INTRODUCTION

by **Richard Wilding**

In the age of globalisation, where business is conducted across borders, cultures and sectors, effective collaboration can help companies to make the most of internal and external alliances to achieve long-term objectives and greater business success

Playing the tune of shared success

The chairman of BMW's supervisory board, Joachim Milberg, once declared: "Those who work alone can only accumulate, but those who collaborate intelligently can multiply." The comment was in relation to the development of the company's X3 sports utility vehicle, which was developed in collaboration with Magna Steyr/SFT.

The goal of achieving a result that is greater than the sum of the individual parts, – the "multiplication effect" – has long been recognised in business, and creating win-win relationships with partners is a key driver. This reflects a recognition that business is no longer about competition at all costs, but that organisations are being forced to collaborate and partner with other companies to gain competitive advantage.

The term collaboration covers a broad range of different ways organisations can work together. Work by Douglas Lambert at the Fisher College of Business at Ohio State University with organisations such as McDonald's, Xerox, Ryder, 3M and Whirlpool and their key partners, identified the following types of relationship: arms length relationships, through what are defined as type one, two and three collaborative partnerships; joint ventures; and vertical integration.

Type one collaborative partnerships are where companies recognise each other as partners, and co-ordinate and plan activities on a limited basis. The partnership is short-term and involves one division or a limited number of functional areas in each business.

Type two collaborative partnerships see partners moving beyond the co-ordination of activities to the integration of them. This relationship has a long-term horizon but is not expected to last for ever. In this case, multiple divisions and functions within each company are involved.

Type three collaborative partnerships occur when the companies share significant levels of operational integration. Each organisation views the other as an extension of its own business, an end-date is not usually set and the relationship is seen as permanent.

The requirements for maintaining these different types of collaborative relationships differ substantially in terms of planning, contract style, communications and operational controls. For example, it may not be possible to have a type three relationship with every partner, but selecting the appropriate type of collaborative relationship with a business partner is becoming a major source of competitive advantage.

Collaboration can also take place between competitors, a form of alliance called "co-opetition". This can occur when neither company is able to enter a market on its own. For example, beer makers Heineken and Guinness build breweries together in developing markets to produce both products. Carmakers Ford and Volkswagen co-developed and manufactured the original Ford Galaxy, Seat Alhambra and Volkswagen Sharan people carriers. The advantage to those involved in co-opetition is that a category or market can be developed at lower risk to each organisation.

Maximising internal collaboration is also critically important. It is often thought that relationships within an organisation are stronger than the relationships with external actors. Conventional thinking says: "If we are all within the same company we should all collaborate together successfully." But the reality is that internal relationships are often worse than external relationships. What is more, the internal relationships can be treated with contempt with functions trying to gain advantage over each other.

In a survey of 500 organisations in the US, published in the International Journal of Logistics, interdepartmental relationships were shown to result in reduced cycle times, better in-stock performance, increased product availability, order-to-delivery time and customer improvements. Those organisations which collaborated well internally had performed better in terms of meeting customer needs, accommodating special customer requests and introducing new products. As a result, customers had a better perception of the organisations which, in turn, led to increased sales and margins.

To create a win-win relationship there are two key dimensions that need to develop. The first is what I call "C3 behaviour": a combination of co-operation, co-ordination and collaboration. C3 behaviour involves working together to achieve effective operations in harmony with the strategies and objectives of both parties.

The second dimension is trust. Trust helps companies to integrate micro-level psychological processes and group dynamics with macro-level institutional arrangements. In other words, it entails dispositions, decisions, behaviours, social networks and institutions. Trust enables co-operative behaviour, promotes improved relationships, reduces harmful conflict and allows effective responses to crises.

Managers need a new skill set to develop these ideas into collaborative relationships. In addition to technical ability and intelligence, organisations need to embrace the so-called "soft skills". For example, when building a collaborative relationship, social skills, empathy and motivation are of high value.

A survey by the Society of Human Resource Management illustrated the importance of emotional intelligence in achieving competitive advantage. The researchers analysed a series of top companies, selected for profitability, cycle times, volumes and other key performance measures. They found that the companies which had performed best had the following competences in managing their human assets: organisational belief and commitment to basic strategy; open communication and trust building with all internal and external stakeholders; an interest in building relationships inside and outside the organisation where they offered competitive advantage; collaboration, support and the sharing of resources; an environment where innovation, risk taking and learning were promoted; and a passion for competition and continual improvement.

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Joachim Milberg, BMW

Foundations for success and failure

I recently conducted a study of more than 60 collaborative relationships and identified a number of factors for success:
- innovative commercial practices, tough but achievable incentives and meaningful gain share;
- end-to-end, clearly visible performance objectives agreed by all supply chain players including the end-customers;
- frequent, interactive, open communications across all levels of the customer/supplier interface especially on performance reviews and continuous improvement of products/services and business processes;
- open, no blame culture aimed at customer and relationship satisfaction which depend on personal, trusting relationships;
- joint planning and business systems supported by free-flow of information.

In contrast, those relationships that were typified by failure exhibited the following types of behaviours and practices:
- lack of stable customer funding arrangements, which prevented supplier investment planning;
- insufficient investment, which generated long-term costs and prevented performance incentivisation;
- lack of investment in good staff, which caused unnaturally high turnover and prevented personal relationship development and efficient business processes;
- adversarial, bureaucratic commercial practices and attitudes, which increased costs, caused delays and reduced trust;
- lack of culture-matching results in "us and them" attitudes, which resulted in a downward spiral of poor behaviour, reduced benefits and low performance.

The key lessons of collaboration

For collaborative relationships to be successful, the following foundations need to be in place:
- Both organisations need a common focus, that is a shared commitment to a basic strategy.
- An agreed joint process is required. This is often a problem, because for organisations to can have little understanding of their own internal processes. So, agreeing on a joint one can be difficult.
- Integration of internal applications is important to ensure good communication and data flow across the relationship.
- Flexibility and responsiveness are critical for both organisations to create agility within the relationship.
- Agreed joint performance measures. Both parties should be measuring the success of the relationship in a common way using the same metrics. Hard measures will need to be used but "soft" measures for gauging the success of the relationship in terms of levels of trust and personal relationships also need to be included. This point is important because surprisingly few organisations measure the soft relationship issues and continue to focus on hard performance measures which only reveal the symptoms of failure and not the causes. Instead, companies need to ask questions such as: how many business relationships do we have? Why are they important? Which ones are doing well and why? Which ones are not doing well and why? How do we identify hard targets for continuous relationship improvement?

Conclusion

When striving to create win-win relationships, it could be argued that the first question all organisations need to ask is: how will the company or internal function you want to collaborate with benefit from collaborating with you. Ultimately, if there is nothing in it for the other party there is no motivation for collaboration and, therefore, the "multiplication effect" will not occur.

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