The importance of relationships

By David E Hawkins

(Evaluating the dynamics and challenges of relationships in business)

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Aim

The aim of this paper is to consider the broader implications of relationships in a business environment against a background where the management of relationships is potentially ignored, perhaps with the exception of maintaining customer engagement. It offers a perspective on the implications for organisations across the multi-dimensional operations which influence both performance and the long term sustainability of relationships at both an individual and organisational level.

Outline

There can be few in the business community, either public or private sector, who would not recognise the importance of relationships in developing, marketing, performing and maintaining effective operations. It is the interaction between organisations that creates the dynamics of business but most frequently this crucial ingredient for success is subjugated in favour of process on the assumption that individuals already carry the right genes for developing and sustaining good relationships.

The general exception to this premise is in the field of sales where considerable material has been developed that aims to focus on customer engagement. On the other hand organisations invest considerable effort towards customer satisfaction and retention. However in the main these investments are targeted towards recognised approaches that are deemed to invoke a sale by creating a demand driven relationship and less frequently to towards understanding the customer needs.

Beyond the sales and marketing environment that dependency on relationships is perhaps less well recognised or orchestrated. Certainly looking down the supply chain the purchasing community is largely incentivised to seek out a strategy that is primarily focused on capitalising on buying power and negotiation skills to deliver the best deal.

Operational performance is often whether manufacturing or service related through operational processes is divorced from either customer or supply engagement. Front line maintenance will often be established and measured against service level performance rather than out comes which drive relationship engagement.

By desensitizing the intercompany relationships to contractual compliance we have to a large extent created a culture that is based on ‘’contracting for failure’’ where the foundation is on the basis of contract compliance and the need to establish the boundaries for litigation. By constraining or subjugating relationships in favour of processes we inadvertently create negative compliance where adhesion to procedures overrides a focus on outcomes a particularly aspect of public/private relationships, where the public sector is often subjected to high level of accountability.

Effective risk management has always been a principle consideration for business. In fact the exploitation of risk is perhaps a major factor in developing value propositions accompanied by appropriate risk mitigation. Yet seldom does one encounter the realisation that relationships are perhaps one of the principle risks that business ventures succumb to.

In the last decade or two we have seen a significant shift towards the development of Alternative Business Models (ABM) most prominent of which has been the growth in Outsourcing in many different guises. The upsurge in the creation of alliances, consortiums, partnerships and joint ventures focused on developing integrated solutions. These more complex business models encompass a high degree of interdependency where successful outcomes are predicated on the ability of organisations to work in an integrated fashion in order to achieve the desired outcomes. As economic pressures increase we are also seeing a high growth in mergers and acquisitions and sadly many failing to reach their potential, or worse failing often at a high cost. The key to the vulnerability of many such ventures can be identified as the breakdown of the relationships or the failure to build the relationships effectively.

In this evolving environment it is clear that relationships are multi-dimensional and that success is no longer dependent solely on outfacing segments of the business process but a key differentiator that should be integrated across the business.

Customers are seeking to obtain more complex solutions or divest themselves of non core activities though outsourcing to third parties that are now frequently directly interfacing with end users or consumers. Supply chain performance and dependability have become an integral aspect of many delivery and performance processes. Third parties are now more and more a critical aspect of building value propositions to either satisfy or entice the market. Mergers and acquisitions depend not simply on operation fit but also on the ability of organisations to harness and optimise their combined capability.

Given this background it then perhaps surprising that a critical factor such as relationships is left to the personal capabilities of individuals and not something that organisations need to foster and develop as a corporate ethos and persona that embeds the appropriate characteristics.

It is these observations that prompt the question if relationships are important then should organisations not be making greater strides to develop their profile, structure their policies and processes together with developing the skills of their people to drive more sustainable business models. Effective relationships will not simply happen because we want them to, they need to be managed appropriately to ensure they are a factor of success and not a cause for failure.

Many organisations will of cause dispute this premise claiming to be totally focused on customer satisfaction with supply chain management that is developed around building robust relationships. The challenge for these organisations is to evaluate the primary performance matrixes and Incentivisation schemes they deploy to motivate their personnel, which frequently will be seen to be driving less towards relationship and more towards short term gains.

It is often considered that the majority of organisations operate at less than 70 % efficiency so when one or more is faced with working together the limited effectiveness is extrapolated. Despite the advances of technology it is still people that make an organisation function and that create business. In this case it is reasonable to assume that the relationships they form are a critical success factor. As such relationships are important to all stakeholders. The following sections highlight these overall aspects in more detail with a view to raising the case for relationship management to move up the corporate agenda.

- **Business Strategy and Leadership**

In 400 BC Sun Tzu wrote his thesis ‘The Art of War ‘ which has become compulsory reading in military academies and many business schools as a cornerstone of strategic thinking. His premise was that if you get the strategy right then success would follow. In fact he stated that a successful strategy would dictate the outcome of any military venture in advance. Yet whilst it is more often than not acknowledged for its insight it is too frequently ignored by business leaders.

Business strategy is often a platitude for top down dictatorship or a bottom up functional comfort zone protection. In reality it should of cause be both for a strategy that ignores capability and resource constraints will fail to deliver strategic goals and objectives. Whereas a strategy based around a comfort zone of easy targets fails to deliver innovation, challenge or growth.

It also raises the vista of a strategy that is based on one or more organisations working together and is vulnerable if the strength of relationships and organisational or cultural compatibility are not factored into the equation. It is this inherent assumption that a relationship will satisfactorily evolve to meet the objectives that puts many a strategic business proposition in danger of failure.

It is the responsibility of leadership not only to set the objectives and goals for an organisation but also to understand and address the potential constraints that could undermine those outcomes. Being able to identify the strengths and weaknesses of their organisations is the first step in identifying what can be achieved. Certainly limitations in capability and resource can be compensated for by working with third parties but at the same time the ability of two disparate organisations to work effectively together is a potential for failure.

At the same time asking an organisation to change the habits of a life time and move away from command and control to a position of mutual interdependence requires leaders to understand their own and their people's capability. Too often the corporate direction is set without understanding the challenges at the coal face.

Another key aspect for leadership to consider is stakeholder management. In any venture there will be those directly involved and those who either benefit from the outcomes or are affected by the approach. These stakeholders whilst often arms length from the front line activity can exert a strong influence on its outcomes. The more integrated the activity the more susceptible it is to interference, criticism or hidden agendas.

It is a similar position when considering the implications relative to customers. On the one hand there is a growing trend for customers to be looking for more integrated solutions by embracing key supply chain partners. Many however have a reputation for conventional management approaches which frequently leads to the market response being muted. Thus when endeavouring to seek ABM they are inadvertently defeating their own objectives. On the other hand the organisations field partnerships which are inherently flawed due to customer preference and confidence considerations where they view the partnerships are unstable.

This scenario is one which faces many alliances and consortiums where the executive analysis that sees potential in combinations of player's capabilities, technology and reach fails to recognise the underlying incompatibility of those players. So whilst the technical and financial models may appear market beaters the outcomes are frequently less positive.

The mergers and acquisition strategy often suffers a similar fate where the conventional wisdom sees opportunities for growth through combinations of organisations capability, rationalisation of resources and extended reach ignores the internal pressures and conflicts of the structures and culture.

Perhaps the most vulnerable aspect of any strategy rests in the supply chain. The rush to exploit the global market has been high on the agenda for most executives for some time. The rush to benefit from low cost supply sources and to divest organisations of traditional capabilities has left the potential for significant inbuilt vulnerability. In today's market it is likely that between 50-80% of the cost base is in fact external to the organisation. Yet their ability to manage that strategically crucial aspect of the business is predicated on a traditional philosophy of exploitation. This is not to say that traditional methods are wrong in transactional environments but they have to be questioned when overall performance is reliant on third parties.

The strategy then is crucial to success but the factors which underpin a successful approach are frequently based on traditional business thinking of master and slave. It assumes that the relationship is something that is either superfluous to a strong contract or that performance can ignore the impetus that comes from a robust and sustainable relationship. It therefore falls to the leadership to create the appropriate environment and support those involved in execution

- **Risk Management**

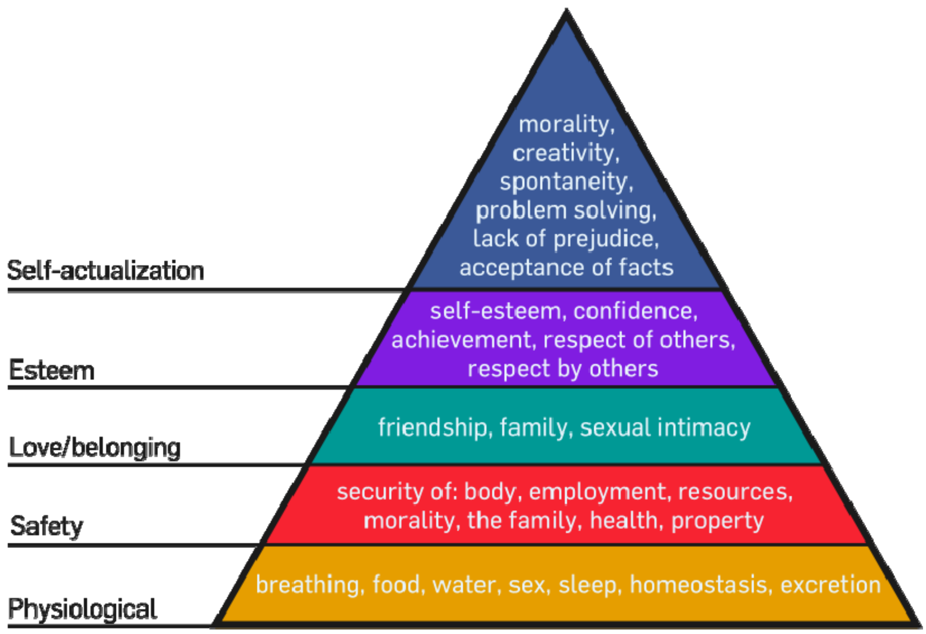
All business is driven by two principles, the first being to acquire resources, process and deliver products and services at a profit and the second being to manage the risks that the process entails. A key factor for any business is that the more risk they can effectively manage the greater their competitive advantage. On the other hand those that seek to simply transfer risk frequently are building in potential risk when the issues are outside the capability or influence of those given the risk. Understanding the broader risk profile and assigning appropriate risk to ensure visibility and action is a crucial element of achieving success.

Risk is most often categories by financial, performance, safety and external events whether natural or social/political. One aspect that is seldom mentioned in any risk brief is those related to relationships. This is somewhat surprising since the most likely risk for any business is the breakdown of relationships such as between customer, partners or suppliers. The tendency is to defer these risks to contractual conditions and liabilities but this ignores the reality that once the contract is invoked failure is largely assured. Gaining a customer is said to take years losing one takes minutes, the interdependency of partners may undermine a complete market strategy and disengaging a supplier can stop a business in its tracks. Relationships are then a major risk factor but how often is this recognised.

On the other hand understanding relationship risk and effectively managing or mitigating the impacts should help to build stability and drive success. It should also be recognised that risk influences every aspect of the interaction between organisations as well as individuals and impacts performance.

A key factor that is also often ignored is the recognition of the need for an exit strategy. As relationship become more entwined so the implications for disengagement become more critical. The failure to understand and address the impacts of exiting a relationship not only introduce direct risk but also may frequently impede the way organisations work effectively together.

As organisations seek to implement ABMs a critical issue is the risks that this may introduce. Risk is frequently addressed from and internal perspective but understanding the other parties risk assumptions helps to smooth the way. It is their perceptions of risk that colour the way they see external providers and traditionally pushes them towards ever more complex contracting requirements. The counter is equally important when the customer looks to push risk down the supply chain the suppliers has to predict and accommodate risks that influence cost and performance. In a combined proposition the risk perceived by the partners clearly affects their levels of engagement and subsequently the internal evaluation of the relationship.



At an individual level we each see risk in a variety of ways as to how it may impact us. Maslow's Hierarchy provide a simple model as to how we each evaluate any given circumstance. At an individual level the nature of a business relationship and our enthusiasm for any ABM will be strongly influence by the way we perceive it will affect us. This is particularly important when you consider the transfer of roles and responsibilities between organisations. It is often referred to as the 'Turkeys voting for Christmas syndrome'. In many respects the Maslow model can equally apply to organisations.

There is also the factor of considering the additional risks that integrated relationships may introduce. Perhaps highest on the agenda is business continuity the greater the degree of interdependency the higher the consequence of a failure in the relationship. Organisations should also consider the implications of corporate social responsibility and the reputational risk that comes along with ABMs.

Risk then is both an opportunity and potential cause for failure so effective risk management is a critical consideration. Relationships are a significant factor in the overall assessment of risk and thus should not be left to osmosis. At the same time the more robust and transparent the relationship the greater the opportunity to identify and manage risk through appropriate assignment of responsibility based on capability not transfer.

A clear example of the influence of risk comes from the BAA approach to the building of Heathrow terminal 5. T5 was one of the biggest construction programmes of its time. Developed off balance sheet by BAA so cost and delay was not an option. BAA created a unique contract that removed unmanageable risk from the contractors who could then work effectively in Collaboration. The programme was completed on time and to budget.

- **Value Creation**

It is common practice to think in terms of customers and supply chains but perhaps the concept of value chains and value networks is more intuitive when considering ABMs. This perspective opens up a broad opportunity to look beyond traditional one to one relationships and seek to harness the potential to create value by reaching and rationalising the activities of multiple parties. In a traditional chain the baton, pressure or liability is passed from to another frequently compounding the impacts as it passes. The value chain seeks to engage all parties to assess and address these impacts to mutual benefit.

Clearly in a traditional trading relationship the 'deal' is singular and reasonably well defined with a relationship that can to some extent be orchestrated. In the more open concept of a value chain the relationships may be many and require a much higher degree of collaboration and transparency. As such the relationships are the key to identifying opportunities and translating these into value which on some occasions may not directly benefit the immediate links.

Creating an environment where the traditional arms length and fear of exploitation interaction between organisations is relaxed is not an easy transition for many. The business culture that assumes that any degree of openness will incite others to take advantage is a significant barrier to creating value for the participants. As such the traditional comfort zone perhaps detracts from accepting the contribution from others. This in turn will constrain innovation and subsequently dilute the potential value of a relationship. It must be recognised that unless there is mutual benefit then most business dealing will remain on a singular plateau and fail to deliver their full potential.

If we acknowledge that relationships are crucial to unlocking the potential within the value chain then we should also consider the parallel benefit of using the creation of value to reinforce the value of the relationship.

As organisations engage for a specific purpose they frequently ignore the hidden benefits of sharing experience and knowledge to unravel impediments to further enhancing the value of the relationship. These may come in terms of process improvements, skills development, product enhancement, performance and overall competitiveness. Even if these opportunities do no present themselves the fact the organisations share the desire reinforces the relationship and against its primary goals and objectives.

Take the case of the Tia Chung Power station extension in Taiwan. It was tendered on a worldwide basis. A UK company adopted an integrated approach with key contractors and suppliers working together to optimise the design. By reducing contingency, risk and increasing performance capability through an integrated solution they beat off all competition including low cost competition from the far east.

- **Knowledge management**

At the heart of most relationship issues the concept of knowledge is power remains the major constraint to harnessing the value of interaction between organisations. The primary cause for this dilemma is a failure of organisations or for that matter an individual to build up a level of trust that when knowledge shared will not be exploited.

There is a lot material focused on knowledge management though some would argue that knowledge cannot be managed only information which is a different debate. It should however, be recognised that by harnessing greater transparency organisations can benefit from considering an external perspective on their operations and jointly focusing on those areas where cross organisational knowledge enhances performance.

Much of the debate in this arena centres on aspects of proprietary information and IPR, which is clearly a subject close to the hearts of many organisations. These areas are in the main ones which regulation and legislation handle very effectively at least in the western world, though one should not ignore the potential for today's parent to become tomorrow's competitor.

Where it is perhaps more important is to consider how shared knowledge can improve performance but even here the fears of the individual and the desire to control influences the way organisations interact. Knowledge may be power but in most cases if not shared it has very limited value. The key to effective knowledge management is to understand what can and what should not be shared and to make this visible.

It is important however to consider the flip side of knowledge sharing in that over time organisations may inadvertently lose competitive edge or more importantly capability and skills. It is the fear of losing one's edge that frequently constrains interaction this is perhaps more of an individual concern than that of the organisation. At the organisation level the focus must be to retain their individual value whilst harnessing the potential of working with others.

What evident is that the strength of the relationship and the levels of trust between organisations and individuals is a crucial factor in managing the flow of knowledge. The more we trust the more we share and ultimately the great the potential to benefit.

- **Outsourcing**

The adoption of outsourcing approaches in past decade or so has become an accepted aspect of business. The importance of relationships in this environment should be fundamental yet frequently for many organisations the issue is low on their development programmes. This is perplexing particularly when you consider that in outsourcing the interfaces between organisations are always a point of vulnerability and risk and perceptions of performance.

The trend towards outsourcing means that the external organisation is in reality moving inside another organisations imaginary boundaries or firewalls to become part of the overall delivery process. Often the remote location means that providers are not physically absorbing the ethos or culture of the host client. In some cases they may be operating with a completely different set of conflicting values. Thus the outside is coming inside but is frequently still evaluated on the basis of traditional command and control thinking.

Given this dilemma prompted consideration as to the nature of how organisations look at themselves and the market place as whole and how this may affect the way the impact of relationships are perceived. Many traditional organisations have developed under a command and control structure that looked from the inside out to the market place and controlled through arms length contracts with either customers or supplier. This approach assumed that they would operate within known rules and behaviours and in this context it is relatively easy to manage relationships and behaviours as a factor of location.

The ‘**Outside in Theory’** poses the question that when organisations assess the importance and value of relationships should they be evaluating from another perspective. If organisations looked at their operations from the perspective of outside in then the realisation is that perhaps managing relationships is a more complex and crucial ingredient for these alternative business models. It highlights the need to bring into play a much wider range of considerations than the traditional price, quality and delivery mantra. It also brings into question whether the traditional approaches of contracting for failure can effectively be applied in this environment.

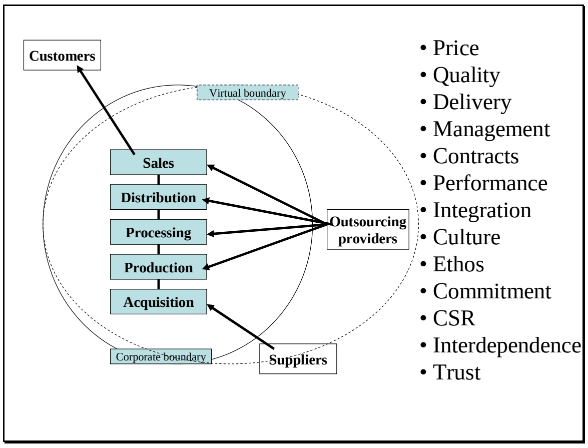


Fig Understanding the Outside in theory

Whether outsourcing internal support services, the development of external manufacturing or the creation of extended enterprise business models creates a whole new spectrum of challenges and risks. The process of integrating external organisations into a cohesive business process places increased demands on those charged with managing these operations. The increase in globalisation and the pressures from stakeholders to recognise the implications of sustainability and corporate responsibility demands careful consideration in the development of business strategies. The desire to exploit the potential of non core activities through outsourcing must be tempered with a robust process that embraces the need to consider the importance of the relationships involved.

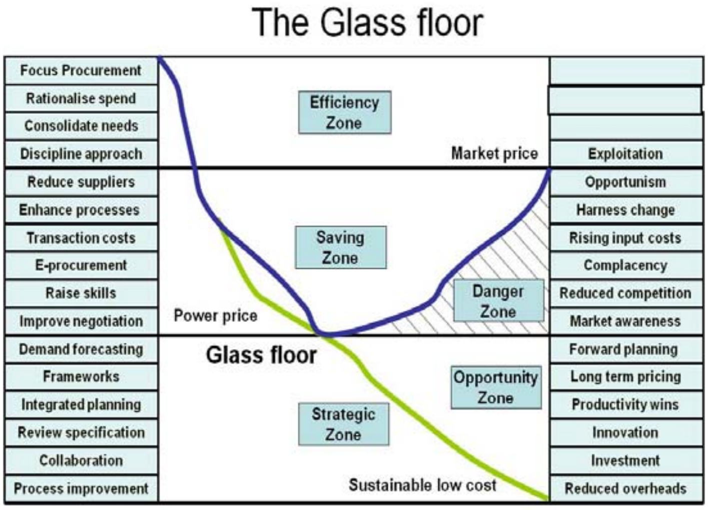
EMCOR a multination facilities management company have built and maintained long-term relationships by engaging at a strategic level to support customer's objectives through periods of pressure and business change. Bucking the trend their customers have opted for long term contracts as opposed to 3-5 year which incur a high cost of change and increased risk. They have shown that longer term contracts based on sound relationships enhances cost reduction, increases innovation and for EMCOR sustainable business.

- **Supply chain vulnerability**

As highlighted earlier it is now common place to find 50-80% of operational cost being channelled through the supply chain. With such a liability operating outside the organisations supply integrity is a critical dimension in most business arenas. This has been recognised as both a risk and opportunity and as such has received a great deal more focus in recent years which has lead to a number of development cycles. These initiatives have largely been directed towards cost reduction and rationalisation of the supply base together with a rush to exploit the benefits of low cost markets.

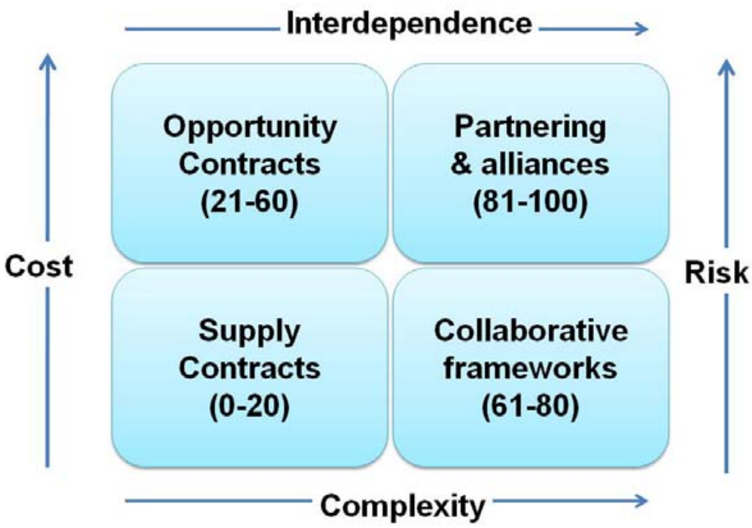
The obvious direction is to enhance purchasing and contracting capability and target transactional activity which zeros in on reducing the price but perhaps in many cases ignored the longer term impacts on availability and security of supply. The glass floor was developed from an analysis of these approaches and as the pressure on suppliers increases so their ability to respond and counter the benefits diminish.

This enthusiasm also began to highlight the potential vulnerability of these extend supply chains. As Transport route lengthened and political influences changed so the challenges increased. Some organisations then began to recognise that there was not a bottomless pit, that reliable resources where limited and that performance overall was being impacted. They had reached the glass floor and needed to adopt alternative strategies to have sustainable savings. .



The potential problem they then face is that having pursued a strategy that was based on exploitation they now had to adopt a focus on supplier relationship management. From a supplier perspective whilst this alternative model offered opportunities to build a better business profile the fact was that they had little or no confidence in their customer's true intent. So whilst a more integrated approach was on offer the reality was that in many cases the real benefits were not coming out for fear of further exploitation.

This dynamic also poses challenges for the procurement and contracts people within organisations. With a traditional history of being tasked to extract the maximum benefits from the supply base they now face the dilemma of working with supplies rather than working on the supplier. Clearly how people are incentivised and performance measured impacts their behaviour which in turn further exacerbates the relationships.



Obviously not every customer/supplier relationship needs our benefits from a more integrated approach. It therefore becomes important for organisations to establish the relative rules of engagement. The more dependent one is on the supplier the more crucial it is to foster the appropriate relationship. Whilst all relationships are important some are clearly more important than others and mixed messages dilute the focus where it's needed. Understanding the importance of type of relationship needed in this field of activity is critical to delivering the business strategy

NATS (UK National Air Traffic Services) are responsible for the management of air traffic throughout UK air space where clearly safety and integrity of systems is crucial. Their Strategic Supplier programme has its foundation in ensuring strong relationships with its key suppliers. This is reflected in a current programme to integrate uniform software across Europe under the TiNA programme NATS and its two principle suppliers have had the confidence to adopt an tri party contract that excludes the right to sue in order to focus all three companies on a single outcome.

- **Mergers and acquisitions**

Mergers and acquisitions are arguably the quickest way to grow a company; however, they can also potentially be the most risky, when considering the investment and rationalisation cost. Many see M&A see as a fast route to success but neglect to recognise that they could be getting on fast track to failure. A KPMG report suggests that 85% of mergers and acquisitions are failures. In reviewing successes and failures in this arena an aspect of the evaluation that frequently appears to be missing is any analysis of the compatibility of the organisations involved.

Clearly M&A strategies can be driven by a multitude of forces whether market expansion, product enhancement, or rationalisation. The financial modeling and due diligence that takes place is mostly focused on the financial and technical implications of bringing two organisations together. Any focus on relationships is largely directed towards customer retention and validation of 'good will' associate with valuation.

Certainly the customer relationship factor is important since any business hopes that the majority of customers will stay loyal to the existing suppliers. What gets less attention is the supply chain relationships and evaluation of the compatibility of the workforces to be merged. This is perhaps less important where the strategy is focused on acquiring technology or markets and less on the resource base but still has its implications.

In many cases the real value of an organisation is in its human capital and their capabilities and skills, together with their standing in the market. It should also be recognised that for many mergers these are drawing together organisation that may have previously been in competition. One of the major issues in the combining of organisations is the inevitable rationalisation of resources. These implications at the working level will significantly impact the speed of cohesion and transfer of knowledge. This in turn will have a direct impact on the pace of integration and the eventual success of the venture. The relationships at the working level are therefore a critical consideration in optimising any merger.

As outlined earlier the majority of organisations depend heavily on their supply chains so in merging two operations where developing the supply chain has been a factor in the competitiveness these assets may also need to be rationalised. This leads to uncertainty and poses a potential risk to success.

Perhaps most important of all is the question of customer confidence. Customers do not generally deal with organisations but with its people and these relationships are the mainstays of viability. It therefore follows that that internal unrest or lack of focus will inevitably lead to concerns. It follows that if we value the resources of a business then the relationships that drive it are a crucial factor.

Perhaps one of the most significant failures in recent times was that between AOL and Time Warner. Heralded as the most significant merger of its time. Both organisations had been very successful in their own right and their merger was seen as revolutionary. What it failed to recognise was that previous success and culture was inherently invested in each organisations ethos which clashed and as a result the merger had to be reversed?

- **Partnerships, Alliances, Consortiums & Joint ventures**

The spectre of alliances and partnerships has been continuously increasing as a response to customer demand for integrated services, development of more comprehensive value propositions and broadening of the investment and resource base for major developments. There is no doubt that these ABMs will be even more common in the future as they provide a potentially lower risk strategy than mergers and acquisitions.

Much has been documented on the benefits of alliances and partnerships and research suggests that the more robust the relationship the greater the potential to growth business and benefit from delivering value.

Clearly when two or more organisations join forces the question of how they effectively interact is crucial to success. The blending of different business processes, cultures and frequently incentive and performance measurement schemes lays the foundation for potential conflict and lost efficiency. As such relationships become a critical aspect of their structure and propensity for success. Equally important for those customers considering the utilisation of these partnerships the long term stability and effectiveness are a key risk consideration.

Whilst organisations may bring together sound proposition in terms of technology and resource this requires an underpinning robust structure that will support the delivery. Frequently the relationships become the defining factor for success but these are left for attrition to cement their effectiveness or driven by internal champions. The sustainability of these partnerships has to be questioned when personalities change and there is no prescribed partnering ethos embedded in the programmes.

The establishment of contractual roles, responsibilities, financial models and governance is only part of the solution. Blending disparate personnel towards a common set of objectives supported by unified processes to deliver value requires more than simple process alignment. To optimise the proposition the focus of the partners has to be aligned and clearly orchestrated to ensure internal focus and external confidence.

Perhaps one of the most referenced alliances is that of BP Andrew. The Andrew field was a marginal one and thus the Initial cost estimate in excess of $400 million made it uneconomic. BP pursued a policy of rationalising their traditional approaches and opted for an alliance model. This enabled them to project a significantly lower investment cost. Andrew was eventually developed by an integrated alliance of BP and seven contractors, which tied financial rewards firmly to the final cost of the project. The final project cost around $290 million and the savings were shared among the Alliance partners.

- ## International relationships

Those who operate in a global market will be acutely aware of the challenges thrown up by cultural differences, whether national, regional or frequently corporate. The generic national traits are often characterised but it takes time to build effective relationships that really deliver. There are significant difference between East and West and irrespective of customer or supplier and the role of relationships is crucial to achieving desired goals. Operating across national boundaries offers up a myriad of complications.

The further East one travels the more emphasis there is placed on the strength of the relationship above legal constructs whilst the further west the greater the reliance on contracts and litigation. In China one would not expect to do business except with someone you know or have been introduced to by a trusted colleague. So clearly relationships feature highly.

Misunderstanding can easily occur when faced with the dynamics of very different culture and language and yet if the relationship is strong these mishaps can often be more readily addressed. The impacts of globalisation have reached almost every corner of the business community and yet too frequently the organisational baggage that accompanies international trade or for that matter politics focuses more on the corporate comfort zone than the relationship.

Take for example China where the foundation of all business is relationships or guanxi which depend on reputations and trust between individuals. Upon learning that China Post Savings Bureau planned to modernize its computer network, C.T. Teng, the general manager of Honeywell-Bull's Greater China Region, asked his Beijing sales director to approach the China Post executive responsible for this project. Because the sales director and the China Post executive were old university friends, they had guanxi. That connection enabled Teng to invite the China Post executive to a partner's forum at Honeywell-Bull headquarters in Boston. He also invited the CEO of Taiwan's Institute of Information Industry to the event. Over the course of the meeting, Teng proposed a banking system using Honeywell-Bull hardware and Taiwan Institute software to China Post's CEO, and the deal was done.

- **Corporate Social Responsibility - sustainability**

There can be few board meetings that today do not at least reference the current CSR profile. When you raise the subject of Corporate Social Responsibility the discussion quickly devolves into a number of themes such as financial impropriety, ethical trading, and human rights. Sustainability on the other hand will quickly lean towards environmental impacts and global warming. The key to success in this whole area is about exploiting the opportunities of sustainability rather than simply focusing on the risk, whilst this remains important it is clear that sustainability is increasingly an important agenda item for executive boards and one which is exceedingly complex to manage across a wide spectrum of stakeholders.

As with any long term strategic plan alliances and partnerships are a crucial ingredient for organisations to consider in the integration of supply chains and outsourcing operations within this global arena. Not simply in order to react to the implications of public opinion on issues of third world exploitation but also in the development of sustainable business propositions. There is a difficult balance between the corporate drivers of competitiveness, and shareholder value, and the practical implications of ignoring the sustainability implications of investing in overseas operations either directly or indirectly, together with the pressures of balancing the demands of regulators, customers, consumers and pressure groups.

Building effective business relationships is a crucial factor in both exploiting the potential of extended value chains but also in evolving solid development programmes that support the long- term sustainable objectives? As the business landscape becomes more complex and challenging the relationships between organisations also take on new and varied configurations. The issues have become very complex embracing corporate governance, ethical trading, human rights, environmental impact, and regulation etc. At the same time the pressure to improve margins, reduce costs, increased outsourcing and the like creates conflicts in meeting the sustainability agenda.

The paradox is of cause that many of the issues associated with the sustainability agenda are the ingredients that facilitate achieving competitive goals and are the essence of market economics. Low wages, poor investment in working conditions, resource exploitation, reduced regulatory demands, lack of pollution control all contribute to aggravating the situation.

In developing a proactive approach to sustainability that is focused on linking CSR to commercial benefit the aim is look beyond the risks and starts to assess the value creation that can enhance profitability where through relationships the sustainable agenda can be mutually developed.

Starbucks is a good example of a company that has used its corporate social responsibility to gain a social license to operate in the communities in which it trades. The Starbucks approach is based on building lasting, personal relationships with customers and neighbors and staying in touch with the concerns, issues and desires of local communities and customers, whether they are concerned about cultural sensitivity, neighborhood character, nutrition, health care or how Starbucks contributes to their community. There are the tangible benefits Starbuck gains from integrating CSR into their business: attracting and retaining satisfied and engaged “partners” (employees), customer loyalty, reducing operating costs, creating a sustainable supply chain, and license to operate in local communities.

- **Third Sector**

In recent years there has been a significant trend towards greater utilisation of the voluntary sector. Many NGOs have for years been providing services whether social or emergency relief but more recently the UK government has taken a more proactive approach seeking to harness the skills and resources of volunteer organisations. This dynamic creates another focus on the relationships required to support a programme of commissioning voluntary organisations.

There are many cases of voluntary organisations seeking to work with commercial organisations to develop funding streams and in many cases to use the relationship to enhance the profile of these companies.

Clearly these volunteer groups are principally focused on their good works, though it is also fair to say that some of the major charities are significant businesses. Historically whilst one may frequently see commonality of purpose at the coal face the relationships between these organisations becomes less mutual when it comes to competing for membership and grant funding.

If the third sector is to be developed as a meaningful resource then it is likely that relationships between local government, industry partners and the voluntary organisations will need to be developed. These relationships will encounter perhaps a greater potential for friction where the motivations and principles of each can be very different.

BSkyB has offered Friends of the Earth the opportunity to become the broadcaster's favoured charity. The three year contract would guarantee Friends of the Earth direct access to Sky's 8.6 million subscribers and its satellite channels. It would be a unique opportunity for Friends of the Earth and would position the campaigner's message firmly within the mainstream channel. The 3 year campaign has been valued at £1.7m and will include TV spot advertising, access to programme content and access to Sky's customer magazine (the highest circulating magazine in the country). The contract has unfortunately divided directors at the charity. The opportunity of reaching an unprecedented audience is contrasted with what some campaigners see as getting into bed with a corporation whose environmental credentials are less than complimentary.

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- **Internal relationships**

To a large extent we have been considering relationships with external organisations. It should also be recognised that for many larger organisations the boundaries and constraints to success can just as easily be generated across internal divisions. How larger multi-facetted organisations operate can be a significant drain on resources and limit performance. We often hear the term one- stop- shop when referring to companies that have a broad range of products and services yet we also encounter the divisions and diversity of approaches as these separate elements vie for business and positioning.

Internal boundaries and division may not only impede external relationships they also have the capacity to undermine collective performance through separate agendas and performance criteria. How individual elements of a business are measured significantly impacts how these fractions work together. In many major companies it is not uncommon for the day to day operations to be supported by a sub culture of relationships which transcends defined policies and processes.

As business ventures and organisations become more complex so their internal capacity to harmonize cross functional performance faces increased pressure and stress. There has long been a realisation that the strength of an organisation comes largely from its people. It is also frequently apparent that in many organisations performance can be disrupted or distorted by forces or operating structures within the organisation. This may be further exacerbated by geography or through mergers and acquisitions.

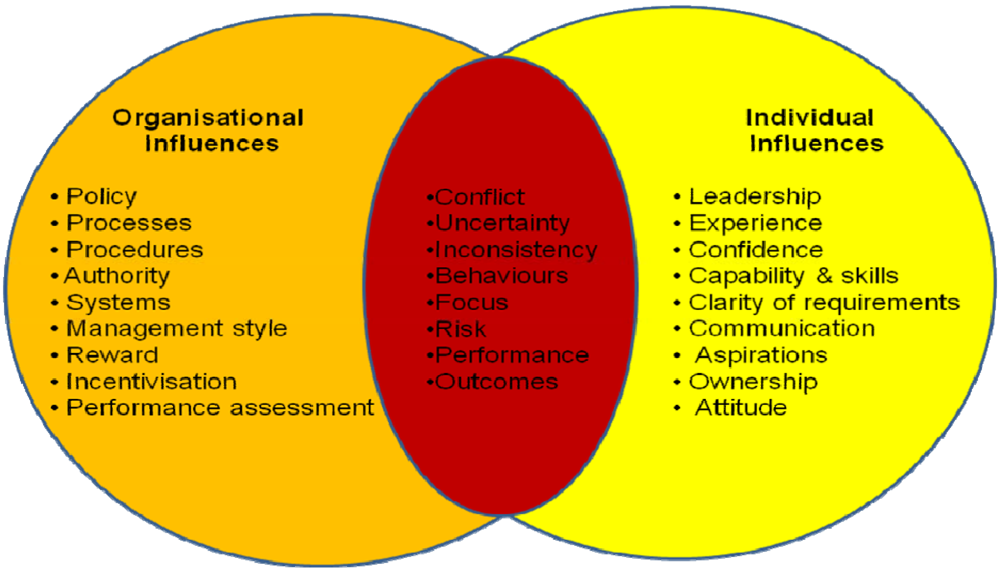
Delivery of business strategy depends on the effective integration of internal resources and skills. This cohesion becomes more critical as complex customer solutions require the creating of external alliances, which may be undermined by internal alignment. Effective leadership is a crucial facet of every successful business venture and where the delivery processes bridge organisational boundaries the role is critical in developing effective team focus where performance depends on cross functional operations. The coordination and direction of the team is more complex and one where motivation and influence are vital to success.

In breaking down silos the management role is also likely to be stretched over distance and geographic boundaries, which requires that management relies more on relationships in the coordination and motivation of remote teams towards common goals.

- **People, Behaviours and Trust**

How people are managed, targeted, measured, incentivised and rewarded has a major influence on how they interface with others either internally or externally. Thus if there is a conflict between the policies being promoted and how they are evaluated and driven it is easy to guess which will have the dominant impact. Similarly if the processes by which they have to operate are robustly structured and enforced but the business objectives do not clearly reflect the policies, the less motivated will quickly revert to traditional business as usual and take the low risk option. So despite organisations investing in skills development programmes and cultural initiatives the conflict will force people to adapt their level commitment, enthusiasm and engagement in line with Maslow’s Hierarchy or what’s in it for me. The relationship iceberg highlights the underlying drivers for individuals

As the demands of the market increase so the development of ABMs becomes more prevalent. The drawback comes when people have to get down to delivering outcomes and meeting internal processes and performance measures. It's at this stage that organisations revert back to 'contracting for failure' or business as usual. This is largely because of the potential conflict between policy, process and relationships. These organisational and individual influences have a significant impact on overall performance.



The enduring nature of integration of culture is driven by policies and processes which the organisation deploys both in terms of operational effectiveness and throughout the selection, development and management of the people that represent the public face of the organisation. If relationships are considered important collaboration the concept must be embedded in the governance and processes of the organisation and reinforced in every aspect of the business through policy, process and systems.

The challenge is how does an organisation embed and sustain an approach given the vagaries of the market, the transient nature of its people, variability of skills and experience and the historical focus of exploiting trading relationships. It was this dilemma that gave rise to the CRAFT programme and subsequently was instrumental in the creation of the world's first a national standard BS 11000 (Collaborative Business Relationship Management) which would provide a consistent model around which organisations could build more sustainable relationships.

- ## Relationships strategy

Relationships of any kind have a life cycle and to maximise the benefits it is important to consider the longer term implications of our actions on the value creating relationships were aim to deliver improved performance. This can be considered at three levels, the strategic intent, the engagement process and the ongoing management, which is the overriding structure of BS 11000.

At the strategic level it has to be recognised that relationships will cut across every function in an organisation. The initial key is to ensure that an organisation has a clear mandate and strategy to recognise an drive the value of relationships. This has to be demonstrably aligned with the visions, values and objectives of the business.

For many organisations the view of traditional trading relationships is seen as one of exploiting power. Changing the focus to relationship management needs strong support from the top to overcome internal constraints and support appropriate resourcing. It is crucial that the adoption of a collaborative approach is clearly aligned with the business goals and objectives. In this way those across the organisation can appreciate the potential for a value chain or value network approach. These benefits must be articulated and understood including the long term advantages. This may be particularly difficult where integration with external organisations could impact internal resources.

How will you manage knowledge and information flows. What will your customers and markets make of a collaborative approach? Who could you partner with? What would be the impact of withdrawing from collaboration? The exit strategy is often seen as negative but in fact understanding the rules for disengagement focuses the attention on the key issues to make a relationship work. Most importantly what do the specific risks look like?

Every relationship is different whether vertical or horizontal; however the key issues will be common to most. It was these key factors that BS 11000 captures and thus provides a common and consistent foundation for collaboration.

A valuable relationship is a two way street and to achieve the desired goals it requires commitment on all sides. This not just about processes, procedures, systems and contracts (the HARD process issues). It is also a question of the people drivers (the so called SOFT issues) such as leadership, skills and motivation, which will govern the behaviours and approaches at the working level. Understanding the internal enablers that build trust between the parties based on mutual benefit and equitable reward is important.

When starting to move to engagement it has to be recognised that integrated relationships can be utilised in many different circumstances and finding the right partner should not be left to chance. Too often the selection process is by default or based on long term experience in a traditional relationship. This may not always be the best criteria. The majority of relationships result from and evolution of more traditional trading interfaces. A good arms length supplier for example may not be the best choice when considering a more integrated approach.

In similar vein where an existing provider is perhaps a single source option their collaborative capability is frequently ignored as there is no other choice. It is important to understand the differing dynamics of a collaborative approach and assess the strengths and weaknesses whatever the route to selection.Throughout the selection process it is advisable to work with the potential partners to understand their objectives as well as building a dialogue around common objectives and outcomes. These may not always be the same as yours but should be evaluated for alignment and compatibility.

Establishing the right platform on which to create a relationship is crucial. Clearly there will need to be an agreed contract however it is important to work jointly on setting out the appropriate governance model that will support collaborative working. In finalising the arrangement this should where possible incorporate the key requirements, principles and governance.

Experience suggests that relationships will tend to plateau over time if not driven to maintain continual improvement. The relationships which are particularly focused on long term benefit must maintain a relevance to markets and customer needs. A major benefit comes from the ability to share ideas and harness alternative perspectives. Those that look for additional benefit often exceed their original objectives and perform much better overall.

Business relationships will likely change over time so on gong management focus is crucial. These changes may be as a result of either internal and external factors or pressures. Even where partners have invested in creating a firm foundation and governance the people involved will develop or move on, which will change the dynamics of the relationship which is a strong reason for embedding the collaborative practice in the operating model. In order continuously to achieve performance goals it is crucial to establish a programme that works to maintain a sustainable relationship through ongoing joint management.

The final aspect of maintaining the relationship is to ensure the exit strategy is jointly developed and regularly reviewed and up dated if necessary. The exit strategy should not be confused with contract termination which whilst important addresses another aspect of relationships with suppliers. The strategy should focus on how the parties plan to disengage when necessary and ensure effective business continuity and customer support.

A strong relationship will recognise the value of looking to monitor the changes and ensure that the concerns and needs of each partner are duly addressed. It is important to ensure that whilst one particular initiative may come to its useful end due to a variety of factors others may and should be emerge from successful collaboration.

Positive contributors to Relationships	Negative impacts on Relationships
• Executive sponsorship	• Poor behaviour management
• Committed leadership	• Lack of stakeholder commitment
• Early stakeholder engagement	• Lack of partnering skills
• Integrated planning	• Lack of management support
• Joint governance structure	• Lack of strategic direction
• Open book (if appropriate)	• Poor up-front planning
• Clarity of objectives	• Poor partner evaluation
• Relationship management plan	• Failure to address cultural
• Good communication at all levels	• Lack of shared goals
• Joint ownership of success	• Poorly defined measurement
• Behavioural charter	• Lack of benefit analysis
• Joint risk management	• High focus on risk transfer
• Effective information sharing	• Hidden agendas
• Early integration of processes	• Poor communication
• Joint skills development	• Ineffective dispute resolution
• Joint change management	• Lack of exit strategy
• Appropriate performance measurement	• Negative approach to contract
• Integrated continuous improvement	• Lack of innovation
• Effective dispute management	
• Joint exit strategy	

Conclusions

There can be little doubt that relationships are a critical factor for all business whether private sector, public or third sector. In fact some might suggest that relationships are the real critical success factor without which it becomes difficult to build or sustain business over time.

These relationships are multidimensional and need to be recognised for the value they bring and potential risk that emerge from failing relationships. Perhaps more importantly as alternative business models are developed the crucial ingredient is that they are built on a structure that places the relationships above the individual and embeds relationship management in the organisational policies, procedures and systems.

Given that relationships are important it is unrealistic to assume that such a critical aspect can be left to chance. It is also important to understand that whilst organisations can try to project a persona they are made up of people and thus partially dependent on their people. So relationships cannot be left to luck, nor can organisations rely on osmosis or attrition to develop the appropriate behaviours to support that ethos.

Far from being a side issue relationships are fundamental aspect of business processes and a key factor in driving business success. As such organisations should understand their importance and strive to embed both structure and leadership in order to exploit the potential benefits

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David has an extensive career in projects and procurement within the construction industry. For over 40 years he has been associated with the development and implementation of major projects in many parts of the world, which has provided an insight into the many organisational and cultural challenges that projects can generate. Over the past decade he has been an active promoter of partnering concepts and the development of extended enterprises through the building of alliances. As a strategic thinker he has deployed these approaches to support manufacturing to outsourcing programmes, capitalising on the opportunities within project operations to exploit global sourcing. Building on these experiences he has helped a number of major organisations to implement change management programmes in different industrial arenas including chemical processing, oil and gas, power generation, and mining and minerals processing.
He was the architect and author of the CRAFT collaborative methodology and technical author of the British standards Institution (BSI) PAS 11000 framework the world's first Collaborative business relationship standard. He was appointed chairman of the BSI committee to develop PAS 11000 to a full BS standard. In 2009 he was acknowledged as one of the world's top 100 thought leaders on CSR. He has been a regular contributor to professional magazines. As an established author he has several publications to his credit including

Sun Tzu and the Project Battleground: Creating Project Strategy using the Art of War published by Palgrave Macmillan 2004

The Bending Moment: *Energising corporate strategy* published by Palgrave Macmillan 2005.

Corporate Social Responsibility; Balancing Tomorrows sustainability with Today's profitability published 2006 published by Palgrave Macmillan.