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An Integrative Framework of Collaborations: From Distant Customer to *De Facto* Partner

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Abstract

To obtain a deeper analysis of how collaborations between businesses operate, it is preferable to identify a dynamic model incorporating *de facto* collaboration by understanding major modes of collaborations. The mechanics of a de facto relationship is further elaborated through two case studies that demonstrate how effective this partnership has been to their operations. Implicit rule derived from *de facto* relationships provide a softer and more flexible framework. Loyalty is affected by perceived favour exchanges by the collaboration partners. The framework is critical to the formation of partnership loyalty.

Keywords: Collaboration, Partnership, Loyalty, De facto and Relationship Marketing

INTRODUCTION

A dynamic collaboration process involves the improvement of existing capabilities and technologies to bring about cost reductions and standardization by enhancing the social capital of relationship building (Koza and Lewin 1998). Essentially, successful dynamic collaboration depends on the quality of alliance relationship development, as organizations involved require the resources provided by their partners such that the goals of stakeholders are met (Perks and Easton 2000). To address this deficiency, this study has proposed an integrated model is to provide academics and practitioners with a new dynamic tool integrated framework in understanding and implementing effective partnership loyalty strategies.

Organization

This paper initially elaborates the theoretical background. We then propose a dynamic model incorporating *de facto* collaboration so as to explore how organisations benefit by applying this mode of collaboration by distinguishing its operation from mere transactional and contractual relationships. First, the paper examines the different types of collaborations and gives a brief introduction as to how these collaborations work and the benefits they may bring to both organisations. Once the six types of collaborations have been identified, the mechanics of a de facto relationship is further elaborated through two case studies that demonstrate how effective this partnership has been to their operations over many years. Secondly, the paper then switches from macro to micro aspects of a de facto partnership, namely how partnership loyalty is generated through our framework.

The value of this paper lies in its process of distinguishing the uncommon *de facto* (non-contractually bound) relationships from other rigid *de jure* collaborations and also examining how the corporate giants McDonald's and Coca-Cola Amatil have used this to their advantage. Thus, collaborating in a *de facto* format is a rather rare occurrence, yet the upsides of this collaboration are of great significance to organisations that successfully implement it.

Theoretical background

In the academic arena, most investigations into the dynamics of collaborations have been based on several theoretical dimensions, such as transaction cost analysis (e.g., Reuer and Ariño 2002), social network theory (e.g., Gulati 1995), resource-based theory (e.g., Das and Teng 2002) and a dialectical approach (de Rond and Bouchikhi 2004). Transaction cost analysis (TCA) explains inter-party transactions in a governance structure and explores the various conditions of transactions involving different degrees of asset-specific, frequency and uncertainty variables, but the approach of TCA seems to be too normative and prescriptive (Bell et al. 2006). In contrast, the assumption of the dialectical approach (de Rond and Bouchikhi 2004) is an inefficient governance form with instable organizational arrangements subject to many tensions (Wong & Chan 1999). This dialectical approach is realistic but is not compatible with such a normative assumption of inefficient governance (Bell et al. 2006).

TCA and coactivity perspectives are, to some extent, similar to transactional collaboration because both perspectives are focused on a short-term horizon, with low switching costs and strategic involvement. Social exchange and contracting are mostly characterized by contractual interactions involving different types of inter-party relationships in the form of traditional links and coordination. Both interactive and customization perspectives display an extended horizon with high relationship termination costs and a complex network of operational and social interdependence. This comparison between traditional and dynamic collaborates indicates that the principles behind the theories are, to an extent, similar in conceptual development (Wong & Leung 2001).

FORMS OF COLLABORATION

It is necessary to then consider the different forms of collaboration, one of which is the above-mentioned *de facto* nature, to fully understand how this dynamic relationship works its wonders. This paper continues by explaining the three forms of collaborations, namely transactional, contractual, and dynamic. Two examples are further provided for each form.

Transactional Collaboration

Albeit containing two separate models (Customer as necessary and Customer as King), the following models do retain similarities, as both require relatively low levels of investment, and in turn have a low switching cost. The suppliers are able to transfer their attention to another group of consumers with little opportunity cost. In most of these situations, the purpose of the exchange between the consumer and supplier is merely economic, with a narrow scope of purpose, as the benefits and burdens two both parties are clearly defined. The nature of the transaction also tends to be simplistic and adopts a short time horizon, meaning that the need for employing strategy is quite low.

The distant customer

Within this context, multiple layers of intermediaries divide the consumers and suppliers as separate manifestations. In such a model, the suppliers appear indifferent to the consumers, as this particular segment of consumers does not pose as a majorly profitable opportunity. A contemporary example is the parallel goods situation in Hong Kong, where mainland purchasers willing to pay significantly more than the local market have demanded all the attention of local suppliers. A further case study is undertaken regarding the Hutchison Terminal strike case in the case section of the paper illustrating the harsh nature of this relationship as well as how it was overcome by wise utilization of face and favour exchange.

Customer as King

The relationship between the supplier and consumer in this scenario is much simpler. The differences do not stop here, as the consumer is of huge significance to the supplier. Everything the suppliers do, in terms of pricing, advertising and such, are channeled at gaining the attention of the customer. An example would be where the supplier is a producer of luxurious goods, such as expensive cars, and the larger profit margins mean the suppliers are able to focus much of their marketing strategies at a narrow market.

Contractual Collaboration

The two contractual relationships below (Customer-centric and Customer dominated) are of a more complex nature than the transactional models. The stronger connection between the supplier and consumer implicate that the nature of transactions tend to be of a longer duration, with the time horizon ranging from an intermediate to an extended length. Switching costs tend to be of more significance, as suppliers must give up trade-offs in targeting a different group of consumers, such as due to existing investments made into the original group of consumers. The purpose of these exchanges tends to involve social elements as well as economic, which require a moderate level of strategic emphasis in sustaining the relationship.

Customer-centric

This situation occurs where the level of supply is abundant, yet the number of consumers is limited. The suppliers must consistently fight against competition in order to reach the relatively smaller number of consumers who become more difficult to reach. Furthermore, both the supplier and customer take up their respective roles as partners working together closely, as this relationship requires an elevated sense of co-operation.

Customer dominated

In fear of appearing to be the same model as the *Customer as King* model, it is helpful to note that the present model is in fact an enhanced version of the *King* model. The supplier has a more limited variety of consumers, yet these consumers remain to be of great importance to the suppliers as they represent a major fraction of the relationship dominating over the supplier. Specialty goods tend to resemble this model to a closer extent than others, as there is a scarcity of supply, which a particular group of consumers have a strong demand for.

Dynamic Collaboration

The following pair of models (Co-opetitive and De Facto Partner) represents the most complex consumer-supplier relationship of the three types mentioned. This is mainly due to the operational and social interdependence that arises from a heightened level of intermingling, and since the goals tend to be much more converged, the division of benefits and burdens to the respective parties are also blurred. This relationship requires heavy investment in both time and monetary expenses, and as such the switching costs are relatively astronomical, being of both economic and social in nature. The purpose of the relationship tends to be focused on the long term, as illustrated by the examples above, and thus strategies must be implemented at a higher level.

Co-opetitive

This framework presents a very different situation compared to the previous models, as both the consumer and supplier play an equal role in terms of contribution and importance in the collaboration. As the diagram illustrates, both the consumer and supplier are to both act in a way in order to promote the collaboration. A situation where this model functions is where two parties have one single complementary and overlapping goal, providing motivation for cooperation between the parties. An example may be the relationship between environmental groups and the government's environmental protection departments, where the one goal is clear and defined and is desired by both parties.

De Facto Partner

On the contrary, the *De Facto* Partner model describes an alternative to the Co-opetitive framework where both the supplier and the consumer retain an equal amount of power. Such relationships tend to require frequent and high volume purchases between firms that specifically require each other's assistance due to complexity intertwined within. The nature of the complexity lies in areas other than product itself, but rather, areas that require more experience, such as the timing and efficiency of delivery (Perks and Easton 2000). The reason why this model differs from the Co-opetitive framework is due to the fact that both sides of the collaboration fight for their own best interests, and the sense of co-operation is of a lesser degree. Both parties indicate the opposition as insiders. This is not to say that both parties do not have one single goal, but rather, both parties are merely more concerned about their own wellbeing than the other party, a common occurrence in the commercial sector.

Generally, *de facto* collaborations are difficult to quantify on account of different forms of undefined arrangements. The literature on the collaboration is scarce. Our study contributes to the development of the measurement. *De facto* collaboration is more prevalent and important than formal collaborations (most in contracting ones). The benefits of *de facto* collaborations may be outweighed by the hidden costs of favour-exchange of sharing important knowledge or information. Apart from the costs of establishing collaborations, other costs may arise from the unintended leakage of knowledge of partners in coactive dependence.

The dilemma in contracting management is that the effectiveness of coactive dependence implies the free flow of knowledge between partners. The unintended outflow of core knowledge (such as, the delivery schedule) may have severe consequences for individual partner's competitive position. In summary, the ability of *de facto* collaborations to bring success cannot be refuted, and it is clear that it is applicable to virtually any form of collaboration. While more complex and requires more dedication compared to transactional or contractual collaborations.

Insert Fig. 1 about here

Cases

Coca-Cola and McDonald's

The relationship between Coca-Cola Amatil (CC) and McDonald's (MD) happens to be an illustrative example of a De Facto collaboration that few realise. While it is widely known that MD exclusively serves CC beverages, few realise that not only is the agreement between the two organisations not in writing, it is merely one based on trust and a gentleman's handshake. Effective joint planning adds both flexibility and strength to the collaboration, and in the present case study, the joint planning process occurs both periodically and on a continual basis. These types of partnerships tend to have very few conditions and terms, yet bring many benefits to both organisations. While the fear of unintended knowledge leaks remain, the development and use of specialised equipment and processes outweighs this concern, and as long as the knowledge leaks are kept away from the competitors, the issue is minimal.

The strong brand image of both organisations, both leaders in their respective industries, enhances the partnership. Further research reveals a strong sense of symmetry, as CC becomes MD's largest supplier and MD becomes CC's largest consumer (approximately 30% of CC sales are fountain sales, as opposed to packaged). The heavy reliance upon one another strengthens the invisible contract.

Considering the long time horizon, heavy investments of time and money as well as unimaginable switching costs, there is little doubt that the MD and CC collaboration is one of a de facto nature. It can be seen that the level of coactive dependence has been strong, as despite the extremely valuable commercial secrets that both companies possess, they have been willing to collaborate for such a long period of time and to such a large extent. Customisation exploration has been heavily utilised as both CC and MD have proudly let the public know about the collaboration, instilling confidence in each other. While whether explicit contracts exists remains a commercial secret, there is little doubt that the partnership.

Companies like Pepsi pose as a direct competitor to CC, and also play the role of an indirect competitor against MD as they supply beverage to MD's direct competitors, namely KFC, Pizza Hut and similar fast food chains. In the rare case where both parties of the collaboration face a common competitor, the foundation of the agreement is strengthened. As a MD executive stated: "Now that Pepsi is in the hamburger business… it has given us a synergy that has added to the partnership," stated a MD's executive. Similarly, the end user served by both companies is the same, and where that end user is found to be of a particularly high value, the collaboration is further enhanced. Both MD and CC have construed the young consumer market as their target end user, and as such both organisations can combine their efforts at targeting this market, allowing this De Facto partnership to outshine any other explicit contracts.

Hong Kong International Terminals Ltd

A case study of Kwai Tsing Container Terminal strikes perfectly summarises this article by illustrating how Transactional relationships generate negative externalities, yet are still recoverable by a decision to adopt *de facto* measures. Mr Lee Ka Shing (LKS), owner of Hong Kong International Terminals Ltd (HIT), contracts with a company that managed cargo at the Terminal. This company in turn employed thousands of employees. At this stage, two explicit relationships exist – LKS and the company, and the company and its employees. As such, there is no direct relationship between LKS and the employees, and LKS has no legal obligation to act in their interests. Led by the Union of Hong Kong Dockers, an affiliate of the Hong Kong Confederation of Trade Unions, the workers demanded a 12% pay rise, plus overtime pay at 1.5 times the minimum wage. The contracting company turned down this request despite only two minimal wage increases over the past 10 years. Upon going on strike, they demanded a 20% pay rise.

As mentioned above, LKS had played no part in the workers' misfortune, but strikes and protests were getting out of hand, some even surrounding LKS' mansion in spite. LKS recognised the damage this would make to his reputation, perhaps partly from good conscience, and he decided to extend his sympathy towards the workers by agreeing to some of their demands. It is at this critical moment that a de facto relationship was created between LKS and the workers, as a favour was granted towards the workers. Despite not meeting their demands, the workers recognised the favour LKS was providing, and in turn accepted his good intentions – an act of face exchange. The willingness to co-operate between the two parties demonstrates the coactive dependence that existed between them, a crucial element to a successful *de facto* agreement.

As a result, a win-win situation was achieved through the implicit controls of the agreement; LKS' mansion was no longer in peril, his reputation had been regained, and the workers were satisfied with the offers LKS made. From the case study, it is evident that the scope of *de facto* relationships does not simply exist between every-day commercial relationships, and can assist even in charitable situations.

WHAT MAKES *DE FACTO* RELATIONSHIPS CLICK?

From the two case studies of dynamic collaborations above, it is clear that the underlying reason for the success of de facto collaborations is due to its ability to generate partnership loyalty. Partnership loyalty can be seen as the strength of the relationship between the two collaborating organisations, and the reasons for its value is further explored later in the paper.

***De facto* contracts as a protector of collaboration**

Explicit contracting describes the use of the classical contract in written or verbal form, otherwise known as *de jure* collaboration, or contracting by law (Gebrekidan, Awuah 2001). In a contracting situation, *de jure* represents the meaning of the legal binding of the contract, whilst *de facto* designates what happens in practice and at a psychological level. Whilst, another mode of cooperation is known as *de facto* collaboration, which refers to collaboration "in fact" and "in practice", a mode not defined by law.

Implicit control, as one of the major variables of *de facto* collaboration, refers to the shared beliefs and norms between exchange partners that guide their behaviour to an acceptable or appropriate level (Porter et al. 1998). In relational exchange, implicit control is based on the mutuality of interest that occurs over longer periods of time compared to discrete exchange norms (Noordewier et al. 1990).

De facto collaboration allows for a flexible transfer of specific and commercially sensitive information, e.g., information about new products or service designs, new production processes or market developments, without the burden of writing and enforcing contracts. While *de jure* collaborations, like research joint ventures, is much more resource demanding than *de facto* collaborations, costs associated with *de jure* modes of cooperation may pose an obstacle for firms, rendering the *de facto* form as an important mode of cooperation for innovation within the supply-chain. Firms in a supply chain with an intense development of new services and new markets (innovation dynamics) tend to have a higher expectation of their partners. The expectations are often in the form of customization exploration, including both favor and face exchanges.

CONCLUSION

Future research could investigate whether, for example, the length of the explicit contract influences the longevity and quality of the relationship should be carried out to examine how contracts and favour exchange affect the long-term orientation of relationship.

Many supplier-customer collaborations aim to obtain partnership loyalty because it requires a stable relationship for both parties to realize the long-term benefits. If customers desire to maintain a relationship, we would expect them to be company loyal (Evanschitzky et al. 2012). Most investigations of such collaborations have tended to examine only a single dimension of the relationship, either the aspect of sharing resources or of performing co-opetitive activities, but not to empirically test the simultaneous links between partnership loyalty and its antecedents.

Unlike regular agreements that fall under strict contract or corporate law, these ‘less than arm’s length’ agreements are less regulated, perhaps falling under the realm of equity and good conscience. Similar relationships exist between suppliers and distributors, and it is submitted that there can be an analogy drawn between such recognised relationships and the proposed wider-scoped perceptual and reciprocal obligations between all organisations (Kingshott and Pecotich 2007). At first glance, it may be discouraging for organisations as it seems that a pooling of their resources puts their assets at risk, however, it is important to note that the authority of constructive trusts, unconscionable transactions and specific performance under the rules of equity must not be belittled, and in many circumstances, the sheer need for upholding good conscience overrules any exclusions of liability that the black-letter law is able to offer.

An interesting interpretation as to how loyalty works better than explicit contracts is to apply the analogy of a marriage versus a de facto relationship. The marriage symbolizes a contractual relationship, as the relationship is fixed, and either party can act freely without jeopardizing the relationship as contract laws prevent the relationship from being severed without consequence. As such, the parties to the contract may choose to put in minimal effort, as the results would remain unchanged. On the contrary, a de facto relationship requires effort to keep up, as subpar performances could mean that the other party may choose to abandon the relationship in search for a more capable partner. In summary, this paper seeks to identify what distinguishes de facto collaborations from others and how the individual elements are interlinked with each other through a list of propositions.

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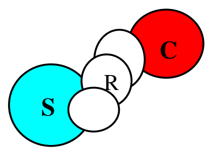
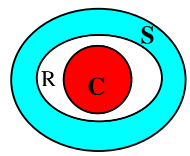
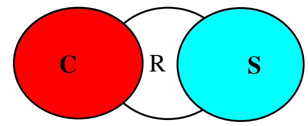
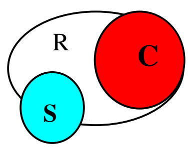
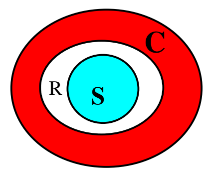
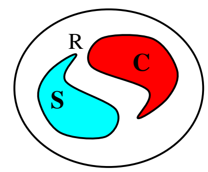
Fig. 1 Integrative framework strategic implementation: the continuum of collaboration

	Forms of collaboration		
Exchange element	**Transactional**	**Contractual**	**Dynamic**
Roles of partner	(1) The Distant Customer	(3) Customer-centric	(5) Co-opetitve
			
	(2) Customer as King	(4) Customer-dominated	(6) De Facto Partner
			
Time horizon	Short	Intermediate to extended	Extended
Nature of transactions	Short duration; transaction has distinct beginning and end	Longer duration; transactions linked together	Longest duration; transaction merged together
Situational Issues			
Complexity	Simple offer - acceptance	Increasing complexity	Complex web of operational and social interdependence
Division of benefits and burdens	Distinct, sharp division	Trade-offs and compromise	Blurring as goals converge
Strategic Implementation			
Investment	Small	Moderate	Large
Switching costs	Low	Medium	High
Purpose of exchange	Narrow; economic; substance of exchange	Moderate; economic and social elements; creation of longer-term initiatives	Broad; economic and social elements; creation of longer-term initiatives
Strategic emphasis	Low	Moderate	High

Note: S Supplier c Customer R Relationship