in partnership with

Research report
August 2013

Beyond the organisation
Part 1 of 2

Understanding the business issues in partnering arrangements

WORK WORKFORCE WORKPLACE

Championing better work and working lives

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To increase our impact, in service of our purpose, we're focusing our research agenda on three core themes: the future of **work**, the diverse and changing nature of the **workforce**, and the culture and organisation of the **workplace**.

WORK

Our focus on work includes what work is and where, when and how work takes place, as well as trends and changes in skills and job needs, changing career patterns, global mobility, technological developments and new ways of working.

WORKFORCE

Our focus on the workforce includes demographics, generational shifts, attitudes and expectations, the changing skills base and trends in learning and education.

WORKPLACE

Our focus on the workplace includes how organisations are evolving and adapting, understanding of culture, trust and engagement, and how people are best organised, developed, managed, motivated and rewarded to perform at their best.

About us

The CIPD is the professional body for HR and people development. We have over 130,000 members internationally – working in HR, learning and development, people management and consulting across private businesses and organisations in the public and voluntary sectors. We are an independent and not-for-profit organisation, guided in our work by the evidence and the front-line experience of our members.

Beyond the organisation

Understanding the business issues in partnering arrangements

Contents

Acknowledgements

The comprehensive literature review underpinning this report was conducted by Professor Paul Sparrow, Director, Centre for Performance-led HR at Lancaster University.

The report was written by Professor Paul Sparrow and Dr Jill Miller, CIPD.

Introduction

The nature of work is changing with significant implications for HR's role. Organisations are becoming more specialised, decentralised and networked in their operations. Their structures are becoming more flexible and organic and we are seeing more organisations entering into strategic partnering arrangements (KPMG 2012; PwC 2013; Hughes and Weiss 2007; Roos and Cools 2006). This means that a number of business relationships must now be managed *beyond the organisation.*

This noticeable shift towards entering into business partnerships not only represents a new context, challenge and opportunity for HR, but is also beginning to shift the strategic agenda that the function needs to focus on. In partnering arrangements (for example joint ventures, outsourcing, strategic alliances, public–private sector commissioning models) HR can find itself responsible for the design and delivery of HR systems across multiple workforces, as well as managing the people agenda in their own organisation. And managers are leading teams which include people who report directly to them, as well as those who are employed by partner organisations.

HR's strategic agenda is shifting: *'… not just because of internal organization design pressures resulting from complex business models, but also as a consequence of changes in the importance of external inter-dependence and partnership. The organizational "value web" is, in almost every case, extended across traditional organizational boundaries. This interdependence is a defining characteristic of business model change.'* (Sparrow et al 2010, p272)

The CIPD is collaborating with Professor Paul Sparrow at the Centre for Performance-led HR at Lancaster University on a programme of work, *Beyond the Organisation*, to examine what this shift means for the HR function. We aim to provide practical guidance for HR professionals and managers on how to deliver excellent people management beyond their own organisation, to support the success of business partnering arrangements.

This report is the first output from this programme of work. It aims to scope the territory, helping us to understand the typical challenges that organisations face in providing seamless HR support to the growing range of partnering arrangements. We have conducted a comprehensive review of recent HR and management literature to better understand the landscape as well as identify gaps in our current knowledge about this area, where more research is needed.

We have published the findings from this literature review in two parts. This first report examines the main business issues in partnering arrangements. The second part will be published in November 2013 and looks at the decisions that need to be made about how the HR function itself should be organised to support partnering success.

Why is research in this area so important?

The prevalence of partnering arrangements is increasing. And, importantly, research has revealed that they have a staggeringly high failure rate. A 2007 *Harvard Business Review* article (Hughes and Weiss 2007) reports that, *'studies show that the number of corporate alliances increases by some 25% a year, and that those alliances account for nearly a third of many companies' revenue and value – yet the failure rate for alliances hovers between 60% and 70%'.*

In a Boston Consulting Group article, Roos and Cools (2006) stated that, *'Alliances have become an increasingly important – and complex – part of corporate strategy. According to one estimate, approximately 30 percent of global corporate revenues in 2005 were a direct result of alliances – up from only 2 percent in 1980.'*

And it appears that partnering relationships between organisations are set to increase further, particularly as public sector organisations are entering into more partnerships with both the private and voluntary sectors as they move away from delivering services directly to more of a commissioning model. The 2013 PwC global CEO survey of public and private sector CEOs (p18) found that significantly more state-backed CEOs: *'expect to initiate a new strategic alliance or joint venture (52% compared to 47% of private sector CEOs) and to outsource (40% compared to 30%).'*

And despite high failure rates, a 2009 PwC survey found that over 75% of CEOs rated partnerships as 'important' or 'critical' to their business. *'Unsuccessful partnerships waste time and damage relationships which can lose money, reputation and people'* (p4).

Excellent people management 'beyond the organisation' is critical to the success of business partnering arrangements

We believe that HR professionals can contribute significantly to the effectiveness of partnering arrangements between organisations. Many aspects of these arrangements are people-centric, dependent on relationships and management behaviour, as well as knowledge-sharing and learning capabilities. Through scoping the territory we aim to highlight some of these key people-related challenges and opportunities.

Twenty-five years ago, Pucik (1988, p77) argued that:

'…In the context of strategic alliances that involve competitive collaboration, the competitive advantage of a firm can be protected only through its capability to accumulate invisible assets by a carefully planned and executed process of organizational learning. As this process is embedded in people, many of the necessary capabilities are closely linked to HRM strategies and practice.'

With the increased prevalence of partnering arrangements, attention to HR's role in their success is even more important.

For example, the literature highlights structural, process and governance choices and decisions that have to be made about:

- the best organisational form to adopt, depending on the sorts of strategic behaviours and performance that are required
- the structure and processes through which the business will be delivered
- how best to identify and then disseminate the collective aims of the partnership
- how resources (including people, skills and knowledge) will flow into and out of the collaborative venture, and how these flows will be regulated
- how important duties, rights, functions and roles of the members of the collaboration will be identified and governed.

Equally importantly, the literature also points to key choices and decisions to be made about the desired organisational behaviour. With multiple stakeholders being brought together by a single mandate, HR needs to think about:

- the required level of integration between the partners
- how best to support mutual problem-solving between parties
- how to best educate and coach managers to promote desirable management behaviours
- promoting collaborative learning and knowledge-sharing.

In practice, people management *beyond your organisation* requires the partners involved to not always act as single entities. Yet much of the existing research in this area still tends to focus on the HR issues that arise for each single firm in the collaboration, rather than looking at the HR needs across the network of partners. We intend for our work to contribute to addressing this gap, so as well as looking at the needs of the individual organisations, we should also think about the performance that is needed – and the HR leadership that has to be delivered – for the success of the partnering arrangement as a whole.

The sources we drew on for this review

This paper is built on an extensive literature review of past studies which have focused on a range of collaborative business arrangements, including (see glossary for definitions of each arrangement):

'Some 60–70% of [corporate alliances] fail.'

Source: Hughes and Weiss (2007)

- joint ventures and strategic alliances
- multi-employer networks
- collaborative business models
- cross-sector social partnerships
- public sector partnering with private and voluntary sector organisations
- supply chains.

These studies have mainly been conducted within the social sciences management literature by general business researchers rather than specifically in the HR domain. However, the studies raise important issues for HR, as many of the insights about successful collaborative and partnering arrangements that have surfaced from our review are people-centric. It is from having a wider understanding of the business challenges and opportunities faced in such arrangements that HR professionals can work out where their contribution best lies and ultimately add to the success of partnering arrangements.

We have also examined management and consulting reports that attest to the importance of the business challenges involved. Further information about how we conducted this literature review can be found in the appendix.

Three main themes emerge from our review of existing literature as most critical

Our review of the literature has found that the main challenges and opportunities for HR in supporting the success of organisations' partnering arrangements fall into three overarching themes. We address each of these themes separately, but as illustrated in Figure 1, there is some overlap between them.

The structure of this report

In the next section we provide some background information about partnering arrangements, including the type of arrangements we are focusing on, the motivations for partnering and decisions around the choice of partner.

We then focus on each of the three themes in turn, providing a brief overview of the main business and people-specific challenges and opportunities associated with them.

- How do we ensure appropriate risk management in these important relationships that extend beyond the organisation?
- How do we ensure the appropriate combination of structural and relational governance?
- How do we support the development of learning and knowledge-sharing capabilities across the partnering arrangement?

At the end of each section we pose important points for HR to consider, specific to that theme.

Overall, our review shows there is already a useful understanding of the sorts of organisational behaviours and people management issues that are involved in effectively managing *beyond the organisation*. However our review has also revealed that there are still many unanswered questions about how HR can best support partnering arrangements in practice, suggesting further research in this area is needed.

Figure 1: Three overarching themes

How are we defining business partnering arrangements?

In this section we provide the context for this report, including the type of arrangements we are focusing on, the motivations for partnering and decisions around the choice of partner.

The types of arrangements we are focused on

The focus of this research is on long-term, collaborative and permanent business arrangements, where the parties collectively invest financial as well as other resources to pursue agreed objectives. These relationships are defined as those which are entered into with the intention of being long-term arrangements where the partner(s) cannot easily be replaced, it is hard for either party to withdraw easily, and they require a deep relationship between parties in order to succeed. Figure 2 summarises the types of partnering arrangements we are concerned with.

In such long-term partnering arrangements, HR has to manage *beyond the organisation* and, increasingly, the HR management between organisations has to be closely aligned. Due to the scale, scope and strategic importance of these arrangements, there is a lot at stake if they fail. We believe HR has a significant contribution to make in supporting their success.

We are not therefore looking at short-term business arrangements within this programme of work so are excluding: joint exploration projects, loosely

'Increasingly, HR management between organisations has to be closely aligned.'

Figure 2: Organisational forms that force HR to manage *beyond the organisation*

coupled research and development consortia, co-production agreements or co-marketing arrangements, distribution and supply agreements, technical and management contracts, and supply agreements. These types of relationships tend to be easier to dissolve and withdraw from, and are therefore less costly to the partnering organisations if they fail. Of course, some of the findings from our work are still likely to have relevance to these shorter-term arrangements.

Why do organisations enter into partnerships?

Our review of the management literature has revealed there are many different motivations for organisations to enter into partnering arrangements. Traditionally, the decision to partner might be driven by a motivation to produce significant economies of scale by reducing excess capacity for the areas where partners execute jointly – often important in research and development or the manufacturing of common components.

Or they might be driven by the desire to create strategic linkages – where different resources, or competencies and skills are combined to produce activities that previously did not exist. For example, Sony-Ericsson was established as a joint venture to make mobile phones by the Japanese consumer electronics company Sony Corporation and the Swedish telecommunications company Ericsson. Both companies agreed to stop making their own separate brand of phone but the venture allowed them to continue operating in this sector by combining Sony's consumer electronics knowledge and expertise with Ericsson's technological leadership in the communications sector.

Within some sectors – such as the textiles and apparel industry – competition now concerns the strength of your supply chain. We see distributors helping their suppliers and manufacturers develop important capabilities such as logistic and supply chain management, by providing training programmes and sharing knowledge. In pursuit of competitive advantage, they often translate the knowledge acquired from customers/clients backwards throughout the supply chain to the textile manufacturers and fibre producers. Increasing the strength of each component of the supply chain increases the value of the whole chain.

Organisations may also partner for access to key capabilities and knowledge. For example, in the healthcare management sector, in order to achieve the aim of matching supply and demand for drugs and resources, we see that public sector organisations are partnering with multiple private sector businesses that know how to optimise inventory levels of drugs, the ordering process of care-related products and pharmaceuticals, and patient logistics.

The manufacture of complex products – such as aircraft or motor vehicles – can require many organisations to work together, as development and production of each component part requires specific technical knowledge and competencies. For example, in the aerospace industry, to better manage costs, risks and complexity, aerospace products are composed of many parts and the production process is shared among several companies. Even assembly of the whole product may be distributed across several organisations, each producing components and sub-components, and each having to manage sophisticated technologies, innovative materials and knowledge-intensive processes, and exchange large and accurate data across all parties. Yet only a few large companies manage the agreement with the final customer (such as an airline company or national government).

And, as mentioned, we are seeing a dramatic shift towards public sector partnerships with both private and voluntary sector organisations. This is especially evident as councils move away from being providers of services to commissioning models, in order to dramatically reduce public sector spending and realise efficiency savings. We are also seeing an increase in outsourcing activity as well as the development of joint/shared services.

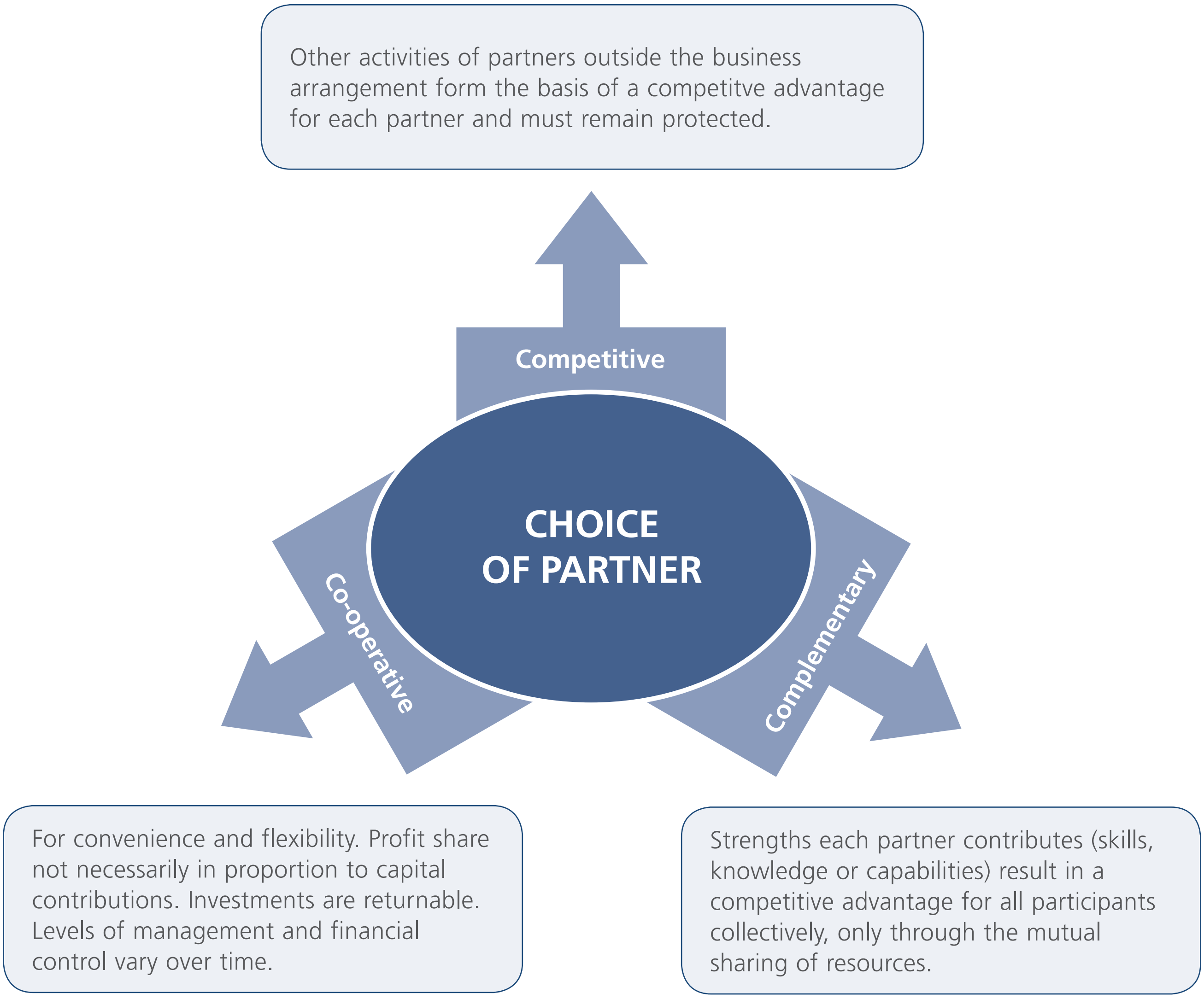
Although here we have provided some generic reasons for entering into partnering arrangements, individual organisations will have their own specific reasons and their own measures of value-creation and success.

The choice of partner

Whatever the motivation for partnering, there are three main types of partnership model to choose from: competitive, complementary and co-operative (Figure 3, page 7).

In a competitive model, an organisation partners with a company they consider a competitor for activities outside of the partnering arrangement. The past relationship between the partners is likely to have been adversarial at best, but now they must design a dual relationship, agreeing to work together on a particular project, while remaining competitors for their independent activities. In a complementary model, organisations enter into a partnering arrangement due to the competitive advantage that

Figure 3: Three models to consider when choosing a partner



can be achieved for both partners through combining their skills, knowledge or capabilities. And in a co-operative model, organisations select a partner for reasons of convenience and flexibility.

An organisation may be simultaneously engaging in different types of model for the different arrangements they are involved in, meaning a cadre of managers is required who are able to balance multiple competing types of relationship.

Summary

Within this section we have outlined some of the fundamental choices involved in partnering arrangements. HR needs to understand these choices to maximise its contribution.

In the next sections we look in turn at the business and people-centric issues associated with managing risk and opportunity, governance and building the capability for learning and knowledge-sharing.

Managing risk and opportunity beyond your organisation

'Partners are rarely equal contributors – one organisation may benefit more from the partnering arrangement than another.'

'Managing risk and opportunity' is the first of the three overarching themes emerging from our literature review that affects the outcome of business partnering arrangements.

Within a partnership arrangement the desire is to (Cheng et al 2008; Hernández-Espallardo et al 2010):

1 control against the risk of opportunistic and self-interested behaviours, where the investments of one partner lose value because of the way others redeploy that investment

2 gain from the opportunities presented, for example sharing, combining or exchanging potentially unique assets, knowledge, resources or capabilities.

It is important for HR to have a broad understanding of these issues so they can contribute to business discussions and identify where the main people-associated risks and opportunities lie. Resources can then be targeted to the areas requiring the most attention, ultimately increasing the long-term value of partnering.

Why a focus on risk management is so important

Partners are rarely equal contributors (Papadopoulos et al 2011) and so there is the distinct possibility that one organisation may benefit more from the partnering arrangement than another, or that one may lose their competitive advantage if they do not protect their assets. Partners are often asymmetric (Harrigan 1988) in terms of, for example, the resources they contribute to the arrangement, their asset size, ownership, product markets, brand, number of employees, their revenues or capital.

In addition to the above, there will be other organisation-level risks to consider (Table 1). These include: the nature of the business, their relationship history and their external circumstances.

Table 1: Examples of organisation-level sources of risk

Nature of the business	Relationship history	External circumstances
• Level of synergy and mutual congruence in objectives	• Rivalry between parties involved in the arrangement	• Level of political risk
• Level of business-relatedness	• Previous partnership experience	• Dissimilarity between organisational or national cultures
• Differences in firm size	• Equity ownership arrangements	

In the last five years or so, operations management researchers (whether examining multi-organisation supply chains or large engineering projects such as petro-chemical plants and nuclear power stations) believe there are changes taking place in the 'shape' of risk (that is, sources, nature, triggers, scale, rapidity and severity of consequences) relating to supply chains. And organisations are evolving a more diverse set of risk management tools and approaches (that is, both quantitative and qualitative) to effectively address the diversity of issues and contexts now faced.

Risk management is a constant theme across the literature. It should be an essential part of an organisation's partnering strategy and implementation, and embedded in the mindsets of all senior managers involved in partnering arrangements. Risk is measurable in the sense that estimates can be made of the probabilities and severity of outcomes, versus the business opportunities the arrangement offers. And it is manageable in that its impacts may be identified, analysed, estimated, evaluated and controlled.

Identifying the business risks in your partnership arrangements

A calculated approach to risk, built on evaluation of the magnitude, likelihood and breadth of exposure (MacCrimon and Wehrung 1986) to potential threats, will highlight which areas require careful risk management. Some areas may be judged not to require formal action as the opportunities available from that part of the partnering arrangement outweigh any potential risks. However, these risks do still need to be monitored as some can dissipate as they travel across the organisations in the partnering network, whereas others can get amplified. For example, when Rover ceased car manufacturing in the UK, the impact on the downstream car distribution channels and agents was much greater than the impact on upstream suppliers (Ritchie and Brindley 2007).

In addition, solving one problem can result in the creation of another risk (Peck 2005). One of the reasons that organisations enter into partnering arrangements is to spread the level of risk among all those involved in the arrangement and/or to access competencies and expertise – as it is less risky to work with someone who already has what you need and does it well than try to do everything yourself. It is perhaps ironic, then, that in forming partnerships to lower the level of known strategic risk in achieving an objective, the act of partnering raises other risks, as you are relying on and trusting others to carry out the tasks you need in the way you need them.

A risk management strategy needs to be informed by an understanding of where the main risks lie, which then helps to identify 'hotspots' to focus on and prioritise where attention and resources need to be focused. As Figure 4 illustrates, risks can be systemic, partner-specific and/or concerned with a specific connection point (Ritchie and Brindley 2007).

Systemic risks are those risks or weaknesses associated with the whole system, or rather the whole partnering arrangement. For example, a partnership may have to be formed for various reasons, but everyone involved is aware that the whole system has issues. It may not be possible to manage these kinds of risks, as in the short to medium term it is not possible to reconfigure the arrangement.

'Risk is measurable in the sense that estimates can be made of the probabilities and severity of outcomes, versus the business opportunities the arrangement offers.'

Partner-specific risks are associated with a particular partner, for example their financial situation, their quality standards, the adequacy of their information systems, the extent to which their HR function supports the capability of people involved in the partnering arrangement. On the whole, these can be mitigated through appropriate strategies.

Connection-point risks are concerned with a specific point where the partners come together to undertake a joint activity. For example, two partners may choose to fuse their particular knowledge and capabilities to create a new product or service. An inability of particular teams to work together or to respond to demands from others in the network would present risks to partnership success.

Our review of the literature suggests that wherever the risks are considered to be, they are likely to relate to issues of co-ordination, communication, control, culture, capability or conflict ('the six Cs of risk').

What are the main people-related risks highlighted in the literature?

From our review of the literature, the main people-related risks encountered in partnering arrangements that HR need to watch out for and respond to appear to fall under five themes (Table 2).

Summary

In this section we have discussed the main risks for HR to be aware of. In the following section we will address the issue of governance which has also been found to affect the success of partnering arrangements.

Figure 4: Identifying risks in your partnership arrangements

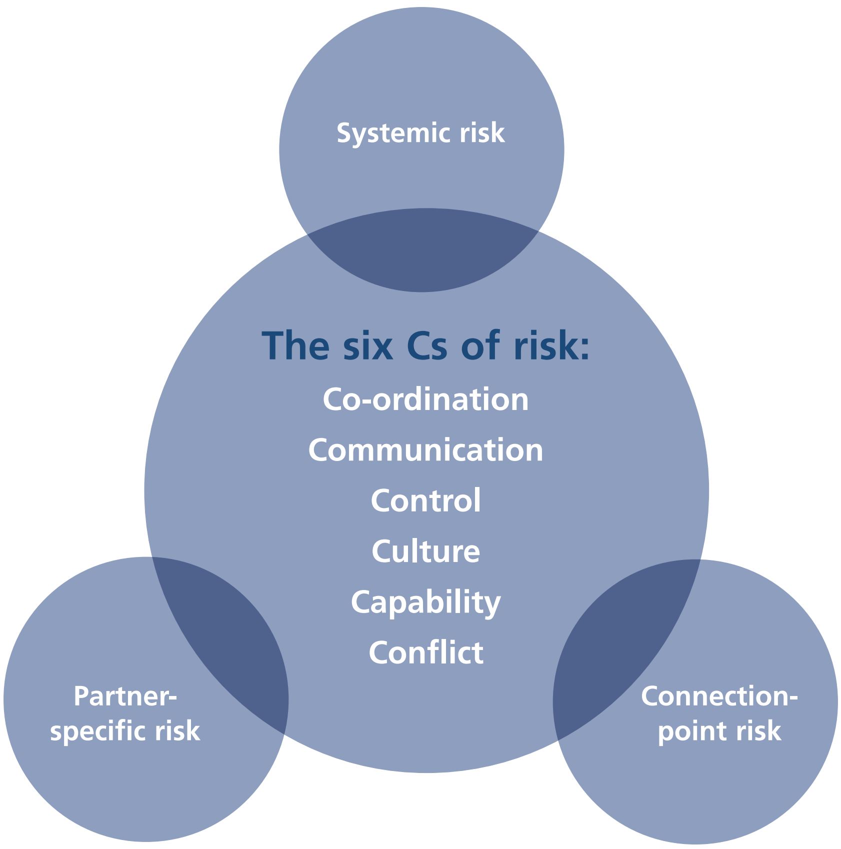


Table 2: The main aspects of risk HR needs to consider when managing *beyond the organisation*

Major issues	Main risks	Questions for HR to focus on
Governance structures (including contracts and incentives)	• Opportunistic behaviour. • Parties will have hidden bottom-line safeguards against specific investments. • Parties are likely to be unequal contributors (of resources, competencies, knowledge and so on). • Goal conflicts.	• What exchanges and transactions must be captured and co-ordinated? • What assets need to be specified? • What needs to be controlled via a legal contract versus what can we rely on social enforcement and trust for? • What is the most efficient contract? • How will the arrangements handle market failures? • How best to align the incentives for all parties? • What is the most efficient division of labour?
Capability development	• Your calculation of the level of trust you place in: – others' development of mutually beneficial capabilities and knowledge – others' use of your capabilities and knowledge. • The mutual adaptation of processes that is required to use data, systems and knowledge across the network.	• Which capabilities does each party need and contribute? • How will access to complementary resources be enabled? • What new capabilities are created by combining and re-using the existing capabilities of the partners?
Joint learning and transfer of knowledge	• Extent of mutual sharing of your knowledge and information with others. • Reliance on quality of communication and interaction for joint learning to take place. • The level of personal trust between individuals affecting propensity to share.	• How will joint learning be co-ordinated? • What new competencies get created? • What knowledge will be important to share? • How can this create a win-win situation for everyone in the network? • How co-ordinated are partners' systems to allow learning from the arrangement to flow back into the organisation?
Relationships	• Conflict. • Disparity of organisation values between partners. • Reconciling where management loyalties lie (home organisation versus the partnership). • Level of trust. • Extent to which partners can pull on others' or collective resources throughout the network.	• How will inter-firm relationships be handled? • What will the structural design of inter-firm relationships look like? • What are participants' roles, positions and responsibilities in the partnership? • How will adversarial relations be avoided? • How will collaboration behaviours be encouraged? • How will trust be built without encouraging a culture of non-confrontation?
Performance measurement and rewards	• Extent of parties' goal alignment/conflict. • More emphasis placed on outcomes than behaviours. • The culture promoted by the rewards system.	• How will the behavioural and outcome-based expectations be aligned? • How will each partner's inputs into the collaboration be co-ordinated and captured? • What kind of reward system would reinforce the desired culture and not encourage dysfunctional or risky behaviours? • Which incentives will focus attention on long-term gains rather than short-term opportunism?

Managing governance beyond your organisation

'It is not possible to foresee and predict everything that could go wrong'

In this section we address the theme of governance, looking at how we ensure the necessary structures and control mechanisms are in place to minimise risks to the business and its activities (Table 3). There is of course some overlap between the themes of risk and governance and we cross-reference between these two sections where appropriate.

The overall purpose of governance arrangements is to create expectations about the exchanges that must take place between partners, and shape the co-ordination, collaboration, vigilance and safeguarding behaviours needed to help the partnership evolve and perform over time. The theme of governance is surprisingly people-centric.

Choice of governance mechanisms to control risk

Not all risks can be controlled, as it is not possible to foresee and predict everything that could go wrong in a partnering arrangement (Ritchie and Brindley 2007). And overall you would not want to control all risks, as with risk often comes opportunity (such as access to competencies or resources) and risks differ in their magnitude, likelihood and breadth of exposure. However, for those risks of which we are aware, or we know are common in partnership arrangements, and want to control, there are two main types of regulatory mechanisms that can be used (Table 4). These are not mutually exclusive approaches; governance is often based on a blend of a structural approach – designing and formalising contracts – and social and relational mechanisms, relying on relational norms (Faems et al 2009; Barthélemy and Quélin 2006). The choice of mechanism is driven by different assumptions about the motives and behaviours of partners in the business arrangement.

Tabel 3: Typical governance mechanisms used

A range of governance mechanisms are typically used:

- Legal contracts to set expectations, roles and responsibilities.
- Incentive structures that reinforce long-term gains over short-term opportunistic behaviours.
- Governance forums (for example steering groups or advisory committees) and monitoring systems to enforce goals, supervision and progress on the basis of input controls, behaviour controls or output controls.
- Social and relational mechanisms, based on personal and inter-organisational trust, which promote behaviours such as joint problem-solving, joint planning, collaborative communication and symmetrical access to information.

Table 4: Two types of regulatory mechanisms for controlling risk

Structural design of transactions	Social and relational mechanisms
• Contractual arrangements assign responsibilities and hence risks to each party. • Formal contracts state obligations, incentives, rewards and penalties. • Their use assumes partners are naturally opportunistic, where: – one partner has specific assets to be protected (for example, HR capability) – and/or there is a high degree of uncertainty. • Denser contracts require higher monitoring and enforcement costs. • Ignores social context and previous history or how behaviour in the relationship is shaped over time.	• Encourage key individuals and partnering organisations to safeguard and co-ordinate the business relationship. • Encourage self-regulation with partners' reputations at stake. • This approach has been criticised for taking too rosy a view of human nature. • This approach to managing risk relies heavily on: – partners' economic and emotional commitment to the partnership – an implicit pledge of relational continuity between exchange partners – the interdependence of partners, including high perceived costs of replacing a partner – partners trusting each other, therefore accepting vulnerability based upon positive expectations of the intentions or behaviour of other partners.

Using structural governance mechanisms

The use of formal contracts is the governance mechanism that has been given the most attention in the literature.

Overall, studies of contractual governance in joint venture arrangements, supply chain management and outsourcing deals all tend to agree that:

- within lean and agile organisations, an increasing percentage of value creation takes place outside the boundaries of the individual firm (Bruce et al 2004), requiring governance mechanisms to be in place
- 'contract design needs to account not only for sufficient definition of the exchange (for example roles, responsibilities and contingencies) and inclusion of proper economic safeguards, but also for appropriate framing to induce emotions and behaviours that aid in reaching the exchange and relationship goal' (Weber and Mayer 2011, p60)
- too much reliance on formal contracts, in particular the specification of enforcement clauses, may 'serve to foster distrust and bring about the very actions they are designed to prevent' (Weber and Mayer 2011, p53).

Contracts are important at the initial start-up of arrangements, to set expectations, roles and responsibilities, but they are also essential when there are business problems or crises, as partners

'Contracts are important to set expectations, roles and responsibilities.'

return to the contract to resolve issues. As contracts can help you deal with the more difficult times, you need to consider at the design stage the kind of clauses to include and how they are framed and worded, thinking about how that may help you later if a problem is encountered. Drawing on the learning from our review of the literature, we address the most common questions about the most effective use of contracts in Table 5.

Social and relational mechanisms depend on trust

To be effective, relational mechanisms to manage risk depend on trust. In fact, the literature identifies trust as the backbone of partnership arrangements, being:

- a control for risks
- an outcome of business relations
- a predictor of performance.

Although relational governance is not an alternative to contractual approaches, high levels of trust can significantly enhance the contractual element of governance and hence the effectiveness of a partnering arrangement.

The level of trust determines:

- how dense a contract needs to be
- the extent to which contractual terms may be adhered to flexibly
- how quickly negative cycles of behaviour may be entered into or got out of
- the extent of monitoring and enforcement of formal contracts needed, which can be costly
- the extent of informal communication, information exchange and problem-solving.

Trust is a psychological state – based on a history of previous transactions and your perception of whether trust is reciprocal. As time goes by, with good levels of trust, partners are increasingly likely to rely on social and relational mechanisms to regulate their own and other partners' behaviour, perhaps even informally flexing formal contracts for the benefit of the arrangement (Salk 2005). On the other hand, if trust breaks down, partners will revert to and rely more on the formal contract (Figure 5).

> *Trust is about accepting a certain amount of uncertainty but being willing to take risks and go into the unknown because you trust the other party that they will act in a positive way towards you. So it is about a willingness to make oneself vulnerable in the face of uncertainty or insecurity.* (CIPD 2012, p5)

Tabel 5: Common questions about the most effective use of contracts

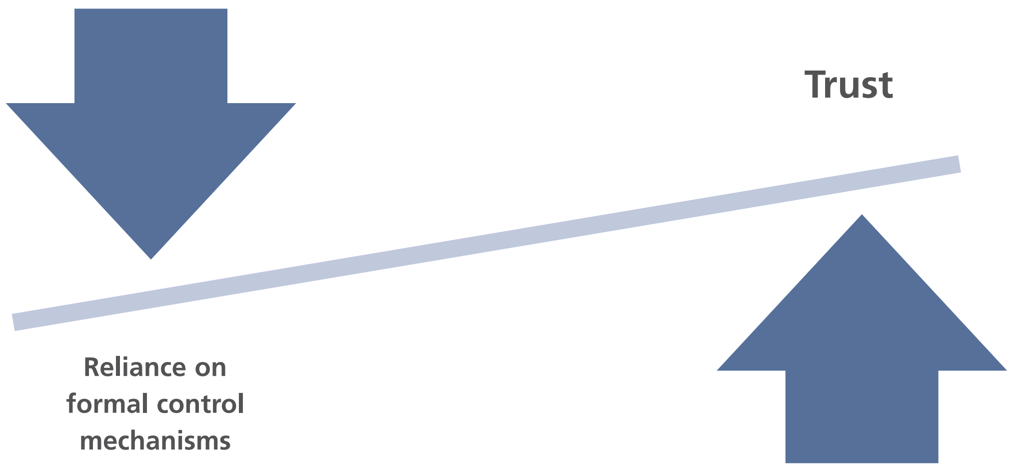
1. **When is it best to use a higher level of contract complexity?** Denser contracts are needed when the following are high: switching costs, strategic centrality of the partnership, or uncertainty about future needs. However, denser contracts are associated with higher monitoring and enforcement costs (Barthélemy and Quélin 2006).

2. **What is the best way to frame clauses in inter-firm contracts?** It is possible to promote superior levels of collaboration and vigilance by couching clauses in terms of both prevention (loss to the partnership) and promotion (gain to the partnership) (Higgins 1998).

3. **Can contract terms impact perceptions about partnership behaviour?** The way the contract is framed and worded determines the subsequent emotional reaction to any ambiguous behaviour. Terms can be coloured in a positive light.

4. **Can the language used in contractual clauses help to avoid subsequent violation of expectations?** Clauses can play a positive and technical co-ordination role, without provoking levels of distrust (Vanneste and Puranam 2010). 'Expectation alignment' clauses are more effective than 'enforcement' clauses (how you will enforce requirements). However, as you may be reverting to contracts in times of difficulty, you need to make sure they are detailed enough to help you to resolve issues. This includes ensuring (at the point of design) the partnership contract is co-written with rich task descriptions regarding the expectations of each partner, and details of important processes that need to be in place (Mayer and Argyres 2004).

Figure 5: Levels of trust between partners can affect the use of formal control mechanisms



Attention to trust is vital, as the loss and breakdown of trust is known to create real additional costs (CIPD 2012), including:

- reducing co-operation and information-sharing
- stifling the potential for innovation
- diverting the time of both employees and managers into non-productive activities, such as additional monitoring duties for managers, and counterproductive work behaviours or alternative job search activities for their staff.

And *'trust is harder to restore once it is broken than it can be to build in the first place. Once employees feel vulnerable or exploited and taken advantage of, they will become more suspicious of the motives and intentions of an organisation and its leaders and managers. They will require more communication and greater reassurance than those with whom breach has not occurred'* (CIPD 2012, p6).

Promoting inter-organisational trust

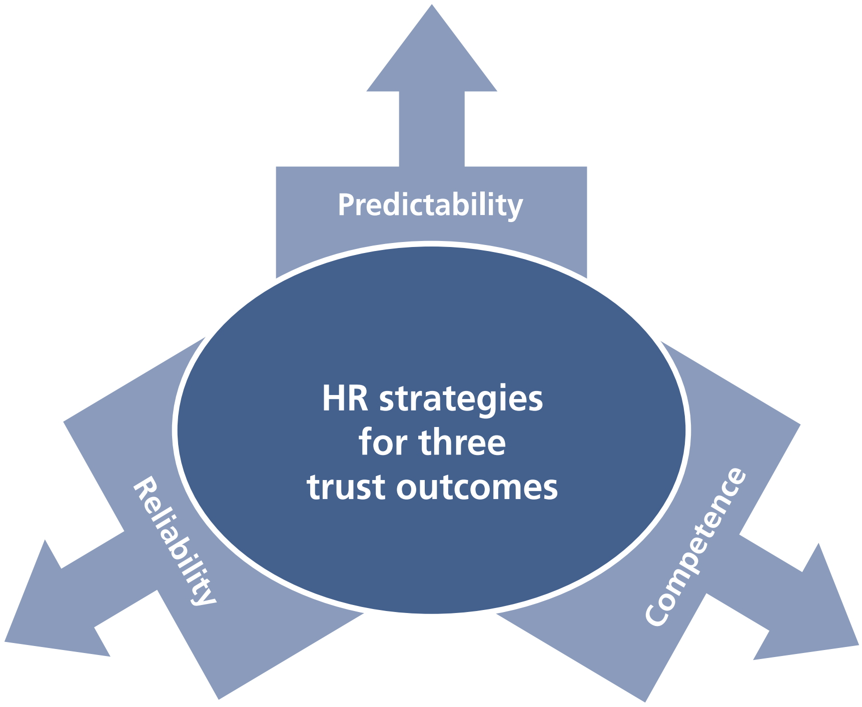
The majority of research on trust focuses on interpersonal trust (CIPD 2012). Inter-organisational trust, the issue we look at here, has had less attention. However, some international business research has examined how inter-organisation trust can be built up in order to manage risk (for example, Dyer and Chu 2000; Helper and Sako 1995; MacDuffie 2011; Nishiguchi 1994; Smitka 1991; Zaheer et al 1998). This research has found that:

- Organisations cannot really trust each other. However, organisations can capture important insights about how to promote and enhance trust, and ensure these are passed on to new people working within the arrangement. For example, what is considered to be acceptable, mutually competitive and risk-taking behaviour as well as the behavioural expectations for those working in the network.
- There are different types of trust that have to be developed:
  - operational trust (trust in each other's systems and processes and in the mutual development of systems and processes needed to support partnership effectiveness and joint learning) and
  - relationship-based trust between individuals and teams.
- Similar to inter-personal trust, inter-organisational trust can be: a control for risks, an outcome of business relations, a predictor or antecedent of performance, or can act to moderate other factors.

When we look at the research on both individual-level trust and inter-organisational trust together, common to both fields of study are three factors that people

‘Governance is surprisingly people-centric.’

Figure 6: HR strategies for promoting trust across the partnering arrangement need to focus on three outcomes



think about and assess when making a judgement of whether they trust the other party: the other’s predictability, reliability and competence (Figure 6). Therefore HR strategies devised to generate and maintain trusting relationships between partners need to focus on promoting these three factors. HR needs to devote time to considering how tasks, systems, processes and employee behaviour promote reliability, predictability and competence.

The appropriate balance between structural and relational governance mechanisms

We have highlighted the need to adopt a combination of structural and relational governance mechanisms and that these mechanisms are inter-dependent. To help assess the most appropriate balance to adopt between structural and relational governance mechanisms for a particular partnering arrangement, we have summarised the key points about each in Table 6.

HR’s role in effective governance

Governance is surprisingly people-centric. Applying an HR lens throughout the process has the potential to increase the effectiveness of partnering arrangements. We’ve seen that there is an obvious role for HR in relational aspects of governance, in particular in promoting trusting relationships between partners. However, it is also clear that HR has a role to play in the structural approaches to governance, as the way formal contracts are framed affects the expectations and behaviour of partners. And HR can provide insight to inform decisions about the appropriate balance required between structural and relational governance mechanisms.

With every partnering arrangement, there are some essential starting questions about governance that HR should consider. Answers to these questions will help determine the level of HR work that is required to support the effectiveness of partnership arrangements.

- Which type of governance is being applied in practice, or taking precedence?
- How assured are you about the appropriate level of governance currently afforded by each potential governance mechanism (contractual or relationship-based)?
- What level of risk is there to alliance performance, given historical or existing contractual arrangements?
- Building on your responses to the previous points, where is HR’s contribution most required?

Summary

In this section we have discussed the choice of governance mechanisms in partnering arrangements to manage risk and/or mitigate the impact of issues arising. In the next section we will address the next of the three over-arching themes we found to affect the success of partnering arrangements: building the capability for learning and knowledge-sharing.

Table 6: The key learning about the two overarching approaches to governance

Structural governance	Relational governance
More important when the key is to:	
• create a predictable collaborative environment • co-ordinate partner activity • mitigate hazards associated with partnership arrangements: it is not possible to control all risks (particularly systemic ones) so contracts can be used to help mitigate the 'damage' if problems do occur • have structural arrangements in place to deal with crises in the arrangement which help to problem-solve.	• foster communication and trust early in key social exchanges • use knowledge and information for the benefit of multiple partners • build competency trust (ability to perform according to expectation) and goodwill trust (belief that they intend to do so) between partners (Das and Teng 2001) • enable joint problem definition and solving mechanisms that allow for mutual adjustment of performance.
Key learning:	
• The initial structural design of partnership transactions is the most important factor in explaining subsequent performance (Hennart 2006). • A key issue is how formalised and complex the content of contracts needs to be as a safeguarding mechanism. • To mitigate risks of opportunistic behaviour and the need for legal enforcement, it is advisable to include penalties for violating behaviours in the contract. • In addition to a safeguarding role, contracts serve a co-ordination role. Therefore it is necessary to provide precise divisions of labour and include procedures about how dispersed activities will be conducted. This will also serve to simplify decision-making. • And when dividing tasks up between partners, it is important to also have joint tasks as they will promote joint sense-making and joint working. • You need to specify the required mechanisms by which performance will be measured across the partnership arrangement, including outputs, partner behaviours, task division and the way information flows. You can then identify areas requiring attention. • Contracts may be narrow, meaning they are based solely on outcomes, for example defining milestones, target dates and performance standards. Or they may be broad, focusing on both outcomes and the behaviours needed for partnership success. • Broad contracts are considered most beneficial, as a focus on both outcomes and behaviours is associated with improved quality of joint sense-making (facilitating joint problem definition and solution and making it easier to resolve unanticipated problems). • Where one partner has a strong bargaining position, they tend to ignore the need for broad contracts, but this is not advisable.	• Relational governance is required for effective knowledge and information exchange, reciprocity in both problem definition and problem solution, and ease of making multiple adjustments to the performance of the partnership. • Investing in relational governance provides more of an assurance that knowledge and information will be used for the good of the partnership and that opportunistic behaviour will be minimal, reducing the need for costly and inflexible safeguarding mechanisms (Ring and Van de Ven 1994). • Research suggests that partners effectively exchanging information and knowledge increases the speed at which they can get to mutually acceptable adjustments to partnership operations (Salk 2005). • The quality of joint problem-solving, decision-making and ability to work together at the operational level influences the level of goodwill and trust at the managerial level (Faems et al 2009). • Attention needs to be given to anticipating and proactively supporting the transition of individuals in and out of the partnering arrangement in an effort to preserve the social capital within the arrangement.

Building the capability for learning and knowledge-sharing beyond your organisation

'There is a desire to be able to combine complementary knowledge across the partners for competitive advantage'

Building the capability for learning and knowledge-sharing is the third major theme that HR needs to focus on to support their organisation's collaborations and partnering arrangements. As well as being responsible for ensuring internal learning and knowledge- sharing capabilities within their own organisation, they now have to support development of these capabilities for the partnering arrangement as a whole. But whose HR team bears the responsibility and cost of doing this?

Timely knowledge-sharing and the ability to acquire and make use of the learning from others can add notable value across the partnering arrangement; this has been especially evident in the supply chain literature (Hernández-Espallardo et al 2010). However, sharing knowledge and learning across organisations in the chain is never free of costs – time and resources have to be invested in the knowledge-sharing – nor free of risks – those firms that supply much of the knowledge or capability development become more vulnerable as they get locked into relationships, having invested resources in other partners and there are risks around how others will use that knowledge.

Why is developing capability for learning and knowledge- sharing so important?

There appear to be three main forces (Figure 7) making the capabilities for learning and knowledge-sharing so important for competitive advantage (of both your own organisation and the partnership):

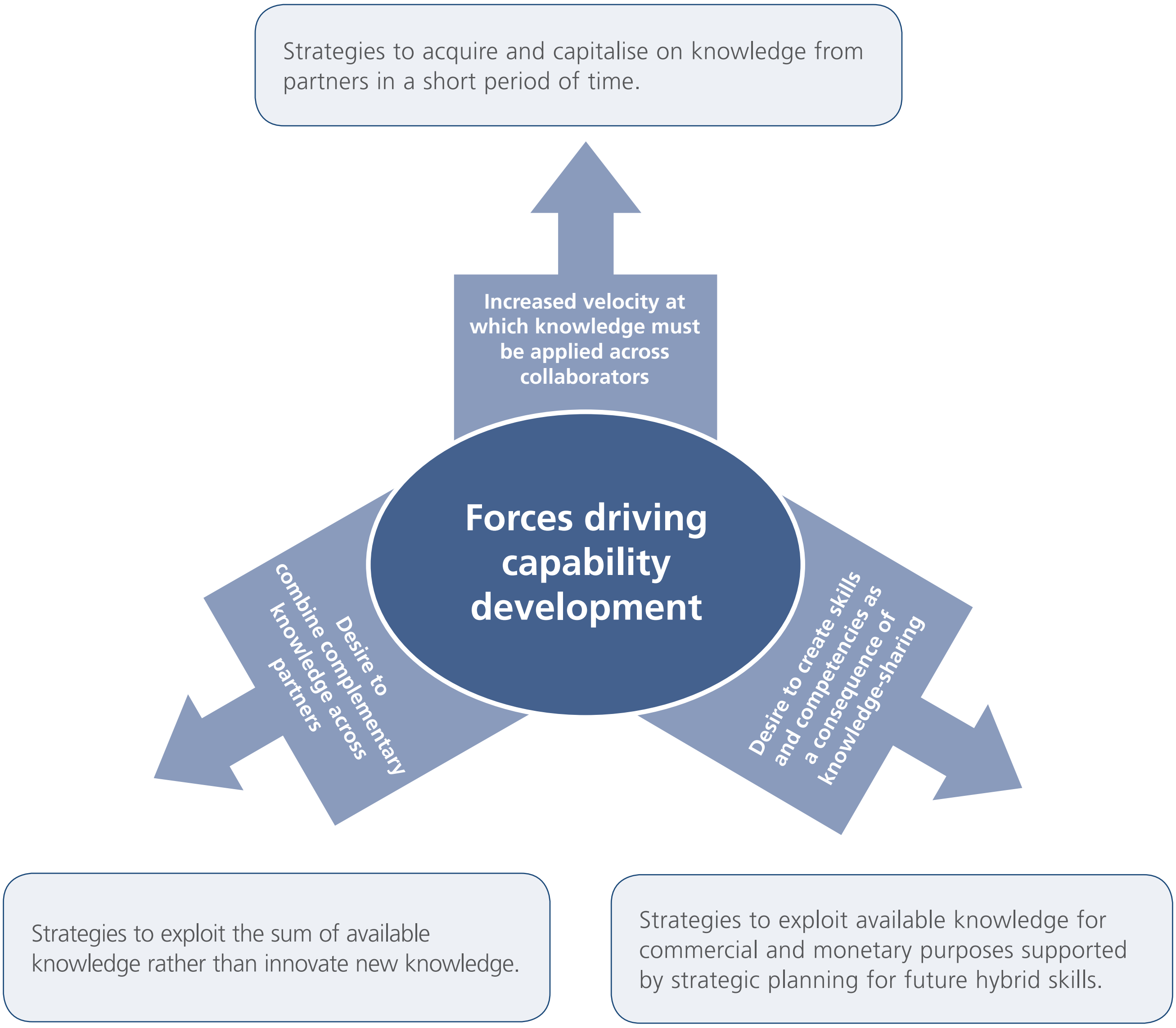
- the 'velocity' at which knowledge must be applied across collaborations, characteristic of the fast world we are operating in, making it important for partners to acquire and capitalise on knowledge in a short period of time
- partners' desire to quickly acquire and exploit others' knowledge, skills and competencies for commercial and monetary purposes
- there is also a desire to be able to *combine* complementary knowledge across the partners for competitive advantage – 'the whole is greater than the sum of its parts'. Research in the fields of knowledge management, technology transfer and organisational learning reveals how knowledge can be spread across organisation boundaries so it can be transformed by all into new products, processes and services (for example, Jarillo 1988; Millar et al 1997; Phillips et al 2000; Powell et al 1996; Swan and Scarbrough 2005).

Models of cross-partner learning and knowledge-sharing

When working out how best to develop and share knowledge, regardless of the type of partnering arrangement, there are four main categories of knowledge that have to be developed (Garud 1997):

- know-how (common understanding of procedures)
- know-why (understanding of the principles involved)
- know-what (understanding customer needs of the collaboration)
- know-who (information about who knows what to do).

Figure 7: Three forces driving capability development across partnering arrangements



The literature on knowledge-based collaborations suggests four different models for how partners can share these different categories of knowledge and learn across their networks. Partners may choose to adopt more than one model across the life of an arrangement, flexing their focus according to the needs of the particular collaboration.

1 **Open innovation:** bringing together different competences or technological capabilities from both inside and outside of the organisation to achieve some commercial ends (Chesbrough 2003 and 2004). The move to open innovation involves making the firm's boundaries more permeable. In an open innovation model, there tends to be a large organisation with a well-known brand and significant resources that acts as the centre of gravity for the network, attracting others to the network through its 'gravitational force'.

In the next three models, there tends to be an absence of a single centre of gravity in the collaborative arrangements (for example, Buchel and Raub 2002; Canzano and Grimaldi 2004; Mentzas et al 2006). Partners are inter-dependent, needing to share knowledge between them (for example customer intelligence) for the benefit of the arrangement as a whole.

2 **Knowledge supply-chain networks:** knowledge integration and the interaction among partners need to be managed. For example, toy manufacturers in Hong Kong require their global customers (retailers) to share their sales, marketing issues and data, so that the manufacturing process can be adjusted based on inputs from the customers at every stage of the value creation process. The retailers benefit as well, as they

'HR specialists need to get involved early during the formation of the collaboration, to agree the learning agenda.'

can avoid marking down sales prices or requesting rebates from the manufacturer.

3 **Business networks:** a constellation of firms is established in order to satisfy business requirements. For example, small and medium-sized enterprises operating within regional industrial districts (a competitive arrangement common in Italy, Germany, France and the United States) make use of flexible multi-use equipment, co-operative research, marketing and finances, in order to strengthen the ability of all members to meet the demands of their customers/suppliers.

4 **Research networks:** networks are formed with the goal of creating new knowledge, with every partner carrying out research activity without any lead organisation. For example, the European Organization for Nuclear Research (known as CERN) operates the world's largest particle physics laboratory, funded by 20 member states, and hosting 10,000 scientists from over 113 countries. It is famous for work on the World Wide Web and the Higgs-Boson particle. International collaborations like this benefit from the shared infrastructure costs and data processing facilities.

Overall, as a result of higher levels of uncertainty, increased costs of R&D, and shortened innovation cycles, there has been a shift from closed models of innovation to more open and user-centric models. In addition, the immediacy of knowledge-sharing presented by technology is both an enabler and driver of open innovation.

Adopting a network approach to learning and knowledge-sharing: key responsibilities for HR

Co-ordinating and developing the capability to promote knowledge-sharing and learning across a whole network, as opposed to just within your own organisation, creates a significant shift and increased remit for HR professionals. HR specialists need to get involved early, during the formation of the collaboration, to agree the learning agenda for the partnering arrangement. Activities across the network of partners need to be aligned to ensure the rapid transfer and capture of knowledge. In addition, each partner needs to ensure they have the capabilities required to bring the learning from the arrangement, and the knowledge they have access to through partnering, back in-house.

But this increased remit does not mean attention can be taken away from internal learning and knowledge-sharing. Learning across the network depends on individual partner organisations having a strong internal focus on developing key capabilities and knowledge. HR will need to balance the tension between their own business needs and the needs of the partnering network.

Drawing on our review of the literature, Box 1 outlines the key HR activities that help promote learning and knowledge-sharing across a network of partners.

Box 1: How HR functions can enable learning across the network

Set the required learning agenda up front

- Establish an architecture that enables the emergence of the required capabilities, the building of them, or their skilful capture from the network (Ojasalo 2008; Matheus 2009; Godbout 2000).
- Build learning and knowledge-sharing into the collaboration agreement.
- Specify each partner's responsibilities for sharing knowledge and developing capabilities and skills.
- Manage four types of knowledge: know-how (common understanding of procedures), know-why (understanding of the principles involved), know-what (understanding customer needs of the collaboration) and know-who (information about who knows what to do) (Garud 1997).

Identify where to focus time and resources across the network

- Outline the strategic capability requirements of the network.
- Identify key people in the network who possess the required capabilities, have access to resources and/or are gatekeepers of knowledge, to understand how the network operates.
- Determine what leverage and capability development potential each actor has.
- Identify members of the network to focus development on.
- Ascertain who and what stands in the way of those people or business units learning and what would enable learning.

Promote a culture of learning at the individual level

- Communicate the 'strategic narrative' for the partnership to employees so they understand the aims of the collaboration and why development of certain knowledge, skills and capabilities is important.
- Build talent development plans to cover the existing 'blind spots' or capability gaps.
- Establish learning-driven career plans.
- Facilitate individual-level learning.
- Use cross-training to stimulate the learning process.

Ensure structures, systems and processes support learning and knowledge-sharing

- Ensure the organisation's underlying structures do not inhibit knowledge-sharing.
- Connect people and technology from different organisations.
- Align the training and learning strategies, content and processes across partners to achieve network objectives.
- Ensure reward and recognition align with and promote learning and sharing activities.
- Align performance targets and management processes across the partners (Ragatz et al 1997; Dyer and Nobeoka 2000; Ritter and Gemünden 2003).
- Design the performance assessment approach to reflect and reinforce the training and learning strategy.
- Be aware of intellectual property rights based on principles of non-disclosure.

(continued on page 22)

Promote a culture of learning at the network level

- Create cultures that learn based on open-mindedness, knowledge-friendliness, reputation and trust.
- Establish learning communities that have common purpose and incentives for successful knowledge production and exploitation.
- Have people or units that act as 'systems integrators' who operate at key connection points between partners – people with specific responsibility for ensuring that the multiple collaborating organisations integrate knowledge across all parties (Hobday et al 2000; Prencipe 2005).
- Have a small number of powerful lead-managers, acting as intra-preneurs, creating a strategic community both within and outside the organisation to forge connections and ensure the communities work together (Kodama 2000).
- Establish trusted relationships among the various communities, networks and stakeholders that are brought together (Hafkesbrink and Schroll 2011).
- Develop competence in managing inter-firm communication processes (called network competence) to support the development of: a shared vision across network members; and a shared sense of identity through customer project teams, cross-departmental communication, secondment, and co-location of key personnel.
- Enable members to benefit from expertise beyond the immediate network, such as via social media, individual experts and freelancers (Hafkesbrink and Schroll 2011).

Monitor activity across network partners

- Monitor the alignment between the HR practices of all partners and how that facilitates or hinders knowledge-sharing and learning.

In addition to the specific activities for HR listed in Box 1, the literature also points to some subtleties, which HR needs to be aware of, which can affect the success of efforts to promote learning and knowledge-sharing across the network of partners. Three examples of these subtleties are detailed below.

Managing hard-to-replicate expertise and capabilities

There will be some competencies that are considered of high strategic importance for the whole network. However, it is important to be aware that the same competencies can manifest themselves slightly differently between organisations or business units (see case study). HR's approach to skills development and knowledge and capability transfer strategies has to be sensitive to such differences.

Understanding how learning across the network actually happens

In Box 1 we talked about HR needing to identify the people in the network who possess key capabilities, have access to resources and/or are gatekeepers of knowledge. When doing this it is important to look both at the formal allocation of roles as well as the 'informal firm' by which learning and knowledge-sharing also happens. These 'network pictures' (Häkansson

Case Study: Aircraft components manufacture

Alenia Aeronautica is a leading Italian company that, as part of the Finmeccanica Group, is involved in the design and manufacture of aircraft components on several programs (such as the C27J, ATR, F35 JSF, Eurofighter Typhoon, Boeing 787 Dreamliner, and unmanned aerial vehicles).

It found that in managing the competencies considered to be highly strategic for the network, and in developing plans and actions for the continuous monitoring, scouting, and development of these competencies across partners, even apparently alike competencies were subject to differences (Corallo et al 2010). These included differences in organisational shape, culture, availability of resources, and the depth of organisation development surrounding each competency.

and Ford 2002) reported by those in the network may differ from the formally espoused knowledge-sharing processes and responsibilities.

Creating new knowledge versus leveraging existing knowledge

As discussed above, organisations can increase their competitive advantage by developing new knowledge and/or synthesising existing knowledge from across the network. Both require investment of time and resources, and different capabilities.

Organisations therefore need to simultaneously reconcile the tension between the amount of time, resources and capability development devoted to knowledge exploration and the amount devoted to knowledge exploitation activities. In the management literature, organisations that are able to effectively balance this tension are referred to as 'ambidextrous organisations' (O'Reilly and Tushman 2008).

A CIPD (2013) research project focused on *HR and Its Role in Innovation* examines how organisations explore new practices and ways of doing things, and how they exploit and improve current practices to leverage maximum value.

Through case study examples, we identify managerial actions that support the achievement of the appropriate balance between exploitation and exploration. Some of the organisations we studied are exploring new ways of delivering services as well as further exploiting their existing service offerings.

Summary and what's next

'With this new way of working becoming more prevalent, expertise in this area is vital for competitive advantage.'

As we have seen throughout this report, managing HR *beyond the organisation* involves a significant shift in the way we work, both for the HR function itself and for those working in the partnering arrangement. We have focused in turn on each of the three main themes that past studies have shown to affect the success of arrangements, outlining the key people-centric issues associated with each. We hope that this initial scoping the territory work is of interest to HR professionals and managers working in partnering arrangements, providing an overview of the main challenges and opportunities likely to be faced.

Our review of the literature also highlighted some overarching issues concerning the design and operation of the HR function itself. We will be addressing these issues within a separate report (to be published in November 2013), looking at the choices to be made around the most appropriate HR architecture needed to support the success of partnering arrangements. With this new way of working becoming more prevalent, expertise in this area is vital for competitive advantage.

Overall, although both parts of our literature review have enabled us to identify many of the people and organisational issues that have to be dealt with in inter-organisation business arrangements, it is clear that there are still many unanswered questions concerning how HR can address them in practice.

Building on this initial *scoping the territory* phase of work, the CIPD will therefore be continuing to work with Professor Paul Sparrow from the Centre for Performance-led HR at Lancaster University on a further phase. We will conduct case study research with organisations engaging in a range of partnering arrangements to try to shed more light on how, in practice, HR can manage some of the challenges and opportunities we have highlighted. This will be published in 2014.

Appendix: methodology

This review summarises the emerging lessons from the inter-organisational studies field of general management research. This research field provides us with some interesting insights into the issues involved when managing *beyond the organisation.*

Articles were initially sourced through a first-stage search of the ABI Inform database, using search phrases of 'inter-organization management', 'inter-organizational integration' and 'inter-organization'.

The second stage of the search focused in on the overarching themes which had emerged from the first stage. We searched for the three phrases above, in combination with the terms 'risk', 'governance', 'relationship management', and 'capability building'. We have focused on papers published since 2000, and have drawn upon some of the key papers that these studies in turn have relied upon. In the report itself we have referenced the papers we have drawn directly from, but our review included many more, and all helped to uncover the main themes we discuss.

Why is this type of literature review important?

1. First, if HR functions are to speak the language of business, and contribute to strategic agendas, they need to consider the messages from general management research into these sorts of business relationships.

2. Second, the research shows that there is already a useful understanding of the sorts of organisational behaviours and people management issues that are involved in the strategic management of these sorts of business relationships which can inform our programme of work in this area.

Glossary

Business model: The rationale, or performance or design logic that enables an organisation (or group of collaborating organisations) to pursue a business opportunity. The model is used to explain how an organisation creates, delivers and captures economic, social or cultural value. In articulating how the performance logic works, managers have to explain how a number of aspects of the organisation have to be structured and aligned, including its purpose, offerings, strategies, infrastructure, formal structure, management practices, and operational processes and policies. They also have to explain how financial and non-financial resources have to flow through different parts of the organisation, and how the value of these resources must be interpreted and acted upon at each stage.

Collaboration: A business arrangement in which two or more parties that may or may not have had a previous relationship, have to work jointly towards a common goal.

Inter-firm network: A group of organisations that partner and/or co-operate with each other in order to provide expanded products and services. It could be an alliance of related organisations that own a stake in each other in order to protect mutual interests, and must share knowledge and co-operate to control its sector of the business. Such networks, such as the *keiretsu* arrangement in Japan, typically include large manufacturers, their suppliers of raw materials and components, and banks.

Inter-organisational relationships: Transactions between organisations that involve the flow of products, services, money, information or communications from one to another. The relationships may be formalised, based on written contracts, or semi-formal.

Joint venture: An association of two or more individuals or companies engaged in a solitary business enterprise for profit without actual partnership or incorporation. A contractual arrangement that joins together the parties for the purpose of executing a particular business undertaking. All parties agree a share of the profits or losses of the undertaking. A new and distinct business unit may be set up to execute the business transactions involved.

Knowledge-based inter-organisational collaborations: Where organisations combine competences across customers, competitors, suppliers, sub-contractors and partners, share resources, and distribute risks for either minor incremental or radical innovations.

Multi-employer networks: Situations where organisations collaborate across boundaries to jointly produce goods or provide services and the employment experiences of workers are shaped by more than one employer.

Open innovation: The sharing of internal ideas, and internal and external paths to market, as the firms advance a technology, involving the buying or licensing of processes or inventions, such as patents, from other companies. Internal inventions that are not used in an organisation's business may be taken outside the organisation through licensing, joint ventures or spin-offs.

Outsourcing: A contracting-out arrangement in which one organisation provides services for another that could also be, or usually have been, provided in-house. The arrangement can apply to any task, operation, job or process that could be performed by employees within an organisation, but is instead contracted to a third party for a significant period of time.

Social partnerships: Partnerships in complex social areas – such as economic development, healthcare, crime, and poverty – where no one single entity or organisation can perform alone but has to work and collaborate with multiple organisations and stakeholders.

Strategic alliance: A strategic mode of integration that is achieved through a formalised collaboration, whereby two or more organisations co-operate on part(s) or all stages of a business venture, from the initial phase of research to marketing, production and distribution.

Strategic network: A set of connections between organisations with the objective to establish a relationship between firms and partners (such as competitors, customers, or suppliers).

Supply chain: Networks of organisations that are linked through upstream (supply sources) or downstream (distribution channels) processes and activities, in ways that are necessary to produce value in the products and services for the ultimate consumers.

Value chain: The chain of activities that exists in a specific industry through which products or services have to pass in order to gain in value. Any one organisation or business unit has to be able to perform a range of these activities in order to deliver a valuable product or service. A value chain may extend beyond a firm and be thought about across whole supply chains, distribution networks, and even across previously distinct industrial sectors. This is called a *value system*. Strategists often try to see how an organisation can capture the value that is generated along the value chain, by exploiting the upstream or downstream resources or information that flow along the chain, by-passing intermediaries, and creating new business models or ways of improving the value system.

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