

Strategy & Corporate Finance Practice

Checking the health of your business partnerships

Frequent, systematic assessments of joint ventures and alliances can reveal hidden problems and opportunities to create more value.

by Ankur Agrawal, Kenneth Bonheure, and Eileen Kelly Rinaudo



Formal business partnerships—whether structured as joint ventures (JVs) or a series of alliances—can help companies enter new markets, manage risk, and optimize costs. But as many executives know, even well-designed partnerships can be challenging to establish and maintain given inevitable changes in partners' priorities, market dynamics, or ongoing operations.

The partners in one healthcare alliance, for instance, were dutifully fulfilling the operational commitments they had agreed to, yet their joint initiatives were constantly falling behind schedule; and senior leaders of a chemicals joint venture put lots of time and attention toward improving the JV's governance processes and operations, yet managers on both sides of the venture had to stave off employees' declining morale and increased attrition. In both cases, the success factors associated with strong partnerships were in place, but the outcomes didn't materialize as expected, which was confusing and frustrating for all involved (see sidebar, "The six building blocks of successful partnerships").

Like others in their shoes, the executives in these companies likely neglected a critical task—regularly monitoring the health and performance of their business relationships. Their actions mirror those of an individual who wants to get in shape and commits to following certain dietary restrictions and exercise routines but never schedules a visit with a doctor to assess how effective the changes have been.

By contrast, leaders in high-performing ventures and alliances routinely perform a "partnership health check." They review the goals and guiding frameworks for the partnership, conduct interviews with leaders, and measure performance against jointly defined health metrics. And they put all their business relationships through these paces, no matter how old, how new, or how geographically dispersed.

In this article, we describe what such a health check looks like and how business leaders can use it to

track the trajectory of critical business relationships, adjust them as necessary, and create more value from them.

Health checks and balances

It may seem obvious to partner companies that they should regularly monitor the progress of their ventures and alliances. But knowing and doing are two separate things, and often it takes time and intentional effort for partner companies to get on the same page.

When a high-tech company and a consumer company were negotiating the terms of their partnership, for example, leaders in both companies realized they were using similar language but in different ways. The high-tech firm's definition of a "priority decision" was focused on speed, or the ability to make a key decision within a certain time frame. Conversely, the consumer company's definition of a "priority decision" was focused on process, or the ability to get senior partners to agree on a course of action. This mismatch in terminology accounted for several misunderstandings within the partnership early on.

It is important to establish a clear set of health-check protocols from the outset of the relationship—during negotiations if possible. Specifically, the partner companies should outline the processes and tools (and, yes, even the language) they will use to assess the business relationship. The earlier this occurs, the more likely it is the partners will adhere to consistent, periodic reevaluations.

Ideally, the health check should be conducted at predetermined times—typically annually. The review process is often coordinated by the manager of the alliance or JV, with support from important stakeholders within each partner organization. The results are typically shared with the partnership's steering committee or JV board as well. Some partnerships will even tap a trusted adviser or former board member to lead the health-check

The six building blocks of successful partnerships

In our experience, executives need to focus on the following six building blocks to succeed with business partnerships:

- **Strategy**—gaining agreement on the partnership's objectives
- **Culture and communication**—encouraging open and trust-based communication among all parties
- **Operations**—establishing a new operating model and performance metrics (for instance, sales or quality-assurance metrics)
- **Governance and decision making**—adherence to key decision processes, metrics regarding speed of decision making, stage gates, and time lines
- **Economics**—defining how value will be created from the partnership
- **Adaptability**—proactively planning how to “tend” the relationship over time, in the wake of industry and organizational shifts

In general, executives understand the need to be diligent in all these areas; however, based on our observations and experiences in the field, the areas most likely to be underemphasized are culture and communication, and adaptability.

process to gain an outside perspective; this approach can be particularly effective when the partner companies have tried and failed multiple times to identify root causes of poor performance or missed milestones.

Early is better, but it is never too late to establish a health-check process. Some partnerships will not even realize they need a health-check process until well into the tenure of the relationship—typically when the partnership hits a speed bump. The partner companies in one established automotive venture, for instance, were stymied by the partnership's inability to reach its targets. What the partner companies could not see was that teams were becoming frustrated by the venture's project-approval process: they would get the green light on an initiative only to discover a few days later that requirements had changed, so it was back to the drawing board. It seemed to these managers that the partnership's priorities were constantly shifting. All the delays and rework on projects prompted many to leave the venture.

It was only after launching a partnership health check that the automotive venture discovered the issues with the approval process and took steps to address them, ensuring that everyone knew the timing of go and no-go decisions. Once the health-check process was established, senior leaders on both sides of the business relationship were able to use it to ensure that the approval refinements were working. Indeed, regular partnership check-ups can have a lasting cultural benefit: they can help reduce fear of change among employees and encourage them to consider and experiment with frequent, small adjustments to the partnership as needed.

The elements of a good health check

There are two important elements of a good partnership health check. First, teams need access to the most relevant information about the partnership (both historical and current perspectives); and second, they need access to deep-dive performance assessments.

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Information about the partnership. The health check should start with an articulation and confirmation of the core tenets of the partnership. To achieve this, the team will need to gather all the basic information about the business relationship—how it started and how it has evolved (noting any team or leadership changes, for instance). A partnership among consumer companies, for example, was hitting many of its targets but much slower than expected. A health-check team comprising leaders from both companies was prepared to quickly restate the purpose of the partnership and then proceed to a more detailed discussion about operations, which all considered to be at the crux of the partnership's performance issues. The team was startled to see how difficult it was to agree on a high-level description of the partnership's strategy and objectives. There was a fundamental disagreement, for instance, about which market segments were a priority. The team realized that it needed to identify and gain agreement on the fundamentals of the partnership before it could address any operational shortcomings.

Deep-dive performance assessments. In the second phase of the health check, the team should conduct a series of leadership interviews to get a sense of how senior executives perceive the status of the partnership. These perspectives should be combined with the information gathered during the first phase of the health check to provide both qualitative and quantitative insights on how the partnership is performing along key measures of success. The initial discussions may reveal strong hypotheses from executives about why the partnership is underperforming, but the deep-dive assessment often shows that the root cause of a problem is something quite different.

At the healthcare alliance mentioned earlier, for instance, a health-check team conducted partner interviews to help determine why they thought milestones were not being met as quickly as expected. The health-check team paired those responses with a holistic evaluation of the business partnership along the following success factors: strategy, culture and communication, operations, governance and decision making, economics, and adaptability.

Through this deep-dive assessment, the team recognized three trends. First, each partner organization was contributing resources as agreed; having clear evidence of this helped soothe tensions and restored executives' faith in the business relationship. Second, operations were not failing to meet expectations, they were just doing so more slowly than expected. This prompted a separate discussion about how individual tasks and decisions were being handled, and how they could be managed differently. Finally, the deep-dive assessment revealed that, in some joint initiatives, partners were contributing overlapping resources, which had created overly complex processes. This insight prompted the partner organizations to simplify them, thereby improving the speed of execution.

Implementing the health check

There is no one-size-fits-all approach to establishing a health-check program for a partnership. It will be necessary, though, to build a dashboard that partners can use as a catalyst for considering potential interventions and then continually revisiting the health of the partnership.

The team designing and overseeing the health-check process should build a dashboard that leaders on both sides of the relationship can access easily. It can be created manually and distributed as a PowerPoint presentation, or shared in a digital format—either way, it should reflect the metrics most relevant to evaluating the partnership’s ability to fulfill its objectives.

Ideally, the dashboard should be standard for all; there should be no option for specialized reports for individual executives or teams within partner companies. The health-check team instead should try to incorporate as many of the standards and preferences of each partner company into the dashboard as possible. Team members at one high-tech joint venture were creating three different reports—one for each of the two parent companies and a third to cover the “joint partner” request. This created a lot of tension and confusion among the partners. When it discovered the issue, the health-check team consolidated the reports into one, slightly larger overview, which included all the required information.

With this information in hand, partner companies can identify issues and consider potential interventions. Depending on the partners’ objectives and the specific challenges in play, the interventions can be as simple as identifying a new set of key performance indicators and reporting processes for the partnership, or they can be as complicated as restructuring the partnership’s operating model. On occasion, health checks can also trigger a mutually agreed-upon exit for partnerships that have met their objectives or that are no longer in line with market needs.

As with good personal health, good organizational health requires frequent check-ups. By consistently assessing a partnership’s performance on the critical components for success (strategy, culture and communication, operations, governance and decision making, economics, and adaptability) partners can improve their partnerships and increase the likelihood of long-term success.

Ankur Agrawal is a partner in the New York office, where **Eileen Kelly Rinaudo** is a senior expert; **Kenneth Bonheure** is a senior partner in the Singapore office.

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