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Analysis and Suggestions about External Partnership Management Strategies for Multinational Construction Corporations

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Abstract: For confidentiality reasons, this article uses Company X to represent the real analysis object. As an Chinese state-owned international engineering contracting enterprise, Company X has been rated as the top 100 international contractors for 20 consecutive years by the Engineering News Record "ENR" since 2000. Company X's primary business focuses on engineering construction contracting, including railways, roads, bridges, buildings and municipal works. Its business activities have covered over fifty countries in Asia, Europe, Africa, America, and Oceania. The turnover of Company X reached 2.1 billion US Dollars in 2016, of which the Nigerian branch accounted for 24 %, and the Ethiopian branch accounted for 34 % (Company X, 2016). Construction contracts often have a few characteristics such as large contract amount, long period of implementation, complicated process, and most of them come from government's responsibilities to provide public services such as railways, roads, etc. Therefore, in these projects there are many stakeholders, including contractors, suppliers, subcontractors, government agencies, and the public. This article chooses Company X as the focal point and briefly analyzes the value creating process during the execution of the projects. Meanwhile, due to the limited space, this essay only analyzes Company X's management policies of its relationship with strategic external partners. The discussion in this essay is divided into three parts, 1) analyzing the roles played by Company X and its critical external partners during the customer value creation process; 2) analyzing the characteristics of Company X's external partner relationship management activities and strategies; 3) discussing the potential improvements which can be made about Company X's critical external partner relationship management.

1. Introduction

Möller and Halinen (1999, pp.413-416) identified an ordinary enterprise's four categories of external partners, 1) different tiers of suppliers; 2) government agencies and other public institutions; 3) distributors, customers and customers' customers; 4) competitor alliance. This model was mainly based on the production and distribution process of common industrial products, while for construction contractors, except suppliers, governments, end-users, and competitors, collaborators are another important category of participants in the execution process of the projects. Although

there are partnerships between suppliers, governments and competitors, the collaborators here mainly refer to independent third-party participants such as funds providers, supervision companies and JV partners, which do not have direct selling or purchasing relationships with contractors. The execution of the construction contract is a complicated systemic process, which requires close cooperation among the designers, clients, financing parties, supervision companies, contractors, subcontractors and material supplier, etc. Generally speaking, the clients usually commission the design companies to do the project design and entrust supervision companies to supervise the project implementation progress and quality, the funds provider usually pays the contractors according to the completion percentage of the projects, and the contractors will integrate all these resources and transform them into special products such as railways, roads and bridges, etc.

Under normal circumstances, it is difficult for the contractor to control or influence design companies, banks, supervision companies, JV partners and other independent collaborators, while they are all significant for completing the contracts. For instance, whether the design is reasonable determines whether the projects will eventually be recognized by the public, and whether the design is cost-effective is important to both the client and the contractor. Meanwhile, the willingness of banks to provide funds is a prerequisite for the project to start and the supervision companies will ensure the quality and the timeliness of the project. Therefore, the design companies, fund providers, supervision companies and JV partners can be considered as the most critical external partners of Company X.

2. Analysis of Company X's Critical External Partner Relationship Management Strategies.

Next, this essay selects four representative cooperative partners of Company X to explain the activities and strategies which are adopted by Company X to manage the relationships between them. Shanghai Municipal Engineering Design Institute (SMEDI) is the designer of Company X's Kafue Bulk Water Supply Project in Zambia, and the Export-import bank of China (EXIM Bank) is the financier of this project, East Consult (Zambia) is the supervision company of many roads projects executed by Company X in Zambia, and Shenzhen Metro is the strategic partner in the inter-city railway projects in Nigeria and Israel.

Through the following analysis, it will be revealed that Company X relies too heavily on the inter-personal relationship establishment.

Mouzas *et al.* (2007, pp.1018-1024) initiated the Trust and Reliance framework to analyze the business relationships. Within this framework, trust is an emotive concept between persons, while reliance is rational trust which is not based on personal relationships. According to the two dimensions of trust and reliance, the business relationships can be divided into four categories: Personal Relationship, Fragile Relationship, Expedient Relationship and Stable Relationship. Using this framework, the four key cooperative partners of Company X above-mentioned can be classified into corresponding categories as figure 1 shows.

SMEDI has a long history of cooperation with Company X, and the current CEO of Company X has a close personal relationship with SMEDI's executive management. However, when executing the design works for Kafue Bulk Water Supply Project, Company X and SMEDI signed a fixed-total-cost contract. Which made SMEDI have no motive to optimize the design according to the actual progress of the project. Optimizing the design could probably not only improve the function of the project, but also save much cost for the contractor. If there is a mechanism to share the cost saved by optimizing the design, both Company X and SMEDI will benefit from such inter-organizational reliance.

As the fund provider of Kafue Bulk Water Supply Project, EXIM Bank is significant for the starting of the project. Company X cooperated with EXIM Bank on a few projects in Ethiopia,

Nigeria, Zambia and other underdeveloped areas. Managers of Company X and EXIM Bank have a good relationship with each other. Moreover, in a certain specific project such as Kafue Bulk Water Supply Project, the contractor expects the bank to make the payment punctually, meanwhile, the bank also relies on the contractor because the quality of the project has a significant influence on the project's ability to repay the principal and interest. But the problem is that such inter-organizational relationships are confined to a certain specific project, which will come to an end with the handover of the project.

The relationship between Company X and its supervision company East Consult was dramatic. They have cooperated perfectly with each other on a few roads in Zambia. However, after the resignation of the CEO of Company X's Zambia branch, communication and cooperation between them became difficult.

Shenzhen Metro and Company X have formed a complementary strategic partnership, which has benefited both sides considerably. Shenzhen Metro is professional in railway operation while Company X is professional in railway construction, which makes them highly complementary. Shenzhen Metro awarded Company X a few railway construction projects in China, and Company X made Shenzhen Metro the JV partner in Nigeria and Israel to operate the railway constructed by Company X. Two companies have formed a sound inter-reliable relationship. Furthermore, senior management from both companies have frequent interactions. Such stable relationship is helpful for Company X to expand its business in China, and also helpful for Shenzhen Metro to expand its business out of China.

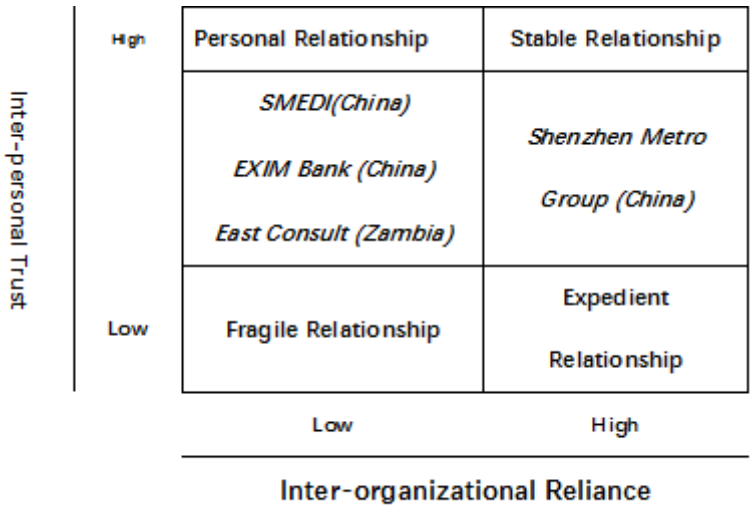

Fig.1 : Trust and Reliance in Business Relationships. Source: Mouzas et al. (2007)

3. Potential Improvements Which Can Be Made about Company X's Critical External Partner Relationship Management.

Mitrega (2012, p.492) suggested developing knowledge about partnership, which is conducive to improving the relationship with end customers and thus improving the performance of the company. Chakravorti (2009, p.308) also believes that the key to enterprise relationship management lies in developing and sharing inter-enterprise relationship knowledge. For example, Company X could be more knowledgeable about EXIM Bank's concerns such as which project types are EXIM Bank's priorities, and then exploiting more such projects will strengthen the inter-organizational relationship between them and create more chances for future cooperation. Therefore, we recommend that company X strengthen the analysis of key customer relationships, and share the

knowledge with its key partners.

Secondly, providing more resources, opportunities and benefits will promote the development of relationship commitment and trust (Morgan and Hunt, 1994, p.34). Sharing a certain percentage of the expenses saved by the design optimizing with SMEDI will not only benefit Company X in the Kafue Water Supply Project, but also will be conducive to future cooperation on other future projects.

Thirdly, Company X should avoid only focusing on the development of the personal relationship, and the personal relationship should also be based on inter-organizational relationships. More importantly, relationships between private persons cannot be confined to one person, these personal relationships should also be managed by a team rather than a specific person.

Furthermore, Company X should also be careful about the "dark-side" of the business relationships such as opportunism and misbehaviors (Abosag et al, 2016, pp.5-9), which may destroy or terminate the business relationships.

4. Conclusion

Company X should emphasize on developing relationships from the inter-organizational dimension, and push the relationships with its critical external partners towards stable relationships.

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