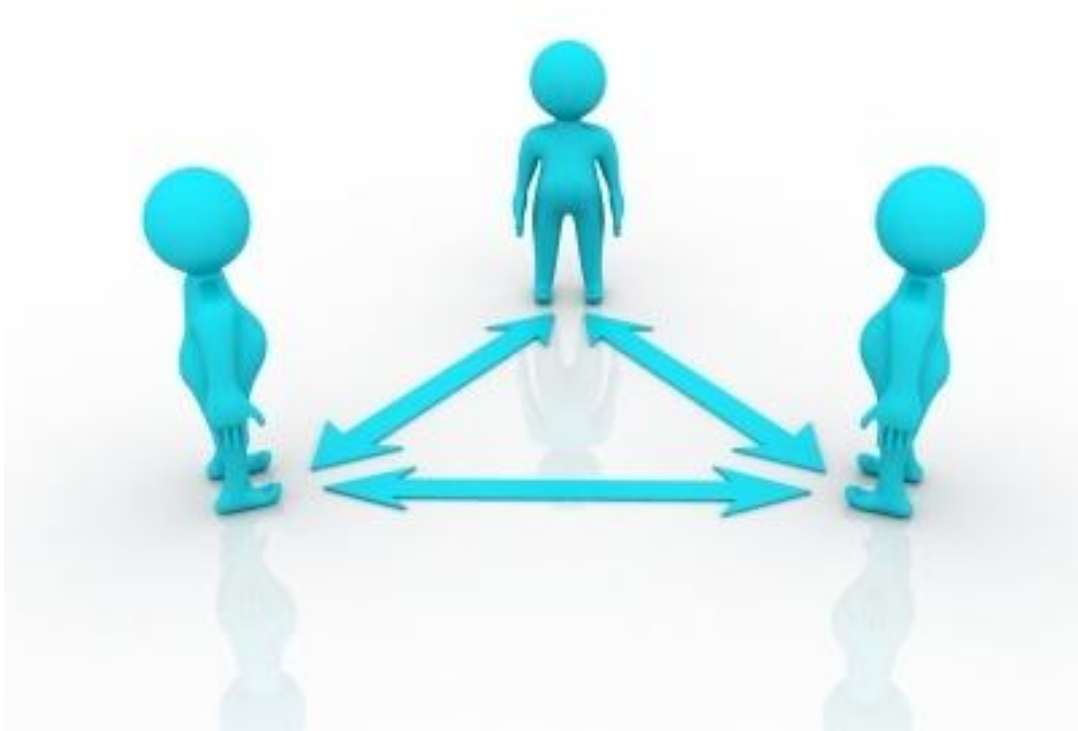


Cross-Sector Partnership Formation

What to consider before you start?



Cross-Sector Partnership Formation

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Colophon

The Partnerships Resource Centre

Internet: www.rsm.nl/prc

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This is a draft document. Comments and updates are very welcome:

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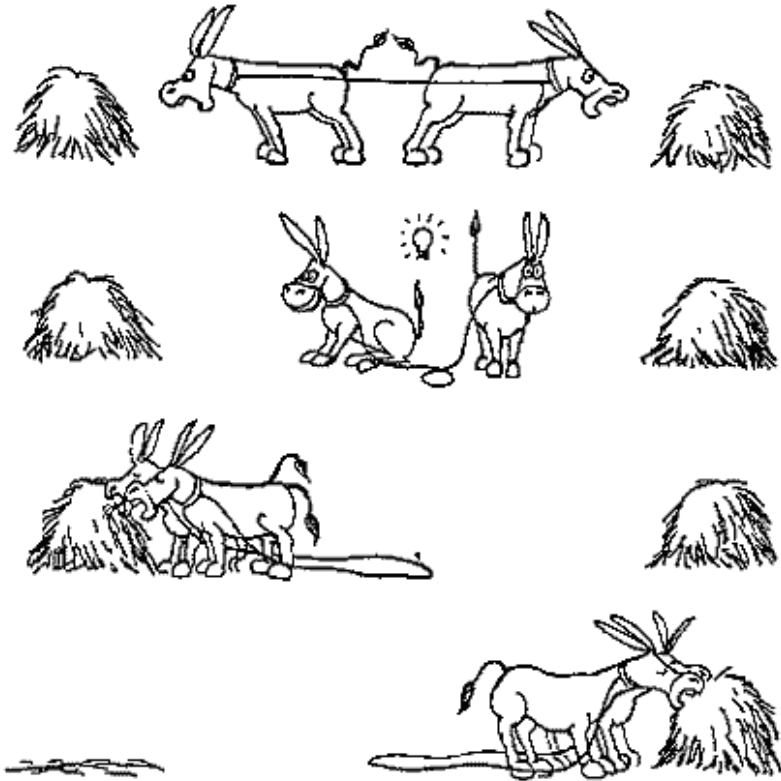
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Abbreviations

- M&E** Monitoring & Evaluation
- MoU** Memorandum of Understanding
- MSI** Multi-Stakeholders Initiatives
- NGO** Non-Governmental Organisation



Preface

A cross-sector partnership is a collaborative effort in which parties from different societal sectors pool resources to provide solutions to (perceived) common problems. These partnerships are often rather complex because of a number of reasons: (1) they address complex issues, (2) they are implemented under (often) uncertain circumstances, and (3) they bring together parties that each have a different language, a different culture, and different interests and strategies. This knowledge is not new, but has been poorly understood so far. Complexity is further increased by the factors that influence the actual *formation* of a partnership when they are not well understood or managed as well.

This poor understanding of the complexity of partnership formation, is reinforced by the fact that scientific research has largely ignored the formation phase of partnerships. By far, most partnership research has focussed on the last two stages of the so-called ‘partnership lifecycle’: Implementation and Institutionalization/Extinction. Recently, scholars start moving towards the idea that many failures of cross-sector partnerships originate in the initiation/exploration phase, i.e. at the very beginning of partnership formation. In the formation phase of a partnership, important decisions are made on the inclusion or exclusion of particular partners, the design of the partnership, or the definition of the problem. Sometimes, these decisions are taken after close scrutiny of the issue at hand, and the pros and cons of potential collaborative partners. More often, partnerships are opportunity driven, they are ad-hoc constructed, intuitively defined and often based on already familiar parties. In particular in the formation phase there exist a tension between strategic intend and strategic reality. For most parties the partnership formation phase itself presents as a ‘black box’.

The aim of this booklet is to enhance the rationality of the early stages of the partnership formation process: (1) define the motivations of a partnership (intrinsic, extrinsic, opportunity-drive or issue-driven), (2) specify the various steps in the formation process, and (3) list important factors that play a role in each of these steps. The prime audience for this booklet are practitioners who should find pointers, factors and tips to take into account either before considering a partnership or when confronted with problems and barriers in the actual partnership formation process.

We have used two sources of information for this effort. One is a systematic literature review of the scientific research on the topic or related topics (Reeder, 2012). The selected bibliography provides a wide array of sources from a variety of disciplines. Equally important, however, is that we consulted practitioners and experts to get their views of defining factors and identifiable routes in the formation process. The combined insights of scientists and practitioners lead to a stages model of the **Partnership Formation Process**. We thereby make a distinction between **issue-driven** and **opportunity-driven partnerships**. In particular the gained insights of practitioners have stimulated us to identify a factor that has not yet been covered in the literature: **the ‘Spark’**. This is an utterly non-scientifically validated concept, which seems to play an important role in successful formation processes. Although it is a factor that has not been researched to date, it might prove to be the most important factor influencing managers to engage (or not) in a cross-sector partnership.

More information and papers on the formation phase of partnerships will become available on the website of the Partnerships Resource Centre: www.partnershipsresourcecentre.org.

1. Introduction: mapping routes and factors

Cross-sector partnerships are generally shaped around complex problems and include a large number of intricate decision-making phases. There exists a Partnership Lifecycle which - independent of objectives and composition – contains two phases and four steps: (1) the formation phase (initiation/exploration and building) and (2) the execution phase (implementation and institutionalization and/or extension) (Figure 1)



Figure 1: Partnership lifecycle

In the first two stages (the Initiation/exploration stage and the Building stage), the very foundations of the partnership are developed. When the foundations are not well developed, the partnership is bound to encounter more challenges than necessary; it could even lead to an early and unnecessary termination of the partnership.

1 Partnership initiation

Partnerships are formed when several stakeholders encounter an urgent problem which they feel they cannot or should not approach on their own. During the initiation stage, often a lead agency brings together stakeholders who define a common problem and start to get acquainted with one another.

2 Partnership building

During the partnership building stage, stakeholders become partners; they develop a common vision, define objectives and develop action plans how to achieve the objectives. In the partnership building phase, the partners also set up agreements on their (intended) roles and contributions.

This booklet will first identify two different routes in the partnership formation process which contain different steps towards implementation. Next, the factors influencing every step in this process will be discussed, whilst consequences will be drawn for each separate route. Each factor can have a different influence on the steps in the formation phase. Finally, an overview will be given of tips to consider for each step in the process in order to enhance the chances of successful partnership formation.



Picture 1: Partnership formation?

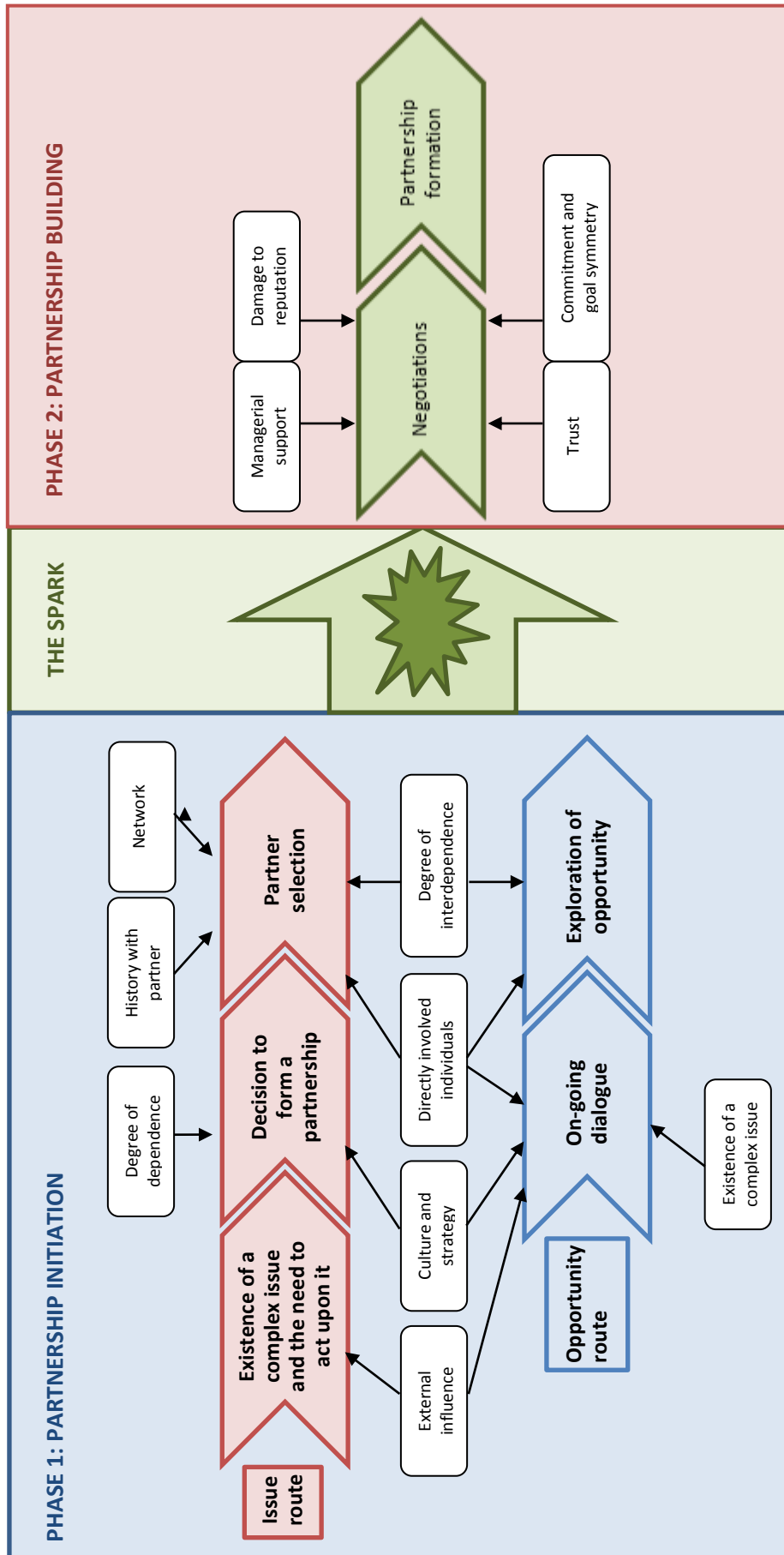


Figure 2: The partnership formation process: two routes to consider

2. The partnership formation process: two routes to consider

In practice, two formation routes exist: (1) an issue route, which is largely based on the extrinsic motivation of parties to address an issue by forming a new alliance; (2) an opportunity route, which presents a largely intrinsic motivation to use an existing partnership to address another issue. They contain different steps and experience often different influences from comparable factors. Sometimes they interact and provide *competing routes* and routines: a new partnership can substitute for an existing partnership; an existing partnership can block the successful formation of a novel partnership. Sometimes these routes are complementary and provide *mutually supportive or independent roads* towards a partnership. The challenge is to find out which factors influence each of



Picture 2: Business-NGO relationship

these routes and the nature of their interaction. The number of steps in these routes are not an indication of the time required. Any route can – and actually often does – take years to materialize. Practice shows that the more parties try to create a sophisticated formation process, the longer the process takes. An excellent example of this is the (issue route) formation of the partnership between World Wildlife Fund (WWF) and energy company Eneco in the Netherlands. It took both parties two years of negotiations to actually formalise and implement the partnership. What is particularly interesting about this example is the circumstance that WWF just terminated its (opportunity-driven) partnership with another Dutch energy company Essent, after the latter was taken over by German company RWE. RWE was known for its lesser environmental strategy and WWF chose to terminate this partnership for lack of potential goal alignment and for fear of reputational damage. It allegedly cost the NGO more than 200.000 euro in sponsoring contracts.

- The **issue route** starts with (1) the acknowledgement by one or more parties that a complex issue exists in society. It might be that the issue affects the organisation (e.g. a company that faces poverty, pollution or corruption in one of their markets) or that the organisation feels a need to act upon this issue. There needs to be a need (and/or desire) to act upon this issue by at least one organisation. The organisation then (2) identifies and analyses this particular issue and decides that a partnership might be necessary to deal with it. The complexity of the issue and the impossibility of this issue being solved by the organisation are extrinsic triggers to start searching for partnering solutions. The next phase (3) then constitutes (potential) partner selection; ideally the most compatible partner for this issue is sought. Until reaching step 3 in the process, organisations following the issue route do not have to contact other parties.
- The **opportunity route** is largely intrinsically motivated and characterised by (1) an on-going dialogue between two or more organisations that have an ambition to work together or feel that they have a shared responsibility. During this dialogue, (2) the realization grows that there is an additional opportunity for a partnership (e.g. they have a shared interest or need for solving an issue

Both routes are influenced by comparable factors which are specified in Figure 2. The academic literature lists some of these factors, but does not distinguish their effects on any of the formation routes. Academic as well as practitioners' insights will be shortly discussed per step in the remainder of this booklet. Whatever route taken, the process of partnership formation will only continue if there is a 'spark' between both organizations. The spark defines the transition from partnership

initiation to partnership building. Although we neither found any reference to the necessity of a spark in the scientific literature nor in the expert interviews, the interviews with practitioners made it abundantly clear that a certain spark is crucial in the partnership formation. It is deemed important in particular for Business-NGO relationships. The necessary spark is a feeling of shared enthusiasm, or a personal connection between the representatives of the organisations. Ideally the spark exist at all levels of the two organizations; for a spark to occur the timing should be just right.

BOX 1 What to consider during negotiations

Content related points of interest:

1. The issue the partnership addresses
2. The aim of the partnership – what does the partnership aim to achieve in relation to the issue it addresses?
3. What are the objectives of the partnership and how can these be measured?

Procedural/organizational related points of interest:

4. Name of partnership
5. Duration of the partnership—number of years or "until dissolved"
6. Location of office
7. Resource contribution of each partner
8. Whether partners may make additional contributions
9. The level at which capital accounts of the partners must be maintained
10. Participation of each partner in profits and losses
11. Salaries, if any, to be paid to partners and whether or not these salaries are to be treated as expenses in determining distributable profits
12. The amounts of any regular drawings against profits
13. Duties, responsibilities and sphere of activities of each partner
14. Amount of time contributed by each partner
15. Prohibition against outside business activities by partners that would possibly harm or be in competition with the partnership business
16. Who is to be the managing partner and whose decision will prevail in case of a tie or a dispute?
17. Procedure for admitting new partners.
18. Whether or not surviving partners shall have the right to continue using the name of partnership in case of retreat or bankruptcy of one of the partners.
19. Basis for expulsion of a partner, method of notification of expulsion, and the disposition of any losses that arise from the delinquency of such a partner.
20. Whether there should be a partnership bank account for joint financial management
21. Where the partnership cash is to be deposited and who may sign checks
22. Whether or not all partners shall have access to the books of account
23. The way in which monitoring and evaluation (M&E) of the partnership will take place and when. Which party will take care of the partnership M&E and whether there is a need for an external audit?

Source: adapted from SCORE (2012); http://scorehelp.org/lists/partnership_formation_checklist.html (consulted May 2012)

The spark prompts organisations to take the next step: actual **negotiations**. the process moves from informal to formal negotiations that usually result in a Memorandum of Understanding (MoU).

During the negotiations, all aspects of importance relating to the ambitions, objectives and organisation of the partnership should be discussed and resolved. Otherwise the partnership will start on the wrong footing. During the actual negotiation phase it is not only good to take a number of content related points, but moreover a larger number of procedural points into account (box 1). Eventually these negotiations have to result in a **formalisation** of the partnership. This is the moment at which the MoU or other contract is signed and partners are (finally) getting ready for implementation of the partnership. The latter is beyond the scope of this booklet.

3 Factors to consider in the initiation phase

3.1 Existence of a complex issue

A complex or ‘wicked’ societal issue can be defined as “... *an unregulated question or matter that is about to be straightened out*” (Jones & Chase, 1979, p. 7). Alternatively, Ansoff (1975, p. 133) defines issues as “... *risky developments or topics that could have a great impact on the ability of the company to realize its objectives*”. Complex issues also create different responsibilities for each party (Van Tulder & Van der Zwart, 2006). The most appropriate issues that should be addressed by business-NGO partnerships are the ones for which these organisations experience a shared responsibility and which are closely aligned to the core activities of the organisation. For instance, an issue like money laundering, or top executives remunerations is not very likely to be tackled by a business-to-NGO partnership. They belong to the primary responsibilities of the market sector (ibid). So-called interface issues like hunger, health, bio-industry or piracy are more common candidates for business-NGO partnerships (Van Tulder & Van der Zwart, 2006). The Millennium Development goals have acted as an important external agenda-setter for firms, NGOs and to start up an issue route. Many governments introduced the idea that many of the MDGs could best be approached through ‘public-private partnerships’, which created an opportunity for firms to link the two routes.

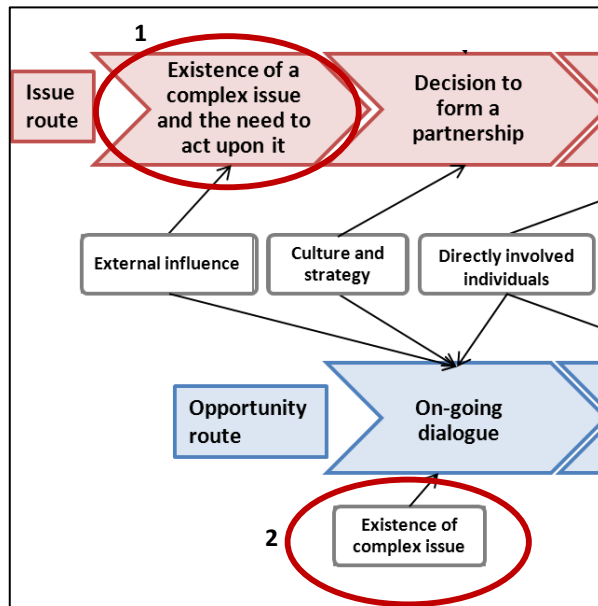


Figure 3: Existence of a complex issue

- (1) In **the issue route**, the existence of a complex issue does not necessarily mark the start of the formation process; only in case an organisation desires to act upon this. This happens in particular when an organisation defines an issue as threatening; this often prompts a reactive response. A reactive occasion also creates smaller margins in which the actual partnership is negotiated.
- (2) In **the opportunity route**, the on-going dialogue between parties that intend to start a partnership (or that already have a partnership) is at one point influenced by the existence of a complex issue that present opportunities for both parties. Parties have a more active starting position – either because they already talk to each other or because the issue is considered complementary to their own interests; which can prompt them to search for a more pro-active approach which tends to create broader margins for the actual partnership. In the opportunity route, the link with the core activities of organisations might be more loose, which again influences the bandwidth of consecutive negotiations.

3.2 External influence

So called ‘external influences’ are considered an important factor both by scholars and practitioners. In practice, external influence implies external ‘pressure’ which can serve as an incentive for organisations (be it NGOs or businesses) to perform better regarding a certain issue. The pressure to perform better can prompt parties to engage in partnerships. This can be motivated by the realisation that other parties are needed to solve the problem (active), but also motivated by the

desire to share the burden with other parties (reactive). In most cases external pressure leads to an ‘issue’ oriented route. In most instances the challenge of affected organisations (mostly companies) is whether these parties should be considered primary stakeholders that need to become part of the partnership.

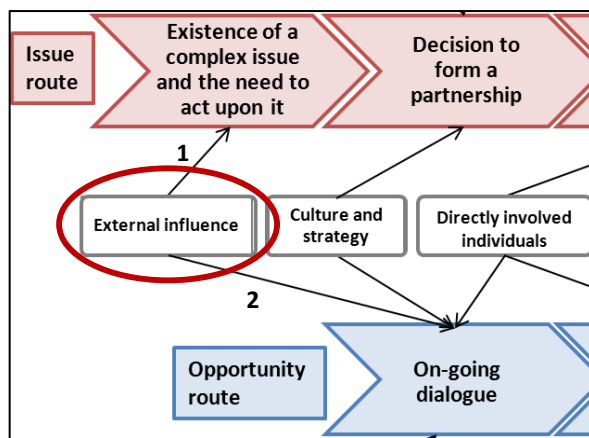


Figure 4: External influence

External pressure can originate from a variety of sources; each factor influences the formation process differently:

- I. Governmental pressure is exerted through funding, retreating or regulation. For example, a retreating government can result in an increased sense of responsibility with the other sectors (businesses and NGOs) to act upon the issue.
- II. Business association pressure provides an important external influence on the emergence of partnerships. Business associations not always promote the formation of partnerships or facilitates them. Trade associations and business associations from particular sectors often have a ‘bottom-line’ focus. Possible contributions these organisations could make to promote partnership formation is through e.g. facilitating platforms where prospective partners can meet, providing trainings to companies on value chains and partnerships etc. (Cheung, Welford, & Hills, 2009).
- III. Public awareness increases the need for companies to act upon a certain complex issue (e.g. child labour in their value chain) and is often created by watchdog NGOs who set up a campaign around this.
- IV. Market demand – an increasing demand for sustainable products makes businesses seek for opportunities to meet customer demand. Often partnerships with NGOs are necessary to improve value chains and develop strategies to improve company performance towards the issue.
- V. An existing social trend towards more business-NGO partnerships is expected to result in an increasing number of business-NGO partnership formations (Seitanidi & Crane, 2009); it is becoming more and more accepted and expected that former adversaries work together.

(1) In the **issue route**, external pressure *increases the need for action* and therefore increases the urgency for the party analysing the issue to find a solution and therefore form a partnership. Therefore it increases the likelihood that the organisation will move to the next step in the formation phase: decision to form a partnership.

(2) In the **opportunity route**, external influence is of importance in step 1 of the process as well: the on-going dialogue. An issue on which there is much external pressure, e.g. through public awareness, government pressure or market demand, will more strongly present itself as an opportunity to the parties involved in the dialogue. Therefore it will make it more likely for them to move to the next step in the process: exploration of the opportunity.

3.3 Culture and strategy

“On the one hand you want to cooperate with the business, but at the same time another division of your own organisation publicly expresses criticism of that same business.” [NGO-A]

The likelihood of an organisation participating in a cross-sector partnership is strongly influenced by both organisational culture and organisational strategy. This factor is relatively extensive research has been done by management scholars. Organisations with a culture characterised by high appreciation of cooperative behaviour are more inclined to participate in business-NGO partnerships (Hansen & Nohria, 2004; Hudson & Hardy, 2002). The core strategy of an organisation is also of importance for partnership formation (Ahlstrom & Sjostrom, 2005).

The different cultures and strategies of the organisations involved in the partnership generally make the partnership formation process more complex. For an NGO, in order to decide to form a partnership with a company, its basic strategy should be open for these sorts of partnerships. There are many NGOs that will never consider such a strategy. However, there is a shift within a large number of (development) NGOs from a unilateral approach towards a more cooperative approach. While their strategies might slowly be changing towards working more in partnership with businesses, the culture within organisations often takes longer to change. Therefore, this factor might still hamper the formation of effective partnerships. The same influence affects the response of businesses. Many people working for companies feel to have been scrutinized by NGOs for years. The initial response towards a partnership offer might therefore not be very favourable either. An important reason for NGOs to partner with businesses is to more effectively influence the core

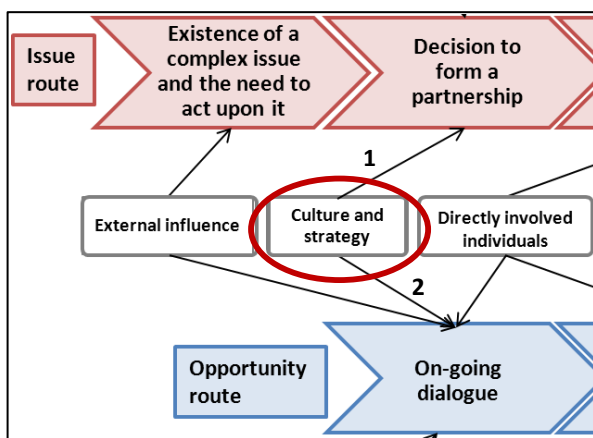


Figure 5: Culture and Strategy

strategy of the company. The step towards a partnering strategy highlights the transition from a 'naming and shaming' strategy to a 'naming and faming' strategy. Only in case NGOs have developed a mature strategy towards partnering will initial cultural differences between the organisations be surmounted. Businesses, in turn, increasingly search for the kind of services NGOs can offer as a result of their different culture - for example in helping them with their environmental strategy or in their search for 'social value'. The culture of cooperation and joint responsibility that many NGOs have developed over long periods of time, can also be a trigger for the next step in the formation process.

- (1) In **the issue route**, the culture and strategy of the organisation that desires to act upon the complex issue influences the decision to form a partnership. If the organisation does not have a cooperative culture, or in case its strategy does not allow for partnerships (e.g. NGOs with a strong focus on their societal 'watchdog' position), they will probably not engage in a partnership. Conversely, if they do have a cooperative culture and their strategy allows for – or even stimulates – cross-sector partnerships, organisations can proceed to the next step in the sequence: partner selection.
- (2) In **the opportunity route**, it is rather unlikely that organisations whose culture or strategy do not fit a partnering profile will be part of a real stakeholder dialogue (Van Tulder, 2011). Therefore the factor 'culture and strategy' influences the composition of parties in the dialogue, rather than on the decision to move to the next step in the opportunity route: the exploration of opportunity.

3.4 Directly involved individuals

“The process is about people that have a connection, there should be a click, a shared vision. There should be people in both organisations that will fight for the partnership and that dare to try something new.” [NGO-B]

Some research has been done on the relationship between individuals and the partnership formation process. A typical statement is that it is important to have *“the right people at the right place at the right time, this is partly caused by luck, but also due to careful selection from both sides”* (Hudson &

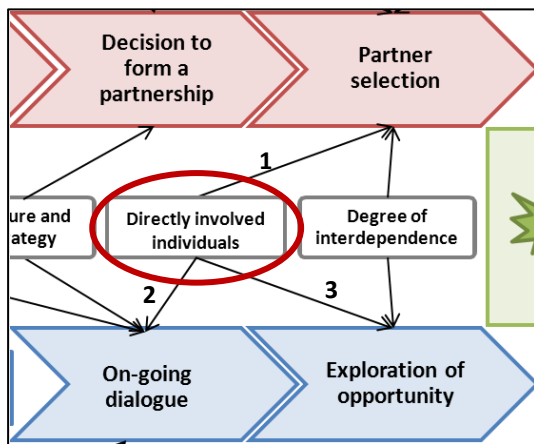


Figure 6: Directly involved individuals

Hardy, 2002, p. 59). Most of the interviewees made similar statements about the importance of the directly involved individuals from each organisation in the process. so it can be concluded that the people involved in the formation process should have the proper willingness and the necessary skills to collaborate. Additionally these people need to occupy an appropriate position within their respective organisations in order to gain commitment within their respective organisations on all levels for the partnership. A practitioner from one of the NGOs stated for instance: *“The fact that the partnership was formed, was due to one person that thought YES! And someone from the partner organization that felt the same.”* [NGO-B]

- (1) In **the issue route**, it is in the second step (partner selection) that individuals start playing an important role in the formation process. While the choice of working with a particular partner in the first instance is based on the analysis of the organisation initiating the partnership based on the complex issue (step 1), the final decision to go through with the partnership depends largely on the ‘click’ between the individuals that are directly involved in the process.
- (2) In **the opportunity route**, the ‘directly involved individuals’ influences the first two steps of the formation process. In the first step of an *ongoing dialogue*, it is a precondition for success that the right individuals from the organisations are involved. If the individuals participating in the dialogue do not have the right skills, willingness to collaborate and focus on opportunity, the dialogue will never successfully carry on to the next stage, i.e. the exploration of opportunity.. Moving towards the second step of the opportunity route (*exploration of opportunity*), is also determined by the click between the individuals. After exploring the opportunity individuals will largely decide whether they will proceed first to get internal commitment within their own organisation for the partnership on the basis of which they can get the mandate to actual start negotiations.

3.5 Degree of dependence / interdependence

“You need each other; you just have to need each other.” [NGO-A].

Without some sort of interdependence a partnership would be irrelevant (Huxham & Vangen, 2005). The very definition of a cross sector partnership includes a degree of interdependence: not necessarily shared visions or shared interests, but the willingness to pool resources to reach a common goal or face a common threat. The higher the level of interdependence vis-à-vis an issue between two or more organisations, the larger the likelihood a partnership is formed and the bigger the willingness of these organisations to collaborate (ibid). Interdependence can therefore also be understood as complementarity: each party brings something to the partnership the other party does not possess. These can be resources, skills, access to markets, legitimacy or a good reputation.

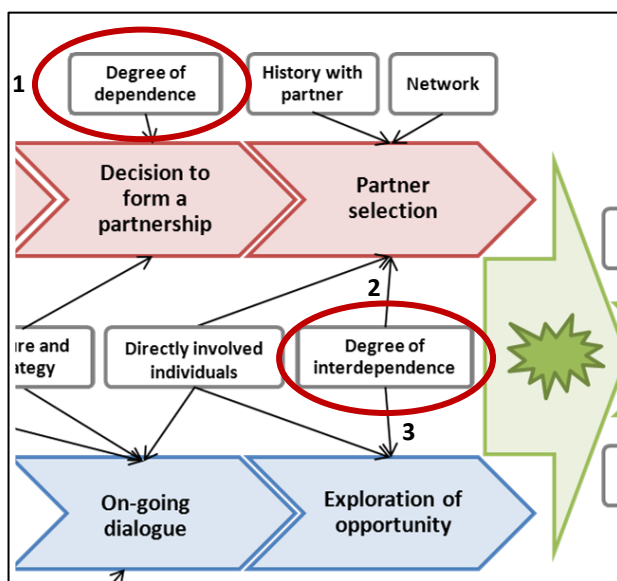


Figure 7: Factor 'Degree of dependence / interdependence'

The increasing pressure on corporations to address societal issues beyond their traditional comfort zone forces them to venture into unknown territory. This requires knowledge and capabilities generally not possessed. NGOs have been dealing with societal issues for a considerably longer time which makes them poses some of these vital resources. Firms searching for a renewed 'License to Operate' find it very convenient to align with external stakeholders that have a higher degree of societal legitimacy and reputation. For instance the move from traditional 'exclusive' business models towards new 'inclusive business' models per definition prompts firms (and governments) to search for partners from civil society. The success of these business models depends on the recognition by societal organisation of their inclusive nature.

Moreover, to effectively develop these models recognition is not enough, co-creation is becoming a precondition for progress. Besides, internal development of knowledge and capabilities in this area has often proven to be very expensive and time consuming. Partnership formation is a logical step towards acquiring the desired resources and capabilities (Austin, 2000; Selsky & Parker, 2005; Kolk, Van Tulder, & Kostwinder, 2008). As an entry strategy in unchartered (developing) markets, firms have increasingly acknowledged that they are dependent upon the networks of NGOs. NGOs from their side increasingly acknowledge that they can learn from the knowledge and profit from the financial means of corporations to increase their efficiency.

- (1) In the issue route, the 'decision to form a partnership' (step 2) is influenced by the degree of interdependence with other stakeholders. The more other stakeholders are needed to effectively approach the complex issue, the more a partnership seems a logical step to take. The decision on the (type of) partner is largely influenced by the degree of dependence they experience on this partner vis-à-vis the envisaged issue. After defining the most important dependencies, an organisation can move to step 3: partner selection. The search for a suitable partner makes the existing and envisage 'degree of interdependence' an important factor for the formation process. A real partnership requires more or less equal

degrees of dependence of both partners, therefore the term ‘interdependence’ which can also be understood as ‘complementarity’. Normally the degree of interdependence is strongly influenced by the relative size of each actors, but in successful issue partnerships, size can potentially be compensated for by competencies. A high degree of actual complementarity amongst prospective partners strongly facilitates the step towards actual negotiations. A big challenge in this phase of the partnership formation process is the existence of a gap between actual and perceived complementarity. In case the actual complementarity in practice turns out lower than the perceived complementarity, the change of failure looms large for the partnership.

- (2) In **the opportunity route**, the ‘degree of interdependence’ is actually part and parcel of exploring the nature of the actual opportunity (step 2). For the parties that were part of the dialogue (step 1), an opportunity is only interesting if they complement each other and no one party alone (or two out of three for that matter) has shown to provide the solution more efficiently and the partnership will actually add value. If there is clear and proven interdependence, it increases the likelihood of the prospective partners to move towards the next step of actual negotiations. In the opportunity route, the danger of a mismatch between actual and perceived interdependence is considerably smaller, because parties probably share a history of more intense collaboration.

3.6 Partner history

Partnership research has often acknowledged the facilitating influence of historical relationship amongst partners. Partnering experience with the other organisation is relevant for two reasons: (1) the partners gain information about the other organisation, and (2) through their partnering they establish partnership management skills together (Austin, 2000; Gulati, 1995). But the effect of history on partnership formation decreases over time (Sampson, 2005); the longer ago the partnership took place, the less important it becomes as factor in partner selection.

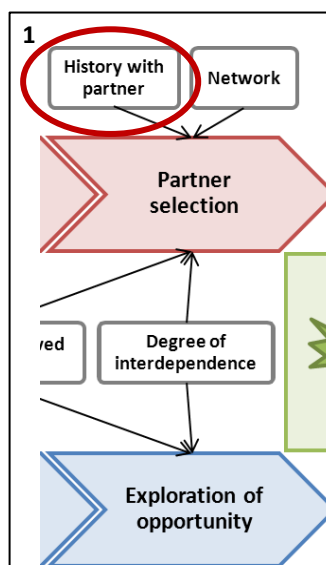


Figure 8: Factor 'Partner history'

The longer organisations collaborate the more confident they become with each other and mutual collaborating abilities (Austin, 2000). The formation of a cross-sector partnership depends on the ease with which information about each other can be obtained (Gulati, 1995). This information is most easily acquired in case a partnership already exists. The gains that can be made in a partnership increase due to the enhanced partnering skills and an understanding of the partner organisation (Gulati, Lavie, & Singh, 2009). Related to this factor, the negotiation costs for further partnerships decrease. It was found that partnering skills are not necessarily partner specific and will thus increase the general likelihood of partnership formation (Gulati et al., 2009). However, an organisation is more likely to choose an existing partner as they are more confident in the success of the future partnership than with an unknown organisation (Gulati, 1995; Heide & Miner, 1992; Kogut, 1989; Seitani & Crane, 2009). Besides, switching and transaction costs, related to engaging with another partner are largely evaded.

- (1) In **the issue route**, as opposed to the opportunity route, the ‘partner selection’ presents the most vital step. There is an inclination to work together with partners with which a positive previous experience was shared. This reduces the selection costs of the partner, makes the formation process more efficient, but might not necessarily be appropriate considering the new issue at stake. In case the primary stakeholders for this specific issue are different than the ones in existing partnerships, the organisation should consider selecting other partners.
- (2) In **the opportunity route**, the factor of history should in general be considered more of a threat than an opportunity. The danger of ‘groupthink’ can appear. Groupthink limits the abilities of the (interdependent) partners to come up with creative solutions for a novel issue. A long history with a specific partner combined with a high degree of interdependence, can give the false impression that there are no alternatives to the existing partnership.

3.7 Network proliferation

“I think it happens by chance. You run into each other, this is influenced by the network that you have built.” [NGO-B]

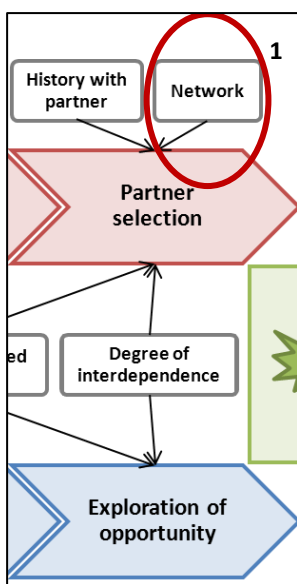


Figure 9: Factor 'Network proliferation'

There exists a considerable network effect in all partnerships. This effect is not yet covered in studies on cross sector partnerships, but is an acknowledged factor in business alliances. The sheer number of cross sector partnerships formed suggests that this factor is of increasing importance. Partnership portfolio management is more of a challenge for organisations that have an already established (large) portfolio of partnerships than those who have only recently started to engage in partnerships (PrC, 2011). In addition to proliferating partnership portfolios for individual companies, the number of multi-stakeholder networks is booming as well. These networks increasingly exert an independent influence on the partnership formation process, through herding behaviour of organisations: networks attract networks.

At the level of individual organisation an increasing number of organisations can be found that actively manage a large number of organisations in their network which boils down to regular formal and informal meetings between people from the organisations – for instance in the form of an on-going/continuous dialogue. Many new partnerships that are formed between these organisations originate in these meetings.

In the formation process, the existing network organisations, first, enable organisations to easily find each other and, second, pre-select organisations on a shared vision or goal.

- (1) In **the issue route**, the effect of the ‘network’ of an organisation is expected to be particularly strong in the ‘partner selection’ phase (step 3). Organisations are expected to be more inclined towards working together with other organisations that are already part of their existing network(s).

- (2) In **the opportunity route**, the effect of network is inherent in the 'on-going dialogue' phase because the organisations in the dialogue are already in each other's network.

4 Factors to consider in the building phase

After the partner selection has taken place in the issue route and the exploration of the opportunity has been successfully accomplished, both routes can integrate into the next step in the process: negotiations. Actual negotiations signal the start of the partnership building phase. This phase is much better researched by scholars. This section discusses the factors that influence the two steps in the partnership building phase: negotiations and finally formation. But we cannot do this without introducing one human factor that has not yet been taken into account in the literature. Practitioners call this **the spark** – a partnership relevant ‘X-factor’ that is yet to be researched for its exact content and consequence. In social psychology this factor is also referred to as the ‘chemistry’ between people, organisational studies talk about ‘alignment’. But practitioners in partnerships refer to this mysterious phenomenon as ‘the spark’. The spark is a necessary, but not sufficient condition for success in partnerships and it seems to play a role as a **tipping point** between relatively distant processes of partner selection and opportunity exploration and actual partnership building through negotiations (box 2).

Box 2 The Spark

“The moment when the spark ignites and we shake hands and say: This is going to be fun! That enthusiasm is extremely important.” [NGO-A]

A noticeable finding from the interviews with practitioners, was the importance of the existence of a ‘spark’ between (individuals of) both organisations. The spark can be defined as a personal connection between the people involved, a common vision and goal but also a high level of enthusiasm and a strong and optimistic believe that “it is going to work”. The interviewed practitioners emphasized that this spark should exist at all levels of the involved organisations (for which the directly involved individuals are of crucial importance!) and for it to occur the timing should be just right.

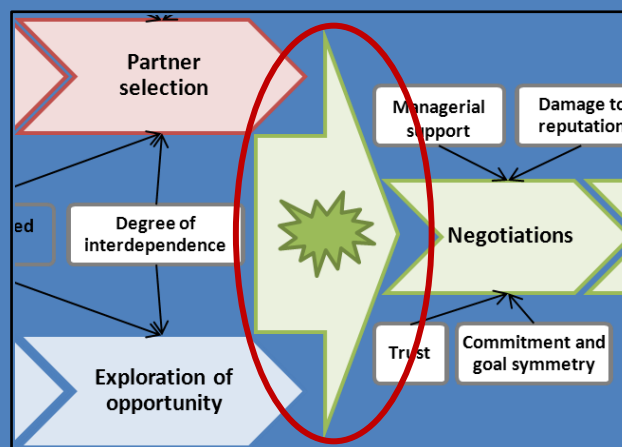


Figure 10: 'The Spark'

Only if the spark exists does the formation phase move to the next and deciding step: **negotiations**.

The spark marks the end of the **initiation phase** of the partnership formation and the beginning of the **partnership building phase**, the second and last phase of the partnership formation process. In the partnership building phase, the issue route and the opportunity route come together.

4.1 Managerial support

“You can make a beautiful partnership contract, but if there is no click between the project managers from the organisations involved and the people executing the partnership, it will never work.” [NGO-E]

The ultimate decision to engage in a partnership is most often made at senior management level. Their support is considered crucial by all interviewed practitioners. Consequently, senior management strongly influences negotiations either directly or indirectly. In case senior management is not engaged in the actual negotiations themselves, they always need to approve the partnership plan drafted by the parties involved and define the conditions under which parties can move from negotiations to formation.

In academic literature, it has since long been acknowledged that the support of senior management is important for partnership formation to take place (Battisti, 2009; Eisenhardt & Schoonhoven, 1996; Kolk, Van Dolen, & Vock, 2010; Reuer & Ragozzino, 2006; Sanginga, Chitsike, Njuki, Kaaria, & Kanzikwera, 2007). Partnerships are most likely to be sustained when senior management levels of all organisations involved are committed. In case of lacking commitment, the efforts of lower level managers have habitually been perceived as unimportant to the core business, often leading to the discontinuation of negotiations (Hudson & Hardy, 2002; Sanginga et al., 2007). Similarly, Cheung et al. (2009) found that, two thirds of the partnerships they studied, reported to having faced problems with a negative attitude or lack of priority towards the issue from senior management. Top management has a tremendous effect on firm behaviour in general, and therefore also on the openness of the organisation to engage in cross-sector partnerships, in particular in the ultimate phase of the formation process (Nahavandi, 2003). In network management and conflict resolution literature the effect of deliberate leadership work has thereby been described as an effective manner to create positive conditions for collaboration (Huxham & Vangen, 2000; Innes & Booher, 1999; Ospina & Saz-Carranza, 2010; Provan & Kenis, 2008; Ring & Van de Ven, 1994).

An interesting factor influencing top management support is related to the size and complexity of the partnership portfolio. Many organizations have extremely large partnership portfolios (Huxham & Vangen, 2004; Huxham & Vangen, 2005), which means that many managers have many regular partnership meetings and might experience partnership fatigue. This could make managers less willing to start another partnership (Huxham & Vangen, 2004; Huxham & Vangen, 2005). This factor highlights the growing importance of effective partnership portfolio management (PrC, 2011).

In practice, it appears that top management is very often consulted for the first time only in the negotiation phase. At that point, a plan for a partnership is often already formulated and top management is included in the negotiations for the details of the partnership agreement. If this is the case, top management will largely take a re-active and risk-oriented approach to a partnership. Issue-driven partnerships might in this perspective suffer more from lacking management support than opportunity-driven partnerships.

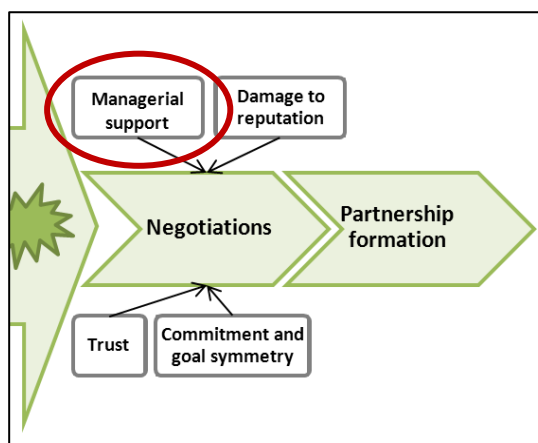


Figure 11: Factor 'Managerial support'

The effect of ‘managerial support’ on the negotiations step in the formation process is large: without senior management commitment, negotiations are often discontinued and partnership formation will not take place. If there is commitment from senior management towards the partnership, this largely enhances the chances for success and they are highly involved – be it directly or indirectly – in the contents of the negotiations.

4.2 Reputational damage

“In the risk analysis you make visible what the benefits are, but also what are and could be the costs, for instance of damage to your reputation. This is then combined with the chance this event will happen and the risk and effect the partnership will have on the organisation. So you have to weigh the risks in order to be able to handle this complex reality.” [NGO-A]



Figure 12: Factor 'Reputational damage'

All practitioners mentioned the risk of possible reputational damage because of the partnership. This fear stems from the additional activities a partner might undertake beyond the partnership that might be conflicting with or hamper the strategy of the organisation. Unethical behaviour or unfavourable campaigning by the partner can damage an organisation's reputation *by association*. This is the reason that most organisations conduct a risk analysis to evaluate possible areas of concern. In many MoUs, provisions are included in which reputational damage is a ground for exit.

The influence of anticipated reputational damage on the nature and dynamics of the partnership formation process is not yet covered in the academic literature. But every practitioner interviewed, mentioned it as a substantial element to be considered. At least as a perceived factor it is therefore relevant to incorporate in the model.

If there are concerns regarding possible reputational damage, this will have to be discussed during the negotiation phase, which therefore will influence the ultimate formation process. In case this (perceived) risk becomes too large, an organisation will withdraw from the negotiations. The partnership will not materialize, although 'reputational risk' will hardly be mentioned as an explicit factor. It is more likely that the two organisations will refer to strategic differences or lack of trust.

4.3 Trust

“So, trust in an organisation or person is part of your decision for a partnership.” [NGO-D]

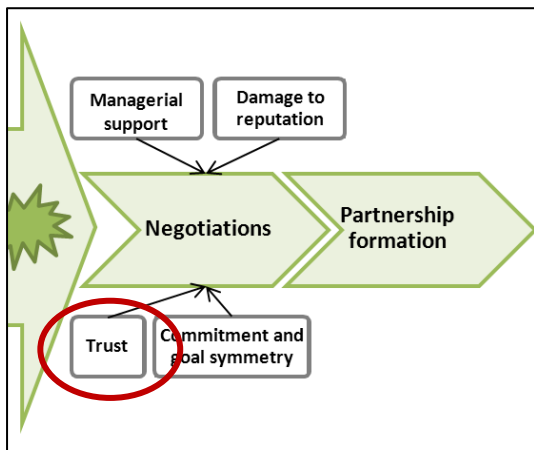


Figure 13: Factor 'Trust'

When entering into a partnership, there is a certain level of control each organisation has to give up. This is necessary because the organisations also share the risks of the project. However, engaging in cross-sector partnerships where organisational differences are often substantial also poses some *additional* risks. The factor trust, therefore, does not refer to a naive attitude towards the good intentions of each partner. Trust in the partnership formation refers in particular to expectations. The definition of trust given by Das and Teng (1996) is helpful: *“positive expectations about another’s motives with respect to oneself in situations entailing risks”*. Trust or trust-building then becomes a very important factor in particular during the negotiations that precipitate the actual formation of the partnership.

Academics have reiterated trust as an important minimal condition for partnership formation (Alter & Hage, 1993; Iyer, 2003; Selsky & Parker, 2005). Trust, thereby, is not a static factor, but is built over time. The entire process of partnership formation allows for a gradual building of mutual trust. During negotiations it is important for all parties to understand that trust has different meanings and connotations for firms, civil society organisations or for governments (Parker & Selsky, 2004; Selsky & Parker, 2005). *“In general terms, trust in business traditionally is based on constrained contractual exchanges, whereas trust in the non-profit sector is traditionally based on solidarity with the mission or on shared values”* (Selsky & Parker, 2005, p. 856). These fundamental differences between NGOs and businesses (and governments) potentially put a strain on the negotiations and often result in different tactics from both organisations.

Trust, however, is the feeling of certainty that the partner is going to behave according to your expectations and not let you down. In practice, it appears that the level of trust is mostly influenced by the people directly involved in the negotiations. Although the risk analysis and the level of trust can be aligned, they can never substitute for each other. Trust involves more perception than risk, whereas trust-building is probably easier to manage than risk (not in the least because risk also includes external factors). A managerial dilemma for the negotiation phase is that it is generally considered acceptable to make a ‘risk analysis’ (also referred to as ‘due diligence’), whereas it is not considered ‘done’ to make a comparable ‘trust analysis’. Proposing a ‘trust’ analysis would introduce the question whether the potential partner is trustworthy or might be inclined to engage in excessive opportunistic behaviour. This proposition has an immediate effect on ‘trust’ and is thus rarely proposed, but implicitly often made. The lower the level of trust, the more strict the MoU will be formulated. The higher the level of trust, the more



Picture 3: You need trust

organisations perceive risk to be mitigated or at least acceptable. At the very end of the negotiation process, however, a certain level of trust needs to be established in order for parties to actually proceed to the final step: partnership formation.

A minimum level of 'trust' is a necessary, but not sufficient, condition for effective negotiations. A minimum level trust can exist prior to negotiations or can be built-up during the process of negotiating. Without trust or the will to build trust, organisations are not very likely to come to an agreement. If the organisations involved do not trust each other to proceed according to the partnership plan and do what is expected from them, there is no basis for actual partnership formation. The higher the level of trust between the parties involved, the more likely it becomes that negotiations will go smooth and be time efficient. Of course, MoUs or formal contracts that are drafted at the end of the negotiations are a way of mitigating the risk (and lack of trust that might be present) of the partnership by providing a way to hold the other party accountable when they are not living up to the agreement.

4.4 Commitment and goal symmetry

“The best experiences we have are with organisations that are really different from ours but thereby also complementary.” [NGO-E]

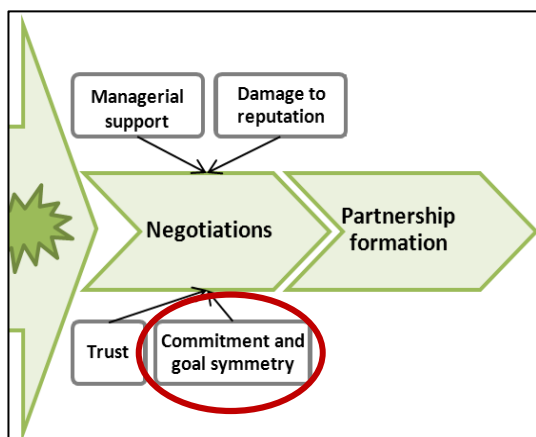


Figure 14: Factor 'Commitment and goal symmetry'

well as a shared willingness to cooperate and achieve that goal, this also points at the existence of a 'spark' at the beginning of the negotiations.

An agreement on the level of commitment from both parties and a shared goal needs to be present at least at the end of negotiations for a partnership to be successfully formed. Goal symmetry – not goal alignment - is a necessary condition for partnership formation. Asymmetry between the organisation's commitment and the partnership goal is bound to cause problems at a later stage of the partnership. When partners have fundamentally different objectives when engaging in a partnership, problems in later stages of the partnership will appear. Practitioners mentioned the importance of commitment and goal symmetry as well. They also connect this to the 'spark' that precedes negotiations: when it becomes possible to define a shared goal as

In academic research the importance of commitment and goal symmetry originates in alliance formation studies. The factor was quickly adopted by cross-sector formation research where it was found to probably be an even more important factor in explaining for the success or failure of partnerships . Gray (2007, p. 33) states that; *“even when parties agree to pool their efforts, they frequently do not see eye to eye on the aims of collaborations”*. In the process of partnership formation it is necessary that the two parties develop a shared goal or commitment that is mostly identical (Cheung, Welford, & Hills, 2009; Cooper & Gardner, 1993; Doz, Olk , & Ring, 2000; Hudson, 1987; Gray, 2007; Oliver, 1990; Sanginga, Chitsike, Njuki, Kaaria, & Kanzikwera, 2007). However, a shared statement of vision is not a prerequisite for success, albeit a necessary condition success to be possible (Mattessich and Monsey, 1992; cited in Hudson & Hardy, 2002).

When the aims for the partnership do not become transparent at the start, problems will appear at different levels with the organizations involved. The process of agreeing on shared goals for collaboration has often proven to be quite a challenge during the formation phase of a partnership (Huxham & Vangen, 2000; Ugboro, Obeng, & Talley, 2001). If there is a difference in mission between partners in a partnership, this creates a degree of backed-in conflict (Seitanidi, Koufopoulos, & Palmer, 2010; Shaffer & Hillman, 2000; Westley & Vredenburg, 1997) and distrust (Rondinelli & London, 2003). For negotiations to be successful, the same level of commitment and involvement is expected from the two organizations. This holds true for both the operational staff as well as for the highest levels of management (Samii, Van Wassenhove, & Bhattacharya, 2002).

In practice, the existence of a minimum level of 'commitment and goal symmetry' marks the beginning of the negotiations. It is an important condition and consequence of the 'spark'. During negotiations further commitment and goal symmetry has to be established and made explicit. The level of detail such an agreement needs varies, but all parties need to be transparent and upfront about their goals. Big differences in goals or commitment between organisations will create considerable problems that will stand in the way of successful implementation of the partnership. But this problem will probably only materialize later in the process and will be difficult to attribute to the formation process.

5 Tips to help you through the partnership formation phase

PHASE 1A: PARTNERSHIP INITIATION: Issue route

Step 1: Existence of a complex issue

- Prepare a sophisticated analysis of the problem; try to establish which societal sectors are (partly) responsible.
- In case of extreme external pressure towards the issue, remain focussed on first finishing the analysis before moving to the next step: deciding to form a partnership.
- Be aware of your own responsibility and your inclination to engage in partnerships because of defensive reasons.

Step 2: Decision to form a partnership

- Based on the analysis and the sectors that are (partly) responsible, a decision can be made on which types of organisations/stakeholders need to be involved in the partnership.
- In case the organisation has a non-collaborative culture or strategy, the analysis might change the perception regarding the use and need for collaboration of this organisation.

Step 3: Partner selection

- Don't forget to look outside your own network in order to see whether there are potentially better partners/stakeholders available.
- See whether there is an organisation that fits the necessary conditions with which you had previously successful collaborations. This will help speed the process and increase the chances of a positive outcome.
- When you selected a potential partner to contact, make sure to be prepared and have an overview of where capabilities and resources are complementing each other and how they are related to providing the solution.
- For yourself, gain insight into what the other party will gain from the internship. Why would it be interesting for them to join?
- Think of what the Unique Selling Point of your own organisation is. Why would the other organisation want to work with you and not with another organisation from your sector?
- Make sure that the right people that possess the right skills, willingness to collaborate and (not unimportant!) have the right position within your organisation are involved in the partnership.

PHASE 1B: PARTNERSHIP INITIATION: Opportunity route

Step 1: On-going dialogue

- Make sure that the right people that possess the right skills, willingness to collaborate and have the right position within your organisation are involved in the partnership.
- Make sure that all parties that are part of the dialogue also consider this a dialogue (i.e. consider themselves as partners).

Step 2: Exploration of opportunity

- Prepare a sophisticated analysis of the problem; try to establish which societal sectors are (partly) responsible.
- Together with your potential partners from the on-going dialogue, prepare an overview of your complementary capabilities and resources that are important in relation to the issue.
- Be aware of the potential threat of 'groupthink'!

PHASE 2: PARTNERSHIP BUILDING

Step 1: Negotiations

- Gain senior management commitment by being timely in briefing them about the opportunities with this potential partnership and the gains for your organisation.
- Prepare a risk analysis regarding your cooperation with the other organisation(s) and determine how this risk can be minimized. Come up with concrete solutions that you think will fit all parties involved.
- Be reminded that trust builds over time and is not a necessary precondition to work together. There should be no distrust, but trust itself can be built further during the implementation and institutionalization phases.
- Concretely agree on the responsibilities for each partner and write them in a contract or MoU to arrange for accountability.
- Be concrete about vision and goals of the partnership. If different organisations have slightly different goals, try to find a way to bring them together or have them co-exist.
- Make sure goals and targets are set in a way that can be measured.
- For an overview of points not to forget during negotiations: see table 1.

Step 2: Partnership formation

- At the point where an agreement is reached and the partnership formation will be made formal, involve all relevant parties (directly involved individuals and senior management) and make sure there is wide communication about the partnership in all organisations involved to sustain commitment.

6. Selected bibliography

Scientific research on cross-sector partnership formation process is not yet very well advanced (see preface). For identifying factors that play a role in the partnership formation phase, three streams of research and publications can be consulted: first, general research on cross sector partnerships; secondly, specific research on cross-sector partnership formation; thirdly, more general research on partnership formation within one sector (in particular the corporate sector). This selected bibliography presents a selection of the most relevant and recent sources from any of these three streams.

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