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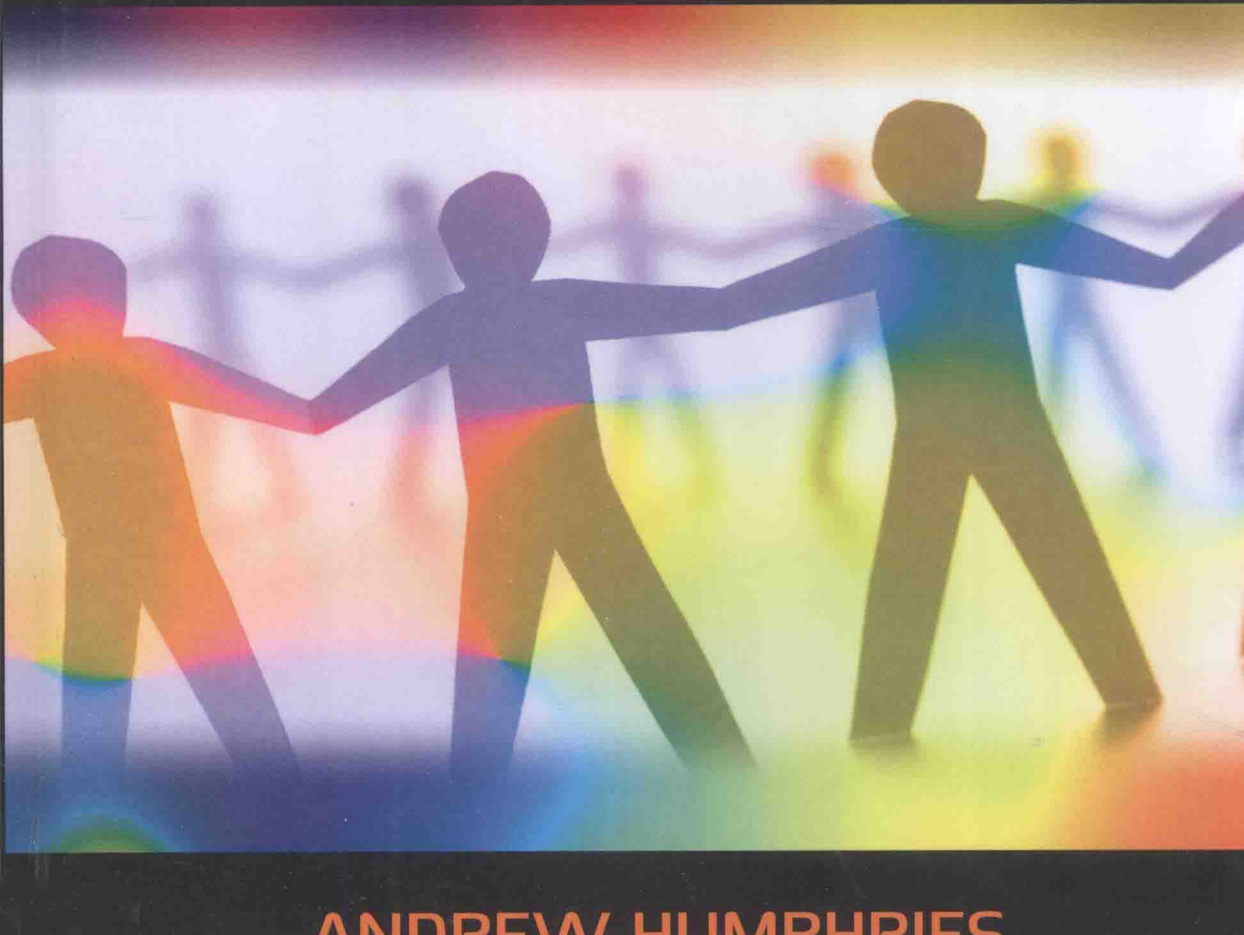
Enterprise Relationship Management

A Paradigm For Alliance Success



ANDREW HUMPHRIES
AND RICHARD GIBBS

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RICHARD GIBBS

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Enterprise Relationship Management

Today's successful businesses rely on globalisation for their prosperity. The complex physical and virtual supply chain networks that support globalisation require proactive engagement, shared understanding, outcome based thinking and collaborative working. This is an insightful book that unpacks the dynamics of effective 'enterprise relationship management' and provides the reader with the tools, techniques and procedures needed to optimise twenty-first-century supply chains.

Air Vice Marshal Graham Howard, Assistant Chief of Defence Staff (Logistics Operations)

Customers no longer demand a product or a service; they want outcomes – the fusion of different offerings – to satisfy them. Companies which are great at producing one or just a few of the things that make up these outcomes are faced with a stark choice: either develop all that is required often at eye-watering cost and risk, or partner with other organisations. The latter is increasingly the right answer but provides new challenges which demand focused attention. Enterprise Relationship Management *offers some invaluable insights into this challenging space and I commend the book to you.*

Matt Wiles, Managing Director, Serco Defence

As an entrepreneur that has started several businesses, most of which were centred on partnerships, I can highly recommend Enterprise Relationship Management *as a real 'tour de force' of this topic. It is clear that the authors have distilled their deep knowledge and many years experience into this book. It covers 'all you need to know' of this increasingly important and often neglected corner of the modern business world. I particularly enjoyed Chapters 3 and 4 on cultural influences and found the section on reporting very helpful. Figure 6.9 is typical of the very useful graphics throughout the book and deals with the key question 'make, collaborate or buy'; increasingly the answer is 'collaborate' and this book is the perfect guide to efficiently managing that process.*

Mike Reilly, CEO, Ether NDE Ltd

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About the Authors

Dr Andrew Humphries and Dr Richard Gibbs write, lecture and consult on how firms can improve their competitive positions by improving the performance and effectiveness of their partnerships.

They have been described as 'academic practitioners', with one foot in the academic world and one firmly in the commercial world. Their work is based on independent research, exploring and uncovering the dynamics and drivers of supply chain relationships, marketing channels and strategic alliances. They have a distinctive mix of hands-on experience and theoretical reputation.

Andrew Humphries

Andrew completed a 35-year career in the UK Royal Air Force, culminating as Head of Defence Aviation Logistics. He was awarded his PhD from Cranfield School of Management, where he continues to carry out research as a Visiting Fellow. He earned his MBA from the Open University.

Andrew founded SCCI Ltd in 2004. SCCI is located in Milton Keynes, and uses a unique, powerful technique to measure the effectiveness and diagnose the improvement opportunities in collaborative business relationships. He has successfully helped to increase customer/supplier loyalty, revitalise troubled partnerships and provide performance metrics for improved governance internationally in rail, construction, manufacturing, retail, automotive, agri-food, IT outsourcing and facilities management, as well as in the defence and justice sectors.

He continues to research the subject of collaboration between organisations, and works with a number of universities in the UK, the US and Europe. He has published widely in academic journals such as the *British Journal of Management, European Journal of Marketing, International Journal of Logistics Management, Journal of Service Research, Journal of Supply Chain Management* and *International Journal of Logistics Management*. He has been featured in the *Financial Times*, has written for trade and professional magazines such as *Chief Purchasing Officer Agenda* and is a speaker at international conferences. He can be contacted at andrew.humphries@sccindex.com.

Richard Gibbs

Richard is a recognised expert in marketing channels and alliance management. He earned a PhD from the University of Gloucestershire and an MBA from Henley Management College. His career spans senior sales and marketing positions in major multinational companies such as Xerox and Novell Inc. His most recent focus has been on business transformation and change management.

Richard is a visiting lecturer at the University of Winchester. He continues to research into various aspects of inter-organisational relationships, specifically addressing how firms can gain competitive advantage through their partnerships He is an accomplished author, and has published in both the management press and academic journals. Richard can be contacted at richardkgibbs@hotmail.com.

Andrew and Richard based their previous books *Strategic Alliances and Marketing Partnerships: Gaining Competitive Advantage Through Collaboration and Partnering* (2009) and *Collaborative Change: Creating High Performance Partnerships and Alliances* (2010) on their continuing research programmes. These came together as collaborative initiatives spurred by a series of common findings and a motivation to provide operational management with a set of practical tools that would increase the likelihood of partnering excellence. This book continues in this endeavour by providing insights into their latest leading-edge knowledge and related practical experience.

Foreword

> *If you cannot measure relationships, you cannot manage relationships.*
>
> *(Adapted from an observation of Lord Kelvin's)*

Increasingly it is being recognised that companies can no longer sustain competitive advantage without effective collaboration with multiple stakeholders. These stakeholders may include suppliers, customers, government, non-governmental organisations and joint venture partners, just to name a few. Each can have a significant impact on the success or otherwise of a business. The concept of enterprise relationship management, defined as the management process for co-ordinating business activities to the success of a joint or multi-party endeavour, is essential for the success of increasing numbers of businesses today.

The recognition that competition is no longer between individual organisations, but the supply chains they are part of also emphasises the need for effective relationship management with supply chain partners. This is further emphasised by recognising the strategic goal of supply chain management, which myself and colleagues at Cranfield School of Management have identified as: to manage upstream and downstream relationships with suppliers and customers in order to create enhanced value in the final marketplace at less cost to the supply chain as a whole.

Value – those things customers and stakeholders perceive as important and beneficial – is created through relationships, both internal to the organisation and external to it. The increased awareness of the 'triple bottom line', which focuses an organisation on economic value (profits), societal value (people) and environmental value (planet), has driven organisations to build and maintain relationships in new ways. The traditional procurement philosophy of identifying suppliers that can be leveraged by driving costs and margins down, when viewed through the lens of the triple bottom line, is seen as an increasingly archaic strategy that in many instances destroys rather than creates value.

It is, however, worrying that many businesses relationships are managed and developed in an unplanned manner, with the individuals responsible for supporting business-critical relationships receiving little guidance and support. Our education system often emphasises the technical skills of operating within a business, with little time given to developing the relational skills. This, it can be argued, increases the risk profile of the organisation and its supply chain, with poor relationship management, both internally and externally, even resulting in a business failing. Many businesses have no formal process for developing, managing and exiting relationships. Few organisations have an enterprise relationship management strategy, few have documented processes and can verbalise how relationships are created and maintained. Even fewer can describe how relationships are exited in a way that all parties remain whole through 'conscious uncoupling'. It is not uncommon that when managers are asked what documentation they have which describes the approach to the relationship, they produce a legal contract which outlines the consequences of failure!

In order to manage relationships, goals need to be set and resources need to be mobilised effectively in order to achieve the goal. Measurement and monitoring become critical, and over the past fifteen years techniques have been developed to enable the measurement and monitoring of relationships from both soft and hard perspectives. Sadly, few companies set relationship goals, and even fewer measure and monitor the rich resource of relationships they have.

In order to address the above issues and formalise an approach to developing and managing business relationships both academics and practitioners have recognised the need for a more methodical approach to creating and managing collaborative relationships. It is recognised that all relationships are different but there are common building blocks and approaches to their implementation and management. Enterprise relationship management is one such approach that has been developed and provides a pragmatic, holistic methodology that can be readily adapted for all business situations. It is not just a nice idea; its principles and techniques can be applied at all levels of relationships – micro (one-to-one), macro (team-to-team) and global (enterprise-to-enterprise). Its implementation results in increased value for all stakeholders, and in my experience, cost reduction can also occur simultaneously.

This book provides an excellent overview of the tools, techniques and philosophy behind enterprise relationship management. The authors provide both managers and academics with a clear overview of the key debates and philosophies supporting the approach, sharing insights and wisdom on the development and management of business relationships. The authors,

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both academic practitioners, have worked for many years putting science into the measurement and management of enterprise relationships. This book highlights and emphasises the key issues that need to be explored and provides a useful outline map for navigating the complex terrain of enterprise relationship management. It complements much of our work at Cranfield School of Management, where taking academic knowledge and creating action in business is foundational to our endeavours. Particularly useful is the Bibliography at the end of the book, enabling those interested in exploring concepts in more depth to satisfy their appetites.

It will provoke a positive debate within industry and academia, but critically for practitioners, the book provides an excellent resource to enable a more formalised approach to business relationship management.

Richard Wilding OBE
Professor and Chair of Supply Chain Strategy, Cranfield School of Management.
www.som.cranfield.ac.uk/som/lscm

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Introduction

This book builds on our earlier extensive research and writing. It also reflects our continued study of and engagement in the practicalities and difficulties of managing inter-organisational relationships in many forms, geographies and functional areas.

We have explored and charted the commercial and market trends over the last couple of decades, and now consider that according to Jeremy Galbreath (2002), enterprise relationship management (ERM) – 'a business strategy for value creation that is not based on cost containment, but rather on the leveraging of network-enabled processes and activities to transform the relationships between the organization and all its internal and external constituencies in order to maximize current and future opportunities' – is the best response for firms wishing to continue to delight their customers, offer meaningful jobs for their staff, and satisfy the requirements of their shareholders and broader society and the environment.

The underlying notion of ERM is that the twenty-first-century enterprise or corporation is best served when it recognises itself not as a stand-alone or siloed organisation with fixed and defined boundaries, but fluidly as a collection of relationships between core team individuals (employees of the firm) and a host of contracted staff, outsourced agencies and third-party suppliers, as well as both upstream and downstream partners. To paraphrase Professor Martin Christopher, it is no longer individual firms that compete, but interconnected organisations, to the extent that these relationships form a network of companies that will compete together in the marketplace.

The competitive advantage in the form of market offering these networks create will become ever more transient, fleeting and temporary. The unstoppable charge of technological change, globalisation and creative innovation conspires against most, if not all, advantages, being able to be copied and surpassed. The core competence of the firm can no longer be limited to the resources, assets or know-how that created this temporary benefit, but must lie in the organisation's ability to form, manage, retire and then exit partnerships while simultaneously constantly seeking out and forming new relationships.

These new relationships can then give rise to new forms of superior, albeit temporary, offerings.

The fragmented aspect of the extended enterprise means that the establishment of ways of working or organisational culture within a developing and evolving network of firms will be very difficult. Psychologist Bruce Tuckman's concept of 'forming, storming, norming, and performing' as the stages of team development (Tuckman 1965) therefore becomes increasingly relevant in the understanding of inter-organisational collaborative endeavours. It can no longer be assumed, if it ever could, that the individuals and firms involved will share any social, political or organisational cultural values and beliefs. Indeed, given the global economy, it is more likely that at least one party will be from a culture that is significantly different according to the GLOBE research country clusters and leadership preferences (House et al. 2000).

ERM has therefore morphed from being a strategic reality and necessity to being an operational practice. Firms – successful firms – must now place great stress on developing, acquiring and nurturing the skills that are required to optimise business-to-business relationships.

The emergence of effective relationship managers cannot be left to chance or best efforts. The complexity of the task, the uncertainty of the activity and the risk (benefit) associated with a successful outcome mean that firms must adopt a thoroughly professional approach. This means ensuring that there is a formal and structured process in place, attuned to delivering operational excellence, which is managed through the use and application of key metrics.

World-class ERM requires the application of both hard and soft approaches in the exactly the same manner as successful change management.

Hard tangible results which impact profit and loss (P+L), balance sheet or key processes are important. It is important to weigh and measure the value of the benefits generated and captured from any relationship or partnership. However, the adoption of a relationship management paradigm means that firms also need to seek to manage and appraise factors such as trust and commitment.

We now envisage ERM as a formal management discipline rather than an ad hoc collection of anecdotes, experiences and best practices – an established process based on proven methodologies and known success criteria that guide the relationship manager through a series of well-defined phases and stages.

The evolution of concepts in the last ten years alone has been very rewarding. When we first started to research in this area, the best business practice you would encounter came from the buyer-side key account management approach. We then witnessed the enlightening work of John Gattorna in supply chain management (see, for example, Gattorna 2006). We saw advances in thought and deed through the work of the US-based Association of Strategic Alliance Professionals, and in Europe, the tireless evangelism of Mike Nevin (see, for example, Nevin 2014). Today, we can see relational governance concepts being interwoven with contract management through the works of forward-thinking practitioners such as Tim Cummins of the International Association of Contract and Commercial Management.

Going forward, the importance of ERM will continue to grow. Indeed, the continual advances of information technology (IT) will only increase the opportunities for individuals and organisations to collaborate on a global basis. The notion of the single, monolithic enterprise epitomised by Ford Motor Company in the 1930s is long gone. The end of the large-scale multinational is nowhere in sight, but nevertheless we are witnessing the growth of myriad partners, clusters and networks as firms and individuals continue to seek advantages and benefits for their customers. For multinational companies, this will represent a challenge to fuse and optimise collaborative working with smaller and more agile firms, as well as larger corporations like themselves, and all of this on a truly international basis.

We have structured this book to provide a narrative flow reflecting and expanding on the points we have touched on above, which have been informed through the discussions in many workshops and conference sessions with managers of all disciplines.

Chapter 1 details the factors and trends that have accelerated the academic and management interest in inter-organisational relationships. It positions outsourcing and partnering as the organisational standard or norm. It proposes the notion that competitive advantage will reside in inter-organisational routines and processes and the ability of managers to leverage them.

Chapter 2 dissects the important aspects of internal and external complexity as well as the risk elements of dyadic partnerships, networks, clusters and intricate multi-path supply chains and channel to market. It introduces and describes in detail strategies that firms can adopt and operationalise to mitigate these complicating risk factors.

Chapter 3 describes the multiple layers of social, political and organisational culture which form the environment in which ERM operates. Chapter 4 then looks at the operational implications of culture, with particular reference to leadership styles and the newer studies of the GLOBE research.

Chapter 5 is a pivotal point in our book because it combines transactional exchange theory with a relational exchange perspective to describe the key drivers of partnership success and failure. It then provides a practical and very operational model to explain the cycle of events that generates high-performance partnerships, or alternatively, failing relationships.

In Chapter 6 we demonstrate the importance of applying the basic principles of scorecards and key metrics to relationship appraisal, whether in pairs of partners, consortia and at the strategic level, or in relationship portfolios. It provides a step-by-step guide on how the strengths and weakness of relationships can be measured and understood. It then shows how this knowledge can be used to stimulate the adoption of performance improvements and a continuous improvement ethos. We also show how relationship appraisal can be used as a governance measure to track performance over time. Finally, for those interested in technicalities, we touch on the science of our approach to relationship appraisal.

Chapter 7 investigates and describes the current growing phenomenon of how global organisations are evolving outsourcing and facilities management relationships from cost reduction to value creation. These relationships are typically the closest it is possible to encounter, hence there are important lessons for all collaborating organisations. We suggest that despite the apparent maturity of this business activity, getting on now for 20 years, ERM mistakes are still being made that significantly reduce firms' ability to create and capture collaborative value. We introduce the idea of a Continuous Value Creation (CVC) Cycle and use some global case studies to demonstrate how some blue-chip companies have broken their CVC Cycles. We conclude that effective ERM is the solution.

ERM involves the formal management of those aspects of a joint enterprise that contribute to the bottom line by blending together framework contracting and relational governance. Chapter 8 describes the principles of how this can be done in a structured, repeatable fashion. It extends the relationship management ideas explored earlier in the book by building the case and exploring the payback from a professional, experienced, senior function in every collaborating organisation. It explains the roles and functions of the

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