Productive Friction: How Difficult Business Partnerships Can Accelerate Innovation

Companies are becoming more dependent on business partners, but coordinating with outsiders takes its toll. Negotiating terms, monitoring performance, and, if needs are not being met, switching from one partner to another require time and money.

Such transaction costs, Ronald Coase explained in his 1937 essay "The Nature of the Firm," drove many organizations to bring their activities in-house. But what if Coase placed too much emphasis on these costs? What if friction between companies can be productive?

Indeed, as John Hagel and John Seely Brown point out, interactions between organizations can yield benefits beyond the goods or services contracted for. Companies get better at what they do--and improve faster than their competitors--by working with outsiders whose specialized capabilities complement their own. Different enterprises bring different perspectives and competencies.

When these enterprises tackle a problem together, they dramatically increase the chances for innovative solutions. Of course, misunderstandings often arise when people with different backgrounds and skill sets try to collaborate. Opposing sides may focus on the distance that separates them rather than the common challenges they face.

How can companies harness friction so that it builds capabilities? Start by articulating performance goals that everyone buys into. Then make sure people are using tangible prototypes to wrangle over.

Finally, assemble teams with committed people who bring different perspectives to the table. As individual problems are being addressed, take care that the underpinnings of shared meaning and trust are also being woven between the companies. Neither can be dictated--but they can be cultivated. Without them, the performance fabric quickly unravels, and business partnerships disintegrate into rivalrous competition.