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Performance Alignment Solutions

Enhancing Partnership Trust with Collaborative Performance Scorecarding (CPS)

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In these difficult economic times, many organizations are seeking to bolster partnerships to boost revenue and lower costs. For example, in a recent article in the International Business times, IBM said that more cooperation among equipment and software vendors should help corporate customers invest in technology more efficiently, such as by preventing the duplication of hardware. Rivals Hewlett-Packard Co. and Cisco Systems Inc. have countered with partnership announcements of their own including those for licensing deals and stronger sales tie-ups to offer clients "one-stop shopping".

In order to make these partnerships work, there needs to be a great deal of collaboration, trust, and respect between them. Ironically, the Oxford dictionary definition of "Collaboration", has two quite contrasting definitions; "to work jointly on an activity or project" or "to cooperate traitorously with an enemy". Trust becomes the key ingredient in distinguishing how partnerships navigate this "collaboration paradox".

To truly understand how to enhance partnership trust, we need to examine the nature of different kinds of partnerships. In addition, new approaches for applying "tried and tested" management methods like scorecarding, should be considered to promote cooperation and strengthen trust so that stakeholders do indeed *share objectives* as opposed to simply having *a shared view* of each other's objectives.

Application of Performance Management Concepts

Over the past decade, the practice of performance management (PM) and scorecarding has become mainstream for monitoring the execution of organizational strategy. In their annual survey of management methods and tools, Bain & Co. revealed that 70% of worldwide companies were either using or expecting to use scorecarding by the end of 2009. The key deliverable in implementing any scorecarding methodology centers around improving communications and providing ongoing feedback on strategic or business plan delivery. This ultimately culminates in enhanced organizational alignment with all intra-company business units (and hopefully individuals) knowing their roles and responsibilities in achieving organizational success.

More recently, there has been a growing interest in applying the process of PM and scorecarding to inter-company relationships. While performance measurement is well established in classic vendor-client interactions such as Supply Chain Management (SCM) or Business Process Outsourcing (BPO), it is recognized that the typical contractual performance instruments employed, like Service Level Agreements (SLA), do little to promote joint performance achievement and the type of cooperation that develops trust. SLAs are often used more to enforce a minimum standard of performance than promote true collaboration.

PM methodologies like Balanced Scorecard and Performance Logic Models are being applied to an increasing number of inter-company interfaces such as: strategic alliances, the business process integration efforts associated with mergers and acquisitions, and joint ventures. In the Bain study, it was identified that approximately 45% of companies *currently* use Strategic Alliances as part of their corporate management philosophy. When asked about their *future* plans to engage in strategic alliances, more than 70% stated they expected to be involved with this practice in the upcoming year. This is a seismic shift in the acceptance and perceived value of partnering. One can only hope that the trust component of these relationships will be up to the task.

Common Issues in Managing Relationships

Networking is now the "in thing" with concepts such as Value Nets, Supply Chain Networks, and Performance Networks, all of which dig into the value created by sharing plans and performance information between business entities. The "Nike+" partnership between Nike and Apple where a Bluetooth sensor in the shoe tracks "running performance" via the iPod is a classic example. It has also been recognized however, that the risks associated with failed partnerships can have severe consequences not only on the long term financial health of both parties but indeed on the reputation of each partner as a stand-alone entity. This was evidenced in what many consider to be one of the first large-scale examples of "Strategic Alliances" (SA), the partnership between IBM and Apple called Taligent in 1992. This joint venture, to cooperatively develop a new object-orientated operating system to compete with Microsoft Windows, died when trust issues over multiple technology infringement lawsuits overcame the goodwill of the intended SA.

Within organizations, "hand-offs" between business units present the highest risk of failure for any initiative. This becomes even more poignant when the business interface is between organizations, especially ones that often have different expertise, processes & systems, and/or cultures.

Not unlike personal relationships, many partnerships weaken as a result of poor (or indeed inappropriate) communications during these hand-offs. As with the familiar CRM adage "Managing Customer Expectations", partners also need to manage their expectations between each other by clearly communicating both before any engagement, and more importantly, throughout the working relationship. Although all modes of communication and knowledge management should be employed, those partners that engage in proactive monitoring on the performance of their joint goals, have the highest chance in meeting their expectations and ultimate success.

It is widely recognized that the leading reason partnerships collapse stems from a lack of trust and respect. Trust is often defined as "a relationship of reliance and confidence". Reliance on each other through statement of "who's doing what" and confidence that what is stated, will be accomplished. Building trust however, is a "slow and steady" journey which is often fraught with many challenges, some of which depend on the types of partnerships.

Challenges Depend on Partnership Type

The specific issues in managing partner relations often depend on the type of partnership between organizations. Each of these issues can take its toll on the degree of collaboration and trust exhibited in the relationship. Here are a few considerations;

Supplier–Vendor: as stated earlier, contractual performance (via SLAs) or partnerships based solely on price have a tendency to commoditize the products and services offered from suppliers to customers. Evidence the perceived failure of the Efficient Consumer Response (ECR) initiative in the US grocery/food retailing industry in the mid 90's when despite the hype of reducing complexities in the supply chain, prevailing attitudes about sharing cost information and agreements on how to fairly allocate cost savings, resulted in the initiative fizzling out by the end of the decade. Contrast this to the supplier-vendor management practices in Japan where "Supplier Clubs" share operational information and benchmark themselves against each other, lowest price is replaced with target costing, and profits are shared equitably across the supply chain. With this type of collaborative and trusting environment, it is little wonder why Toyota had a car/employee production rate greater than 10 times that of GM (which in light of recent events may have been a lesson learned too late).

Strategic Alliances: the growing interest in strategic alliances (as evidenced by the 2008 Bain & Co survey) does not necessarily mean that all issues related to collaboration and trust must be resolved. The biggest challenges to effective alliances are the "pre-work" required to define common goals and establish capability alignment. The management and governance of these relationships is also problematic as each party may indeed have its own agenda and its own means for gauging success.

Finally, many alliances have been formed in what is termed “co-opetition” whereby agreements are made to work together in specific aspects of the business while remaining fiercely competitive in others. Case in point, the private labeling done by manufacturers who supply both a branded and a “store labeled” product to a customer. How open and trustworthy can this type of relationship really be?

Joint Ventures (JV): a 2001 McKinsey study of over 2000 JVs revealed a dramatic 47% failure rate. Explanations cited included inequitable deals, incompatible partners, and weak management. Careful examination of these reasons ultimately ties back to an issue of trust. Trust that partners are sharing the load and balancing the benefits. It also points to the need for the development of a joint governance system that provides complete transparency of how each party is contributing to the success of the venture.

Mergers & Acquisitions (M&A): the biggest challenge in a M&A is to blend the best of each entity into an organization that is stronger than its individual parts (and ultimately provide increased shareholder value). Depending on the relative size of each entity, clashes in corporate culture and values, differences in structure and systems, and an often “win-lose” mentality (which can lead to employee alienation and poor morale), can erode the expected benefits. The definition and, more importantly, the communication of strategic and integration plans are key for effective M&As.

Can modern Performance Management techniques help?

Let’s look at an illustration of one approach being used today for helping partners jointly manage shared objectives, Collaborative Performance Scorecarding (CPS). Most defined partnerships will have stated goals and objectives and may even have measures and targets that monitor the achievement of these high-level goals. Few partnerships however, integrate their actual action plans to achieve these goals or measure the performance of each component in these plans.

The concept of “Logic Models” has been gaining broader acceptance in helping organizations align their strategic planning process with strategic deployment plans. Originally developed as a means for program evaluation in the public sector, the logic model defines the complete causal relationships between what is done (i.e. Outputs), how they support deliverables (i.e. Outcomes or Critical Success Factors), and how these deliverables help achieve strategic objectives (i.e. Impact). Commonly applied to intra-company planning, logic models are also a natural fit for helping multiple entities develop a clear and concise picture of how they contribute to the realization of shared objectives.

The logic model approach (which is defined as a Collaborative Performance Plan), is an integral part of the Collaborative Performance Scorecarding (CPS) model. As shown in Figure 1, it not only helps collaborating organizations visualize the inter-dependence they have on each other’s actions, but serves as a foundation upon which meaningful (and often shared) performance measures can be developed. These measures can then be collated into scorecards which can provide ongoing monitoring for all aspects of the relationship including: the overall performance of the partnership (the Relationship Performance Scorecard), the performance of specific objectives/elements in the joint action plan (the Strategic Action Scorecards), and probably most importantly, feedback to the business units/personnel responsible for the performance of their parts of the collaborative plan (the Partner Accountability Scorecards).

The rigor of this approach not only helps validate the compatibility of business goals between partners, but enhances partnership trust in a variety of ways; through cooperation in developing the joint action plan and promoting consensus on the measures of success, through the selection and prioritization of measures that appear on each scorecard, and through the active sharing of scorecards which help provide an “early warning system” by which the partners can take corrective action in a collaborative, not punitive, fashion. It also aids in dispelling the frequently quoted myth “shared responsibility is no responsibility” whereby goals can indeed be mutual as each party can now fully understand how their combined workplans (and measures) contribute to the achievement of these goals. Truly, *shared objectives* versus a *shared view of each other’s objectives*.

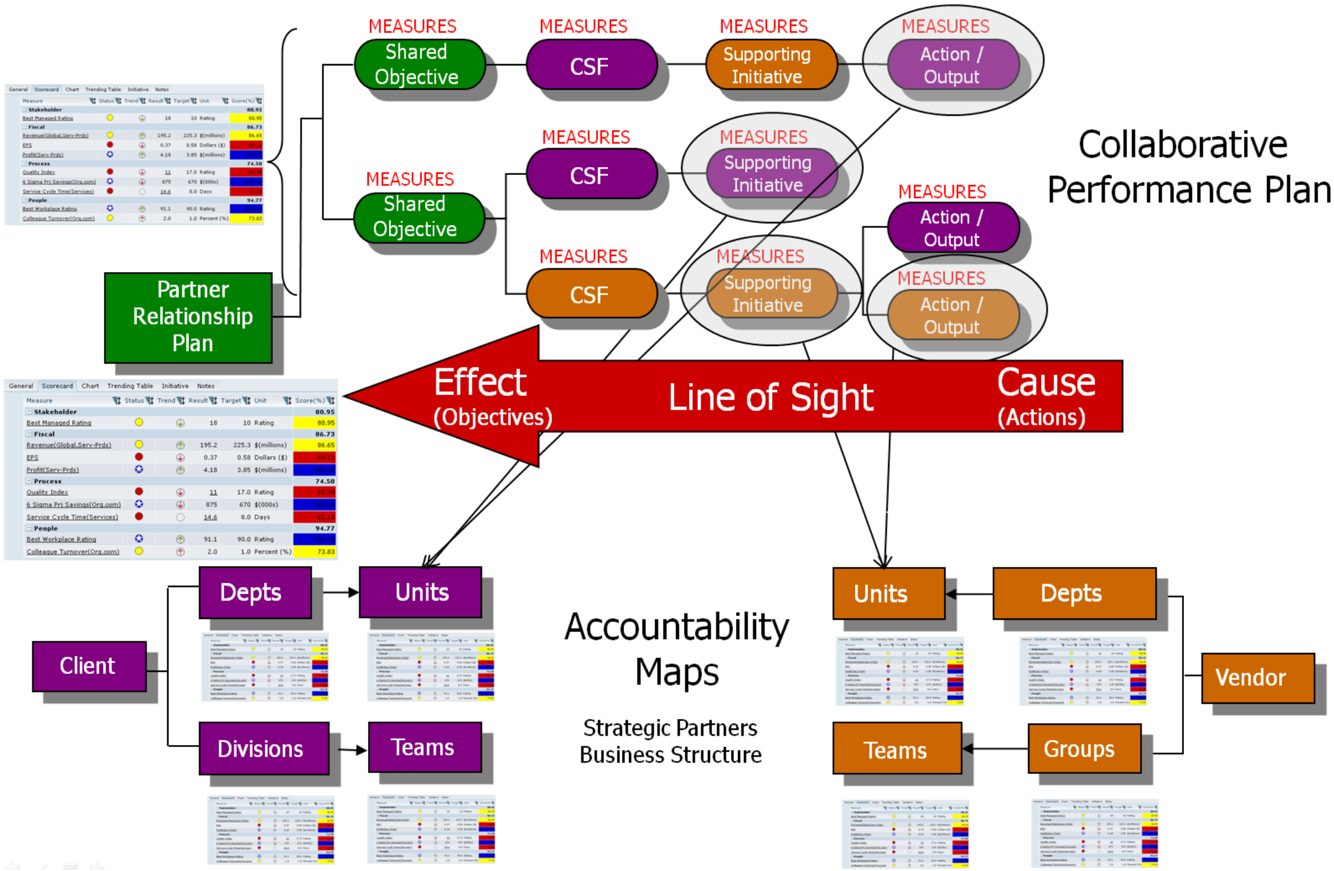

Figure 1. Collaborative Performance Scorecarding Model

Summary

Trust is often synonymous with terms such as reliance and confidence. All partnerships rely on building and maintaining this trust through the active and transparent communication of goals and, more importantly, the timely accomplishment of supporting actions. Collaborative Performance Scorcarding helps to articulate, confirm, and monitor the reliance partners have *with each other*, and ultimately enhances the confidence partners have *in each other* to deliver on the shared objectives of any relationship plan necessary to achieve joint success.

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