

## Partnering - Part 1, attitude attitude attitude

There is a story told amongst managers, and I doubt that it is apocryphal, about an organisation that worked for a year or more to become a supplier to a Japanese manufacturer in the UK. The managers of this organisation had tried hard to meet their customer's requirements; were welcoming and honest during a number of visits from the Japanese and made a series of presentations, but they had been unable to make the part to specifications. Hence it came as a shock when they learned that they were awarded 'supplier status'. Being very open, they admitted their surprise and asked how they could have been chosen since they had clearly failed to meet the requirements. Their Japanese customer told them they had succeeded because of attitude. That they had worked on it and were open about what they were doing were the critical selection criteria.

And that, as simple as it is, is the message of this series. Attitude, attitude, attitude - that's the key to partnership. We will explore some principles that lead to practical actions for managing the relationship, but we should never lose sight of what matters.

But the right attitude, as easy as it is to declare, is a difficult thing to achieve. The behaviour of openness, commitment, acting in the mutual interest and the like are effectively counter to the underpinning philosophy of our most of our organisations' management and design. Take, for example, the food sector. We see suppliers being squeezed on cost and being asked by customers - the supermarkets - to accept penalty clauses, delay invoices and even repay part of the value of their historic contracts so that the supermarket can satisfy their shareholders. These parties are not 'in it together'; their relationship is characterised by the strong prevailing upon the weak.

It is the same in the construction sector. Despite the Government's intentions to improve co-operation, construction companies are designed and managed in ways that maximise 'win-lose' relations. On agreeing a new contract, both sides - customer and supplier - typically appoint a person whose job it is to maximise the gain for their side. The waste associated with the infrastructure of 'contract management' is enormous; there is a whole army of third party negotiators, which represents an identifiable cost. The costs incurred within the parties and in the execution of clauses that permit the extension of costs would be harder to identify. Contractual thinking and behaviour adds enormously to costs, yet contract management has been the culture of doing business.

In the wider context the UK Government has led the world in adopting ISO 9000, a contractual customer-supplier registration that has had a disastrous effect on organisation performance.

If we want partnerships - and we should, for they may provide the best way to exploit future opportunities - we need 'method' rather than 'contract'. Let me go back to one of the stories I told in 'The Case Against ISO 9000'. While researching material for the book I met a manager working in the Midlands, supplying parts to automotive manufacturers. British manufacturers wanted his organisation to be registered to ISO 9000 and they only paid attention to the relationship when things went wrong. By contrast, the Japanese manufacturers were not

interested in ISO 9000 and the day they became suppliers, the Japanese were 'over the fence, in their processes' and working on what the supplier did and how it fitted with what they did.

These are matters of method. They are at the heart of partnering. What can the two do together that is more than each could achieve? And the execution of that opportunity is more concerned with what the parties do - method - than how they structure their relationship. Method has to succeed over contract. Where method succeeds, costs fall - for both parties and the consumer.

Spooky stuff I know. Managers who like to think in terms of 'deals', if they haven't stopped reading by now, would have a fit. Their interest is in getting the best from the deal, not getting more together. We will explore an example of this in part two, next month.

But this adversarial behaviour points to a deeper problem. Our systems foster adversarial relations in systemic ways. Managers are measured on budget or other measures of output. Furthermore, many managerial budget-holders may be affected by the work of a supplier; each will be focused on what they win or lose. Our larger organisations appoint buyers to manage the relationship with suppliers - we now treat purchasing as a profession. All of these people are measured on matters of cost.

A supplier to a major organisation was invited to join their Supplier Council, composed of 'preferred suppliers'. At the meeting he was told by senior management that his ideas were welcomed, and that he should bring any ideas to the appropriate buyer, who would pursue the idea internally.

Knowing of a manufacturing problem on the customer's line, the supplier set out to re-design his part in a way that would eliminate the difficulty. His solution would add a few pence to the cost of his component but would reduce the final product cost by pounds.

With great anticipation he explained his idea to the relevant buyer who rejected it out of hand. The buyer's performance was measured on the purchase price of components. The buyer made it clear that the supplier should not 'go over his head' with this idea, lest he be struck from the approved list.

This was not a bad buyer, more a bad system. In the same vein, UK suppliers to a large American automotive manufacturer were told on a visit by the US Company president that 'supplier partnerships' was the future. Once the boss had gone buyers made it clear that price was what was really going to count.

The buyers were not at fault. They were and are products of their system. If you design a job to squeeze your suppliers, your suppliers will get squeezed. End of story.

## **Partnering - with what purpose?**

There is little value in changing the goals and measures for buyers. To get on the road of working in partnership, managers, not buyers, should first address the purpose: What can two do together that is better than 'going it alone'?

Given our organisations may work to obviate the conditions that lead to badly structured working relationships, I offer four principles for establishing and maintaining partnerships: Mutuality, commitment, clarity and openness.

### **The four principles of partnering**

Mutuality: A common purpose with mutual benefit.

Commitment: Parties are prepared to commit resources to the mutual endeavour.

Clarity: Each party is clear about who is doing what.

Openness: Both parties are prepared to raise issues concerning the quality of the working relationship.

### **Where to start**

While it would be nice to think that British managers could take the lead with commitment and openness as the Japanese did in the story I opened with, I believe our managers need to start their deliberations about potential partnerships through considering mutuality and, within that measurement. This may be a cultural problem, so you have to start where the culture 'is'.

Measurement is the lingua franca of management and, if used in the right way, will facilitate discussion about method. If there is a mutual benefit from common purpose it ought to be measurable. Such 'end to end' and joint measures might open the discussion about the causes of costs rather than costs per se; and if the right measures are used in the right way, the parties may learn how to act to achieve their joint purpose.

In Part 2 I will tell the story of outsourcing customer service in the home computer products industry. It is a story of 'nice words' but 'win-lose' actions. I will consider how the same opportunity might have been approached using the four principles of partnering.

## Partnering - Part 2 - deeds not words

*In Part 1 in this series, John Seddon introduced a model for partnering, but stressed that ATTITUDE was the key. In part 2 he uses a case study from the IT services sector to explore aspects of partnering in practice.*

In early 1996 a computer services organisation in the UK was not delivering the expected financial performance. Large systems services were producing healthy margins; however revenue was declining. Desktop services exhibited strong growth but delivered low margins. Within desktop services, the worst performance was in what was called the mobile services - sending engineers to customer sites.

Roughly half the equipment being serviced in the desktop business related to a small group of major manufacturers and the other half to a multiplicity of 'other vendors'. The types of equipment being serviced ranged from current top-of-the-range equipment to very old equipment. There was an equally diverse range of customers, from global corporations to individual home users.

The managers of the UK business decided to outsource services for the maintenance of printers, laptops and 'multi-vendor' products - essentially all the products not associated with dominant manufacturers. The decision was based on historic revenue and cost data. The managers modelled projected savings from outsourcing 'the problem' and, furthermore, asserted that the result would be better service for customers - for another supplier would surely have a better 'fit' with this work. The decision was made to outsource this work in three months.

A programme manager was appointed. He established a programme office and recruited managers from each of the organisation's functions - logistics, operations, call handling and service delivery. The programme manager was to work to the following objectives: the transfer of delivery labour costs to suppliers; the transfer of delivery logistics costs to suppliers and the retention of the customer interface by added value 'event management'. In effect, this meant removing the costly parts of the operation to a supplier, but keeping contact with the customers.

The programme manager had to work to aggressive time-scales. Within three months he had to find a supplier, transfer the work and thus reduce the company's head-count. To make decisions, the programme manager used information about call volumes, the types of equipment on contract and the nature of the contracts with customers. He then reviewed potential suppliers and sent a short list 'requests for information' to establish their suitability. From those judged as suitable, he invited tenders. The potential suppliers were asked to provide a tender against a specification that included anticipated call volumes, equipment types and geographic spread.

Three suppliers who best met the specification were invited to meetings. It was at this time that the company began to use the word 'partners'. The prospective partners were also visited.

In the final stage the programme manager agreed contractual terms (service levels and costs) with the chosen partner and the work and resources (parts and people) were transferred.

In parallel with the outsourcing work was a reporting process, whose purpose was to identify risks, issues and potential problems. Throughout the planning stages this process had been used to query, confirm and second-guess what was going to happen with respect to all aspects of this change - financial, customer, operational and so on. Being a hierarchical process, it was effectively out of touch with what was really happening in the operations and hence what was going to happen.

On the day the outsourcing went live the whole affair 'fell over'. The supplier could not cope with the demands placed upon their operations and significant customers were quick to complain loudly about their poor service experience. To rectify the situation the company re-hired people who had just been transferred or made redundant and took back some of the work - effectively those customers who they were afraid of upsetting. Things went from bad to worse. One customer who was incensed about the change in service delivery being effected without notice banned the supplier's engineers from their premises. This engineer was then re-hired by the company and sent back to the same site.

### **What went wrong?**

One could ask what went right? The answer is they made the date. Cynical, perhaps, but indicative of the process being used - it was concerned with 'making the plan', not 'making things work'.

To review what happened I will return to the framework I proposed in part 1 - the four principles of partnering.

### **The four principles of partnering**

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### **Mutuality**

While mutuality might have been an avowed intent, there was little mutual behaviour. The potential suppliers were treated in entirely contractual terms. The lack of mutuality in planning and execution became apparent when the 'partner' was faced with customer demands they could not service. The fault lay in the company's failure to study demand from the customers' point of view (why do customers call in?). Data about call volumes ignores this fundamental but important knowledge. The data about potential 'partners' sought in the 'requests for

information' could do nothing other than ignore the nature of the work that was to be done; prospective 'partners' were being asked for information that would be entirely irrelevant to the final outcome.

### **Commitment**

Once the contract 'went live', it was each to his own. There was no commitment of resources to working together to solve the problems that occurred. In fact the company had to re-hire resources that should have been shed.

### **Clarity**

The 'partner' had to work within the company's processes. By keeping 'event management' (customer contact, logging and progress-chasing), the customer demands were first dealt with in the company's process and then passed to the 'partner'. The 'partner' was unable to use the same systems as the company had used historically, causing much confusion between the different parties' staff. No one was sure as to who was doing what.

### **Openness**

There were plenty of issues concerning the quality of the working relationship. But they were dealt with in a 'contractual' way - 'you have failed your service levels' said the company to the supplier, 'it's your fault' said the 'partner' and so on.

The problems all started right at the beginning. As I said in part 1 of this series, partnering is all about attitude. The intent of the company was not so much to find a partner as to reduce its costs. It is ironic that their behaviour led to a significant increase in costs. The company used the hierarchy to manage the outsourcing - something that can only be a hurdle to working in partnership, for the hierarchy becomes concerned to see its plans executed and hence hinders any attempt to solve the real operational problems. As I said earlier, hierarchies behave as though they are immune to data about what really happens in an organisation, let alone what happens between organisations. The data at hand were all about activity and cost, not about demand (why customers call in), value (what matters to customers) and flow (how the work works to fulfil the value work).

Knowledge about the work (demand, value and flow) was the key to rescuing this situation. It led to red faces amongst senior management. For example, it transpired that the business had historically been costly because all demand was treated to the same process - customers who needed simple things had to go through the same processes as customers needing complex things. Furthermore, the extra costs associated with holding inventory bore no relation to the demands being made by the customers whose service was being outsourced. In effect, the 'waste' of excessive inventory was being transferred to the 'partner', without establishing its causes. Some of the causes continued. For example, because of the way the processes were managed, engineers were often better off when doing things that were not in the best interest of the company - fitting parts that were not really required was just one example.

What simple lesson can we draw from this example? That partnering begins with a thorough understanding of the 'what and why' of current performance - and that both parties to the partnership need to go through that process. It is to focus on the causes of costs rather than costs. Mutuality is not just about goals, it is about methods. It is as simple and complex as that.

In Part 3 I shall explore how well this lesson has been learned in the UK food sector.

### **Partnering - Part 3 - A tale of two extremes: partnering in the food sector**

*In Part 1 in this series, John Seddon introduced a model for partnering, but stressed that ATTITUDE was the key. In Part 2 he used a case study from the IT services sector to explore aspects of partnering in practice. Now in part three he assesses the state of partnering in the food sector.*

John Smith, a chief executive of a food manufacturing organisation, waxed lyrical about a partnership he had been involved in. "We were supplying a retailer with a strong brand. They brought in what they called a 'smart' team and these guys sat us down and told us everything. They were completely open about their objectives, their concerns and the opportunities as they saw them. They invited us to join them in working out how to work together to optimise both parties' interests".

"We got involved in joint planning, and not just the numbers but the means. We worked together on cost - taking an end-to-end look at costs, not just focusing on the suppliers (our) costs. We studied the suppliers' suppliers, the manufacturing process and the distribution methods. Over seven years we got the price of our products down by 50%. Both parties became more profitable. We became so efficient we were world leader in the products we made".

If we compare this example to our 'four principles of partnering', it has it all, it scores top marks. Further, as I noted at the end of the last article in this series, mutuality was the cornerstone: not just mutuality of purpose, but mutuality with respect to method.

#### **The four principles of partnering**

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John Smith was talking about a situation that happened some years ago. So I asked him, "What is the state of partnering in the food sector today?" and he replied:

"Where do I start? The retailers are all using the term but few, if any, show any understanding of how to make it work. In truth there is no partnership - the term is no more than a commercial convenience for the stronger 'partner', the retailer, to prey upon the weaker partner, the supplier".

"I think I know how it feels to be raped. I would put it that strongly; it is a mental raping. I find myself licking my wounds from each of their successive actions. For example, I can no longer be confident that the products I supply won't be put out to tender - they could and do seek

alternative suppliers at the drop of a hat, I'm sure they see this as a normal part of their job. I can no longer be confident about what will be going on next. There is no trust in the relationship with retailers. In fact you can hardly call it a relationship, in today's world relationships count for little. What counts is short term, the bottom line. In short, the accountants rule".

"In November '99, without any warning, one of the retailers invoiced the suppliers of their top 1000 lines. The suppliers were being asked to pay £20,000 per line in order to secure the retailer's commitment to giving 'priority treatment' to the lines."

This is not the only example of financial coercion in this sector. Another retailer sought a 'refund' of monies paid to all suppliers as the retailer's shareholders were not impressed with the bottom line. It is as though the idea of partnership translates into demands for help from the strong to the weak during hard times, but no more than a slogan for normal times.

The problem comes down to lack of method. My informant gave an example: "One retailer adopted the 'partnering' slogan about five years ago. They decided we should all work on an integrated transport system. Clearly this is important; transport is a major cost. But what they did is ask for our views and then they just set up a system and told all suppliers to use it. We all needed to work on how to make it work, but that wasn't done. The result was not good; their planners had failed to understand the logistics. Very quickly we found that things were not working well and costs were rising. Then they made things worse. Instead of scrapping it, they sub-contracted the work to a haulier, assuming they'd know this business better. They maintained their insistence that suppliers should use this transport and as a consequence suppliers had to pay more than the market norm. To make things worse, the suppliers discovered that the retailer was also taking a payment for the volume of transport provided."

As suppliers became aware of how they had been duped, there began an attitude of 'we'll remember this and we'll get one over on you next time', and so the adversarial spiral was set. As my informant said "This is not partnership, it is selfishness" and selfishness breeds mistrust.

Despite his experience, my informant remains philosophical, he can see that it is the systems that are at fault, not the players. He observes that today's buyers are only doing their job, and that job is all about meeting targets. "The analysts have become too powerful in driving short-termism in our organisations, the buyers and suppliers are merely pawns in the game. But the net effect is we all lose."

He, like me, sees the irony that by their methods, they fail to achieve what could be done - they could out-achieve their targets by substantial amounts if only they changed their attitude. He puts it this way: "If only they realised that partnering is not about 'being nice' instead of being nasty. It is about working hard together to achieve a common objective. It is not a soft option, but it is a smart option".

But being 'smart' means thinking differently. And that's what I shall explore in the last of this series. In Part 4 I shall chart the development of partnering in the Toyota Production System,

and explore how attitude developed alongside method. This should be of vital interest to anyone who wants to break the current mould, for what we learn is that action is the key to developing partnerships, and action must begin on method - how we work together.

## Partnering - part 4 - Toyota: partnering exemplified

*In Part 1 in this series, John Seddon introduced a model for partnering, but stressed that ATTITUDE was the key. In Part 2 he used a case study from the IT services sector to explore aspects of partnering in practice and in Part 3, he assessed the state of partnering in the food sector. In this, the last of the series, he charts the development of partnering in the Toyota Production System, and explores how attitude developed alongside method.*

Making a motor car involves engineering and fabricating more than 10,000 parts, assembling these into something of the order of 100 components and then assembling these into a car. It is a tall order. Ford and Toyota went about solving this problem in different ways. In order to compare the two I shall first chart how Henry Ford tackled the problem. This should not be read as a commentary on how Ford is working with these issues today, although regular readers will know of my antipathy to standards, and Ford is today committing all of its suppliers to QS 9000 as a condition of doing business. Coercion does not foster learning.

Early in the twentieth century, Henry Ford pursued vertical integration - doing everything in-house - partly because he had perfected mass production techniques before his suppliers had and could achieve substantial cost savings by doing everything himself. It is also said that he did this for another reason - he profoundly distrusted everyone but himself. Perhaps this follows being ahead. However, his most important reason for bringing everything in-house was the fact that he needed parts with tighter specifications and shorter lead times. Relying on arms-length purchases in the open market would create difficulties. By doing everything in-house, Ford was able to gain greater predictability in his operations - a prerequisite to improving performance and something that pre-occupied Taiichi Ohno, the creator of the Toyota Production System, too.

Management writers observe that Henry Ford's strategy was effectively controlling the market in as much as it controlled business-to-business relationships. It was a challenge, they observed, to the economist Adam Smith's 'invisible hand' theory - if everyone pursues his or her own self-interest, the free market would of itself produce the best outcome for society as a whole. Vertical integration disturbed this idea.

Alfred Chandler, a professor at the Harvard Business School, coined the term 'visible hand', defending the large organisations which, like Ford, chose to vertically integrate. 'Visible hand' simply meant obtaining supplies from internal operating divisions, co-ordinated by management. What Taiichi Ohno observed was to management this meant buying supplies from people with whom there was no genuine relationship - no focus on 'how the work works' - and thus transactions would be based on price, delivery and quality, with price being the main concern.

Managers of such relationships might have, as they do today, used the word 'partnership' when describing the relationship with suppliers; it was anything but. Price ruled; the focus was short-term and bureaucratic. Ford's vertical integration caused massive problems of bureaucracy, with no obvious solutions. The same is occurring today. The bureaucracy of purchasing organisations is undermining their ability to create value for their organisation, as

we saw in the last two parts of this series. These people, like their counterparts in quality standards do what they do because that is their job - the system dictates their behaviour.

Taiichi Ohno, when creating the Toyota Production System, took a different point of view. The 'make or buy' debate going on in American manufacturers struck Ohno as irrelevant. The real question, he thought, was how the suppliers and assemblers could work together; if they could work in a smooth, co-operative way costs would reduce and quality would improve. His approach was that the parties should not 'trade on cost but should instead work together on 'the causes of cost'. He saw that in the American car plants, central functions designed the parts and sent these as specifications to the suppliers. The lowest bidder, whether in-house or not, got the job. The American carmakers often switched business between suppliers at short notice. As we have seen in this series, the same is happening in many market sectors today.

Ohno recognised that working to a specification gave little opportunity for the supplier to be involved in improving the product design, based on their own knowledge. They were, in effect, told to 'keep their heads down and deliver on time, to specification and to price'. The previous parts of this series gave examples where such behaviours were stifling the ability of the parties to reduce each others costs. The consequence is everybody loses.

In Toyota, suppliers were given information about the rest of the components. In Ford this had been treated as proprietary, suppliers had no way of working on whether they could make useful contributions above what they were being asked to supply.

Taiichi Ohno realised that organising suppliers in vertical chains and playing them off against each other in search of lowest cost blocked the flow of information horizontally between suppliers, particularly on advances in techniques and materials. While the assembler might be guaranteed the lowest costs in the short term, there was no method for reducing the total costs of production in the long term.

Toyota organised suppliers into functional tiers. First tier suppliers were told to work as members of the production team for current products and as members of the product development team for future products. These suppliers were also encouraged to talk amongst each other about ways to improve the design and manufacturing processes.

Subsequently, each first-tier supplier formed the same working relationship amongst second-tier suppliers. Toyota did not want to build a large bureaucracy around its suppliers. It built instead a co-operative relationship, sharing risk and reward, sharing people and technology.

Finally, and this is the measure of the commitment by all parties, Ohno developed a way to manage the flow of goods within the supply system on a day-to-day basis. It is the famous 'just-in-time' system, where parts are made and delivered according to the needs of the next step in the process. A simple idea that has been enormously difficult to implement - Toyota are still improving it - but one that binds all parties to a common fate. It is the epitome of partnering, removing the safety net and focussing all players on anticipating and removing problems before they become serious enough to stop everything.

In summary, Taiichi Ohno led the development of the exemplary partnering system. Its principles are the four principles I offered at the start of this series:

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The consequence has been economic gain for all, everybody won and everybody still wins. But if you look back at what Taiichi Ohno did, more than anything else, he had attitude; he had an unshakeable belief that the parties could together achieve more than they could if they worked apart. He also saw how the organisation's systems inadvertently caused people to behave more apart than together and so designed a system that would facilitate people working together.

Taiichi Ohno's contribution to management and partnering was method - he developed a set of ideas about how to manage flow rather than function. He understood the weaknesses of the mass production system and stuck firmly to alternative principles that he knew would prevail. En route he taught his partners.

The partners in the Toyota system could not have foreseen or planned for the earthquake that stopped production a few years ago. Commentators were critical of Toyota's apparent 'foolishness' at planning in their own vulnerability. However, needless to say, the stoppage was short-lived and had no discernible long-term impact on the system's performance. It is a lesson to us all.

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