure of alliance partnering

2.6.1 The failure rate

The failure rate of alliances is reported to exceed 60% for among others the following reasons listed by Spekman, Isabella and MacAvoy (2000:18):

- Lack of alliance experience;
- Cultural mismatch;
- Unclear operating principles or requirements;
- Lack of financial and other resource commitments;
- Slow results or payback;
- Poor communication;
- Overly optimistic.

2.6.2 Business versus relationship

Deering and Murphy (2003) and Spekman, Isabella and MacAvoy, (2000) make it clear that alliances cannot be managed as a 'side activity' with few resources and little attention as that will ignore the reality.

Managing an alliance is nothing like business as usual. Many managers make the crucial mistake of bringing to alliances the same mindset of management – thinking they use in their internal business units. Managers in alliances however need to understand that alliances are simultaneously about business and relationships which in combination provide the essential building blocks of the alliance; it holds the "code" for the alliance and provides strength and internal support for sustainability.

Alliances are all about business but the business is relationships. The key to a strong "business relationship DNA" is the capacity of the alliance to stay in the zone of balance between business and relationships (Spekman, Isabella & MacAvoy, 2000:76). Business demands of the alliance can easily "take over" and partners tends to think that simply maintaining some degree of relationship ensures success – the mix is, however, important.

Deering and Murphy (2003:3) also emphasise the relationship aspects of partnering by stating that in adopting partnering strategies, firms have to acknowledge that the need for control is less pressing than the need to create or extend networks of business relationships.

2.6.3 Conflict & trust

The search for harmony to reduce conflict and promote trust in relationships is the wrong solution to the wrong problem. Deering & Murphy (2003:13) believes that if all partnering problems are seen in terms of trust and conflict, it must be
accepted that they can never be solved. They are of the opinion that trust and conflict are "epiphenomena – consequences and not causes!"

Marginalisation, not conflict, is what prevents partnerships from succeeding. It is suggested that the presence of conflict is not a sign of impending failure and neither is its absence, a guarantee of success. The modern environment is shifting towards a position where business enterprises have to work with difference and where those who can make a virtue of this necessity and value difference rather than viewing it as a source of conflict will have a significant competitive advantage.

2.6.4 Relational assets

Dunning and Boyd (2003:5) introduced what they call ‘Relational Assets or R-assets’ – as they affect the success or failure of intra- or extra-firm associations. R-assets are defined as: "The stock of a firm’s willingness and capability to access, shape and engage in economically beneficial relationships; and to sustain and upgrade these relationships" (Dunning and Boyd, 2003:3).

The “ingredients” (success factors) of Dunning and Boyd’s (2003:7) R-assets are defined as:
- Trust
- Loyalty
- Reciprocity
- Dependability
- Willingness to learn
- Forbearance
- Adaptability
- Work Ethic
- Spirit
- Commitment
- Radius of virtues
- Ideologies and beliefs
- Empathy
- Curiosity
- Honesty
- Integrity

The following negative virtues/values (failure factors) do however also apply:
- Opportunism
- Moral Hazard
- Corruption
- Volatility
- Instability
- Free Riding

2.6.5 Partner selection:

Partner selection as a process is seen as key to the success or failure of any alliance relationship. Spekman, Isabella and MacAvoy (2000:10) suggest the following:
- First define what the firm needs from a partner and then answer questions related to strategic fit. Driving the selection process should be the search for partner resources that contribute to its quest for competitive advantage.
- Key questions aimed at determining on a potential partners’ value adding capabilities are:
  - What skills capabilities does the partner have?
> How will the other partner add value?
> Similarities in management styles, philosophies and business approach? Are our corporate cultures compatible?
> How is the partner perceived in the market place? What is the partner's reputation?

Lack of the same perspective for acceptable alliance behaviour might outweigh the benefits/potential of unique and complimentary resources and skills. Alliance partners therefore need to have skills and capabilities that facilitate and foster alliance like behaviour to reduce the cost of managing the alliance over time.

Alliance management should reduce costs by reducing the probability of duplication. In alliances where the objective is to combine forces to present one force to the customer, anything less than a seamless integration and operation adds to the costs associated with running that relationship.

2.6.6 The alliance spirit

Partners need to have a congruous alliance spirit, i.e. they must have the same strategic alliance. Success depends on a shared alliance spirit which is embedded in the fabric of the partnering companies. Spekman, Isabella and MacAvoy (2000:105) state that it provides the internal compass setting; the mental model for framing and interpreting alliance actions; it has the power of self fulfilling prophesies in that they can create the future because they frame and channel behaviour in the present.

The alliance spirit needs to display the following characteristics:
- Atmosphere of flexibility
- Commitment to mutuality
- Sense of solidarity
- Preference for harmony

2.6.7 Change management

A change management process needs to be followed with the implementation of the alliance concept. Developing an alliance competence is for many companies a significant change from business as usual. Resistance is expected since the norms of an alliance competent firm is not consistent with those found in more traditional hierarchies.

The lack of a change management process in combination with overlap/duplication of competence, skills and know-how and/or cultural clashes set the scene for alliance failure.
2.6.8 Other failure factors

The following is a combination of reasons for alliance failures as highlighted by various literature references included in the bibliography:

- The cultural differences that exist at organisational level. Cultural differences can lead to a breakdown in communication, create mistrust and can result in eventual termination of the alliance.
- Presence of current and previous ties (baggage);
- Partner asymmetry;
- Characteristics of the alliance itself such as autonomy and flexibility and importantly, the competitive overlap between the partners.
- ‘Free riding’ by one partner while the other is contributing significantly to the benefit of the partnership (opportunistic behaviour);
- Individuals involved in the alliance are torn between the loyalties to the partnership and to the parent organisation;
- Partners / the dominant partner run the alliance in the same way their parent organisation is run;
- Partner’s goals are not aligned – different business drivers;
- The external environment, organisational culture, organisational climate and organisational structure might not be suitable for accepting / promoting intimate inter-organisational relationships;
- The lack of being able to ensure continuity of personnel and uninhibited team selection.

2.6.9 Conclusion

As very specific factors impacting on the successes of alliance partnering are described in the literature, it seems that alliances in general will never be free from what Spekman, Isabella AND MacAvoy (2000:117) call “static”. They describe “static” as “the ever present background noise in the alliance landscape” (parallel to the phenomenon of electric static – an ever present electrical disturbance in the atmosphere).

It is seen as an integral element of alliances requiring management to focus on where it originates from and to envision strategies for predicting and managing its effects.

2.7 Benefits and risks of alliances

The Anderson survey (Deering and Murphy, 2003:5) suggested that about 70% of alliances fail and although the 15 most successful alliances created an estimated $72bn of shareholder value, the 15 least successful alliances destroyed $43bn worth of shareholder value. From these findings, it is clear that although alliance partnering provides clear benefits, it holds considerable risks.
2.7.1 Benefits associated with partnering:

Ngowi (2001:244) distinguish between 'private and common' benefits as two qualitatively different kinds of benefits available to participants in the alliance. Private benefits are those that a firm can earn unilaterally (from activities in markets not governed by the alliance) by picking up skills from its partner and applying them to its own operations in areas unrelated to the alliance activities. Common benefits are those that accrue to each partner in an alliance from the collective application of learning that both firms go through as a consequence of being part of the alliance; these are obtained from operations in areas of the firm that are related to the alliance.

These private versus common benefits however, hold significant risk for the alliance.

From an owner (client) perspective the following benefits are identified by various authors (as included in the bibliography):

- Less risk of cost overruns and delays because of better time and cost control; it can be added that the involvement of alliance partners from concept to construction paves the way for effective cost and time management;
- Better quality products because energies are focused on the ultimate goal and not misdirected towards adversarial issues;
- Potential to expedite projects through efficient management of the functional network, engineering and construction contracts;
- Open communication and unfiltered information which allows for more efficient resolution of problems;
- Lower services cost due to the elimination of defensive case building;
- Increased opportunity for innovation through open communication and trust, value engineering and constructability improvements;
- Reduced exposure to litigation;
- Increased opportunity for a financially successful project because of a non-adversarial win-win attitude.

The following benefits from a contractor's perspective are highlighted by Ngowi (2001:244-249):

- Enhanced competitive position;
- Broadening of client base;
- Access to new work, increased market share;
- Reduction of risk;
- Increased profits;
- Increased labour productivity.
2.7.2 Risks associated with partnering

Ngowi (2001:244) makes it clear that the ratio of private to common benefits impacts the behaviour of a firm (partner) in the alliance. He stated that intuitively the ratio of private to common benefits for a particular firm will be higher when it has more opportunity to apply what it learns to its business outside of the scope of the alliance (and thus earn private benefits), than to apply what it learns to business within the scope of the alliance (and thus earn common benefits). This intuition crucially impacts the behaviour of a firm within the alliance because the different incentives to invest in the alliance are a result of the competitive aspects of what is simultaneously a co-operative and a competitive enterprise.

The co-operative aspect arises from the fact that each firm needs access to the other firms' know-how and that the firms can collectively use their knowledge to produce something that is beneficial to them all (common benefits).

The competitive aspect is a consequence of each firms' attempt to also use its partners' know-how for private gains and of the possibility that significantly greater benefits might accrue to the firm that finishes learning from its partner before the latter can do the same.

The larger the overlap between alliance scope and firm scope, the higher is common benefits and the lower is private benefits.

It is important to note that it is the ratio of a particular firms' private to common benefits that affects its decision to stay in or quit the alliance, as the firm in question compares its already existing private benefits to its potentially attainable common benefits in trying to decide whether to continue its involvement in the alliance. In contrast, the ratio of one firm's private benefits to the private benefits of its partner is not relevant to the individual firm's decision to continue in the alliance.

The ratio between private and common benefits and therefore the incentive to invest in the alliance is a critical risk for the success of the alliance partnership. This is directly in-line with the degree of overlap of competencies, skills and know-how highlighted in paragraph 2.6 as a serious failure factor.

2.8 Theoretical Models

2.8.1 Introduction

A completely new kind of guidance system is required to handle the complexity of a partnership enterprise and the speed with which decisions have to be taken. The problem is that, in abandoning a system in which integrated enterprises managed their environments, firms come face to face with contradiction and paradox of which the following are typical examples listed by Deering & Murphy (2003:5):
How can they work with different cultures, experiences and values while yet retaining their sense of self?

How can they empower partners to grasp opportunities without causing chaos?

How can they share without risking exploitation? Or be open to influence without compromising their principles?

How can a firm achieve planned change when it lacks full control of its business?

How can partners share a vision when they see things differently and see different things?

Most firms ignore these dilemmas and treat partnerships much the same as acquisitions. They have partners to strengthen their differences and concentrate on ensuring that their partners are the right size and shape “to be bricks in their battlements” (Deering and Murphy, 2003:15). They state that such firms “fail to recognise that the essence of the partnering structure is not the bricks but the mortar which both separates and unites them”.

2.8.2 The partnering grid

Deering and Murphy (2003:17) have developed a “partnering grid” (figure 2.6) containing six partnership “boxes” and indicate the management processes that govern them. Partnering grid positions are located by plotting each partner’s view of and response to “difference” against the nature of the partnership rationale and specifically against the nature of these ambitions which varies widely from a wish to prevent negative outcomes (risk management) to the desire to promote positive outcomes (co-operation).

The partners’ expectations, perceptions and assumptions around these dimensions are what determine success and failure and it is understanding and not smoothing these differences which enable them to manage their relationships more productively.

A brief description of the various types of partnerships represented by Deering and Murphy’s partnering grid are included in Appendix A hereto.
Deering & Murphy (2003:43) states that when partnership goes wrong it is usually because someone in control has misjudged the context and adopted an approach or style that is at odds with how others perceive the distribution of power and knowledge.

The environment, style and objectives of the relationship provide the context within which a continuous search for "perceived fit" needs to be undertaken and adjustments made.
Movement in the partnering grid (Deering and Murpy, 2003:23) becomes necessary if it is clear that the existing style is unsuited to the context (either because the environment was not understood at the outset or because it has changed) or if the style is unsuited to the objectives (either because the element of fit was not recognized or because objectives have changed).

If a lack of fit between style and objectives is not addressed, one may be sure that, over time, it is not the culture that will change for the better to meet its objectives. Objectives will rather be distorted and diluted to adapt to the prevailing culture.

The tension between a partner's perception of the context and its preferred style is an important dynamic in partnering. It does not mean styles always have to be sacrificed for context, but it does mean that the position on the grid should never be taken for granted.

2.8.3 Bryant’s model of “PACTS” and “COMPRISE”

Bryant (2003:44) identifies the following five aspects as the main pillars on which to build a partnership:

- Processes: designing processes that facilitates collaboration (or address conflict);
- Analysis: gaining insight and understanding through analysing relationships. This is supported by Spekman, Isabella and Macavoy (2000:76) who emphasise that alliances are all about relationships and relationships are all about people;
- Culture: focusing upon building shared understanding and meaning
- Technology: drawing upon tools and artefacts to enable collaborative enterprise. This is to include sharing and building a common base of corporate wide knowledge;
- Structure: creating organizational context in which people can work together. This is described by Spekman, Isabella and MacAvoy (2000:281) as "...the enablers that make it easy to combine skills...."

The above is, however, influenced/affected by the elements of Bryant’s model (“COMPRISE”) for configuring collaboration as detailed in figure 2.7:
Figure 2.7: Configuring collaboration

(Bryant, 2003:51)

- Contract: is the contracting relationship contractual or relational?
- Offspring: do the "parent" organisations create a "child" or are they just partners?
- Mixing: does the collaboration bring together similar or complementary organizations?
- Portals: are there single/multiple customer portals?
- Retention: are resources retained by the collaboration or distributed back?
- Intelligence: is the emphasis on intelligence pooling or sharing?
- Support: does the collaboration create a shared support/development resource?
- Executive: is executive power centralised or do partners retain autonomy?

Important to note is that it is the pattern of the overall synthesis of the above that defines the collaboration. Any collaboration will have its own unique "COMPRIZE" fingerprint.
2.8.4 Partnering from a TQM perspective:

Total Quality Management (TQM) has been successfully used for quality improvements in many domestic manufacturing and service industries, most notably in the American automobile industry.

Kubal (1996:45) stated that this proven method of enhancing working relationships and improving final product quality has largely been ignored or inadequately applied in the engineering and construction industry.

TQM demands a change management philosophy away from an intra-organisational focus to the broader inter-organisational perspective which allows for collaboration and the integration of resources among several companies (i.e. alliance partnering).

Having its beginnings in the auto industry, the quality revolution calls for change from the intra-organisational to the inter-organisational management style, thus allowing for the strategic linking of suppliers, subcontractors and consultants with the owners. Through networking, talent is instantaneously linked, providing services or products that are superior in quality, instantaneously produced and less expensive primarily because they have developed productive teaming relationships.

Kubal (1996:47) proposes an “upside-down partnering model” that places greater dependence on sub-contractors for process improvement – of which the benefits are as follows:

- Cost reduction through subcontractor’s input during design and pre-construction;
- Faster response time to innovations;
- Superior quality improvements;
- Reduced schedules;
- Improved communications;
- Improved networking and alliances.

A comparison between traditional contracting and ‘upside down contracting’ is illustrated in figures 2.8 and 2.9.
Figure 2.8: Traditional (ineffective) contracting  
(Adapted from Kubal, 1996:48)

According to the bottom-up partnering model, information that is driven from the bottom up will make contracting more successful through positive relationships and interdependency of all stakeholders and role-players.
Technology advancements are completely changing the way all construction related professionals will conduct business in future. These advancements are dramatically increasing quality in all design and construction processes and will lead to major advancements in the quality of the finished products. New management paradigms that require instantaneous processing of the information flow demand that the industry move beyond archaic management styles.

Kubal (1996:51) graphically illustrates the changing paradigms that the engineering and construction industry must embrace:

**Figure 2.10: Management principles for future success**
(Kubal, 1996:51)

Progressive companies are moving to incorporate a bottom-up approach to managing the quality process of construction, while simultaneously moving beyond single-project partnering to long-term partnering relationships that also incorporates a bottom-up approach. Inter-organisational abilities must be perfected to successfully manage the instantaneous flow of information brought about by the computerization of all processes in the industry. This management style promotes the formation of strategic alliances to effectively compete in the age of 'virtual construction'.

### 2.8.5 Partnering from a relationship marketing perspective

Relationship marketing essentially focuses on how value can be created and sustained through improved relationships. According to Pheng (1999:159), implementation of partnering and the levels of partnering is a graduation process from relationship marketing into partnering in the long run (figure 2.11).
Figure 2.11: Partnering through a relationship marketing process (Adapted from Pheng, 1999:159)

**Merging relationship marketing with partnering**

1. **Educate own organisation**
2. **Make intentions clear (from or to client) including the common and private objectives**
3. **Commit to pre-relationship management of all parties and demonstrate the commitment**
4. **Partnering takes place as a process from which a charter, procedures, structures & systems flow freely**
5. **Develop joint performance evaluation processes and benchmarking**
6. **Periodic performance evaluation and correction**
7. **Full integration of partner resources, structures and systems**
8. **Achieve successful partnering**

**Arms length relationship: Contractually orientated**

- **Prospect converted to client**
- **Prospect of new client**
- **Client converted to partner**
- **Client become an advocate**
- **Client become supporter**

**Relationship Marketing**
In support of Pheng's model of relationship marketing as a process to achieve long run partnering success, Halman and Braks (1999:96) makes it clear (figure 2.12) that parties can not have long-term expectations and goals whilst risk sharing and trust will force a short to medium term relationship with multiple and preferred suppliers. Experience of risk sharing and mutual trust need to be high before expectations of a long term partnering, strategic alliance or joint venture can be created.

Figure 2.12: Trade off between risk sharing and level of alliance partnership (Adapted from Hallman and Braks, 1999:96)

Spekman, Isabella & MacAvoy (2000:137) ignores the 'relationship marketing phase' presented by Pheng (1999:157) as part of the partnering evolution and define the stages of evolution of an alliance / partnership as follows:

- Anticipation: clarifying strategy and sensing possibilities
- Engagement: agreeing to collaborate and determining scope of an alliance
- Valuation: valuing assets/contributions and negotiating teams
- Coordination: creating structures/interfaces and getting to work
- Investment: making hard choices and committing to the future
- Stabilization: achieving balance and ongoing calibration
2.9 Learning points from research

2.9.1 Trust and conflict

There is a widespread believe that intangibles such as trust, identity, commitment and knowledge are manageable inputs to a different culture. If we look at partnerships from this perspective, it seems that conflict is a result of getting the design wrong.

Commitment, confidence and trust are outputs, not inputs. They are built on ongoing relationships that accommodate changes in conditions, objectives and personnel. Organisations from this perspective do not have cultures, they are cultures!

In Deering and Murphy’s model of partnering (2003:125) trust is not a pre-condition, but merely a consequence of acting together in a “context”. And as contexts vary, so does the quality of trust that develops within them.

Trust should therefore be seen as something that emerges from collective action and takes various forms.

The degree of trust rises as a partnership becomes more ambitious and the kind of trust needed to sustain ambitious partnerships changes as the partnership develops into ‘maturity’.

![Figure 2.13: HOW PARTNERS VIEW DIFFERENCE](Deering and Murphy, 2003:126)
Furthermore, whether or not difference leads to conflict, it is a necessary ingredient in ambitious partnerships because without it, there can be no synergy and no positive sum to the partnering game.

People who have their own ideas, attitudes and values, but respect yours, are people you can do business with. Difference is the source of creativity. Conflict is a sign of growing intimacy; a sign that partners have seen through their apparent similarities and begun to enter new partnering territory. Whether perceived as conflict or debate, docking or alignment behaviours are part of the mutual exploration of cultures and attitudes.

2.9.2 Compromise and collaboration

While compromise can be a device to earn "goodwill and to create allies in the present for the sake of other, more important future payoffs, it should be seen as a kind of lowest common denominator type of agreement." (Bryant, 2003:55). Figure 2.14 contrasts unilateral gains in a compromise with synergistic gains possible through creative collaboration. Seen in these terms, compromise is a lose-lose outcome.

Figure 2.14: The contrasting effects of collaboration and compromise
(Adapted from Bryant, 2003:56)
2.9.3 General

- Alliance partners should possess complimentary skills and/or expertise - not overlap in competence and/or expertise. When partners have overlapping capabilities, conflicts are likely to emerge due to role definition as well as the calculus used to value each partner's contribution to the alliance. It becomes difficult to assess value to skills/expertise that both partners possess and partners begin to question the costs and benefits associated with the alliance;

- Alliance formation is driven by competitive pressures. Alliances are intended to create value so that one set of alliance partners can achieve a competitive advantage;

- Alliances are not only about business but also about people and relationships.

- Contracts are important but an alliance is not predicated, nor is it built on a contract. Its basis is the relationship among alliance partners. Contracts and the negotiation process are inherent sources of tension.

- During conflict, the focus should be on creating an objective, non-threatening and non-value laden opportunity for alliance managers and sponsors on both sides to raise, explore and review serious issues in a "no-blame review".

2.10 Conclusion

Lawrence and ul-Hag (1998:17) concludes that a strategic alliance is typically a conscious, intentional, pro-active, selective act, implying a choice on the co-operation-competition dimension of inter firm relationships. Its operating structure is heavy relationship-dependent, yet it has a formalised, documentary basis (a contract). All these considerations render the alliance phenomenon an interesting test case for exploring the issue of rationality in business.

The following elements were commonly raised in the partnering literature:

- goals and objectives;
- trust & conflict;
- problem resolution;
- commitments;
- continuous evaluation;
- group working and teams;
- equity;
- shared risks;
- win-win philosophy;
- collaboration / co-operation;
- change management;
- complementary versus overlapping skills & know-how.
Mathews (2000:508) also states that:

- partnering is not a ‘technique’ which establishes rules, regulations, documentation and procedures but is a pro-active approach to the management of the business – effectively;
- by invoking partnering one needs to bring about a change in employee attitudes and organisational culture. This implies that a comprehensive change management program is required.

In so doing trust is engendered and working relationships are enhanced as a platform for value contribution by the partners. This is the essence of the advantage that partnering brings to the engineering and construction industry and when ‘dovetailed’ with other techniques such as TQM and ‘bottom-up partnering’, it provides the necessary environment for a lean production philosophy to flourish.

Success in achieving project objectives can mask important difficulties experienced in making the arrangement work at an operational level. There is no one strategy or template for successful partnering. Partnering is a dynamic and iterative process which by itself does not necessarily solve some of the problems that it is set up and designed to cope with.

It is concluded that an alliance strategy should be considered based on:
- a clear understanding of the definition of the concept;
- an understanding of the motivation for and objectives of such a strategy;
- an understanding of the context within which it will be managed;
- weighing up private and common benefits to be gained and risks posed as a result thereof;
- an appreciation of the development process through the different levels of partnering over time;
- the problems and weaknesses identified by the theoretical models which can cause a partnership to slip back into lower levels / less effective relationships; and
- the effects of compromise (lose-lose) and synergy (win-win) in the relationship.
CHAPTER 3
EMPIRICAL STUDY

3.1 Introduction

The various aspects of alliance partnering as detailed in chapter 2, literature study, provides a comprehensive theoretical framework for consideration in the planning, formalisation, development and management of alliance partnerships in the South African engineering and construction industry. These theoretical views and statements were tested during an empirical study, the findings of which are detailed in paragraph 3.4 below.

3.2 Purpose and focus of the empirical study

The purpose of the empirical study is to use the findings from the literature study as a basis for enquiring and investigating the applicability of the theoretical framework in practical terms.

The focus of the empirical study is to gather information on the following aspects of alliance partnering from operators (owners and service providers) in the engineering and construction industry in South Africa. This information will be used to validate the findings from the literature study and to form the basis for the development of a generic normative model for alliance partnering:
- definition of alliance partnering;
- reasons for entering into an alliance partnership;
- objectives of an alliance partnership;
- key characteristics of an alliance partnership;
- success and failure factors impacting on alliance partnering;
- benefits and risks associated with alliance partnering;
- alliance partnering as a developmental process.

3.3 Information gathering method

A structured interview with ten market leaders in the South African engineering and construction industry was used as the method for gathering relevant information during the empirical study. Interviews were held with senior representatives from five leading companies in the petrochemical, oil refining and paper mill industries as well as with four representatives from leading engineering and construction firms in South Africa. One interview was held with a leading professional consultant on
the subject of alliance partnering in the engineering and construction industry.

The interview with the professional consultant intended to provide unbiased insight and information on the subject as well as relevant practical information across industry boundaries.

The list of questions used as a framework for these interviews is included herewith as appendix B.

The information gathered during the interviews was consolidated and trends were identified as detailed in paragraph 3.4.

3.4 Results of the empirical study

3.4.1 Alliance partnering defined (Question 1a – 1d)

The common definition of alliance partnering in practical terms revolves around the relationship aspects namely trust, dedication, culture, values, understanding and alignment. This was the view of all parties interviewed on this subject. This is confirmed in the following practical definitions of alliance partnering by some of the interviewees:

"A trust relationship built on shared risk and benefits in an equitable win-win scenario."

"A totally co-operative relationship focused on shared culture and values and aligned objectives, between two or more parties..."

"An alliance is a group of companies working together to contribute to each others long term future through individuals who share a common understanding of the objectives, who are totally aligned with the strategy and who are guided by a set of shared values and an integrated culture in a relationship purely build on trust."

The behavioural aspect of the individuals in such a relationship was emphasised by 70 % of the company representatives interviewed. It was confirmed by these interviewees that a "natural chemistry" between people in an alliance partnership hardly exist and that it is therefore important to have an
integrated culture and a shared value system to guide the behaviour of the individuals to the long term benefit of the alliance partners and their relationship.

On the difference between project partnering versus strategic partnering, 80% of the interviewees see project partnering as a short term project management strategy which can even be a once-off occurrence. Strategic partnering is viewed by 60% as a long term, multi-project approach to the long term business growth strategy of the partners. Other interviewees did not express a clear opinion on the difference in definition between project- versus strategic partnering.

Only 20% of the interviewees distinguished per definition between a partnership and an alliance. This is due to the fact that partnerships are seen by these interviewees in terms of equity sharing in a new organisational entity whereas alliancing is seen as a cooperative and collaborative approach limited to equitable sharing of risks and benefits / rewards forthcoming from a joint effort. Eighty percent of the interviewees prefer to use the terms “alliancing” and “partnering” interchangeable or even in combination as “alliance partnering” as it is generally seen as merely a reference to the type of contractual arrangement between the parties involved.

3.4.2 Motivation for entering into an alliance partnership (Question 2a-2c)
The motivations mentioned by all of the interviewees can be grouped under the following main reasons for entering into an alliance partnership:

➢ From an owner’s point of view:
  o The need for substantially better business performance. This need was created by the inability to spend investment capital through the development and implementation of strategic capital projects aimed at future business opportunities and growth;
  o Lack of in-house competence and skills which were reflected by continuous cost and schedule overruns on projects as well as
lack of beneficial operation after project completion. The resulting need was that of professionalism in project development and execution without alienating ‘ownership’ of project development and implementation as a strategic business driver;

- **Limited engineering contractor resources.** From a competitiveness point of view, the scarcity of engineering and construction resources in South Africa raised the need to secure the ‘A-team’ from the engineering and construction industry;

- **Up stream cost control to minimise ‘waste’ and to capitalize on value engineering.** The oil companies’ inability to keep a firm grip on the oil price caused them to lose control over their product’s selling price. This motivated an alliance partnering strategy as a mechanism to minimise waste and to take cost out of the supply chain through value engineering throughout all phases of business development and implementation.

Only one interviewee mentioned the ‘creation of additional value adding capacity’ (additional to client’s / owner’s existing capacity) as a client / owner motivation for entering into an alliance partnership whilst another mentioned technological advancement as a motivation. These are the only two motivations which were not supported in general by the interviewees and as a result could not be grouped under the above common motivations for entering into an alliance partnership.

- **From an alliance service provider point of view:**
  - **Competitive advantage.** This motivation stems from the fact that most alliance teams are integrated site-based teams operating ‘in the clients house’ where the client is basically ring fenced;
  - **Continuity and productivity.** This motivation stems from the cyclical nature of the engineering and construction industry which requires a ‘survival mode’ and causes unproductive resources and therefore increased cost between workload peaks. The
motivation is to participate with the owner in workload planning and prioritisation to ensure optimal utilisation of resources and to reduce cost.

- **Profit and sharing in benefits**: The motivation is to make a reasonable profit in the long term and to share in the alliance partnership benefits in the short and medium term.

**Factors that influenced the motivation for alliance partnering over time:**

60% of all interviewees agreed that the following factors strengthened their motivation for adopting an alliance partnering strategy:

- Globalisation;
- Increased competition and the need for competitive advantage;
- Technological improvements;
- Risk mitigation from a value engineering point of view.

Nothing was highlighted as aspects that weakened the motivation for adopting an alliance partnering strategy over time.

### 3.4.3 Objectives of an alliance partnership (Question 3a – 3e)

All of the interviewees agreed that the success of their alliance partnership is a function of clear objectives based on the respective motivations for adopting an alliance partnering strategy.

40% of the interviewees experienced alliance failures, the causes of which were confirmed by them to include the following aspects pertaining to alliance objectives:

- disconnect between private and common alliance objectives of either of the parties;
- lack of understanding and tolerance for each others private objectives;
- lack of continuity in leadership by any one or both of the alliance partners;
- no participation of the alliance contractor in the alliance steering committee;
- low tolerance for the value of difference in setting objectives;
- lack of a clear implementation strategy to achieve set objectives;

70% percent of the interviewees were in agreement that alliance objectives should be the result of a transparent collaborative process during which common objectives are developed and an understanding for the importance of private objectives of the partners are created, negotiated and agreed. Important aspects pertaining to alliance objectives include the following as highlighted by the interviewees:

- Objectives can be nothing else than providing a win-win outcome to satisfy the motives of the parties involved;
- Objectives should clearly reflect a trade-off between sustainable workload and fair profit on the one hand and cost effective value addition on the other hand;
- Accomplishment of objectives should be incentivised to minimise or even prevent conflicting objectives and behaviours; and
- Objectives should focus on the core business of both the owner and the service provider in the alliance relationship.

40% of the interviewees experienced changes to their common objectives mainly as a result of cost saving measures and work procedures introduced unilaterally by the client/owner which impacted negatively on the service provider partner’s private objectives, causing disconnect between the parties’ private and common objectives.

It was agreed by all interviewees that private objectives should be in support of common objectives and that common objectives should
enjoy priority over private objectives. Financial objectives were indicated as being central to both private and common objectives. The financial focus from the owner's point of view is expressed in terms of capital cost and return on investment as well as cost of alliance partner services whilst from the service providers point of view the financial focus is expressed in terms of turnover and profit.

3.4.4 Key characteristics of an alliance partnership (Question 4)

All of the interviewees identified amongst others, the following most important, common positive characteristics:

- Positive behaviours of the team members: cooperative, supportive, pro-active, solution orientated;
- A “no me, just we” mindset;
- A no blame culture;
- Integration and innovation; a totally integrated team between the alliance service provider resources and that of the owner and the constant effort to ‘keep it fresh’ by continuously testing for better ways of doing things;
- Empowerment: the freedom to act responsibly within the procedural and ethical framework of the alliance partnership.
- Transparency: honesty and openness, no hidden agendas and undisclosed motives or objectives.

Trust is being experienced by 70% of the interviewees as an outcome of the dynamics of these characteristics and not as a characteristic in itself.

In cases where less successful or failure of alliance partnerships were experienced, the relevant interviewees identified amongst others the following common negative alliance characteristics resulting in no or low trust:
o lack of buy in from the ultimate client into the alliance partnering strategy;
o suspicion: yesterday’s contractor is today’s alliance partner who will enjoy intimate interaction in an integrated team approach;
o procedural duplication and 'shadow resources': overly controlled working environment that leaves little room for innovation and empowerment.

3.4.5 Success and failure factors of an alliance partnership(Question 5a–e)
The following is a summary of what is perceived and experienced by the interviewees to be success and failure factors:

➢ Success factors

o The alliance strategy should fit the need; it should be directed at filling gaps in the business make-up and should not be forced;
o Buy-in from the ultimate client into the alliance strategy;
o The selection of a partner should not be based on price or technicalities; the potential value contribution by the individual role-players is worth far more than the face value of the quoted rates and perceived competencies;
o The development process of the alliance partnership from approved to preferred service provider status and then ultimately to an alliance partnership;
o No contracts between key partners, rather alliance agreements build around the charter to include the vision, values, critical performance indicators and desired behaviours to reflect the nature of the relationship;
o Equitable sharing in benefits and risks managed through an agreed 'pain – gain' mechanism;
o Involvement of the alliance partner in all aspects and phases of projects to capitalise on differences;
o Effective conflict management ( not conflict resolution);
The client must be clear on his medium to long term growth plans and strategy;

Alliances are pure or not at all; a total concept not to be used half;

Development of an 'ethic' or platform for cooperative behaviours and collaboration. The parties should 'open up' (make themselves vulnerable) so that the need for co-operative behaviour can be exposed;

Performance measurement and benchmarking of critical performance areas according to agreed-upon criteria and timely corrective actions;

The ability to manage the alliance with an 'iron fist covered in a velvet glove';

**Failure factors**

- "Squeezing" the alliance partner (service provider) to reduce its prices (agreed rates for the rendering of services);
- The presence of a 'blame culture';
- Conflict resolution. Once the parties reached the stage of conflict resolution, the relationship has suffered permanent damage;
- The client 'calling the shots' all the way; no giving up of control;
- Lawyers and commercial officials changing the alliance relationship into a legal contractual agreement;
- Duplication of services between the alliance partners. The strongest partner's requirements are unilaterally enforced to the detriment of the other and the value of difference is ignored;
- The existence of ownership over the client by one of the partners;
- Absence of buy-in into the alliance strategy and alliance partner(s) from the ultimate client; lack of proper consultation,
communication and change management within the client's organisation from senior management level down to the people at the 'coal face';

- Lack of buy-in on all levels of the initiating party's organisation; the 'power breakers' within the initiating party's organisation simply 'choke the service provider party to death';
- Non delivery on promises (cost & schedule overruns; engineering integrity and technological advancement);
- Unilateral involvement by the dominant partner of 3rd parties in the alliance partnership;
- Lack of integration of the alliance service provider into an integrated team who are only allowed to operate on the battery limits and are expected by the dominant partner to adapt as is being dictated to;
- Financial disconnect for the alliance service provider eliminates the business incentive of the venture;
- Implementing the alliance strategy in areas where the company is already strong;
- The view that alliancing provides substitutes for own personnel;
- Lack of a base workload for sustaining the key resources and to provide stability and ongoing relationship building;
- ‘Baggage’: past negative experiences between members of the alliance partners.

3.4.6 Benefits and risks associated with an alliance partnership (Question 6a-b)

There is a strong sentiment amongst the interviewees that in considering an alliance strategy there have to be a willingness to take risk. Of equal importance is to manage the potential risk to ensure equitable outcomes for all parties involved. This requires that the willingness to take risk be
balanced by the potential of benefits to be gained and an equitable sharing in the risk/reward scenario be ensured.

The following common risks were highlighted by the interviewees:

- The owner/client can easily become locked-in by the service provider partner (creating dependency);
- Benefits can diminish over time as complacency by the service provider sets in;
- Value addition becoming superficial over time ('familiarity breeds content');
- No guarantees are given to the service provider in terms of revenue, profits, value addition, productivity, workload or the nature and extent thereof whilst costs are incurred in setting up and maintaining the alliance resources and infrastructure;
- Non delivery on promises (technology, integrity, cost and schedule) poses a business risk in terms of the window of market opportunities;
- Loss of reputation of the service provider partner as a result of non-delivery;
- Damaged reputation of the alliance service provider as a result of non-alignment/no buy-in within the owner partner organisation;
- Intellectual property and technology secrecy might be threatened by the alliance partnership;

Key benefits experienced by the interviewees include the following:

- Improved professionalism in project development and implementation;
- Effective management of non-core yet strategically important business growth activities;
- Realisation of the business' growth plans through a sense of ownership and accountability by the alliance service provider;
- Improved and increased knowledge base as a result of valuing difference;
An innovative culture is created to facilitate value engineering resulting in higher returns for less capital invested;

A reduction in the owners' cost of services;

Strengthening of the client's/owner business make-up in those areas where the business is vulnerable;

Alliancing provide a competitive advantage to both partners by locking-in the competencies (or even technology) required for competitive advantage from an owners point of view as well as securing favourable / preferred treatment by the client from a service provider's point of view.

3.4.7 Alliance partnership as a development process (Question 7a-d)

40% of the interviewees were not specific on the various stages of development experienced in alliance partnerships (mainly because they were not involved in the early stages of their current alliances). All of these interviewees however confirmed various aspects which refer to the developmental nature of alliance partnerships. These aspects are listed below:

- Alliance partnerships should not be expected to work automatically. A clear strategy is required to manage the development of the relationship;
- The creation of a conducive environment is required in which trust relationships can be build and strengthened;
- Alliancing requires a huge change in mindset; alliance behaviours need to be learned and developed over time;
- There can only be one culture and one value system in an alliance; it requires a gradual migration to a common work culture over time;
- An alliance partnership is not a scheme to rush into as it takes time to establish and develop the unwritten rules, to spot the opportunities and to realise the benefits, first at ground level and eventually at strategic level;
- Continuous testing the way to do things better to take the alliance relationship to maturity;

60% of the interviewees agreed that the development of alliance partnerships start off through normal commercial processes resulting in arms length contracting (no element of an alliance present). The consistency of service provider performance outcomes then set the stage for a project to project partnership. It was found that in a project to project partnership it is really the combination of satisfactory and
consistent project performance as well as business outcomes that determine the viability of a long term alliance partnership at strategic level.

70% of the interviewees are of the opinion that once an alliance have been formed, it should be fully supported in terms of the intent of the alliance partnership i.e. a “peace meal” or a “wait and see” approach should not be adopted. They are of the opinion that a “hybrid” form of alliance can easily develop with such approach which should be avoided as it allows for typical ‘default behaviour’ especially in the owner partner ranks.

The golden threat throughout the development of successful alliances as identified by 50% of the interviewees is ‘innovation’, the quest for improved performance to enhance the win-win relationship.

3.5 Conclusion

An empirical study was done which involved a total of ten leading role players in the South African engineering and construction industry, including one professional consultant on this subject. All of the interviewees are currently or have previously been members and / or managers of alliance partnership teams in the relevant industry.

The results from the literature study in chapter two provided the bases for the structured interviews with selected leading role players in the South African engineering and construction industry. During these interviews the participants’ experience, opinions and perceptions regarding the following seven aspects of alliance partnering were tested from a practical point of view:

- definition of alliance partnering;
- reasons for entering into an alliance partnership;
- objectives of an alliance partnership;
- key characteristics of an alliance partnership;
- success and failure factors impacting on alliance partnering;
- benefits and risks associated with alliance partnering;
- Alliance partnering as a developmental process.

Significant consensus between the interview feedback from the different interviewees on the abovementioned aspects are used in the following chapter to draw key conclusions and to make recommendations for inclusion in a normative model for the development and implementation of an alliance partnering strategy in the South African engineering and construction industry.
CHAPTER 4
CONCLUSIONS FROM THE LITERATURE AND EMPIRICAL STUDIES

4.1 Introduction

The literature study has identified what alliance partnering is, the motivations for entering into an alliance partnership, the objectives, risks, benefits, characteristics and principles thereof as well as the levels of alliance partnerships and factors impacting on the success thereof.

The empirical study has by way of structured interviews with ten market leaders in the South African engineering and construction industry, tested these findings from literature against what is being experienced and applied in practice.

What follows in this chapter is an integrated view drawn from literature and practice on alliance partnering as a business strategy in the South African engineering and construction industry.

4.2 Alliance partnering defined

Although theory defines alliance partnering from a relationship perspective as well as from a process perspective, the common definition in practical terms revolves around the relationship aspects of alliance partnering and less so around technical and/or process aspects.

Although from a theoretical point of view it is seen mainly as a relationship between two (or more) companies it is found in practical terms to be the dedication, understanding and alignment between the individuals involved that really give meaning to the corporate relationship. The individuals however are guided by their respective company’s cultures and values, hence the importance of an integrated culture and shared value system in an alliance partnership.

The key conclusion is that the ‘softer’ human and interpersonal relation aspects as manifested in the behaviour of the individuals involved in such an alliance team, be considered as a vital ingredient against the background of corporate culture and values in understanding the concept of alliance partnering between two or more companies.
The empirical study further confirmed the view on strategic partnering as a long term multi project relationship compared to the relative short term or once-off project partnership.

The empirical study found no significant distinction between 'alliances' versus 'partnerships' per se. These terms are used interchangeable in the engineering and construction industry to refer to the corporate relationship that exists between two or more legal entities.

4.3 Motivation for and objectives of alliance partnering

➢ The following motivations for entering into an alliance partnership (from theory) are significantly supported by the findings from the empirical study:
   - the need for improved business performance and growth;
   - the lack of competence and the opportunity to pool engineering and construction knowledge, skills and expertise;
   - the existence of mutual dependency between owner / operator and contractor;
   - the need for lower input – and operating cost;
   - the imperative of competitiveness / competitive advantage;

The need to focus on core business (from a client / owner perspective) as well as the sharing or spreading of risks is not supported by the empirical study as a significant motivation for entering into an alliance partnership.

Both theory and practice confirm that the motivation for adopting an alliance partnering strategy is over time influenced by globalisation and the resulting increased competition and risk mitigation methods introduced by the partners.

As improved business performance is a function of growth, competence, cost and competitiveness, the key conclusion is that the need for overall improvement in business performance, both from an owner as well as from a service provider point of view, is central to the motivation for adopting an alliance partnering strategy.

➢ The empirical study significantly confirmed the role of common versus private objectives in the relationship (as highlighted by Ngowi: 2001).

An aspect supported significantly by empirical study but not addressed in the literature study is the introduction of an
incentive ('pain/gain') scheme as key to the achievement of common objectives and a win-win outcome.

The objectives as derived from the motivation for an alliance partnership are confirmed by both literature and practice to have a strong financial undertone for both the owner partner as well as for the service provider partner. The key conclusion is that the achievement of common objectives should be incentivised in a pain/gain scheme to prevent financial disconnect between the private and common objectives of the individual partners which might lead to private objectives taking priority over common objectives.

4.4 Alliance characteristics

The following characteristics are supported by the literature as well as the empirical study:

<table>
<thead>
<tr>
<th>Literature study characteristics</th>
<th>Empirical study characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;...alliance spirit is like these 'nucleic connectors' of a DNA molecule...&quot; (Spekman, Isabella and MacAvoy, 2000:103)</td>
<td>a 'no me, just we’ mindset</td>
</tr>
<tr>
<td>Continuous improvement</td>
<td>Innovation ('keep it fresh')</td>
</tr>
<tr>
<td>Sharing of business plans and strategies</td>
<td>Transparency: honesty and openness, no hidden agendas or undisclosed motives and objectives</td>
</tr>
<tr>
<td>Minimum contract terms that create an adversarial environment</td>
<td>A 'no blame culture'; No conflict resolution, but effective conflict management</td>
</tr>
<tr>
<td>Total company involvement</td>
<td>Integration: a totally integrated team between the partners’ resources and infrastructure A total concept not to be implemented half (no hybrid form exist)</td>
</tr>
</tbody>
</table>

As far as conflict is concerned, the literature study emphasises effective resolution of conflict whereas in practice the emphasis is on effective management of conflict potential. The underlying issue is that conflict is inherent to the relationship and mainly caused by ‘difference’ which in practical terms must be managed effectively to prevent conflict to reach the stage where it need to be resolved.

Literature furthermore identifies ‘trust’ as a prominent alliance characteristic whereas in practice it is experienced as an outcome of the dynamics of the characteristics in the relationship and its context.
The key conclusion is that there is specific attributes required to build the alliance characteristics which eventually over time and at a more mature level allows trust to be a prominent feature of the relationship.

4.5 *Success and failure factors of an alliance partnership*

Although *theory and practice are aligned on the following alliance partnering success factors* it is evident from the literature- and empirical studies that the factors impacting on the success of an alliance partnership varies according to the context of the alliance:

- **the right motivation** for adopting an alliance strategy: it should fit the need, be directed at filling the gaps in the business make-up and should not be forced;
- **the right objectives** to support benefits derived from serving common objectives as priority over private objectives;
- **the right partner**: following a selection process that span over an extended period of time (can be as long as a year or even more); selection should not be based on price or technical capabilities of a company but rather on the potential value contribution of individual role players enabled by cultural fit and value symmetry;
- **the right implementation strategy**: buy-in from the ultimate client into the alliance strategy through a proper change management process, including all ranks in the organisation;
- **the right economy**: it should provide equitable sharing in risks and rewards managed by way of a transparent 'pain-gain' mechanism; and
- **the right mix between business and relationship**: the business of alliances is all about relationships and the relationships are all about business; the ability to manage the business with an 'iron fist' but covered with a 'velvet glove' when dealing with the relationship;

In terms of failure factors it is concluded that apart from the absence of the success factors, the biggest threat to alliance success is the default behaviour of 'business as usual' in managing or dealing with an alliance partnership.

4.6 *Benefits and risks associated with alliance partnerships*

Other than the failure factors identified in the literature study as risks to the alliance partnership, the literature study's findings on risks are limited to the ratio between private to common benefits which affects the incentive of the partners to invest in the alliance to the benefit of both parties involved.
Should the ratio be in favour of private benefits of either the service provider partner or that of the owner partner, the typical risks identified by the empirical study are likely to realise.

The key conclusion is that benefits and risks are functions of:
- the motivation for adopting an alliance strategy;
- the ratio between agreed private and common objectives as managed through a transparent pain-gain mechanism and key performance indicators; and
- the degree of openness and honesty facilitated by the alliance spirit.

This confirms once again the statement that alliance partnering is a total approach not to implement half, a pure concept not able to exist in a hybrid form.

4.7 Alliance partnering as a development process

There is significant consensus in practice that supports the findings from the literature study namely that strategic alliances are derived at a mature level through a process of trust and relationship building starting at the level of traditional contracting (what literature call an adversarial relationship) on a once off basis, repeated over time.

The empirical study however makes it clear that it is mainly the consistency of service provider performance outcomes that determines the intentions of the owner to consider further development of the relationship to the level where 1st tier alliance behaviour, characteristics and attributes are explored and developed to realise some short term benefits (project to project partnership). In practise the relationship is experienced to be 'stationed' for quite some time at this level to develop a certain work ethic, a common understanding of the alliance framework to build confidence and to replace uncertainty.

Depending on how these short term benefits are valued and projected into future beneficial business outcomes for both parties, the partnership will be 'promoted' to the 2nd level where a multi project alliance are formed that extends over a longer period of time.

The empirical study however found little evidence of alliance partnerships that developed into a mature partnership at a strategic level. The industry tends to opt for 2nd tier multi project alliances spanning over a 3 to 5 year period. Cases where found where alliance agreements were renewed for a second or third time through a tender process without taking the relationship to the level of a strategic alliance partnership.
The key conclusions are that:

- although alliance partnering is confirmed as a development process and although the development is confirmed to be based on the consistency of the service provider performance (over which the service provider has strong control), it is very much in the power of the owner partner to allow or prevent the partnership to be promoted to the next level of maturity;
- the development of the alliance partnership is a function of the trade-off between sustainable workload and fair profits on the one hand (service provider focus) and cost effective long term value contribution to the owner partner's business on the other hand. That is, the extent to which common objectives is perceived to provide private benefits to both parties.

4.8 Critical evaluation of the study

The investigation into alliance partnering in the South African engineering and construction industry, successfully determined what alliance partnering is, the motivations for entering into an alliance partnership, the objectives, risks, benefits, characteristics and principles thereof as well as the levels of alliance partnerships and factors impacting on the success thereof.

A prime shortcoming identified in the literature study is the tardiness with which owner organisations involved in alliance partnerships relinquish control and the resulting negative impact on partner value addition and the development of the partnership to higher levels of integration over time.

A shortcoming of the literature study is the fact that it is primarily based on European and American literature and experiences which does not necessarily reflect the issues pertaining to the relevant industry in South Africa.

The empirical study was limited to key role players in the engineering and construction industry mainly operating in the petrochemical industry. The shortcoming is evidently from the fact that the South African engineering and construction industry is actively operating across the manufacturing-, building-, mining-, paper- and petrochemical industry boundaries. Secondly, the interviews were based on findings from, mostly European and American literature as test cases for the South African environment, ignoring specific issues relating to technology, labour, market conditions, skills, growth patterns, industry maturity, etc. Lastly, the sample size of the empirical study was limited to 10 interviewees and it should be acknowledged that a larger sample might influence the findings.
Both the literature as well as empirical studies furthermore, focused mostly on single partner alliances. The complexities of multi partner alliances' involvement in a project or in multi project approach is largely ignored.

The findings, recommendations and normative model as detailed in this document is not limited to the engineering and construction industry but can generally also be applied in principle to alliance partnerships in other industries.

A shortcoming identified by the empirical study is the industry's inability to promote alliance partnerships to maturity on a strategic level mainly due to the cyclic nature of the project environment.

The empirical study was however largely able to satisfy and confirm the framework for alliance partnering as set up by the literature study.

4.9 Conclusion

The conclusions derived at from the integration of the findings from the literature and empirical studies, with due regard to the critique on the study, confirms a high level of synergy on the framework for alliance partnering in the South African engineering and construction industry.

Based on the key conclusions from this chapter, a normative model for alliance partnering is compiled in chapter 5, indicating the required alliance principles, reasons for deviations as well as recommendations to be considered with an alliance partnering strategy.
CHAPTER 5
IMPLEMENTATION PLAN:
A NORMATIVE MODEL

5.1 Introduction

The synergy and the integration of the findings of the literature and empirical studies facilitate the creation of a normative model for alliance partnering in the South African engineering and construction industry.

What follows in this chapter is an integrated model for use in the planning, set-up and operation of an alliance strategy in the relevant industry.

5.2 A normative model (figure 5.1 has reference)

- **Initiation:** The normative model has as its point of departure the traditional contracting strategy as the area in which the need and motivation for considering an alliance partnering strategy originates. The need and motivation are primarily derived from a combination of mostly negative experiences, adversarial relationships, poor service delivery, opposing objectives, unsatisfied customers and litigation. It should be noted however that it is not necessarily negative experiences only that give rise to the need and motivation for adopting an alliance strategy. The inherent potential benefits of an alliance strategy give rise to the realisation that there is a better way of project development and execution compared to the traditional arms-length contracting approach.

- **1st Tier alliance partnering (project to project partners):**

To move forward towards development and eventual implementation of the strategy, a total paradigm change is required as a pre-requisite for buy-in. It is to be acknowledged that alliance partnering is a pure concept not to be managed like "business as usual".

A formal change management process is required with the motivation to adopt an alliance partnering strategy. This change management process is a requirement to be implemented at all levels and within all effected functional groups of the organisation. The focus of this process needs to be directed towards obtaining total buy-in into the proposed alliance partnering strategy.
A totally different approach and philosophy is required for:

- selecting and contracting with a service provider as a partner opposed to as a contractor;
- setting up a project team in which the “enemy” becomes the “ally”;
- defining the “rules of the game” in which control is surrendered and agreement obtained through collaboration;
- measuring success in terms of private as well as common objectives;
- agreement through collaboration and not compromise;
- relationship management with service providers which requires the individual team members to be open, honest and vulnerable and to be prepared to make ‘adjustments’ in their relationships for longer term benefits;
- the definition of success which refers not only to business targets being accomplished but also to the success of the relationship that made it possible;

It is right here where 1st tier partnerships are very vulnerable and sensitive for any sign of misalignment, difference and non-accomplishment of objectives which could too easily be seen as signs of failure of the strategy.

DON’T DIE IN THE PARADIGM!

**2nd Tier alliance partnering (multi projects):**

Second tier alliance partnering can only be considered in cases where consistent successes on 1st tier alliance partnerships paved the way for higher levels of partnering involving multi projects over the medium term.

**Reduced uncertainty as a result from 1st tier partnering processes** is required to facilitate a 2nd tier multi project partnering strategy. The successes of short term project partnering should serve as a basis for confirming the partner selection for the 2nd tier partnership.

Where 1st tier partnerships still tolerate ‘shadow resources’ (due to the presence of uncertainty), there is no place for that in the 2nd tier where:

- a totally integrated ‘salt and pepper’ project team is established;
- integrated work processes provides the operating framework;
- collaboration, innovation and equitable sharing of risks and rewards are the keys to success; and
• Private and common business opportunities and growth are realised through an optimised and integrated value chain.

Second tier alliance partnerships are equally demanding on strengthening the relationship and on delivering successful projects and are therefore experienced as the most difficult part of the partnership development process. Unsatisfactory performance on either the relationship or business (project delivery) aspects is too easily allowed to cause the partnership development to slip back.

DON'T FALL BACK INTO DEFAULT BEHAVIOUR!

3rd Tier alliance partnering (long term strategic dependency):

A trust relationship as an outcome from consistent satisfying performance results in the 2nd tier partnership, needs to be established as a basis from where a 3rd tier alliance partnership can be developed. At this level, trust is a characteristic of the partnership and not an outcome as on the 2nd tier. Partners should be cautious not to rush into the 3rd tier just because 'plain sailing' is experienced at the 2nd tier. They should rather allow the partnership to naturally migrate to the 3rd tier over time.

At the 3rd tier a long term relationship is established, characterised by:
• mutual trust;
• planned inter dependency (not an unwanted locked-in scenario);
• long term strategic integration of all functions in the value chain;
• significant mutual contribution to the partners' long term business successes;
• radically new concepts where difference is valued and welcomed;
• the partnership is experienced as a solution or at least the source of solutions; and
• a relationship that is not precisely defined but which develop and emerge on a day to day basis.

DON'T BECOME COMPLACENT. THINK BEYOND PARTNERING
Figure 5.1: A normative model for alliance partnering in the South African engineering & construction industry  
(Developed by the author)
5.3 Conclusion

The literature and empirical studies both confirmed the requirement of an approach that focus on the integration of business and relationships with adopting alliance partnering as a value adding strategy.

The synergies between the literature and empirical studies as integrated in chapter 4 provides a framework from which a normative model for alliance partnering in the South African engineering and construction industry was developed. The normative model illustrated in figure 5.1 satisfies the main objective of this study and provides insight into the developmental process of alliance partnerships from initiation through to long term strategic alliances.

The following benefits in terms of which alliance partnering are considered to be successful as a secondary study objective, are included in the normative model as derived from the synergies between the literature and the empirical studies:

- shorter cycle time from concept to market;
- less waste, resulting in substantial cost savings;
- innovation to deliver improved business results;
- an increased body of knowledge;
- enabling business growth;
- increased return on investment;
- long term stability and sustainability for all partners.

Salient features of the normative model include the factors impacting on the success of alliance partnering to satisfy the remaining secondary study objective:

- understanding the concept of alliance partnering and the required paradigm shift (change management process and total buy-in);
- partner selection and selection criteria;
- integration of business and relationship as equal priorities;
- uncertainty;
- management of difference versus conflict resolution;
- collaboration versus compromise;
- consistent satisfying performance;
- equitable sharing in risks and rewards;
- relinquishing of control and empowerment; and
- the development of a trust relationship through reduced uncertainty.

It is recommended that the results of this study be used in the evaluation, initiation, implementation and management of an alliance partnering strategy in the engineering and construction industry in South Africa.
BIBLIOGRAPHY


List of interviewees:

<table>
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<tr>
<th>Name</th>
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<td>Mr. P. Estes</td>
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<td>KBR</td>
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<td>Sasol Petroleum</td>
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<td>Mr. A. Duigen</td>
<td>Managing Director</td>
<td>JCP Consulting</td>
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<td>Mr. J. Whitehead</td>
<td>Manager</td>
<td>Honeywell</td>
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<td>Mr. D. Sorensen</td>
<td>Group Risk Manager</td>
<td>SAPPI</td>
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<td>Mr. M. Ravjee</td>
<td>Chief Engineer</td>
<td>Sasol Technology</td>
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<td>Mr. S. van der Post</td>
<td>Alliance Manager</td>
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<td>Mr. G. Everett</td>
<td>Alliance manager</td>
<td>Sapref</td>
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<tr>
<td>Mr. D. Govender</td>
<td>Technology Manager</td>
<td>Genref</td>
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Appendix A

The partnering grid: the partnering boxes defined
(Deering and Murphy: 2003:23)

Command and control (bottom left)
From the perspective of command and control, the source of most problems encountered in business partnerships and alliances, from the trivial to the life threatening, is difference between the partners. This belief naturally leads to the emergence of strategies aimed at eliminating, or at any rate minimizing, differences in objectives, processes, values and behaviour, typically by constructing standards and rules and requiring all parties to the relationship to comply with them.
The relationships are formal and based on negotiated contracts and agreements. It is in the nature of such a relationship that one partner takes charge of drafting these rules. And, because the partnership is just a vehicle for completing a particular transaction, and consists of little more than a formal exchange of resources & skills, it can be expected to be a short term relationship. The power to get things done is usually centralized where the balance of influence is often weighted in favour of the player who "owns" the customer; where the management focus is usually on minimizing the risks involved rather than on exploiting the opportunities. It follows from all this that the characteristics of such partnerships tend to reflect the characteristics of the dominant partner.

Problems and weaknesses
The main problem with command and control partnerships is that they always assume there is one right view (the dominant partner’s) which must be policed. A second problem is that conflicts of interest are endemic in such partnerships and much time and energy must be devoted to managing their effects. A third problem is that the transactions for which this kind of partnership are the vehicles are often between the top management teams, rather than entire organizations, so typically only a few senior people have a complete picture of what is going on. This exclusivity constrains the argument and mutual exploration that are the main engines of creative co-operation.

Hearts and minds (top left)
This box suggests that difference is minimized by a search for sameness and alignment, rather than by an imposed structure. The assumption is that if all partners think and feel alike and share a ‘culture’ they will be able to work together in harmony and produce mutually beneficial outcomes. If everyone is working with the same values towards the same vision, then it is assumed that harmony and creativity will emerge as a result. Integration through synthesis is the name of the game.
When organizations believe that the articulation of shared visions is the way to win the commitment of their employees, they tend to bring the same philosophy to the partnerships they join.

The hearts and minds approach can steer a steady course between the need for control and the need for creativity.

Problems and weaknesses
The problem with this approach to minimizing difference is that partners often simply papers over the cracks and so substitutes a tyranny of culture for a tyranny of power. Conflict goes underground and, because it ceases to exist officially in the homogenized culture, no attempt is made to manage it. Another problem is partners in this box are ambitious for the partnership and ready to invest in establishing and managing it, but most of their investment goes into minimizing the very quality that offers the partnership its best chance of prospering in the long term. Its failures take the form of lost opportunities and tend to show up in general feelings of dissatisfaction and a suspicion that the partnership could have worked better. The reason why acquisitions frequently fail to create value is that companies refuse to tolerate the differences that are the source of the value they seek.

Arm’s length (bottom middle)
The focus of this box is on clarity of communication in which meanings and implications are checked and double-checked. Basic identity is cherished and protected. This usually means that any move to get too close is viewed with suspicion — and in this way the partners land firmly in the territory of arm’s length relationships.
As understanding of each other’s perspective is deliberately limited to the narrow confines of the task in hand, it is common to rely on standard legal and procedural protocols for managing the interface of differences. In the arm’s length box, this ‘relationship risk’ is managed by ‘agreeing to differ’ using careful planning and formal procedures for settling disputes. Good communication, including periodic checks on understanding is regarded as vital in such partnerships. Flexibility is regarded as valuable, as long as it does not require the loss of too much identity. These relationships tend to be distant and tinged with mild, mutual suspicion.
There is a temporary quality to arm’s length partnerships. They continue as long as the expected mutual benefits materialize, but partners reserve the moral, as well as the legal, right to withdraw at their convenience or to seek other partners if the relationship gets into difficulties.

Problems and weaknesses
It is this very emphasis on identity which gives this approach strength and amplifies its weakness. Such an emphasis on marking the boundaries of
independence leads to blindness to the opportunities which emerge from interdependence. What is never on the agenda cannot be turned into value. It is defensive and lacks ambition. Partners tolerate each other’s idiosyncrasies, but make little effort to establish mutual trust and thus fail to exploit their full potential.

**Do and review (top middle)**
These do and review partnerships extend the arm’s length emphasis on planning and processes from operational to strategic aspects of the relationship. All partners accept the objectives are conceptual rather than specific and must constantly adapt to new opportunities or threats. There is an ethic of collaboration and co-operation; an assumption the partnership is long term; and a focus on learning and continuous improvement of all the partnership’s processes and systems.

There is a sense of sharing a future as well as a present. Such relationships still move step by step and from project to project, but the purpose of the reviews following each step is to learn how to partner better, rather than to decide whether the partnership should continue. Deliberate flexibility is encouraged so as to enable both parties to adapt to changing conditions and objectives and, above all, to each other. Knowledge sharing and the tracking of good practice are seen as essential to survival. Furthermore, the explicit effort to understand each other’s positions and priorities strengthens the durability of the relationship and widens the opportunity set for joint projects.

**Problems and weaknesses**
The step-by-step quality of do and review relationships shows the joint quest is for incremental rather than transformational achievement. This suggests that although do and review has a lot going for it, it offers a partial solution at best to the problem of ‘untapped potential’ in arm’s length partnerships. In this case, even more could be achieved if partners valued, rather than merely tolerated, difference. In other words, although the ambitions of do and review relationships are long-term ambitions, they lack depth. The purpose of the efforts to achieve mutual understanding is to make the relationship work more efficiently, not to explore the maximum potential value of the association.

It can also become a serious drain on entrepreneurial spirit. Without a robust mechanism exploiting differences at both strategic and operational levels, do and review partnerships must content them with learning to do things better, but never to do better things.

**Gridlock (bottom right)**
The differences between partners are both respectfully acknowledged and rigorously avoided.
Partners in this context tend to vote for compromise, not by their actions but by the inertia born of their sense of powerlessness and fragmented purpose. Damage limitation, not opportunity, drives this particular dynamic as risks are often experienced as having life or death implications. The inevitable outcome is gridlock. Despite the intrinsic tendency for gridlock to drift to other locations, a lot of inertia is found in this box. These partnerships are so constrained by their extreme political instability that they often feel incapable of acting for fear of sinking the boat. Partners are obsessed with the internal dynamics; they often fall into the trap of trying to fix and change each other rather than focusing their energy on fixing the task. People in gridlock are so pre-occupied with the relationship itself; they can forget what it is for.

Problems and weaknesses
The problems and weaknesses of gridlock are largely superficial. The more a partner looks at difficulties, the more they appear to him or her to be part of the relationship itself. Those who see themselves in this box are likely to be adopting defensive attitudes against their will or better judgement. It is unlikely, therefore, that all the partners would be content to remain in gridlock and so deny themselves, and each other, a chance to capture the value they see in their differences, particularly as the alternative is the gradual dissolution of the partnership. If gridlock is a response to temporary but extreme volatility, then it is not to be feared and interpreted as problematic. The danger arises when the high level of risk disables partners from telling it as it is.

Radically new (top right)
This type of partnership actively seek out differences of all kinds and make it work. This radically new approach puts a premium on challenge, dialogue and democracy. By involving and acting on the view of multiple stakeholders, radically new partners, or more often networks of partners, are able to respond instantaneously to the changing demands of an unpredictable world. When differences are not only valued, but are also welcomed, partners begin to see their relationship as, if not yet a solution, at least a place where a solution might be found to the most pressing problem of all: the need for organizations to change themselves to cope with a turbulent present and an unpredictable future. Difference is valued and the perspectives of everyone in the partnering organizations contribute to and help define the relationship. Partners cease to try to change or convert each and embark instead on a joint search for 'common ground' on which, despite their differences (or because of them), there are possibilities for joint action. The partnership is not defined; it is allowed to emerge from the day-to-day experience of working together.
Radically new is, in a way, the ultimate box: the place where difference is valued so much and partners’ sights are set so high that the full creative potential of the relationship becomes accessible.

Problems and weaknesses
Radically new can be risky because it obliges partners to exchange their old identities for a new, collective identity. They have to put their fates in each other’s hands and, if the partnership fails, it is almost impossible for each partner to emerge unscathed.
Because it is an emergent rather than a deliberate fusion of ways of being, radically new can creep up on you. You may not be aware that the growing intimacy of the partnership has eroded your organization’s sense of self until it is much too late to halt the process.
The strength of radically new is, of course, its weakness. It works well in conditions where power, know-how and purpose are widely distributed and there is a strong sense of connected purpose. It is, however, highly unstable and steadfastly refuses to respond to plan. The optimum approach for seeing and growing new knowledge, it is perhaps the least suited to exploiting it.
Solidarity is not an enforceable quality. Pinning down behaviours and working out how to make them happen ensures compliance, but does not guarantee commitment. And this, of course, kills the very creativity it is intended to harness.
Radically new works if and when the conditions demand it, but it can never deliver control.
Appendix B

Question set used during structured interviews

1. Alliance partnering defined
   a) How would you define your alliance partnership?

   b) Which of the following aspects are the most dominant?
      - The relationship aspect of the alliance (trust, dedication, commitment, understanding, expectations, values, etc)? or;
      - The technical process aspect (effective practices in the input-transformation-output process)?

   c) Do you experience a clear distinction between project partnering and strategic partnering? Please explain.

   d) Do you experience a difference between an alliance and a partnership?

2. Motivation for entering into an alliance partnership.
   a) What were the 3 main reasons for entering into the alliance partnership?

   b) How was the motivation influenced by the following / some of the following aspects?
      o Globalization
      o Competition
      o Competitive advantage
      o Risk mitigation
      o Knowledge, expertise, know-how
      o Technology

   c) Did your company’s motivation change over time and why?

3. Objectives of the alliance partnership
   a) What are the objectives of your alliance partnership?

   b) Have you experienced synergy or misalignment between the motivation for the relationship and the eventual objectives?

   c) What are the reasons for the misalignment?
d) Have the objectives changed over time? What influenced / diluted the objectives?

e) Were specific “private and common” objectives identified and how were they prioritized / aligned?

4. Key characteristics of the alliance partnership
   a) Please identify the five most important characteristics of your alliance partnership in order of importance? (Please confirm if all are perceived as equally important / vital).

5. Success & failure factors
   a) Business versus Relationship: what are the most important business and relationship factors which influenced the success of your alliance partnership?

   b) Conflict & trust:
      o how do you manage to reduce conflict and to promote trust?
      o how is conflict managed / resolved within your alliance partnership?
      o how do your alliance partnership value difference? Is difference experienced as a source of conflict or is it valued as a source of innovation / improvement?

   c) Partner selection:
      o Please give a short description of the process followed for selecting the right partner.
      o What criteria were used in the evaluation process?

   d) Management of change
      o Was a proper Change Management Process followed during the development and implementation of the alliance partnership?
      o If so, would you say that this process was a critical success factor?
      o What were the shortcomings in the Change management Process?
e) Which of the following factors were experienced as "failure factors" or potential "failure factors"? (Please indicate the impact accordingly)

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<td>Low</td>
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<td>Organizational Cultural differences</td>
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<td>Presence of existing Organizational ties</td>
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<tr>
<td>Partner asymmetry</td>
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<td>Competitive overlap between the partners</td>
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<tr>
<td>'Free riding' by one partner</td>
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<tr>
<td>Individuals being torn between loyalty to the partnership and parent organization</td>
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<tr>
<td>Presence of a dominant partner</td>
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<tr>
<td>Dominant partner is running the alliance in the same way as its parent organization is being run</td>
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<tr>
<td>External environment: organizational culture, climate &amp; structure suitable for accepting / promoting intimate inter-organizational relationships</td>
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<td>Lack of being able to ensure continuity of personnel and uninhibited team selection</td>
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<td>Other: please list</td>
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6. Benefits & risks
   a) Please list the most important benefits gained from and risks exposed to in the alliance relationship (please indicate "private" as well as "common" benefits in you list).

   b) How were these risks mitigated?
7. Levels of partnering:
   a) Which levels of partnering can you identify as part of the
development process of your alliance partnership?
   
   b) Would you agree that some of these ‘levels’ can be seen as part of
the partnership developmental process but the nature of the
relationship at that stage can not as yet be described as an alliance
partnership?
   
   c) Would you agree that an alliance partnership is "pure" / a "total
concept and that it can not exist in a "hybrid form" of a “semi-
alliance partnership”?
   
   d) What would you describe or identify as the ‘critical golden thread’
that was present right trough the development of your present / past
alliance partnership?