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The greatest risks are at the boundaries...

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Collaborative leadership can cultivate a healthy respect for risk without letting it turn into fear. That involves recognising that just as risks are magnified at a boundary, so is the potential for innovation, say David Archer and Alex Cameron

Mind the gap – it's a phrase every visitor to London has heard. Originally an automated announcement to warn passengers about the gap between the platform edge and the Tube train door, it has become a cliché. But as a safety announcement it contains a simple truth.

People have always known that the greatest risks in any system are at the boundaries between one element and another – and that's never been truer than in today's interconnected business environment.

When HMRC outsourced its data management to the IT services firm EDS and its internal postal service to couriers TNT, it is unlikely that leaders imagined a risk scenario in which the combination of actions by a junior official and the loss of a piece of internal mail would get top officials and ministers onto the front pages of the national press. All it took was an unregistered package containing two computer discs of personal details of child benefit recipients to go astray and the ensuing scandal led to the resignation of the chairman of HMRC.

There are many reasons why risks like these don't get identified and actively managed, but primarily it is because they are not under the control of any one organisation. We call these "relationship risks", and they are complex and dependent on the nature, governance and operation of a collaboration.

They are affected by the behaviour of the leaders involved and the culture of the working environment they create. Leaders considering how best to manage risk in a partnership or collaboration face the paradox of shared control. The traditional reaction of a leader to a sense of growing risk is to tighten controls across their organisation, but in a partnership the more a leader tries to control the details of their partner's work, the less likely that partner will be to take responsibility for the risks involved.

Many of the early public-private partnerships tried to avoid this paradox by using the concept of risk transfer. The public sector contracting body (perhaps a local authority wanting to build a school) would transfer all the risks of managing work to a private sector company that would set a price for the contract including some sort of risk premium. The private sector partner was responsible for overcoming the problems.

A report to the Commons Public Accounts Committee last year showed that UK spending on PFI projects, such as hospital and school building, would add up to £131.5bn – but this vast expenditure would deliver assets worth only a quarter of that.

The mistake was in thinking that you could hand over risks and their associated costs without being part of managing them. Successful risk management in collaborative systems is built on leaders who can share control, rather than putting trust in some well-known but dangerous myths.

The reality of business interdependence means that leaders find some strategic risks lie at the boundary between the organisations or outside their own organisation altogether. Big organisations partnering with smaller ones can fall victim to the myth of superiority: that they can step in if something goes seriously wrong. It is rarely that simple.

There is also the myth of tight legal contracts to remove relationship risks. The scale of the public-private partnership contract between London Underground and the Metronet consortium ran for many thousands of pages and the lawyers' fees in drawing it up were similarly vast. However, in the end it could not protect the public sector client from having to pick up a large bill.

A well-defined contract is a vital part of any good governance structure, but you should not expect a contract drawn up at the start of a relationship to be able to predict and legislate for all the issues that will come up during its lifetime.

Risk registers, with their red, amber, green codings, are a traditional way to categorise risks and to plan how to mitigate them. They are simple, but all too often they degenerate into simple-mindedness – a mechanistic box-ticking exercise with no roots in the reality of the collaboration.

One government department we know of produced a risk register with a huge list of around 150 elements. This labour of love was then consigned to a drawer. To be honest, this probably didn't make much difference as some of the ideas in the register for risk mitigation were entirely toothless. Registers can be a useful tool – if you make them so. "I start by writing down the three things I'm worried about, and then see if they're on the risk register," says former Inland Revenue outsourcing chief John Yard.

Creating an environment where staff on all sides feel confident to share vulnerabilities or worries is a critical task. It is a balancing act – cultivating a healthy respect for risk without letting it turn into a fear, and exploiting opportunities of partnership without being reckless gives a stable foundation for a resilient relationship in a collaborative world, and just as risks are magnified at a boundary so is the potential for innovation. By opening up organisational boundaries to partners, suppliers and customers, collaborative leaders can increase the flow of ideas that no one would have come up with on their own.

David Archer and Alex Cameron are directors of leadership consultants Socia Ltd. This feature is an edited extract from their book Collaborative Leadership, published by Routledge