Performance Measurement

– A Key Part of Effective Enterprise Relationship Management

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Introduction

Some believe that managing collaborative business relationships is an art rather than a science. Others consider that control through GAANT charts and project management techniques such as Prince is the key to success. Traditionalists, especially in commercial departments, believe that the letter of the contract is the only sound basis for achieving realistic relationship value.

However, some prominent past failures such as those in the UK Defence, Facilities Management and the Construction sectors have led to a realisation that Relationship Managers have a crucial part to play in managing these relationships in their widest aspects. Although many companies have established RM posts, they have failed to provide any tools to support them. The essential question is: 'Can complex relationship performance be measured, so that management effort can be targeted most effectively?'

This article describes a proven, simple and powerful technique that not only generates objective and comprehensive performance measurements but also provides detailed diagnostics and strategic management perspectives. It first describes the Enterprise Relationship Management (ERM) rationale, then the management problems. It then shows how these problems can be overcome by using the SCCI PartnerLink appraisal tool and finally outlines the benefits that can be achieved. Two case studies are offered by way of illustration. This article should be set in the wider ERM context which encompasses a decision phase when choosing a partner, an operations phase when working together and an exit phase when the relationship is dissolved. This complete management framework is described in our book, Implementing and Managing Collaborative Relationships – A Practical Guide for Managers.

The Aims of Key Relationships

Business collaboration brings together capabilities and investment in time, money, infrastructure and intellectual capital to create value that neither party can achieve on its own (1+1 = 3 or more), not just in this contract but in future ones too.

It does this by creating and maintaining a productive, harmonious relationship that secures superior revenues and competitive advantage for both partners. In globalised, competitive markets the ability to deliver value to shareholders and ensure that particular products or services are the first call of discerning customers depends on productive collaboration.

This is characterised by
- joint innovation
- the ability to seize and exploit new opportunities

- customer focus
- high quality outputs
- world beating practices
- continuous improvement
- flexible commercial frameworks
- objective performance measurement
- improved business forecasting
- co-ordinated processes
- learning from each other
- honest and open communication
- two-way information flows

Investments in people, infrastructure and systems create a climate in which innovation and the free flow of ideas flourish. The result is the creation of reliable business systems and high-quality goods and services which delight customers and, an overarching desire to be part of a 'win-win' relationship. In effect a virtuous cycle is created to secure long-term profitability and market-share.

These relationships are valuable, core assets that must be managed effectively. There are costs associated with this but they will be more than off-set by the benefits. RMs are in the frontline of corporate governance and leadership. They are primarily responsible for ensuring that the complex mixture of hard and soft issues that represents the teamwork between organisations works at optimal performance and adapts to changing internal and external stimuli.

Problems for Relationship Managers

RMs face a number of difficulties in doing their job. Good contracts can still conceal operational failures and poor teamwork which lead to focus on the 'small print' rather than building long term value for the customer. No matter how close the relationship, it will not tolerate under-performance.

A traditional emphasis on the management of time, cost and quality, often called supplier or project management usually ignores the organisation interaction effects. In a tightly coupled arrangement where little slack exists and communication is complicated by distance and the number of organisations involved, small issues can 'snowball' and by the time they emerge, have the capability to seriously jeopardise the operation. These negative spiral situations usually occur because of a lack of attention to managing the wider relationship.

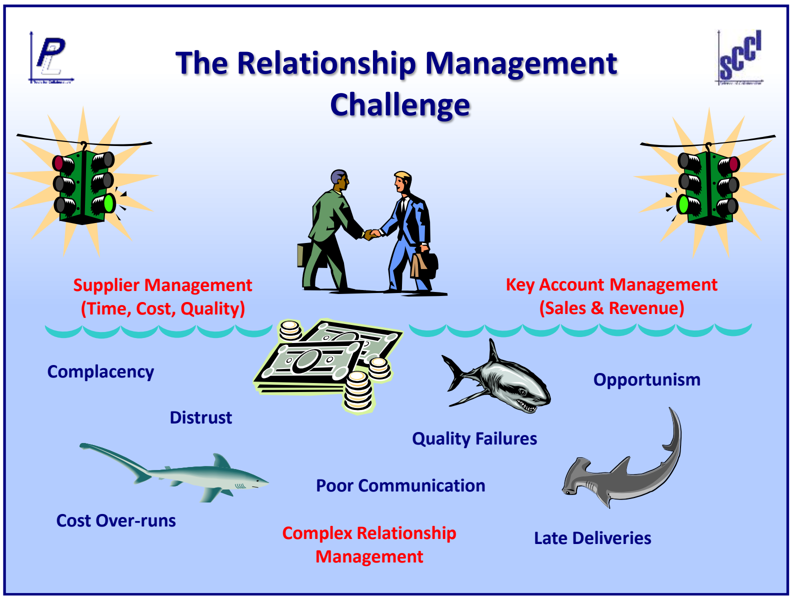
Shark effects are those factors beneath the surface of the relationship that insidiously nibble away at the investments and undermine the value of the collaboration. They are particularly difficult to identify and eradicate.

These include: -

- Complacency (accepting average performance and normalisation of problems)

- Distrust
- Opportunism (seeking gain at the expense of the partnership)
- Quality failures
- Poor (untimely, incomplete and inaccurate) communication
- Cost overruns
- Late deliveries

As a result, the RM spends most of his time fire-fighting symptoms and is unable to see the source of the problems let alone fix them.



Slaying the sharks and regaining the competitive edge

The need for appraisal has often come from the major customer because of concerns over supplier performance or, simply to benchmark the position before a strategic change in direction (e.g. partners jointly seeking new business, developing a new product or impressing an external stakeholder such as a government agency or financial institution). A supplier might initiate the appraisal as a way of getting closer to its main customer and achieving understanding of relationship benefits that it had been unable to communicate to its partner. At the end of the day, there is a critical need to provide RMs with the data to allow them to manage these relationships more effectively.

What is needed is an objective means of measuring relationship performance that covers the full extent of the collaboration and encompasses both soft and hard aspects because: *if you can't measure it you can't manage it*.

It must

- Expose precise details of the good areas, the poor areas, the inefficiencies and where wastage may be occurring in the functions and processes within both partner organisations that service the relationship

- Make sense of a ‘messy’/complex situation and offer compelling recommendations for improvement and change to form the basis of action plans and a change programme
- Provide an objective benchmark against which future progress can be planned and measured
- Transform perceptions by promoting understanding of the way that the partners view each other, thus strengthening the relationship
- Allow bottom line and competitive edge improvements to become a feature of day-to-day business

Appraising for Relationship Performance

Previous studies and investigations have attempted to characterise the main features of business relationships however, they have failed to identify measurable forces that provide impetus or motivation.

Extensive, recent academic research based on over 100 plus substantial business relationships in both Public and Private sectors has strongly indicated that there are key performance drivers in business relationships which can be measured.

They are

- **Innovation** - the ‘leap of faith’, being creative, flexible and resilient
- **Investment** – aligning objectives, investing in people, know-how, infrastructure and management effort, having a long-term vision
- **Communication** - open and transparent, frequent and extensive learning, planning and anticipating
- **Operations** - focusing on service and product delivery, lowering joint costs and risks and building trust
- **Value** – realising perceived and actual benefits and achieving satisfaction

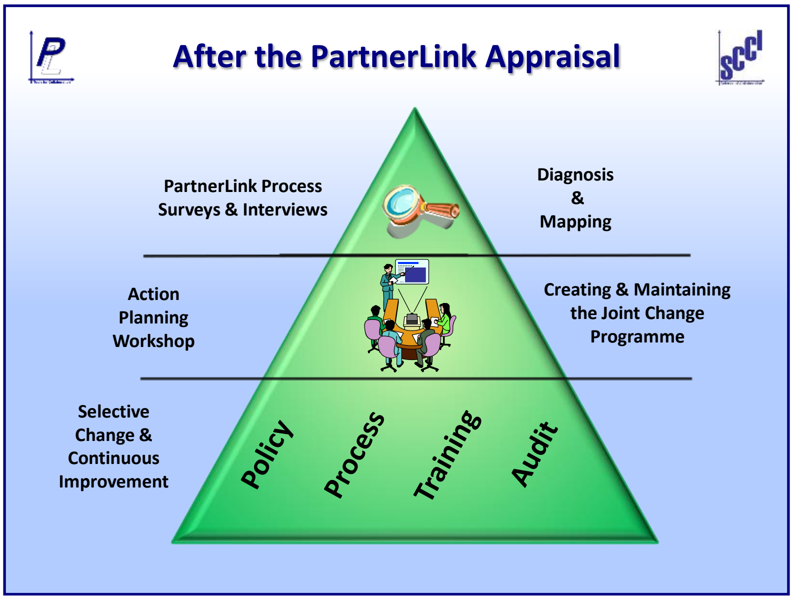
In addition to these key drivers a number of intrinsic characteristics of relationship performance have been confirmed. These provide penetrating insights:

- **Long-term Orientation** – encouraging stability, continuity, predictability and long-term, joint gains.
- **Interdependence** – loss in autonomy is compensated through the expected gains.
- **C^3 Behaviour** – Collaboration, Co-operation, Coordination, jointly resourcing to achieve effective operations.
- **Trust** – richer interaction between parties to create goodwill and the incentive to go the extra mile.
- **Commitment** – the relationship is so important that it warrants maximum effort to maintain it.
- **Adaption** – willingness to adapt products, procedures, inventory, management, attitudes, values and goals to the needs of the relationship.
- **Personal Relationships** – generating trust and openness through personal interaction.

The appraisal should be simple, powerful and objective, sponsored by senior management and co-ordinated by RMs. It should also be carried out quickly (within a few weeks) and in such a way that it does not disrupt day to day business within the organisations concerned. To this end it should use rigorous data collection methods. We believe that traditional approaches that start with workshops are expensive and fail to collect objective information. Instead, scientifically designed, on-line surveys combined with structured telephone interviews should be used. These should only be targeted at knowledgeable staff. Confidentiality and impartiality should be central features in order to protect the interests of the companies and their staff. This guarantee of anonymity also ensures full and frank views are expressed. The findings should be presented in clear, unambiguous, business friendly language so that the RMs on both sides of a relationship can understand what is happening and why. Senior managers and RMs guided by an independent facilitator, then meet together to discuss their relationship and construct an agreed action plan. This is the beginning of the change process that has everyone's buy-in.

The managers from both companies will continue to hold regular discussions about relationship development. They will consult with staff in order to identify improved joint practices, develop detailed implementation programmes and set continuous improvement objectives. This iterative process will be co-ordinated by the RMs who will use the outcomes to continuously improve the relationship.

Having used the appraisal to set a benchmark, it should be repeated at regular intervals to measure and monitor performance in order to maintain the sharpness of the joint competitive edge.



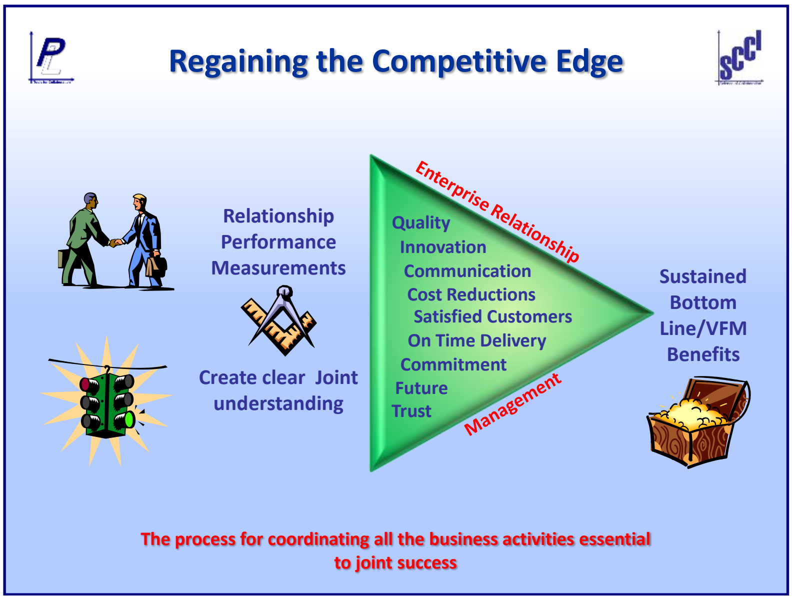
RM Outcomes

The view of the relationship revealed by an appraisal creates clear joint understanding that empowers RMs to fix the problems, monitor and sustain forward momentum and enter a virtuous circle of continuous improvement. The result enables the joint teams to focus on quality, innovation, communication, cost reductions, on-time delivery, commitment to the future and trust, to achieve satisfied customers and sustained bottom line benefits. The tangible results will be:

The catalyst for defining joint opportunities to increase revenue and shareholder value

- Increases customer satisfaction from better product/service quality and delivery
- Strengthens the bond between partners and enhances their ability to innovate
- Reduces administration and production costs and risks
- Bridges the hidden gaps in teamwork, thru more cohesion, integration and fulfilment, and increased transparency
- Builds joint capability to seize future business opportunities

Bottom line benefits of at least 15% should be achievable by both partners.



APPENDIX - Case Studies

The growth of very large civil engineering projects such as the new Hong Kong Kai Tak Airport and the Heathrow Terminal 5 and the consequent need to form large, highly efficient consortia to manage and implement them has put considerable pressure on the construction industry. The traditional culture has closely reflected the rugged, heavy engineering, macho nature of the work carried out by a plethora of specialist, highly competitive companies. In consequence, contracts can be prescriptive, penalty clauses in the fore and, teamwork happening by accident rather than design. Moreover, the friction between the various parties has resulted in poor quality and large projects failing to meet time or budget targets.

It has been noted however, that a growing number of companies are trying to present a more complete service to their customer by developing close collaborative relationships with complementary partner companies. In this respect they are different from the norm.

The following case studies illustrate how the appraisal of relationship effectiveness has resulted in the realisation that Enterprise Relationship Management is a critical factor for improved business relationships:

Case Study 1 - 10-Year-old Supplier & Customer Relationship:
Supplier – Major Civil Engineering Design Company
Customer – Global Civil Engineering Company

Partners:
- Collaborating on a number of UK projects valued in-year at £68m

Appraisal Objectives:
- To impress a government agency responsible for letting major contracts
- To benchmark a long-standing, mixed fortune relationship
- To identify collaboration improvements so that the team could compete more effectively

Issues:
- Internal culture gap between management levels and externally between designers and builders which undermined trust and caused communication difficulties
- Conflicting priorities resulted in process mismatches, increased costs and delays
- Traditional working level practices effectively shut out collaborative working

Outcomes:
- Both realised the importance of viewing each other from the other partner's perspective.
- Willingness to learn from difficulties rather than holding them against the partner.
- The Supplier reviewed its Key Account Management organisation and saved it from closure
- The Customer intended to use the lessons learned in a company-wide reorganisation aimed at improving the way it served its customers at local, regional, global, sector and project levels.

Revealing Comment:
'The old ways are behind us now and partnership, not the traditional engineering relationship is the future'

Case Study 2 - 3–4-Year-old Customer & Supplier Relationship

Customer – Power Civil Engineering Provider
Supplier – Power Transmission & Distribution Company

Partners:
- Collaborating on major 6 year civil engineering project

Appraisal Objectives:
- To benchmark the relationship performance
- To make the teams think about the relationship
- For internal and external publicity purposes – especially to influence main customer

Issues:
- Collaboration was successful but, more formal interaction based on process mapping needed
- A strong spirit of 'Can Do' existed but this caused increased costs because insufficient attention was paid to financial control.
- Communication between the senior management and project teams mainly troubleshooting
- Not making full use of relationship learning opportunities including best practice

Outcomes:
- Although people came from different companies, there was greater realisation that strong team spirit at the operational level which proved to be highly effective, efficient and particularly capable of reacting to unforeseen change.
- Teams felt valued and as a result morale, co-operation, understanding and trust increased
- One partner put its team forward for a national award and used the appraisal to support the evidence
- Company management was starting to understand the importance of communicating relationship objectives (rather than project objectives) to the teams. Where this had taken place improvements in morale, trust and co-operation had resulted.
- The appraisal opened the door to conversations between senior managers of the two companies about Relationship Management

Revealing Comment:
'SCCI made us think about each other's relationship objectives. We wish we had done this from the outset'

Case Study Conclusions

Some common features emerged from both case studies which are:
- The agreement governing the relationship needed to be less prescriptive and allow greater flexibility and innovation.
- More flexible commercial frameworks were required to encourage performance rather than focussing on penalising deviations. The commercial departments within these companies appeared to be struggling to come to terms with this new way of doing business.
- Both partners realised the importance of harmonising their processes, communication and information flows and were making significant efforts to do this.

- Realising that the relationship had to be managed as well as the project. These two are not the same. Relationship building activities include planning, co-ordination and communication.
- Having learned to work together on what became show case projects, these companies were using this capability to give them a competitive edge by impressing government agencies and stake holders, and jointly seeking new business.
- Both partners realised the importance of using relationship appraisal as a way to improve their relationship management capabilities.
- The new relationship management messages needed to be communicated clearly from the top to all departments and stake holders. There was a growing acceptance that this was best facilitated by RMs.

The intention to move away from established industry cultural norms placed these companies into new territory where there was no instruction manual for guidance. However, jointly the partners had created robust, productive relationships that had learned from overcoming some quite serious difficulties. In both cases managers found objective appraisal was an invaluable aid to further cementing and affirming their long-term commitment to success.

Further reading:

Andrew Humphries & Linda McComie (2022), **Implementing and Managing Collaborative Relationships – A Practical Guide for Managers**
Routledge, New York, ISBN 978-1032-1173-86
155 pages

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