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Improving the management of complex business partnerships

Adhering to four key principles can help companies increase the odds that their collaborations will create more value over their life cycles.

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Partnerships never go out of style. Companies regularly seek partners with complementary capabilities to gain access to new markets and channels, share intellectual property or infrastructure, or reduce risk. The more complex the business environment becomes—for instance, as new technologies emerge or as innovation cycles get faster—the more such relationships make sense. And the better companies get at managing individual relationships, the more likely it is that they will become "partners of choice" and able to build entire portfolios of practical and value-creating partnerships.

Of course, the perennial problems associated with managing business partnerships don't go away either—particularly as companies increasingly strike relationships with partners in different sectors and geographies. The last time we polled executives on their perceived risks for strategic partnerships,[1] the main ones were: partners' disagreements on the central objectives for the relationship, poor communication practices among partners, poor governance processes, and, when market or other circumstances change, partners' inability to identify and quickly make the changes needed for the relationship to succeed (exhibit).

In our work helping executive teams set up and navigate complex partnerships, we have witnessed firsthand how these problems crop up, and we have observed the different ways companies deal with them. The reality is: successful partnerships don't just happen. Strong partners set a clear foundation for business relationships and nurture them. They emphasize accountability within and across partner companies, and they use metrics to gauge success. And they are willing to change things up if needed. Focusing on these priorities can help partnerships thrive and create more value than they would otherwise.

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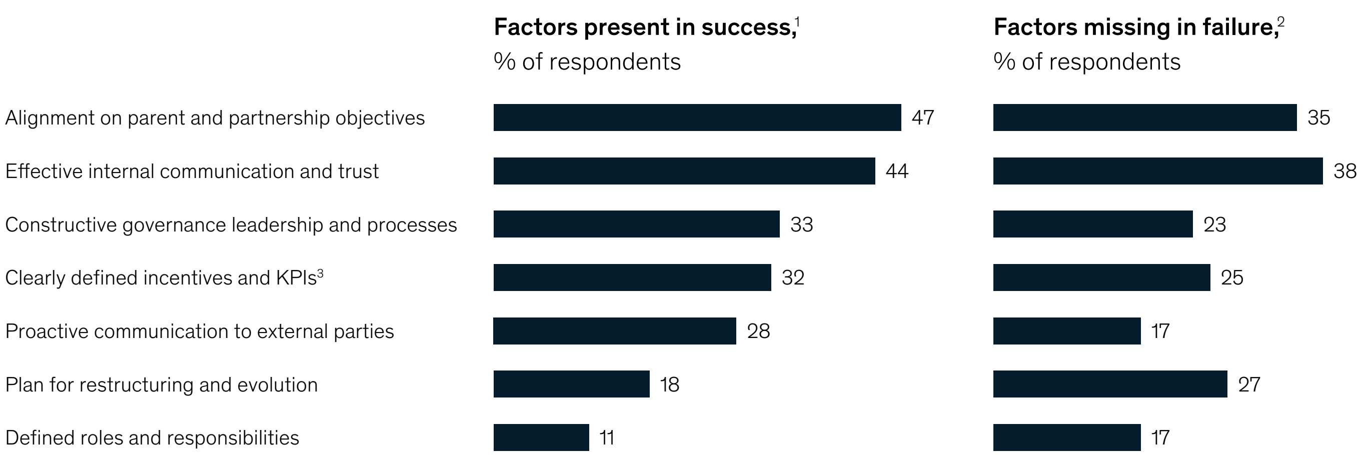
[1] Observations collected in McKinsey's 2015 survey of more than 1,250 executives. Sixty-eight percent said they expect their organizations to increase the number of joint ventures or large partnerships they participate in over the next five years. A separate, follow-up survey in 2018 showed that 73 percent of participants expect their companies to increase the number of large partnerships they engage in.

Exhibit

Managers cite several core reasons for joint-venture success and failure.



[1] Respondents' top choices out of a list of 10 components whose presence could have a favorable effect on their partnerships (n = 708).
[2] Respondents' top choices out of a list of 10 components whose absence could have a negative effect on the partnership (n = 262).
[3] Key performance indicators.

Source: 2015 McKinsey Joint Ventures and Alliances Survey

Establish a clear foundation

It seems obvious that partner companies would strive to find common ground from the start—particularly in the case of large joint ventures in which each side has a big financial stake, or in partnerships in which there are extreme differences in cultures, communications, and expectations.

Yet, in a rush to complete the deal, discussions about common goals often get overlooked. This is especially true in strategic alliances within an industry, where everyone assumes that because they are operating in the same sector they are already on the same page. By skipping this step, companies increase the stress and tension placed on the partnership and reduce the odds of its success. For instance, the day-to-day operators end up receiving confusing guidance or conflicting priorities from partner organizations.

How can the partners combat it? The individuals expected to lead day-to-day operations of the partnership, whether business-unit executives or alliance managers, should be part of negotiations at the outset. This happens less often than you think because business-development teams and lawyers are typically charged with hammering out the terms of the deal—the objectives, scope, and governance structure—while the operations piece often gets sorted out after the fact.

Transparency during negotiations is the only way to ensure that everyone understands the partners' goals (whether their primary focus is on improving operations or launching a new strategy) and that everyone is using the same measures of success. Even more important, transparency encourages trust and collaboration among partners, which is especially important when you consider the number of executives across the organizations who will likely rotate in and out of leadership roles during the life of the relationship.

Inevitably, points of tension will emerge. For instance, companies often disagree on financial flows or decision rights. But we have seen partners articulate such differences during the negotiation period, find agreement on priorities, and reset timelines and milestones. They defused much of the tension up front, so when new wrinkles—such as market shifts and changes in partners' strategies—did emerge, the companies were more easily able to avoid costly setbacks and delays in the business activities they were pursuing together.

Nurture the relationship

Even business relationships that start off solidly can erode, given individual biases and common communication and collaboration issues. There are several measures partners can take to avoid these traps.

Connect socially

If executives in the partner organizations actively look for opportunities to understand one another, good collaboration and communication at the operations level are likely to follow. Given time and geographic constraints, it can be hard for them to do so, but as one energy-sector executive who has negotiated and managed dozens of partnerships noted, "It's important to spend as much time as you can on their turf." He says about 30 to 40 percent of partnership meetings are about business; the rest of the time is spent building friendships and trust.

Keep everyone in the loop

Skipping the step of keeping everyone informed can create unnecessary confusion and rework for partner organizations. That is what happened in the case of an industrial joint venture: the first partner in the joint venture included a key business-unit leader in all venture-related discussions. The second partner apprised a key business-unit leader about major developments, but this individual did not actually join the discussions until late in the joint-venture negotiation. At that point, as he learned more about the agreement, he flagged several issues, including inconsistencies in the partners' access to vendors and related data. He immediately recognized these issues because they directly affected operations in his division. Because he hadn't been included in early discussions, however, the partners wasted time designing an operating model for the joint venture that would likely not work for one of them. They had to go back to the drawing board.

Recognize each other's capabilities, cultures, and motivations

Partners come together to take advantage of complementary geographies, corresponding sales and marketing strengths, or compatibilities in other functional areas. But it is important to understand which partner is best at what. This process must start before the deal is completed—but cannot stop at signing. In the case of one consumer-goods joint venture, for instance, the two partner organizations felt confident in their plan to combine the manufacturing strength of one company with the sales and marketing strengths of the other. During their discussions on how to handle financial reporting, however, it became clear that the partner with sales and marketing strengths had a spike in forecasting, budgeting, and reporting expertise. The product team for the first partner had originally expected to manage these finance tasks, but both partner teams ultimately agreed that the second partner should take them on. In this way, they were able to enhance the joint venture's ongoing operations and ensure its viability.

Equally important is understanding each partner's motivation behind the deal. This is a common point of focus during early negotiations; it should continue to be discussed as part of day-to-day operations—particularly if there are secondary motivators, such as access to suppliers or transfer of capabilities, that are important to each partner. Within one energy-sector partnership, for instance, the nonoperating partner was keen to understand how its local workforce would receive training over the course of the partnership. This company wanted to enhance the skills of the local workforce to create more opportunities for long-term employment in the region. The operating partner incorporated training and skill-evaluation metrics in the venture's quarterly updates, thus improving the companies' communication on the topic and explicitly acknowledging the importance of this point to its partner.

Invest in tools, processes, and personnel

Bringing different business cultures together can be challenging, given partners' varying communication styles and expectations. The good news is that there are a range of tools—among them, financial models, key performance indicators, playbooks, and portfolio reviews—companies can use to help bridge any gaps. And not all these interventions are technology dependent. Some companies simply standardize the format of partnership meetings and agendas so that teams know what to expect. Others follow stringent reporting requirements.

Another good move is to convene an alliance-management team. This group tracks and reviews the partnership's progress against defined metrics and helps to spot potential areas of concern—ideally with enough time to change course. Such teams take different forms. One pharmaceutical company with dozens of commercial and research partnerships has a nine-member alliance-management team charged mostly with monitoring and flagging potential issues for business-unit leaders, so it consists of primarily junior members and one senior leader who interacts directly with partners. An energy company with four large-scale joint ventures has taken a different approach: its alliance-management team comprises four people, but each is an experienced business leader who

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can serve as a resource for the respective joint-venture-leadership teams.

How companies structure these teams depends on concrete factors—the number and complexity of the partnerships, for instance—as well as intangibles like executive support for alliances and joint ventures and the experiences and capabilities of the individuals who would make up the alliance-management team.

Emphasize accountability and metrics

Good governance is the linchpin for successful partnerships; as such, it is critical that senior executives from the partner organizations remain involved in oversight of the partnership. At the very least, each partner should assign a senior line executive from the company to be "deal sponsor"—someone who can keep operations leaders and alliance managers focused on priorities, advocate for resources when needed, and generally create an environment in which everyone can act with more confidence and coordination.

Additionally, the partners must define "success" for their operations teams: What metrics will they use to determine whether they have hit their goals, and how will they track them? Some companies have built responsibility matrices; others have used detailed process maps or project stage gates to clarify expectations, timelines, and critical performance measures. When partnerships are initially formed, it is usually the business-development teams that are responsible for building the case for the deal and identifying the value that may be created for both sides. As the partnership evolves, the operations teams must take over this task, but they will need ongoing guidance from senior leaders in the partner organizations.

Build a dynamic partnership

Sometimes partnerships need a structural shake-up—and not just as an act of last resort. For instance, it might be less critical to revisit the structure of a partnership in which both sides are focused on joint commercialization of complementary products than it would be for a partnership focused on the joint development of a set of new technologies. But there are some basic rules of thumb for considering changes in partnership structure.

Partner organizations must acknowledge that the scope of the relationship is likely to shift over time. This will be the case whether the partners are in a single- or multiasset venture, expect that services will be shared, anticipate expansion, or have any geographic, regulatory, or structural complexities. Accepting the inevitable will encourage partners to plan more carefully at the outset. For example, during negotiations, the partners in a pharmaceutical partnership determined that they had different views on future demand for drugs in development. This wasn't a deal breaker, however. Instead, the partners designated a formula by which financial flows would be evaluated at specific intervals to address any changes in expected performance. This allowed the partners to adjust the partnership based on changes in market demand or the emergence of new products. All changes could be incorporated fairly into the financial splits of the partnership.

Partners should also consider the potential for restructuring during the negotiation process—ideally framing the potential endgame for the relationship. What market shifts might occur, how might that affect both sides' interests and incentives, and what mechanisms would allow for orderly restructuring? When one oil and gas joint venture began struggling, the joint-venture leader realized he was being pulled in opposing directions by the two partner companies because of the companies' conflicting incentives. "It made the alliance completely unstable," he told us. He brought the partners back to the negotiation table to determine how to reconcile these conflicting incentives, restructure their agreement, and continue the relationship, thus avoiding deep resentment and frustration on both sides of the deal.

Such dialogues about the partnership's future, while potentially stressful, should be conducted regularly—at least annually.

The implementation of these four principles requires some forethought and care. Every relationship comes with its own idiosyncrasies, after all, depending on industry, geography, previous experience, and strategy. Managing relationships outside of developed markets, for instance, can present additional challenges involving local cultures, integration norms, and regulatory complexities. Even in these emerging-market deals, however, the principles can serve as effective prerequisites for initiating discussions about how to change long-standing practices and mind-sets.

An emphasis on clarity, proactive management, accountability, and agility can not only extend the life span of a partnership or joint venture but also help companies build the capability to establish more of them—and, in the process, create outsize value and productivity in their organizations.

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