Measuring Strategic Alliance Success

How to Quantify Accomplishments

BY MARK BUCKSHON, CPSM

Can architectural, engineering, and construction businesses measure the value and effectiveness of their strategic alliances?

The answer is "yes" but few do, as alliance partners often perceive the relationship's value in different ways. Few alliance participants, facing the pressure to complete immediate projects, currently believe they have the time and resources to research the issues and decide on common elements to measure.

These attitudes will likely change as strategic alliances achieve more permanence and long-term success and participants appreciate that, despite different perspectives, they share common points and objectives.

"Personally, I would have to say that an awful lot of trust and 'sweat' equity has to go into a strategic alliance before there is anything to measure," says **Sally Handley, FSMPS**, author of *Marketing Metrics De-Mystified: Methods for Measuring ROI and Evaluating Your Marketing Effort.* "It requires a real leap of faith."

Meanwhile, **Dr. Constantine J. Katsanis**, an associate professor at Ryerson University in Toronto, says one challenge in developing a measurement program is that different professions and participants in the alliance value different things. He says that engineers are usually far more concerned about the firm's financial performance and project profitability than their architectural partners, who focus on whether the projects achieve their design values and goals. General contractors, meanwhile, might be more willing to trade off some level of profitability on individual projects (in part to keep their architectural partners happy) in exchange for work stability and the ability to connect with project opportunities at an earlier planning stage.

An example of the challenges of measuring strategic alliance performance is Handley's work with her client Magnusson Architecture and Planning PC (MAP), which has a long-term strategic alliance with Nos Quedamos, a non-profit that was the catalyst for the Melrose Commons Urban Renewal Area in the Bronx, New York.

The alliance has opened the doors for access to community development funds and the opportunity to develop residential and mixed-use developments representing more than 1,000 apartments in mixed use or design. More recently, the alliance added general contractor MJM Construction Services LLC to the team.

MAP's **Petr Stand, APA**, says his practice sought out a relationship with a general contractor who would be willing to put the sweat, time, and some cash equity into developing the projects. He said **Manny Kanaris** of MJM accepted the challenge of working with the non-profit group, and everyone involved in the project enjoyed the satisfaction of learning how to build and complete a successful project that satisfies LEED Gold certification standards.

However, Stand says "we never thought of quantifying" the strategic alliance's value. "It's one of the things that just came together—we had wanted (for some time) to do a LEED building. We had suggested it to several of our clients, and they just didn't want to do it."

"Then the non-profit [Nos Quedamos] came to us and said: 'You have been a junior partner in our developments in the past. We need you to take a stronger role—and we need a builder to work with us.'"

He said one general contractor he knew from other projects declined the initiative, but Kanaris took up the opportunity. "We found someone to support our program for development."

However, how could Strand consider the project to be a success when, he acknowledged, the work cost more in time and effort than other initiatives and generated less profit for the practice than a more conventional initiative might have earned? "We have to consider it a success because we want to do it again," he said. "We got our LEED Gold building—there was such a great desire to do it, the team was open to communication, we pushed the schedule by 40 days. At the end of the day we will be [financially] whole."

Strand's attitude, where the design focus is more important than profit, is common to other architects, says Katsanis. An associate professor on Ryerson University's engineering, architecture, and science faculty, Katsanis has surveyed several A/E/C businesses to determine their priorities and focuses, and he has discovered distinctions in project and (for architects and engineers) practice orientations.

> "Strategic alliance participants will likely have a competitive edge and greater sustainability for the future."

Katsanis says A/E/C strategic partners are slow in measuring their success in part because the concept of strategic alliances for this industry is relatively new. He traces it to a 1980s decision by the U.S. Army Corps of Engineers to encourage project partnering.

The A/E/C industry always has been built on an informal network of relationships because projects are "not built by one firm but by efforts of multiple firms."

However, he said, "Projects are short-lived. Once a project is finished, the networks and alliances that were built up de-facto would break up." Sometimes, he said, everyone would work in harmony, and the project would be considered successful. This success might induce participants to be more open to working with each other on future projects, but only recently have practitioners and contractors started to realize the advantage of making these arrangements more permanent through formal strategic alliances.

Strategic alliance participants could gain real insights into their projects by analyzing the relationships within and between the partners' organizations, in part through mapping the interactions across the organizations, Katsanis said. Participants could then see where the relationships are strongest and most healthy—and where the greatest business value occurs—while discovering problems and roadblocks before they get out of hand.

"You can use a technique called *social network analysis* to measure the confidence in the information that is being passed back and forth, the reliability of people in meeting deadlines and other key parameters, so you can decide what variable you want to measure. You can do that at different stages of the project and you can see what works on both sides."

Few if any A/E/C strategic partnerships currently complete this level of research, in part because everyone is so focused and busy on completing immediate projects, says Katsanis. The research costs time and money and provides little short-term benefit.

The advantage of the research is ongoing and will help strategic partners be more effective in future projects, he suggests. If partners know the weak spots and strengths in their networked relationships, they can make improvements and ensure that the relationships between various partner participants are more successful in future projects. In other words, really understanding what ticks beneath the surface of the strategic partnership, more than "it feels good to work together," will help cement and enhance relationships and allow the partners to achieve their goals and objectives.

The A/E/C community, however, should not be worried that it is behind the times in effectively measuring the effectiveness of strategic alliances. "Forging the partnership is the easy part; managing it and measuring its success are much harder tasks," **Joanne Sammer** wrote in a *Business Finance* article in 2004, "Strategic Alliances: How to Manage, How to Measure."

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Measuring the Alliance: Points to Consider

In her book *Strategic Alliances: How to Manage, How to Measure,* Joanne Sammer outlines some fundamental points companies can use to ensure the alliance metrics they choose contribute to their partnership's success.

1. **Identify alliance stakeholders.** "Critical constituencies include the partner companies' alliance managers and champions and all of the functional areas in each partner's organization that will support the relationship, as well as external stakeholders," Sammer writes.
2. **Clearly communicate alliance goals.**
3. **Define metrics for each partner and for the partnership.** "Each company should develop measures to evaluate its own performance, as well as external metrics to monitor its partner's contributions," she writes. "In addition, it's a good idea to create a shared alliance scorecard that both organizations can use to monitor the partnership's performance."
4. **Evaluate and adapt metrics periodically.** Ryerson University's Dr. Constantine J. Katsanis and Los Angeles author Larraine Segil suggest that alliances change over time, but they follow a predictable life cycle: Start-up, an initial high-growth phase, slower growth, and maturity. Some will be sustainable at the mature phase but most eventually will reach the final stage: decline. "As the alliance evolves, its goals must change, and its performance metrics should change alongside them," Sammer writes.
5. **View the alliance portfolio holistically.** "The success of an organization's alliance strategy is rarely determined by a single partnership's performance," she writes. "Companies must monitor their alliance portfolio's overall performance to ensure that they are achieving overarching goals."
6. **Allocate adequate resources.** The alliance needs to consider a dedicated alliance management function, she writes.

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"Although it is not that difficult to make a deal, it is difficult to develop performance measures for a deal that is not a full-blown acquisition," she quoted **Larraine Segil** as saying. Segil is author of *Measuring the Value of Partnering: How to Use Metrics to Plan, Develop and Implement Successful Alliances* (Amacom, 2004).

"Metrics do not all have to be quantitative and financially oriented," Segil said. "In fact, an over-reliance on financial metrics is short-sighted," Sammer wrote in her article. "For example, a company may need to keep an underperforming alliance in place for strategic reasons, such as measuring a competitive edge in new markets."

Presumably, as time passes and strategic alliances increase in prominence and permanence, more formalized measuring systems can be developed to assess and improve strategic alliance performance.

"Clearly, the process of building a strategic alliance is a lengthy one," says Sally Handley. "It takes a few years just to build [the trust] factor, let alone find the budget within the alliance for a formalized measurement program."

Nevertheless, despite the fact that few are bothering with organized measurement programs now, strategic alliance participants willing to devote time, energy, and resources to measuring results will likely have a competitive edge and greater sustainability for the future. m

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