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Unpacking Collaboration Theory

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What Every Negotiator Needs to Know to Establish Successful Strategic Relationships

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EXECUTIVE SUMMARY

The research is clear. Collaborative relationships help companies achieve “win-win” results and outperform power-based relationships. In a world of increasing complexity, the ability to cooperate efficiently with suppliers, customers and other strategic partners provides a significant path to competitive advantage, innovation and growth.

Unfortunately, many companies struggle to develop highly collaborative relationships. Business people “say” they want to be more collaborative and drive innovation. But examining their negotiation processes and the resulting contracts reveals organizations all too often come to the bargaining table with negotiation tools that promote opportunism as each party seeks to get the best “deal” for them themselves. And more mature organizations, who recognize the need for a win-win approach still focus heavily on the deal and not on developing a relationship that will deliver innovation and growth.

To harvest the benefits from efficient collaboration and truly strategic partnerships, the adoption of new – collaborative – ways of negotiating agreements is necessary. This white paper’s purpose is to present social theories proving that new ways of negotiating collaborative relationships are needed, along with the necessary conditions for their adoption and a step-by-step process that shows how to adopt them.

The white paper has four parts:

Part 1 outlines **the case for collaboration**, sharing influential research proving a collaborative approach – not a power-based approach to negotiating agreements– creates better results.

Part 2 explains that **collaboration is a choice.**

Part 3 highlights the **conditions for a successful collaboration**.

Part 4 reveals a **5-step process** that any company, large or small, can use **for negotiating highly collaborative relationships.**

The five-step process outlined in Part 4 is detailed in *Getting To We – Negotiating Agreements For Highly Collaborative Relationships.*[1]

We encourage you to read this white paper with an open mind. Companies that have challenged conventional negotiation approaches and best practices are achieving extraordinary results. We hope this paper will move you to accept the challenge and adopt proven collaborative practices within your organization: you will unlock the hidden potential of strategic collaborative relationships.

PART 1: THE CASE FOR COLLABORATION

Academic research on collaboration has exploded over the last 20 years. Sociologists, psychologists, economists and political scientists are proving that collaboration is the best path to solve complex problems and achieve extraordinary results. This is true whether individuals are working to solve complex social issues or drive innovation with a strategic business partner or supplier. Of course, collusive strategies between competitors in breach of anti-trust laws are detrimental to consumers and society in general. But non-collusive and collaborative strategies with customers, suppliers, complementors and other strategic partners are superior to power-based strategies. This is proven beyond doubt.

Even skeptics have been persuaded by the influential studies conducted by leading academics around the world showing the power of collaborative approaches to solving complex problems.

The key to successful collaboration in business lies in negotiating a relationship based on fundamental social norms or principles. These norms are identical to those that govern successful societies. Once negotiators accept this precept, collaborative relationships will flourish.

To set the stage for negotiators to choose the path of collaboration, we begin by briefly outlining studies that examine successful societies.

COLLABORATION IN GOVERNING COMMON RESOURCES

Professor Elinor Ostrom, Arthur F. Bentley Professor of Political Science at Indiana University, dedicated her life to the study of the way cooperation – not power – can help the world solve sustainability issues for managing common resources. Ostrom studied the phenomenon of fishermen, farmers and others sharing common resources such as fish, water and forests, which are needed and used by many independent individuals with separate interests. For her pioneering work she received a Noble Prize in 2009.[2]

Ostrom found many examples of people managing to sustain valuable natural resources for generations using *collaboration* instead of power. In one example, a group of people managed the same set of natural resources for over 1,000 years.

Before Ostrom's research, standard theory held, with little empirical support, that people generally fail to manage natural resources in a sustainable manner because they have opposing interests for wanting and needing the resource.[3] The same theory also predicted that the only way to solve this situation was to use power, either through state sanctioned administrative laws or through privatization. In other words: most theorists did not conceive of collaboration as an option for success. Instead, they thought the choice was between different forms of power.

By comparing examples of success and failure to manage common resources, Ostrom discovered important institutional characteristics explaining success. At the heart lies a spirit of collaboration. This spirit of collaboration sprang from the development of social norms based on **loyalty and reciprocity,** for example**.** Those social norms altered short-sighted, self-interested fights over the resource into a long-term interest in finding mutually beneficial solutions.

Ostrom further noted three factors contributing to success when managing shared resources. First, successful collaboration was marked by democratic governance mechanisms including regular meetings to adopt and adjust the rules governing the resource. Second, governance meetings were combined with active monitoring, often by the users themselves. Third, the entire group used graduated sanctions in cases of breaches of the rules. The processes for adopting rules and monitoring compliance to those rules were carried out in public forums with everyone present.

COLLABORATION BETWEEN NEIGHBORS

In a fascinating and highly influential study, Robert Ellickson, Walter E. Meyer Professor of Property and Urban Law at Yale Law School, set out to learn whether the law – legal rules – affects the behavior of the people subjected to the rules.[4] Many influential theories, and indeed entire political systems, rest on the assumption of the importance of state sanctioned power expressed in the rule of law for upholding order in society.

Equipped with theories on law and order, Ellickson traveled to Shasta County in California to study cattle ranchers. He wanted to understand how the ranchers dealt with certain situations, such as when the cattle of one neighbor damaged the property of another, how they allocated costs for building fences, and how they settled disputes about motor vehicle accidents involving cars and cattle.

Ellickson found the law did not matter much in Shasta County. This did not mean, however, that the ranchers lived in a state of endless disputes. On the contrary, the ranchers lived by a set of informal social norms. These norms allowed them to negotiate disputes and cooperate in a manner that not only produced order but which in fact produced a welfare-maximizing outcome for everyone involved.

Norms of **reciprocity, loyalty, equity** and **honesty** were parts of an ethical code of good neighborliness. This informal, non-legal, ethical code kept the total costs of the community low while letting everyone benefit from numerous possibilities to cooperate and help each other.

When Ellickson expanded the study, he found the same phenomenon in other social groups, from whalers in the nineteenth century to business people in the U.S. in the 1960s. An important point of Ellickson's research was that it was by *cooperating under a set of social norms* and not by using the power of state sanctioned legal rules that the ranchers were able to reach optimized ways to work together.

COLLABORATION AND GAME THEORY

In the 1980s, Robert Axelrod, then a professor of political science and public policy at the University of Michigan, did something very unusual: he arranged two computer tournaments. At these tournaments, software programs written by mathematicians, game theorists and others competed against each other to determine the best strategy for continuing cooperation. Some of the software programs submitted were collaborative, while others were defective, or trying to take advantage of and abuse others' willingness to collaborate.

The results of the tournaments sent a clear message. *The players that chose different forms of collaborative strategies outclassed those choosing more defecting strategies*. In fact, a TIT-FOR-TAT strategy of matching an opponent's move (whether to defect or to cooperate) won both tournaments.

The tournament rules were simple. All participating "players" (software programs) met each other in pairs. In each round, each player had one of two choices: to cooperate or defect. The game was structured as a *prisoner's dilemma*. In other words, the "prisoner" had to choose between cooperating and hoping that his cohort would also choose to cooperate with him for a long-term gain, or choose the self-interested strategy to defect. Defection only pays off if the other player cooperates. If both players defect, they both lose; short-term, self-interested pursuit of goals fails.

Companies face a choice between cooperating and defecting, just as in Axelrod's computer tournament. And in business, prisoner's dilemma situations are very common. For example, a company with strong bargaining power may have a short-term incentive to get as low prices as possible from an important supplier. The supplier has, in its turn, an incentive to get as high a margin as possible. If both the customer and the supplier pursue their short term interests (defect), their conflicting interests will plague the entire relationship.

Several important factors contribute to the success of the TIT-FOR-TAT strategy with a direct application to the negotiation of business agreements with strategic partners. TIT-FOR-TAT is a strategy of **reciprocity**. If one player defected, the other player reciprocated in kind. And, the converse was true. If one player cooperated, the other player reciprocated in kind. Also, TIT-FOR-TAT was *forgiving*, meaning that if a defecting player started to cooperate again, its partner would do the same.

Thus, reciprocity—a social norm powerfully present among Ellickson's California Ranchers and Ostrom's fishermen, among others—explained success. This gives powerful support to choose the path of collaboration when negotiating and establishing strategic relationships.

COLLABORATION FOR ECONOMIC GROWTH

Reciprocity and the path of collaboration has also shown its strength in the context of explaining why some regions and nations economically outperform others.

Robert D. Putnam, Peter and Isabel Malkin Professor of Public Policy at Harvard, is one of many researchers who have made the connection between collaboration and economic prosperity. He has studied what he refers to as *social capital.* In other words, norms and social networks that exist to enable cooperation and mutual benefit.

In a seminal study of democracy in thirteen Italian regions, Putnam found that the northern regions in Italy (the subject of research) had higher degrees of social capital than the southern regions. And – more important – he showed a correlation that higher social capital directly affected economic growth.[5]

Putnam also wanted to explain why those northern regions had developed a strong culture steeped with a collaborative social capital, while the southern Italian regions had not. This turned out to be a story dating to the middle ages when the Italian peninsula was divided into what can be described as a culture of power and a culture of collaboration, cultures that have remained to modern times. Generally speaking, the northern regions are more collaborative than the southern regions, which still have a more "power-based" culture.

Putnam's study showed that the success of the northern region's economic growth could be tied to the development and maintenance of a collaborative culture based on relatively high degrees of **reciprocity** and **trust.**

Putnam's conclusion that there is a positive correlation between social capital and economic growth has been proven repeatedly. Many other studies show similar results. In one study, three American economists compared economic growth in 3,040 US counties and found, in line with Putnam, that the per-capita income between 1990 and 1996 had grown more rapidly in counties with high levels of social capital.[6] In another study, a similar comparison was made, but this time growth figures between countries were analyzed. Researchers found a correlation between citizens' level of **trust** and per capita economic growth. In fact, a 10 percent increase in the number of citizens who expressed trusting attitudes led to a 1 percent increase in per capita economic growth per year.[7]

Regions and nations characterized by a relatively higher degree of trust and collaboration are more economically successful than regions and nations characterized by distrust and the use of coercion through concentrated power in vertical relationships. This finding has important lessons for businesses as they seek economic growth.

COLLABORATION FOR BUSINESS GROWTH

The American sociologist Brian Uzzi, Richard L. Thomas Distinguished Professor of Leadership at the Kellogg School of Management, Northwestern University, investigated the role of collaboration and its impact on economic performance between better dress apparel firms in the New York apparel economy.[8] Uzzi found a basic difference between what he called *arms-length ties* and *embedded ties* between firms.

Embedded ties are not purely economic but also encompass the social relationships of the individuals representing the firms. Within embedded ties, as opposed to arms-length ties, the firms' motivations shifted away from a narrow pursuit of immediate economic gains toward the enrichment of relationships. Uzzi's research found that firms that relied more heavily on embedded ties rather than on arms-length ties indeed were more economically successful. Uzzi measured economic success by comparing the probability of failure (closed business) for firms with arms-length ties and firms with embedded ties. The analysis showed that embeddedness decreased the likelihood of failure by 50 percent.

Uzzi described the embedded ties as characterized by ***trust***, *fine-tuned* ***information transfer*** and ***joint problem-solving arrangements***. Trust increased the embedded organizations' access to resources and strengthened their ability to adapt to unforeseen problems. Fine-tuned information transfer gave the embedded organizations access to information giving them competitive advantages. Finally, the joint problem-solving arrangement increased the flexibility and speed of the embedded organizations. These characteristics were not present in the relationships with arms-length ties.

COLLABORATION IN SUPPLIER RELATIONSHIPS

Jeffrey Dyer, professor of strategy at the Marriott School, researched how inter-firm relationships can create competitive advantages in the automotive industry.[9] In one study, Dyer showed that General Motor's power-based governance processes generated costs twice as high as Chrysler's governance process, and six times the costs of Toyota's trust-based processes. The path of collaboration showed its superiority.

In other studies, Dyer compared arms-length market relationships and strategic alliances (similar to Uzzi's approach). He showed that arms-length relationships cannot generate profits above what other buyer-seller relationships can generate while strategic alliances can generate additional profits creating a competitive advantage for the parties. These additional profits, Dyer calls *relational rents.*

Dyer was careful to point out that *potentials* for relational rents can only result in *revealed* relational rents (additional profits) through proper governance processes. Effective governance processes are, according to Dyer, processes that rely on **trust** and collaboration as compared to power-based processes relying on third party enforcement of a contract. They also establish knowledge-sharing routines with their suppliers based on **transparency** and **reciprocity.** These conclusions reflect the approach to governance adopted by the California cattle ranchers and the New York better apparel firms.

COLLABORATION IN OUTSOURCING RELATIONSHIPS

Research in outsourcing relationships also proves there is a tremendous business value when developing highly collaborative relationships with service providers. Professor Leslie Willcocks at the London School of Economics distinguished between power-based and trust-based outsourcing contracts. In a study involving 1,200 organizations, good relationship management within **trust-**based arrangements made an astounding 40 percent difference in cost savings.[10]

In another study on business process outsourcing (BPO) relationships, Willcocks found that the presence of a “partnership view” explained the difference between high performing relationships and typical relationships.[11] The partnership view was expressed in behaviors such as a willingness to collaborate, to understand each other’s objectives, to resolve conflicts fairly and to renegotiate the deal if it proved to be financially unsound for one of the parties.

Kate Vitasek’s pioneering research at the University of Tennessee studied some of the world’s most successful outsourcing relationships across many different areas including business process outsourcing, logistics, construction, food manufacturing, environmental cleanup and staffing. The research project, funded by the United States Air Force, delved deeply into the contributing factors that surround very successful outsourcing relationships.

Not surprisingly, Vitasek and the rest of the research team found that one of the most important factors explaining success was a radically collaborative approach researchers referred to as a what’s-in-it-for-we mindset (WIIFWe). The WIIFWe mindset is based on creating social norms with high degrees of **trust**, **transparency** and **compatibility** between the buyer and service provider.

CONCLUSION (PART 1)

Research in sociology, game theory, economics and other social sciences demonstrates that complex social or economic relationships based on trust, reciprocity and other social norms outperform power-based relationships. The research does not suggest that power-based strategies are never a profitable strategy. In commercial relationships based on simple and commoditized transactions, power can indeed be a profitable choice. However, commercial relationships creating a competitive advantage in today’s market are rarely, if ever, simple and commoditized. Instead, they are complex and dynamic. Therefore, in strategically important relationships with customers, suppliers, and other partners, collaboration is the path to choose.

PART 2: COLLABORATIVE NEGOTIATING IS A CHOICE

While social scientists have proven time and again that a collaborative approach to working together outperforms a power-based approach, organizations still use power to negotiate agreements in their favor. These same organizations lament the lack of innovation, inflexibility to meet market challenges and unrealized profit potential.

Many individuals and businesses fail to realize they have a ***choice*** between **power** and **collaboration** to reach their goals. Too often business leaders do what those before them did without evaluating the effectiveness of their choice.

Admittedly, the choice between power and collaboration is not black-or-white. Few—if any—commercial contracts or political agreements are purely power-based or entirely based on collaboration. But still there is a choice to be made: a choice of mindset and behaviors.

To choose *the path of power* when negotiating agreements means to pursue one's interests by openly or covertly trying to impose one's will upon others with different and often opposing interests. Power-based negotiations consider others' interests as facts to consider when adopting a strategy, just like islands and underwater rocks are to the pilot of a ship. When communicating with a power-based mindset, the only purpose is to make the other think or do as the dominant person wants. For example, a big company with strong buying power squeezes the margins of its supply chain. Or, a corporate leader ensures obedience by using and abusing the fear of getting fired to his or her advantage. Finally, a supplier abuses information asymmetries to gain advantages over its customer.

Nobel laureate Oliver Williamson calls a power-based approach a "muscular" approach. Williamson says that muscular approaches, while potentially being effective in the short-term, are "myopic and inefficient for buying goods and services." [12] In fact, his research into transaction cost economics shows that a muscular approach will increase the transaction cost of doing business. This was also shown by Dyer, for example, when he compared General Motors' power-based governance strategies with Toyota's trust-based strategies.

To choose the *path of collaboration* is to focus on aligned or complementary interests instead of opposing interests. Collaborators view the other's interests as being worthy of respect and equal treatment. When negotiating and communicating with such a collaborative mindset, the aim is to truly understand one another and to reach mutually acceptable solutions. For example, a company may reward its suppliers for achieving measurable outcomes such as decreased costs or increased revenues. Or, a corporate leader may encourage personal enrichment to ensure the company's growth. Finally, suppliers share meaningful information so their customers make wise choices about the scope of work.

Williamson calls a collaborative approach a "credible" approach. Using a credible approach will foster an environment that allows the parties to lower total costs and transaction costs and to create more value than the parties could have created on their own.

CONCLUSION (PART 2)

Negotiators have a choice to make between power and collaboration. Research shows that when negotiating complex commercial relationships, the choice should be to use collaborative strategies. To do otherwise could mean lost opportunities for additional profit while incurring additional transactional costs.

PART 3: CONDITIONS FOR A SUCCESSFUL COLLABORATION

The path to collaboration relies on viewing everyone's interests as important. Yet, in this fast-paced world, negotiators face two problems. First, interests change over the course of time. Second, negotiators may have difficulty discerning their interests in complex situations. Successful collaborative relationships address these concerns, and others, by establishing and applying social norms in the form of guiding principles.

CONTINUOUS ALIGNMENT OF INTERESTS

The most fundamental condition of successful collaboration is the continuous *alignment of interests*. Individuals and organizations that want to negotiate collaborative agreements must adopt a negotiation method and strategy with a focus on aligning all interests—self-interests, partner's interests, and those of the relationship. The most successful relationships are those where serving a partner's interests also serves self-interests—commonly called win-win.

But it is not enough to focus on interests *when negotiating the deal*. In cases with a lot of complexity, it may not even be clear to everyone what exactly is in their best interest. Besides, since the targeted results may change as well as surrounding conditions, interests may change over time.

The true challenge is to find the conditions for a *continuous alignment or compatibility of interests.* In other words, the conditions for ensuring that the interests of the parties are aligned not only when the deal is struck but remain aligned or compatible as goals, conditions and interests change.

It is easy to talk about win-win and continuous alignment of interests; in fact, many negotiators intuitively understand the importance of win-win. It is another matter to implement it in practice. Most negotiators believe that win-win is, simply put, a matter of pricing. While it is true, at least in commercial negotiations, that continuous alignment of interests requires mutual economic benefits, money is not the correct starting point. Instead, to continually align interests, negotiators must establish a set of common guiding principles for the partnership, which in turn enables the parties to achieve a true win-win solution.

ESTABLISH GUIDING PRINCIPLES

In political science as well as in sociology, the need for a continuous alignment of interests is expressed in the discussion about the *legitimacy of law.* Legitimacy of law is best described as the justification for governmental coercion against its citizens. Unless state coercion is perceived as justified by citizens, society most likely will be plagued with conflicts, revolutions and other problems. The basic idea, expressed by one of the founding fathers of sociology, Max Weber, is that society cannot be kept together only through force. To keep a society intact, citizens must accept the existing law and order. A stable society requires that the members of that society perceive the existing order as justified.

Legitimacy is of crucial importance for long-term business relationships as well. These relationships require, for their stability through changing circumstances and interests, a feeling that the partners' rights and obligations are justified, legitimate.

Ronald Dworkin, one of the most influential legal and political philosophers in modern times, has convincingly argued that the necessary legitimacy will be present only in communities or associations with certain characteristics. One characteristic is the presence of fundamental and guiding principles. *The path of collaboration can be found, and a continuous alignment of interests can only be achieved if the parties always have a feeling that the obligations that the partnership imposes are justified, meaning they are based on a set of principles or social norms that apply equally to all partners.*

Dworkin argued that a distinction can be made between what he called “bare” communities and “true” communities. This distinction is similar to the distinction between arms-length and embedded ties discussed by Uzzi. Dworkin also calls the true community a *community of principles*.

A business contract can be said to constitute a community between the parties to the contract. This community will be a “bare” community in Dworkin’s sense if the parties follow the rules of the negotiated agreement and have no sense of obligation towards each other beyond that. The negotiated rules of a bare community represent a compromise between antagonistic interests. The dominating negotiation methods today will only lead the parties to such a bare community.

A business relationship will instead be a “true” community when the parties view the written rules of the contract not as exhaustive of their obligations but instead as being expressions of a set of common principles, or social norms, that they all agree upon and that apply equally to everyone. A business relationship being a true community in this sense, the parties treat each other’s interests and needs with equal concern.

Dworkin views this latter kind of business relationship as a fraternal association and says:

> *A commercial partnership or joint enterprise, conceived as a fraternal association, is in a way different from even a long-standing contractual relationship. The former has a life of its own: each partner is concerned not just to keep explicit agreements hammered out at arm’s length but to approach each issue that arises in their joint commercial life in a manner reflecting special concern for his partner as a partner.*[13]

Dworkin wrote not as a sociologist or economist describing facts of the world but as a legal philosopher arguing how political society should be organized to be justified. There is no doubt, however, that the California cattle ranchers lived in a community of principles in Dworkin’s sense. They developed a set of norms that governed their day-to-day interactions in a manner that led to a welfare-maximizing outcome for everyone. Some of these norms governed the allocation of costs and resources. Other norms governed the choice of remedies and measurement of damages. Another set of norms governed the transfer of information.

The northern Italian region, the apparel firms of New York, the automotive companies and the successful outsourcing partnerships referred to above were also characterized by the existence of an underlying set of social norms or principles that guided the parties to mutually beneficial collaborative behaviors. In short, they were also examples of communities of principles.

Using economic and sociological terminology, relations between organizations need to be ***embedded***. Embedded relationships foster a mutually advantageous collaboration based on a continuous alignment of interests. A web of social norms or guiding principles that continuously justify mutual rights and obligations and guide people’s actions as rights and obligations change over time.

In embedded relations, the parties are guided *not only by their economic interests but also by social norms* or principles such as reciprocity and loyalty. Negotiators wanting to harvest the benefits of collaboration should aim for a community of principles, based on which mutual rights and obligations they can iron out.[14]

THE NORMS OF A COMMUNITY OF PRINCIPLES

What are the social norms in a community of principles in Dworkin's sense? The body of research outlined in Part 1 proves insightful. The social norms that create the underlying foundation for successful collaborations are the same norms that promote "true communities." By analyzing relevant research, we propose six social norms that form the foundation for highly collaborative relationships. These six principles are:

- Loyalty
- Equity
- Reciprocity
- Autonomy
- Honesty
- Integrity

Each of these is discussed below in more detail.

NORMS OF SUBSTANCE – LOYALTY AND EQUITY

Two of the six principles are principles of *substance.* They guide how partners allocate benefits, costs, opportunities and risks in an optimal manner. These two principles, which we call the principles of loyalty and of equity, were, for example, strongly present among the California cattle ranchers and the outsourcing relationships studied by Vitasek. In fact, those norms are so fundamental to well-functioning societies and relationships that they were discussed already in one of the earliest known treaties of ethics in history – Aristotle's *Nicomachean Ethics.*

The *principle of **loyalty*** says that everyone's interests should be given equal value or concern in the community. The principle obliges the parties to minimize what Ellickson calls the *deadweight losses*, by which he means losses incurred when the partners fail to exploit all potential gains from cooperation. The principle has wide implications. For example, partners should always allocate risks to the party best able to eliminate or mitigate the risk at the lowest cost, and to allocate costs to minimize the total costs of the partnership. The principle also obliges the parties to a high degree of transparency (recall the fine-tuned information transfer studied by Uzzi), since transparency usually keeps transaction costs low.

The *principle of **equity*** is a norm of proportionality. The principle obliges the partners to allocate benefits in proportion to the contribution made or to carry costs incurred by the community in proportion to the degree to which those costs were caused by each individual.

NORMS OF FORM – RECIPROCITY, AUTONOMY AND HONESTY

Three of the six fundamental principles deal not with the substance but more with the *form* of the partnership, with how decisions on important matters should be reached and how exchanges should be carried out. These three principles are the principles of *reciprocity, autonomy* and *honesty.*

The *principle of **reciprocity*** - a social norm powerfully present among the California cattle ranchers, Ostrom's farmers and fishermen, and the northern Italian regions, gives powerful support to choose the path of collaboration. Many sociologists and anthropologists identify reciprocity as the most universal of all social norms, since it exists in all societies. Reciprocity obliges the partners of the true community to return in kind.

The *principle of* ***autonomy*** is fundamental for the choice of collaboration instead of power. The principle obliges the partners to abstain from using power to gain benefits at the cost of others. Dworkin said a true community is inherently egalitarian, meaning among other things that power is relatively equally distributed among the members of the community. Ellickson argued that welfare maximizing norms will arise in close-knit groups when informal power is broadly distributed among group members. Ostrom made a similar point when showing the conditions for success when governing common pool resources. And Putnam showed that the northern Italian regions historically and presently were characterized by a dominance of horizontal relationships instead of the vertical, power-based relationships that dominated the southern regions. The relatively equal distribution of power in true communities is an important explanation of their economic success.

In many customer-supplier relationships, however, the parties do have unequal bargaining power. The principle of autonomy obliges the stronger party not to use this power but to let the weaker party make its own, non-coerced decisions.

The *principle of* ***honesty*** obliges the partners of the community to speak the truth about facts in the world and to be authentic about their intentions. The obligation to speak the truth is recognized in all societies and needs no further explanation. Its importance for economic success cannot, however, be overestimated.

INTEGRITY

The sixth and final principle of a true community of principles is the *principle of integrity*, whose importance was shown by Dworkin. The other principles can potentially run into conflicts with each other. Also, new situations can arise in partnerships that create conflicting interests between the community members, situations for which the partners have not agreed to solutions in advance. Integrity ensures that conflicts between principles are dissolved and that the underlying principles of the partnership are used to deal with new, unforeseen situations. Without integrity, no true community could exist.

CONCLUSION (PART 3)

To successfully harvest the benefits of collaboration, negotiators must not only negotiate based on these principles. In addition, they must ensure that the relationship is established where the parties live by these principles in their day-to-day interactions during the lifetime of the partnership through proper relationship management and governance mechanisms. For a more detailed discussion of the six norms of a community of principles, please refer to *Getting to We: Negotiating Agreements for Highly Collaborative Relationships*.

PART 4: A FIVE-STEP PROCESS FOR NEGOTIATING HIGHLY COLLABORATIVE RELATIONSHIPS

Negotiating a highly collaborative agreement is a process, not an event. Once companies have embraced a collaborative mindset, they are ready to walk the path to real collaboration.

Companies and organizations wanting the tangible and intangible benefits of collaboration—whether with internal partners or external partners—should follow a five-step path. Approaching the relationship formation from the wrong mindset and negotiating things in the wrong sequence can destroy any chance of negotiating a long-term, mutually beneficial relationship.

Getting to We: Negotiating Agreements for Highly Collaborative Relationships outlines the five-step process: the first four take the parties to a what's-in-it-for-we (WIIFWe) mindset, and the fifth step ensures that the parties live that mindset. None of the steps should be skipped. Cutting corners will only derail efforts to establish a highly collaborative relationship. The five steps are outlined briefly here. Each step is discussed in greater detail in *Getting to We: Negotiating Agreements for Highly Collaborative Relationships.*

Step 1: Getting ready for WIIFWe. The first step looks at three foundational elements for a successful collaborative relationship: trust, transparency, and compatibility. After this step, the parties know whether they have a solid enough foundation to move to the next step. If they don't, they work on solidifying their relationship. If they have a good foundation, they move on to step two. Completing this first step enables partners to determine whether a WIIFWe mindset has merit and whether they are willing to explore establishing or renegotiating a highly collaborative relationship.

Step 2: Jointly agree on a shared vision for the partnership. In this step, the parties discuss and create a shared vision for the partnership. Each party will enter the discussion with its own vision, which is perfectly valid. But the parties transform those separate visions into a shared vision. The shared vision gives the partnership its purpose beyond a series of transactions. Furthermore, it will guide the partners, not only throughout the negotiation process, but throughout the entire term of the relationship. Aiming for the same target sets the stage for the third step in the path to We.

Step 3: Collaboratively negotiate the guiding principles for the partnership. The Getting to We process demands that partners not only improve the relationship but also abide by a set of principles to drive highly collaborative behavior. This is the critical step that distinguishes highly collaborative relationships from average functioning relationships. The six principles discussed above provide the mindset to support the partners on their journey to live in a collaborative relationship. Without guiding principles to prevent opportunism and competitive behaviors, partners will not act in a collaborative manner with each other.

Step 4: Negotiate as We. It is now time to begin to negotiate the deal. In this step, the partners do not negotiate in the traditional sense of the word, but instead face a common challenge: how to hammer out an agreement that enables the parties to achieve the vision and other common goals while following the agreed-upon guiding principles.

Before negotiating the specifics of the deal such as the scope of work, pricing, and terms and conditions, the parties must carefully choose the right strategies and tactics. This means abandoning traditional, WIIFMe focused strategies and tactics only promoting one's own interests and instead choosing WIIFWe-focused strategies and tactics, promoting the interests of the partnership to the mutual benefit of all partners.

Based on such strategies and tactics, the partners can enter a process of creative value allocation where they create a deal maximizing the value to be extracted from collaboration while at the same time equitably allocating this value.

Step 5: Living as We. Now the partners have reached the final step on their journey, living as We. Living as We occurs when the partners maintain a focus on the shared vision and guiding principles throughout the duration of the relationship. Because relationships are dynamic, the partners choose to focus on relationship management by taking actions and measures required to keep the relationship highly collaborative. The principles continue to play a critical role by driving the partners' daily behaviors.

The Getting to We process, coupled with the WIIFWe mindset, enables the parties to negotiate the relationship itself and set that relationship on a course for continuous collaboration.

MAKE A CHOICE

In this white paper, we have shown that negotiators of complex commercial and other relationships have to choose between power and collaboration. The choice is important because the quality of a company's network of customers, suppliers and other partners is a key contributor to a competitive advantage in today's globalized and complex markets.

Although many choose the path of power, an extensive body of social scientific and game theory research unequivocally proves that the best path is collaboration. The parties establish a community based on guiding principles and negotiate a flexible deal for mutual benefit.

Which path will you choose? If the choice is the proven path of science, an excellent starting point is to study the five-step process in *Getting to We – Negotiate Agreements for Highly Collaborative Relationships.*

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Kate Vitasek is one of the world's authorities on highly collaborative win-win relationships for her award-winning research and Vested® business model. Author of seven books and a faculty member at the University of Tennessee, she was lauded by *World Trade Magazine* as one of the "Fabulous 50+1" most influential people affecting global commerce. Vitasek is a contributor for *Forbes* magazine and has been featured on CNN International, Bloomberg, NPR and Fox Business News. You can reach her at kvitasek@utk.edu

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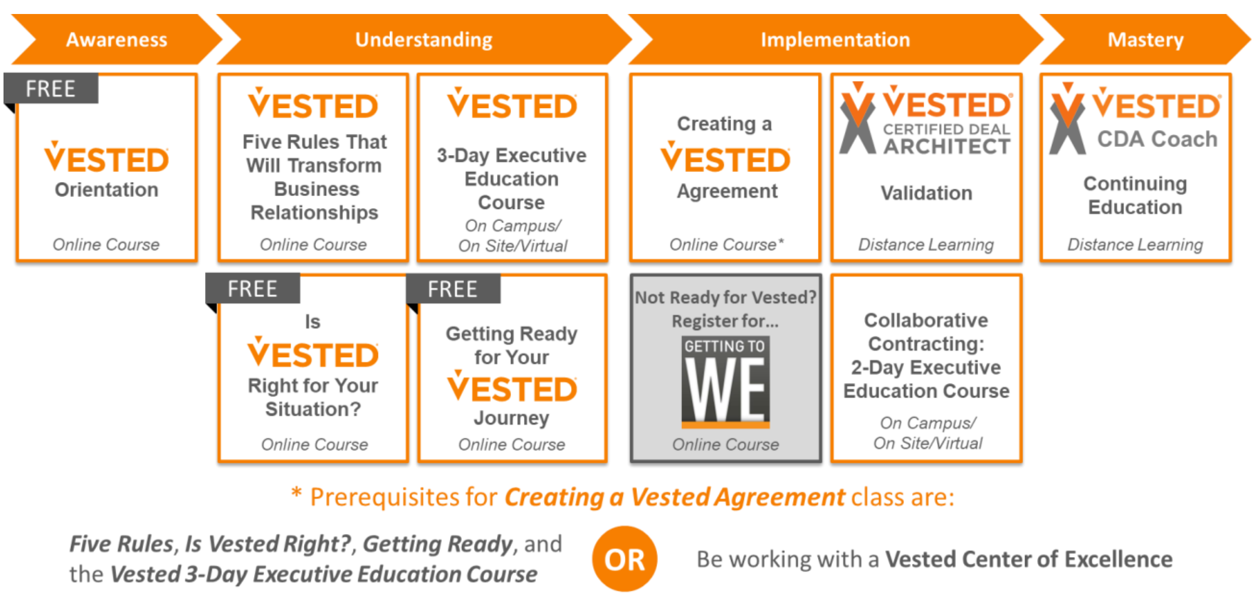
FOR MORE INFORMATION

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.

WHY | WHAT | HOW | WHEN | NEGOTIATE THE RELATIONSHIP | TELLS THE REAL STORIES

We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at www.vestedway.com/books. ***Contracting In The New Economy*** and ***Getting to We*** are especially pertinent to this topic.

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory in practice. Course content is designed to align to where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ where you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white papers and resources. For more information, contact kvitasek@utk.edu.



Endnotes

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[11] Ibid.
[12] Oliver Williamson, "Outsourcing: Transaction Cost Economics and Supply Chain Management," *Journal of Supply Chain Management* 44, No. 2, (2008): 5–16
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[14] As a side note, it should be added that the social norms of a community of principles most likely need to exist before the community, or contractual relation, is established. They need to be viewed as principles to be respected on their own merit by each party individually before the parties agree to respect them in their particular relationship. This means that the likelihood to succeed in establishing successful collaborative partnership is dependent on the circumstances in the society in which the parties operate. Simply put: in nations where individuals generally have low trust and little respect for fundamental norms, it is likely more difficult to establish principle-based collaborative relationships as compared to nations characterized by high trust and respect for fundamental norms. This supposition is also supported by the reports referred to herein studying the relationship between social capital and growth. As a next step, the question can be (and has been) asked why some societies and regions are characterized by higher degrees of social capital than others. Robert Putnam found a correlation between the citizens' membership in different social groups and level of social capital. Another professor in political science, Bo Rothstein, has convincingly argued that the most important factor for creating a society with high degree of social capital is the existence of uncorrupted governmental institutions (authorities, courts, etc.) that impartially carry out its functions. It seems likely that the establishment of contractual relations as communities of principles in Dworkin's sense will more likely succeed if the contract is negotiated in societies that themselves are communities of principles (where state coercion can be justified based on principles in the way Dworkin argues it should be). In other words, to harvest the benefits of cooperation, the negotiator probably needs to operate in a society with a certain kind of political institutions.

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