

Developing successful strategic alliances



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The traditional relationship between the client, consultants, main contractor, subcontractors and suppliers within the construction industry using a traditional contract is in most cases but not all very contractual and adversarial one “ Blame Culture” which is not productive in a business as it about relationships, where the client and consultants puts all of the risk on to the main contractor who in turn passes it down the line to their supplier chain i. e. Suppliers & Subcontractors, due to the nature of the construction industry i. e. large and complex projects that need to be completed to unrealistic time frames, budget, quality, safety expectations, this is the direct opposite and goes against the grain of Strategic Alliances.

Gomes-Casseres 2003 p. 12&13 combines elements of item 1 & 2 above “ Alliances are agreements between two or more separate firms that involve ongoing resource contributions from each to create joint value, are “ incomplete contracts” where the terms of the agreement cannot be completely specified and agreed at the outset and joint decision making to manage the business and share value”

We will be adopting the characteristics of item 3 above in our business plan.

Alliances (large and small) have been around in one form or another since the early 1990's, they are used in all different industries across the world and the construction and engineering industry is no exception some notable projects that have been completed around the world using alliances are: -

Burj Khalifa, Dubai UAE, the world's tallest building was built by a Joint Venture (type of strategic alliance) by Samsung Engineering & Construction (South Korea), Besix (Belgium) and Arabtec from UAE;

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The Dubai Mall, Dubai, UAE, the world's largest retail development was built by a Joint Venture Partnership (type of strategic alliance) by Dutco Balfour Beatty (the author used to work for this company) - Al Ghandi and Consolidated Contractors International Company (DBB/AG and CCC); and Gateway Bridge Duplication & Upgrade Project, Brisbane, Australia, was built by Leighton Contractors Abigroup Joint Venture at a cost of AUS\$1. 88b it consisted of the duplication of Gateway Bridge and 20km upgrading of Gateway Motorway, including the Gateway Deviation.

This business plan has been developed using the principles of leading alliances academics, experts & practitioners in their field in particular Gomes-Casseres work to develop best practices that work, while recognising that each alliance is unique and there is no one size fits all approach.

This document is a work in progress and we would be working with the potential partners after the business alliance strategy has been established by MCS Constructions, to jointly develop the alliance operating plan, this will construct a solid foundation for a mutually beneficial relationship.

The topic of this report is " Defining a Business Plan for a Potential Strategic Alliance", there are many possible interpretations of this topic as strategic alliances have been in existence since the early 90's, are used in across a variety of different industries, companies both large and small, on a domestic and international level which can range from very simple to the complex.

Drawing upon my own life/work experiences, knowledge, skills and qualifications in the construction and engineering industry both local and international over the last 10 years plus (refer CV in Appendix ?), and considering I do not have access to relevant information on an existing alliance, I will be looking at the feasibility of developing a potential strategic alliance and defining a business plan which will include but not limited to the following areas as outlined in the elective assignment specification (refer appendix ?): -

This is drawn on the extensive life/work experiences, knowledge, skills and qualifications gained by the owner/director Mr. Matthew C. Smith in the construction and engineering industry both local and international over the last 10 years plus (refer CV in Appendix ?), which is evident in the business today.

We are exploring the feasibility of setting up a Strategic Alliance with other trusted companies within the industry, to provide its clients (Public & Private) with single-source of responsibility, a one-stop shop to complete its projects of various sizes and complexity on time, to budget, quality and safety that exceeds the client's expectations and objectives.

In order to do this a strategic alliance would provide a vehicle with capital/finance, additional knowledge, skills, experiences, expertise from the potential partner companies (Consultants, Major Preferred Suppliers and Major Preferred Subcontractors) both local & international, resources, connections, capabilities and competencies, where the clients projects

require a broad range of expertise, some of which we may not have in-house.

We would be looking at developing this alliance capability to enter the overseas and remote projects in developing and third world countries in particular Middle East / Africa / Asia etc. We would also welcome alliances closer to home (Australia) when needed and depending on our client's requirements.

Is to provide its clients (Public & Private) with a single-source of responsibility, a one-stop shop to complete its projects of various sizes and complexity on time, to budget, quality and safety that exceeds the client's expectations and objectives in an economic, efficient, ethical, environmental sustainable way.

At this stage of the business plan we have not identified any particular companies as potential partner organisations but MCS Constructions would be looking to undertake a strategic alliance that consists of both local and international firms (large or small) within the construction and engineering industry supply chain both up and down the line.

The rationale for MCS Constructions to partner with the supply chain (as outlined above) both up and down the line (forward and backward integration) for it to deliver the alliances clients within the construction and engineering industry, projects that are on time, to budget, quality and safety and exceeds the clients expectations and objectives.

We offer our potential partners our core competency of Technological Know-How and Management Know-How within our chosen area of knowledge, skills, experiences and expertise in commercial construction i. e. new build, fit-out, refurbishment and heritage listed work. We would be looking for a potential partner with which would complement us and provide capital/financing, additional resources, capabilities, competences, skills, experiences, knowledge, connections, expertise etc.

The anticipated benefits would be that MCS Constructions would be able to grow and expand its business overseas into new markets with the additional capital/financing, resources, capabilities, skills, experiences and expertise in their chosen area i. e. Consultancy, Major Preferred Suppliers and Major Preferred Subcontractors, to share risk/reward (Gain/Pain Share) and an opportunity to learn.

Now we have made the decision to enter a strategic alliance, we have many choices to be made that relate to the design of the alliance, scope, goals, management processes including legal, tax, insurances, financing, structure etc. This will be outlined in a formal alliance agreement (refer to appendix ? for a sample copy).

In relation to legal, tax and insurances, performance bonds/guarantees, profit etc. (for the purposes of this report is outside its scope) this will depend on the local jurisdiction that the strategic alliance is under i. e. Country that the alliance is operating in for example Dubai, UAE it is a requirement that international companies setup a joint venture to partner

with a local company “ sponsor” where 51% will be owned by the local company and 49% by the international company.

The author used to work for Dutco Balfour Beatty LLC in Dubai, UAE which was 51% owned by the local company Dutco and 49% owned by Balfour Beatty the international company. On a separate note the author used to work for Balfour Beatty in the UK.

There are three major forms of strategic alliances Joint Venture, Equity Strategic Alliance and Non-Equity Strategic Alliances, the final decision on the form will be negotiated between all parties to their mutual benefit, but it is envisaged that we will use a Non-Equity Strategic Alliance (refer to definitions section) which over time may develop into a Joint Venture.

Stage 1: - Utilise the alliance partners specialty in their chosen area, we will allocate tasks and responsibilities to each partner on the basis of what they do best, we will tender and bid for constructions and engineering projects in various target markets/segments, tendering and bidding for projects requires capital, resources, time, etc., if we are not successful at winning work we will continue to look for other opportunities, if we are successful at winning work then we will move into Stage 2;

Stage 2: - Once we have successfully won and been awarded the project/contract from the client we will enter the Project Stage where we will utilise the alliance partners specialty in their chosen area, we will allocate tasks and responsibilities to each partner on the basis of what they do best, the project stage will depending on the type, size, complexity of the project

be broken down into various stages which will typically following a traditional matrix: -

Alliances Specific Strategy and Alliances Analysis & Selection this will be undertaken by the Senior Management of MCS Constructions championed by the owner / director Mr. Matthew C. Smith but will include other internal resources HRM, Accounting / Finance / Legal and Operational Managers, as well as external consultants when required and needed such as Facilitator, Lawyer, Investment Bank, Strategic Alliance Management Consultants i. e. Vantage Partners to provide their expertise as this is the first strategic alliance for MCS Constructions.

Alliance Value-Creating Negotiations, Operational Planning and Structuring this will be continued by the owner / director Mr. Matthew C. Smith and the senior management of the preferred potential partner once a MOUP has been enacted by all parties including a non-disclosure confidentiality agreement, this is to continue to build the relational capital and trust between the parties moving forward. According to (Gomes-Casseres 2003 p. 120) 64% of poor or damaged relationships between firms are the foremost cause of alliance failure.