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Understanding Collaboration: generating the multiplication effect. (Introduction)

by
Professor Richard Wilding
Cranfield School of Management

Professor Joachim Milberg, Chairman of the BMW board, said somewhat mystically: "Those who work alone can only accumulate, but those who collaborate intelligently can multiply." This comment was in relation to the development of the X3 sports utility vehicle developed with the support of Magna Steyr/SFT. Creating a result greater than the sum of the individual parts, the "multiplication effect", has long been recognised in business. So instead of 1+1=2 a multiplication takes place resulting in 1+1 = 11 or greater! The creation of these win-win relationships is the driver for collaboration in business today.

The definition for supply chain management used by Cranfield School of Management is "the **management of** upstream and downstream **relationships** with suppliers, distributors and customers to achieve greater **customer value-added at less total cost**." The key emphasis is the management of relationships within the supply chain. The recognition that competition is no longer between individual businesses but between the supply chains they are part of forces organisations to collaborate and partner with the best to gain competitive advantage.

The language of Collaboration can create an emotional response when used within business. "Collaboration" when used within European Business can be interpreted as "collaborating with an enemy invader", however if the term "Partnership" is used organisations operating within the USA complain because of laws which forbid partnership so this word is unlikely to be used! Collaboration is working together to bring resources into a required relationship to achieve effective operations in harmony with the strategies and objectives of the parties involved thus resulting in mutual benefits. The Global Supply Chain Forum defined a partnership as 'a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that results in performance greater than would be achieved by two firms working together in the absence of partnership'. Both these definitions emphasis the multiplication effect of collaboration.

The term collaboration covers a spectrum of different ways organisations can work together. Work by Doug Lambert at Ohio State University with organisations such as McDonalds, Xerox, Ryder, 3M and Whirlpool and their key partners, showed six different types of relationship: Arms Length relationships, through what are defined as Type 1, 2, and 3 collaborative partnerships, and then to joint ventures and finally vertical integration.
Type 1 collaborative partnerships are typified by the companies involved recognising each other as partners and undertaking coordinating and planning activities on a limited basis. The partnership is short-term in focus and would involve one division or a limited number of functional areas in each business.
Type 2 collaborative partnerships see partners moving beyond the coordination of activities to the integration of activities. The relationship has a long term horizon but is not expected to last forever. In this type of collaborative partnership multiple divisions and functions within each company are involved.
Finally, Type 3 collaborative partnerships share significant levels of operational integration. Each company views the other as an extension of their own organisation. Generally no end-date is 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. It is important for businesses to recognise that it may not be possible to have a type 3 relationship with every customer or supplier; this would be similar to having a "marriage" relationship with everyone you meet! The ability to select 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, the concept of "Co-opetition" Where competitors come together to enter into a market they can not justify working in on there own. For example Heineken and Guinness (Diageo) in developing markets will build a brewery to produce both competitors' products. Ford and VW group co-developed and manufactured the original Ford Galaxy, Seat Alhambra and VW Sharan. The advantage to those involved in "co-opetition" is that a category or market can be developed at lower risk to each organisation.

Internal collaboration, within an individual organisation, is also becoming critically important. It is often thought that relationships between different functions within the same organisation are stronger than the relationships an organisation has with external customers or suppliers. Logic would say that "If we are all within the same company we should all collaborate together successfully" but the reality can be that these internal relationships are worse than external relationships with suppliers or customers. Analysis of both internal and external relationships using a technique for assessing the strength of collaborative relationships has shown that it is not uncommon for internal relationships within an organisation to be far worse than external relationships they have with customers or suppliers. The internal relationships can be treated with contempt with functions trying to gain advantage over each other. Like a failing marriage where both parties are continually bickering but in the presence of strangers they appear like the perfect couple! In a survey of 500 organisations in the USA, good interdepartmental relationships have been shown to result in cycle time reduction, better in-stock performance, and increased product availability levels and order to delivery time to customer improvements. Those organisations which collaborated well internally had greater performance in terms of meeting customer needs, accommodating special customer requests and new product introductions was significantly better. This resulted in an increased customer perception of the organisations which led to increases sales and margin.

To create a win-win relationship there are two key dimensions that need to develop. The first is C3 behaviour, a combination of Co-operation, Co-ordination and Collaboration. The second is trust. C3 behaviour is defined as working together/jointly to bring resources into a required relationship to achieve effective operations in harmony with the strategies/objectives of the parties involved, thus resulting in mutual benefit.
C3 Behaviour is seen as being essential to maintain a successful business partnership especially when it is linked with commitment to the achievement of shared, realistic goals.

Trust is a keystone of business-to-business relationships. There appears to be a consensus that trust integrates micro level psychological processes and group dynamics with macro level institutional arrangements. Put more simply, it encapsulates dispositions, decisions, behaviours, social networks and institutions. Trust enables co-operative behaviour, promotes improved relationships, reduces harmful conflict and allows effective response in a crisis.

It has become apparent that managers need a new skill set to develop C3 behaviour and Trust and thus develop collaborative relationships. All organizations need to have an emphasis on so called "soft skills". Technical ability and intelligence (IQ) alone do not guarantee success, and may only be one qualifying factor rather than the winning factor in the race to be collaborative. When building a collaborative relationship, social skills, empathy and motivation are of high value. A survey by the Society of Human Resource Management further emphasizes the need for emotional intelligence (EQ) in gaining competitive advantage. The survey analyzed a series of top companies, selected for profitability, cycle times, volumes and other key performance measures. They found that the outstanding companies had the following competencies in managing their 'human assets': Organizational 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 organization where they offered competitive advantage; Collaboration, support and the sharing of resources; An environment where innovation risk taking and learning together is promoted and finally a passion for competition and continual improvement.

A recent analysis of over 60 collaborative relationships that the author was involved with found a number of foundations 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 upon personal, trusting relationships.
- Joint planning and business systems supported by free-flow of information.

Those relationships that were typified by failure exhibited the following types of behaviours and practices:

- Lack of stable customer funding arrangements, which prevent supplier investment planning.
- Insufficient investment, which generates long term costs and prevents performance incentivisation.
- Lack of investment in good staff, which causes unnaturally high turnover and prevents personal relationship development and efficient business processes.
- Adversarial, bureaucratic commercial practices and attitudes, which increase costs, cause delays and reduce trust.
- Lack of culture-matching results in 'them and us' attitudes, which result in a downward spiral of poor behaviour, reduced benefits and low performance.

For collaborative relationships to be successful a number of key foundations need to be in place. Both organizations need a common focus (commitment to a basic strategy). This may in the retail supply chain be focusing on the customer, data sharing then becomes critical, IT systems need to be in place to enable this. An agreed joint process is required; this is often a problem as it is not uncommon for organizations to have little understanding on their own internal processes so agreeing on a joint one can be difficult. Integration of internal applications then becomes important to ensure good communication and data flow. Flexibility and responsiveness is also critical for both organizations to exhibit, creating agility within the relationship. One of the biggest requirements is agreed joint performance measures; both parties should be measuring the success of the relationship in a common way using the same measures. Hard measures will need to be used but also soft measures for measuring the success of the relationship in terms of levels of trust and personal relationships. One particular question we do need to ask is if collaboration is so important to a businesses success in our modern global economy, why do so few organizations measure the "soft" relationship issues and continue to focus on hard performance measures which only reveal the symptoms of failure and not the causes. Organizations need to ask questions like 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? Techniques like the "Supply Chain Collaboration Index" available from SCCI Ltd enable organizations to gain answers to such questions and work together on relationship improvement. This approach has been used by Masterfoods, EDF Energy, AMEC, and the Ministry of Defence amongst others to measure and improve the effectiveness the success of key collaborative relationships.

When striving to create win-win relationships it could be argued that the first question all organizations need to ask before creating a collaborative relationship is "How will the company or internal function you want to collaborate with benefit from collaborating with YOU", at the end of the day if there is nothing in it for the other party there is no motivation for collaboration and therefore the "multiplication effect" will not occur.

Professor Richard Wilding is Chair in Supply Chain Risk Management at Cranfield School of Management (www.cranfield.ac.uk/som) and specialises in the creation of collaborative supply chain environments. He can be contacted through www.richardwilding.info

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