

## IPS-Monitor Business Times Innovation Series

### Article 4

#### Perils of Going Solo

A network of partners working on new ideas can better reduce risk and increase success in unknown territories

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LOOKING to others for new ideas, new ways of operating or new products is hardly a new phenomenon. Many managers have grown up learning techniques and case examples at business-school and by “benchmarking” their competitors. These approaches, which served well in the era of investment-driven economic development and in the context of fast-follower strategies, are insufficient in the era of “total” competition where the Innovation Premium is most important.

Industry leading forms must go beyond avoiding risk to managing uncertainty and ambiguity inherent in innovation. This discipline requires mastery of capabilities such as scenario planning, portfolio management, dynamic organizations, as well as the ability to create and leverage networks of partnerships with external organizations and individuals.

We are not referring to the traditional model of networks of suppliers where the primary goal is that of transaction to specification. The partnerships fostered by leading companies are more akin to the formation of “teams” that not only compete together against other networks they also define the “field of play”.

As we mentioned in the last article, the key embodiment of good innovation strategy is the definition of high impact “innovation platforms” that the organisation orientates around and from which it derives competitive advantage; for example “Connected Planet” at Philips.

These platforms should extend beyond the organisation to become a vehicle that aligns and engages the competencies of external organizations (technologists, researchers, agencies, as well as suppliers, distributors, integrators and customers). It is through these platforms that innovations are shared and achieved. Singapore is uniquely equipped to create and thrive from such networks of partnership for the following reasons:

- ◆ Almost nowhere else in the world is there such a concentration of diverse global companies, many of which themselves exemplify the ability to create and benefit from a network of partners;
- ◆ The legal and regulatory framework in Singapore provides great confidence and assurance to companies who partner;
- ◆ Institutional support is unparalleled; the support provided by statutory boards, the proximity of research facilities and capabilities.

**Best equipped ‘kitchen’**

As one of the CEOs that we interviewed said: “Singapore has the best equipped ‘kitchen’ in the world, all the tools and utensils are here”. In addition, the diversity of population is also perceived as being a great advantage: “I have managers here from 15 different countries, that means that I should be able to work effectively with firms from any of those countries”.

Companies like Rolls-Royce in fuel cells and aircraft engines (SIA), BP and Daimler in hybrid vehicle fuel stations and Philips in the “Connected Planet” stood out in our surveys as organizations that are taking advantage of the “kitchen” in Singapore.

However, rather surprisingly, our survey indicates that these companies are the exception rather than the “norm”. We found that most companies in Singapore are not forming networks of partners; preferring to stand-alone and play their own game rather than forming powerful “teams” together. Or as one respondent told us “passing the ball is fine in theory, but you never know if it will be passed back”.

The survey, which was conducted in partnership with the Institute of Policy Studies, indicates that although nearly half of the Singaporean CEOs agree that partnerships are strategically important for innovation, two-thirds of them still believe that the best, most innovative new ideas can come from inside their own company. Our interviews with CEOs reveal a somewhat tepid attitude toward partnering. “We see a lot of potential partners come in, and we have to decide which of them are real and which we want to work with.” one told us. Noted another, “Singaporean companies’ mindset is one of letting trading partners compete in order to deliver us with the best deal.” So why don’t more companies in Singapore form networks of partnerships?

- ◆ “Why?” The majority of respondents are generally happy with the performance of their organizations (see our article in BT on Friday April 22 on Leadership). There is also the mindset that innovation should be “incremental” and focused on cost and quality improvements. One 12 per cent of respondents named innovation as one of their major drivers for growth. Global MNCs also felt that it wasn’t the responsibility of the local management to form partnerships, that elsewhere in their organizations partnerships may be formed and the benefits would be rolled out to the operations globally. Contrast this with the examples from Korea, where Samsung, LG and Hyundai have partnered with Sony (televisions), Philips (displays and monitors) and XM-Radio (Satellite radio), respectively, to reduce the risk and increase success in new and unknown territories.
- ◆ “Where?” As we discussed in the BT article on Friday April 29, very few companies have defined “innovation platforms”, as such innovation in most companies is at the tactical level. Leading edge firms seek partnerships that enable them to define and create new markets. While these partnership networks also provide solutions at the tactical and operational levels, they are formed at the strategic level. For example, to support Microsoft’s strategic thrust of developing applications for and driving the overall growth of the education market for IT, it has developed partnerships with select schools, education authorities and hardware providers. Such partnerships may not be immediately profitable but the intent is to work together to define and create a new market that addresses an emerging need.
- ◆ “Why commit?” The survey respondents were evenly split on whether or not committing to key partnerships was better than remaining transactional. As one CEO stated: “There are many MNC that come here and knock on our door, we are in a privileged position, we can pick and choose who we work with”. Another

respondent argued from a cultural perspective: “Our (Asian) culture leads us to trust ourselves and our immediate family before all others, whenever possible we will work within the group”. The global innovation leaders, however, see enormous advantages through operating as a team or network of partners; revealing new insights, accessing new competencies, increasing the rate of commercialization – and in particular managing risk and uncertainty.

- ◆ **Negotiation Practices:** An interesting finding from the survey was that Singaporean firms have a very distinctive negotiation style with regards to external parties and potential partners. Tender requests processes are often administered by relatively junior staff. Whilst this is designed to ensure transparency, it removes the possibility for discussions with potential partners that could reveal significant value-add to the overall initiative that the issuing corporation is undertaking. MNCs recounted how they had sent senior executives and technologists to tender discussion meetings with the expectation of engaging in high level discussions, only to be met by junior staff that focused on procedural details. Such processes militate against the creation of partnerships at the strategic level and can significantly limit the opportunity for knowledge and insight sharing. As one MNC told us “After trying 3 or 4 times we learnt to simply send a response to the terms of the tender to get pas the ‘box tickers’.”
- ◆ **Personal vs corporate relationships:** For successful corporate partnerships to begin, there often has to be a degree of personal chemistry between two key individuals, both of whom are in a position of authority and decision making. In Singapore, it can be harder for such personal chemistry to spark the initiation of a deep partnership. Firstly, there can be tendencies for both to want to “keep it in the family”. Secondly, MNC are often represented by expatriates who may have short-term postings, who try to avoid risky long-term projects that may extend significantly beyond their expected tenure. For strategic partnerships to succeed, both parties must seek to increase the frequency of contact and idea exchange at the senior levels and seek to rapidly move from discussion to piloted action, thereby involving more members of the two organizations and creating the momentum for the corporate relationship to transcend the personal.

Leading companies that drive the growth and evolution of their industries do not limit partnerships to only certain parts of their value chain (eg supplier/customer). Rather they collaborate with partners throughout their value chains, including R&D, venturing, suppliers, distributors, integrators and commercialization. Companies that forge creative external relationships will be better positioned for innovation and industry leadership.

For example, when Audi determined that using aluminium instead of steel would allow it to make its new line of premium cars lighter and faster without compromising safety, it sought out a partner for whom aluminium manufacturing was already a core competency: in this case, Acoa. The collaboration resulted in an innovative aluminium frame whose superior handling and safety characteristics allowed Audi to enter the premium car market with a highly differentiated product, the Audi, A8.

So just how does a company (or a division, department or individual manager) transform itself from a solo performer to a member of winning team and a “partner of choice?” How does a firm begin to develop the capacity to attract and retain a network of relationships that will give it a first shot at the best ideas and market insights? How does it decide where and when to partner:

- ◆ Ultimate responsibility for creating a partnership-friendly corporate culture – a culture that views partnerships not as transactions, but opportunities to build a common platforms for innovation – rests with the CEO. He or she must provide support for this but must also delegate this responsibility to a full time dedicated Chief Innovation Officer and his team.

### **Reaching Out**

- ◆ Corporate strategy must include already thinking beyond the capabilities and competencies of the enterprise. Partnerships are usually defined as an “after-thought”, created or tolerated in order to fill-in gaps or to extend capabilities in order to deliver on the corporate strategy that has been set. Our work globally is showing that the most growth aggressive innovative companies are setting their plans and defining the markets that they compete in to already include competencies and market reach that extend beyond their current organizations.
- ◆ Firms should think creatively about the assets that they can bring to the table and how they can “market” them to potential partners. Companies tend to have more resources that are of value to others than they realize; examples include access to international operations; market research; and supply-chain efficiencies that can help a partner to both grow its business and execute against a particular transaction.
- ◆ Firms should seek and promote strategic partnerships in different parts of their organisation’s value chain, allowing different forms of relationship to evolve in different areas. There should be periodic review and cross-sharing of the lessons being learnt in the management and formation of these partnerships. The portfolio should be managed as would any other portfolio, being maintained in alignment with the risk exposure and strategy of the corporation.
- ◆ Firms should explore partnerships with academic institutions and public agencies as well as other private-sector companies. Our research shows that Government can and should help to lift the ability and propensity of the companies in their economy to partner effectively. This can be done via training and match-making services as well as the promotion of institutions for collaboration.

Creating positive, powerful relationships, either one-on-one or firm-on-firm, requires mutual trust and respect, long-term orientation and commitment they can be painstakingly difficult to achieve. Yet precisely because they demand so much effort and attention, relationships that are carefully nurtured to productivity maturity become a powerful asset – one that is extremely difficult for competitors to copy.

The bottom line: Partnering is emerging as a key strategy to ensure sustainable, innovation-fed growth. Those Singaporean companies that embrace its full potential are likely to thrive. Those that choose to ignore it to do so at their peril.

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