

## Leadership and Cooperation: the challenge of a lifetime.

*Cooperation is especially productive in a system well-managed.*

W. Edwards Deming

*Cooperation is the vital first step in recovery of a failing system.*

John Carlisle



### **THE THEORY OF KNOWLEDGE – the larger picture**

It is the everyday experience of our social life that shapes our perceptions, our mindsets. Here are some key aspects that influence the thinking of organisational leaders. You will also find that epistemology runs like a silver thread through any transformation process, be it mindsets, paradigms or assumptions. That is why Deming said that change only comes from the outside – a fish does not “know” it swims in water.

### **The Dominant Paradigm, Control**

*“(Democracy) gives every man the right to choose his own oppressor”*

Charles Dickens

Our entire Economic system was built on the understanding that the players were all part of a garment of interdependence, the warp and weft of which were cooperation

and trust. It is not for nothing that it was known as the “business *fraternity*”. At the height of mercantilism the sailing ships would leave with the merchants’ fortunes in them for a round trip of a couple of years to the Far East. The major concerns were not that the sea captains would abscond with the money; but that storms or pirates would do the damage – hence Lloyds of London. It was an abundant world and the only real competition was the elements.

It is still an abundant world; but the chimera of competition has infected thinking to the point of paranoia in some sectors, while the supermarkets, for example, have, in the name of their customers, used the low price mantra to make the lives of their suppliers a misery all over the world. Inside companies competition thinking is translated into targets and bonuses, and low price becomes cost-cutting programmes leading to down-sizing, job exports, and continual re-organisation for leaner organisations. It is all part of the same syndrome.

What is it all about? My hypothesis is that it is all about an exercise in control, in power, which manifests itself in the hierarchical organisational diagrams that are published to describe the company structure, and in the numerous incentive schemes, performance related pay, and bonus payments. The question must be asked why, after forty years of Herzberg, McClelland, Maslow’s Theory Z, McGregor’ X and Y Theory Management, and Deming, we still experience this tyranny of Leadership by Control? Where did this theory of how organisations work come from? I think it comes from our society being increasingly, subtly, controlled by government which is taking more and more responsibility for everything.

First of all, look around you in everyday life, and look at the symbols of control that we now just accept. It starts with something as innocuous as, for example, Pelican Crossings. Do you remember when motorists had to use their own judgement to allow pedestrians to cross, and not that of a traffic light? Do you remember how well it worked? How it brought you into touch with that pedestrian as a person? Now, we do not stop for a person, but for a red light. How about roundabouts with traffic lights and kids being discouraged from walking to school, and hospital patients not being able to turn their individual TVs off, and teachers having performance-related pay, and a railway which requires over 2000 policymakers compared with just 400 ten years ago, UK identity cards soon to be forced on us, targets, regulators and inspectors everywhere, and, and, and? Much of this is done “for your own protection”, i.e. driving fear in so we will acquiesce in the loss of these responsibilities and freedoms. It is nothing short of a Nanny State exercise in power.

### **The Political Influence on economic values**

*“No, no, my boy: that is the opposition in front – the enemy is behind us.” (our own backbenchers!)*

Winston S. Churchill

In Britain, we are up against a control paradigm that is not a product of business; but of society itself. It comes from the politicisation of the economy. There is a paradox that, as privatisation has increased so has regulation, and not only for the privatised regimes. The Treasury, as the dark archetype of government thinking in particular, is tampering at nearly every level of economic activity, because the only thing the Treasury cares about is absolute control/power, starting with its fellow government departments.

The Treasury is to the business *fraternity* what George Bush is to *multi-culturalism*. Add to this desire for control the fact that the Political order is inevitably all about win/lose thinking and total lack of trust, and you have a dominant culture which is inimical to interdependent, cooperative system thinking. Consequently any change process in the business realm has to take place in the context of this larger system, and will be all the more difficult because the forces of regression are immanent.

In other countries it is somewhat easier, especially Australia, where alliancing, in particular, is becoming more and more acceptable and profitable. The wonderful 2000 Sydney Olympics and the triumphant 2003 Rugby World Cup event (from an ENGLISH perspective) are testament to the productivity of the cooperative way of getting things done. Compare these to the building of the Scottish Parliament, and the recent commissioning of the Chinook helicopters that are unable to fly in the UK. I will lay any odds on those contracts being legally bullet proof, which would satisfy any politician, because blame is what they are concerned about, not implementation. These forces help create our habits of thinking, which inform the theories we live our working lives by.

## Theory

*"Experience and examples teach nothing without theory"*

W. Edwards Deming

**Consciousness:** My reading of Deming's statement here is that he means explicit theory. We all have theories, otherwise we could not predict or plan anything. For example, it is a truism that every Englishman has a theory as to how the railways should work. The same applies to leaders of organisations: they have a theory as to how their organisations work, except that many do not know what their theory is; only their actions and policies reveal it. The first part of their development as leaders, therefore, is to make them conscious of their theory by making it visible through a tough dialogue, which includes hard questions such as: "Tell me again why you need to have bonuses, if your managers are totally committed to the company success, to use your words."

The second part is to present evidence (Deming's "experience and examples") that empirically tests the now explicit theory.

As an example, typical assumptions in major project work are that lowest bids are best, as are water-tight contracts and punitive inspections to prevent illegitimate claims. The theory must therefore be that contractors are going to be dishonest in their bids, will use any excuse to push the price up during the contract, and will not do the job properly anyway.

Now, this may be true in some parts of the world, and it is therefore worth entertaining in, for example, some parts of China. But is it true in typical Western organisations? Well, yes, because that is what contractors have to do to make any kind of profit in the light of the control-obsessed client. But is it the most effective way of working?

The evidence suggests the opposite. Here are some vignettes from projects I have worked on. The first three examples are projects which have taken cooperation seriously and applied it with rigour. The next two did not.

## Cooperative Successes - Projects

- Welsh Water

*Welsh Water has been serious about partnering since 1995, and has consistently outperformed the targets set by the regulator. It has an alliance (of equals) of six strategic design/construction partners, two cost managers, a partnering facilitator and a supply chain advisor - to deliver around 60% of Welsh Water's capital investment programme during the period 2000-05. They are exemplary, through their champion, Calvin Snook, in delivering the Asset Management Plan, and with Galliford Try, for example, are helping the Northern Division save 30% on their construction project budget of £40 million.*

- Hong Kong Mass Transit Corporation, Tseung Kwan O Project

*An underground rail extension initially costed at \$3.5 billion. The partnership strategy brought this down by \$1.5 billion and brought the final commissioning in early by four months, in August 2002. Two particular heroes here were a young English engineer and project manager, Roger Bayliss, and a Welsh Commercial Executive, David Avery, who was cold-blooded cooperative strategist.*

*But. . . .*

- Johannesburg Stock Building in Sandton, South Africa

*The stock exchange was transferred from the old city centre to the new financial hub, and was absolutely time critical, i.e. the computers had to be working at exactly 11 am on the due date. The developer worked in partnership with the main contractor, Group 5, who worked in cooperation with all the sub-contractors, thanks to their brilliant site manager, Will Prigger.*

*The computers were switched on 11a.m. on the target day in a building which itself incorporated many enhancements that did not affect the final outturn costs.*

*But. . . .*

### Cooperative Failures – Corporate Culture

Unfortunately the negative impact of failure to cooperate completely overshadows the successes of cooperation.

Below are assignments that I have worked on where I failed to persuade the companies to do all they needed to implement and profit from cooperation.

The first is British, and, unsurprisingly, the second is also British. I have chosen them because they are of national importance, and so the lack of cooperation has implications that feed right back into society as a whole.

- BNFL and British Energy (BE)

*This case nearly broke my heart. If ever there was a case for cooperation because of utter, obvious interdependence it was BNFL, the single source supplier of nuclear fuel to its only UK customer, BE.*

*I was asked to intervene in the first place by the new CEO, John Taylor, who was appalled at the relationship he had inherited, which can only be described as an on-going brawl. A number of senior departures gave us space to bring the parties together to agree on removing chronic waste, and to cooperate on further continuous improvement. The first great success was that the new agreement only took seven months to final signature, whereas the previous one had taken seven years! The second was a corollary of the first because, as the contract was signed just as BE privatised, it added £1 billion to the share value of BE. Thereafter new joint ways of working were agreed and spirits and productivity began to soar.*

*Sadly, shortly thereafter, following a reorganisation, a new CEO and a new MD of BE were appointed who regressed the relationship, appearing totally unwilling to invest in cooperation, preferring conflict. Then the CEO of BNFL was dismissed by the government totally unfairly over an incident he had no control over, and it all went downhill from there, i.e. blaming, threatening, posturing; all the things the politicians understood, but which completely wrecked the productivity and credibility of both organisations.*

*Today, BE is de facto bankrupt and BNFL has been broken up and will not get to privatisation status, which was its key objective.*

- The Railways

*This did break my heart, as I worked a consultant for many years to the greatest railway company in the world – British Rail, and the catastrophe that has overtaken its successor is a lesson to all those hell bound for privatisation.*

*We all know the railways are not now working and that the initial blame lies with the previous Conservative Government, in particular the now invisible, intolerably intransigent, John MacGregor. But the condition has been hugely exacerbated by the conflictual postures of the various governing parties. Here is a quote from an article by Simon Jenkins in the April 13 edition of the Yorkshire Post: “The Strategic Rail Authority . . . , is fighting for autonomy against the Rail Regulator, Tom Winsor, who is fighting everyone. The SRA has also been fighting . . . The Department of Transport, which wants to kill it.”*

*This follows the statement that Network Rail “wants to take over train management from the 25 regional train operating companies , who have retaliated by demanding to take over Network Rail’s track and signals, claiming they could not run them any worse.”*

*The result? Punctuality has plummeted, safety has a huge question mark over it, costs have soared and subsidy risen fourfold. The confrontational attitude was also transferred to Melbourne, Australia, where, in early 2003, National Express, who won a larger privatisation bid, after infuriating nearly everyone locally over its demanding attitude and poor performance, shut up shop and walked away from its two metropolitan train lines and its tram company, and a A\$130 million performance bond..*

*It would be funny if it were not so tragic, and it graphically illustrates both the need for a culture of cooperation to overtake the “control” mentality, and the size of the challenge we have facing us.*

Is this enough for the change of mind, which should follow the examples which disprove the theory, of how projects are best carried out? No, for this you need some psychology.

## **PSYCHOLOGY**

*“One inherits a right to enjoy his work”*

W. Edwards Deming

### **Thinking:**

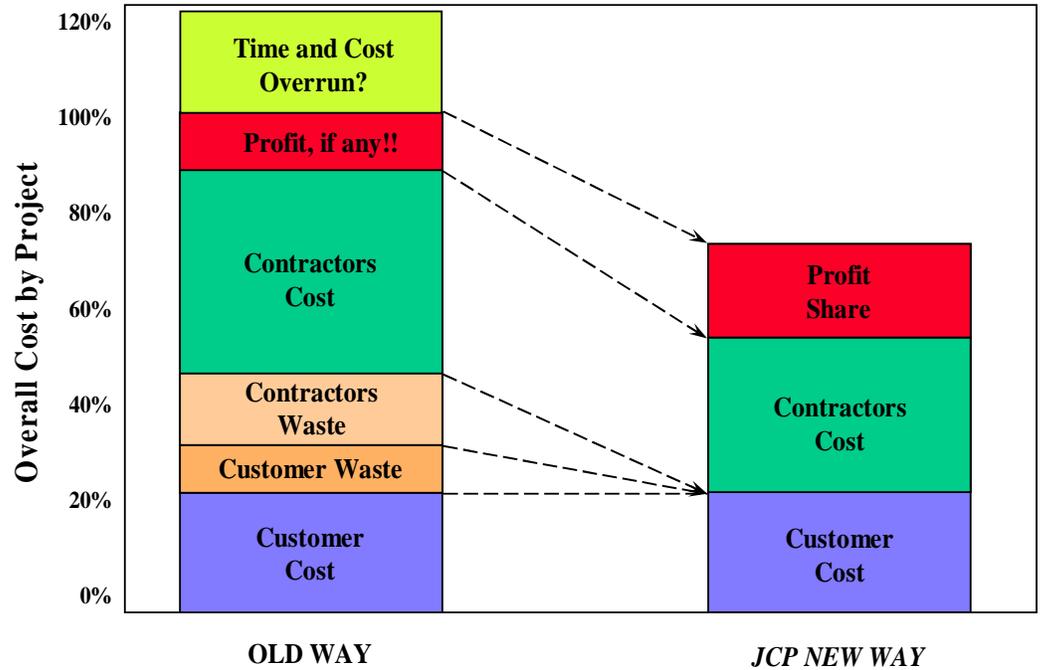
I have found that most leaders need to conceptually ground their new understanding before they begin to even think about changing anything. The trick is to turn percepts into concepts, which can be used to generalise. This allows the leader to see the multiple applications of the concept, and to begin to engage in the process of new understanding. My experience is that, for whatever reason we have a host of lazy thinkers at the top, who tend to like the simplistic – as opposed to the simple, which is not easy.

I encourage thinking by giving them a model, which we can test together. Here is a typical example (Figures 1a and 1b, below), which is all the more persuasive because the first is generated by research, and both diagrams question some of the assumptions around extrinsic motivation.

Figure 1a

### JCP EXTRACTIVE and CONSTRUCTION INDUSTRY WASTE REDUCTION MODEL

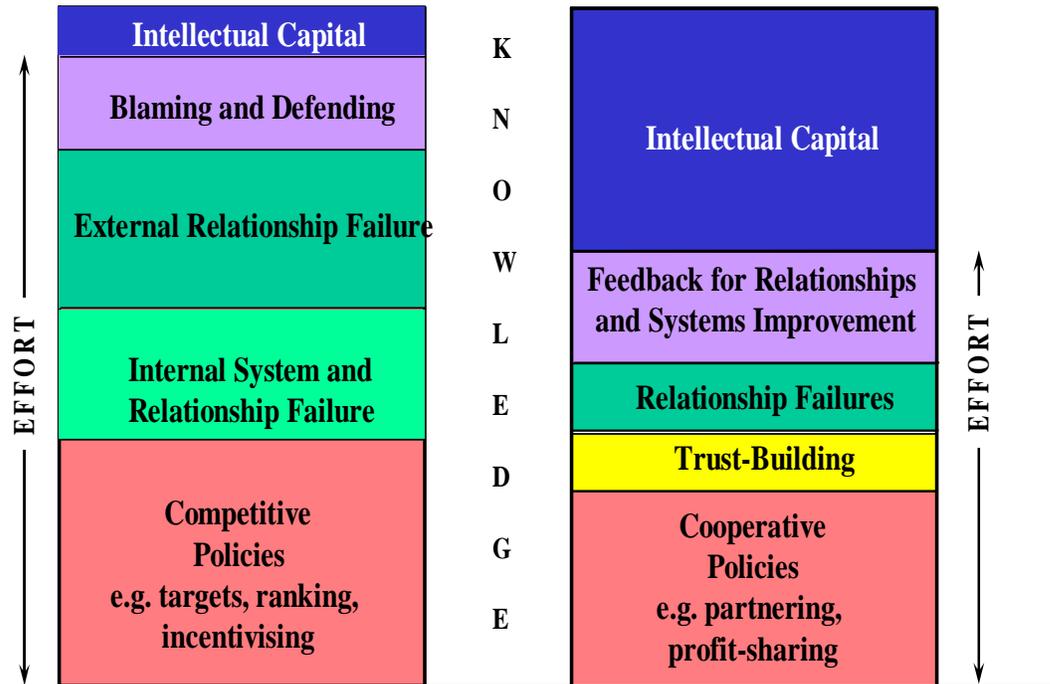
Applied research based on 900 projects with over 200 companies.



 Win/lose Negotiations, e.g. “buying the business”, tenders, poor planning leading to, e.g., late on site, variations, claims etc.

Figure 1b

**THE COST OF NON-COOPERATION  
(TURNING KNOWLEDGE INTO INTELLECTUAL CAPITAL)**



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**Theory:** Intellectual Capital is a product of Relationship Capital. This is something that is not understood by most organisations. Deming said that constant improvement is essential, but unimportant, i.e. the most significant changes are introduced by innovations that transform performance and perceptions. Without a climate of trust and cooperation organisations just do not get the intellectual capital to deliver these ideas, not from their employees, the market, or their supply chains or contractors. This is understood somehow, and leads to the intuitive organisation goals that De Beers has, for example, of “being supplier of choice, employer of choice and customer of choice.”

**Releasing the intellectual capital within the system is probably the most important role of today’s leaders. It comes as a result of joy at work!**

What many executives do not realise is that, for most, it requires a transformation of their entire organisation culture, not least in those in the UK, because of the emphasis on control. A process for doing this will be addressed in the next section.

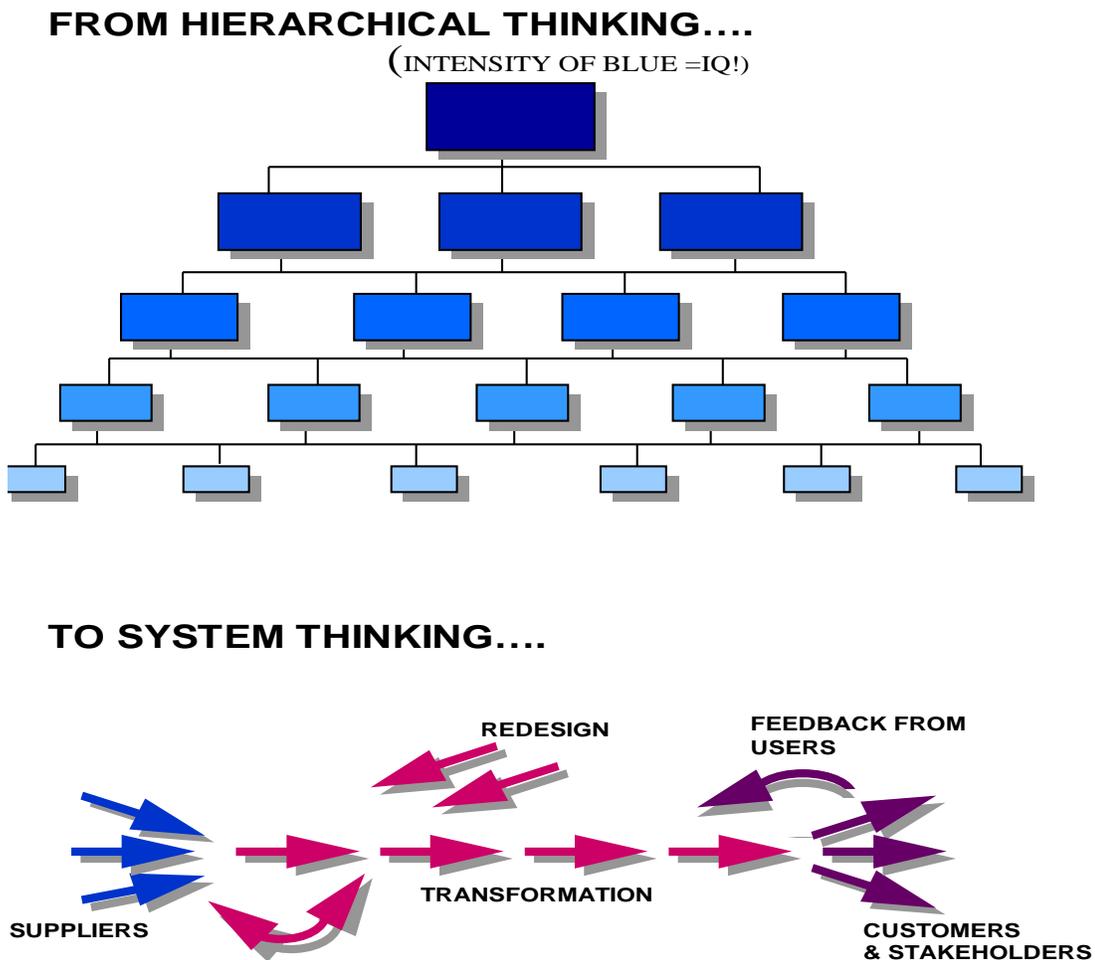
## **SYSTEM THINKING AND CHANGE STRATEGIES**

*"The aim of a system is not a theorem: you don't derive it from axioms and corollaries"*

W. Edwards Deming

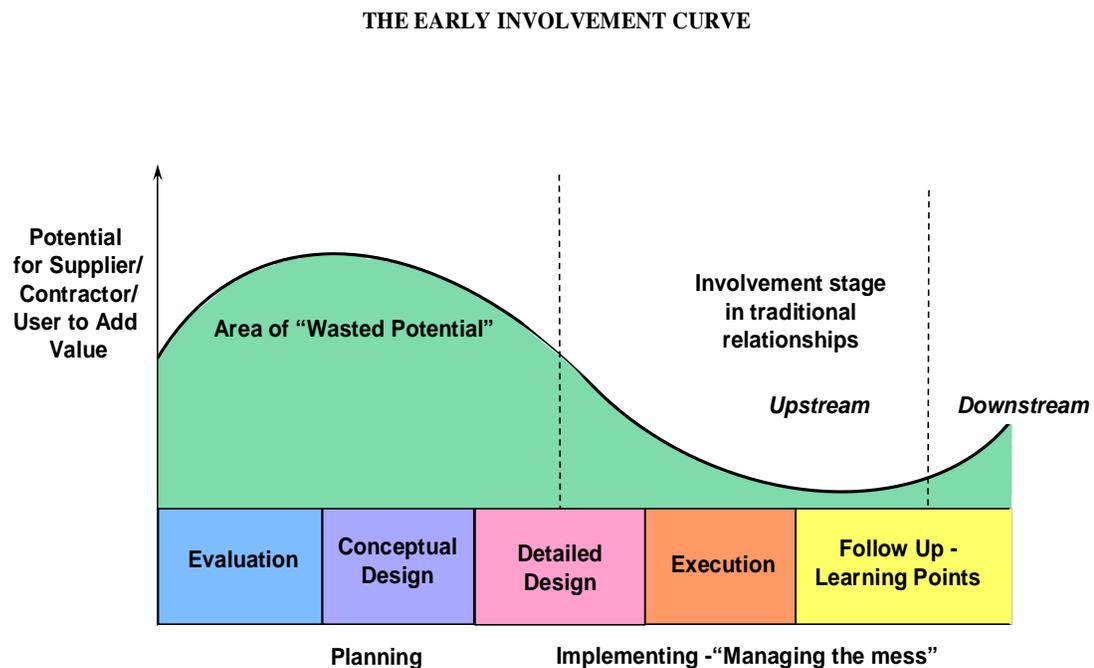
This diagram (Figure 3) by Deming brings nods of understanding from every board room, indicating, for the most part, a less than perfect grasp. Consequently it is better to reverse the two graphics, i.e. discuss the System model first because it links well to Figure 1., and to the examples of successful projects.

**Figure 3**



The system is ideally designed to meet its customers' needs, optimally. The meta-aim of the system is that everyone involved wins, including the environment. The "customer" of a construction project, during the construction phase, is the site itself. Therefore everything is designed to that end, i.e. perfect working on site. As it is the contractors and subcontractors who physically work on the site, they are de facto the customers, as well as being the suppliers of intellectual capital. It stands to reason, therefore, that they should be involved in the thinking about what needs to be done and how, very early on, as Figure 4 indicates.

**Figure 4**



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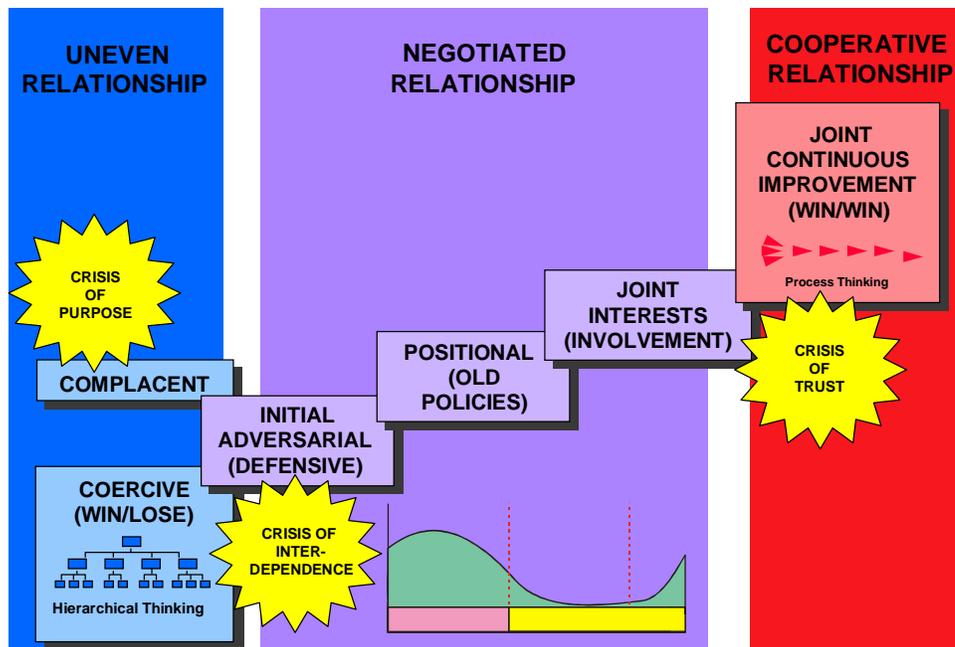
Given that this early involvement is now a no-brainer, the question to the leaders is: "Does your procurement process **guarantee** the early involvement of your contractors, AND key suppliers? If it does not (and 80% of the time it does not), and if the contract is punitive, then what are the assumptions the organisation has about them? Are they untrustworthy, greedy and not very competent? In which case why were they selected? For those of you who can still remember the remarkable Fred Herzberg's work, you will recall the original research was conducted with engineers and accountants – who are by and large the designers of project contracts - and that the assumptions about the needs of subordinates were always more about hygiene than those that the managers had about themselves, i.e. motivators.

The question is, why does it suit the client company to not involve the contractors early? Because this is how they see themselves as better, as staying on top and retaining control – not because it is more efficient. Until the leaders of today’s companies accept the extent to which they feel the need to control their people and their supply chains, through incentives, paternalistic behaviour, as well as the more direct confrontational acts, and until they accept, in their gut, the utter waste this causes, to use Taguchi’s words, to the whole of society, they will not take any change towards cooperation seriously. This is our task. This is the mantle Deming wished us to don.

The Journey

Throughout this paper you will note that the role of the consultant changes. We started off as facilitators, then became experts as well, then became educators, and now we need to become *navigators*. We are taking our clients on a journey of transformation where they are changing their organisation by changing themselves. They need to see what the journey looks like: not a map of the territory, but a plan of campaign. I call it the Relationship Journey, and it is an archetype. It first appeared in my book and in the paper I delivered to the Deming Conference in 1990, *Cooperation Works*, and has underpinned all my work for the last 20 years.

**Figure 5**



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This paper has addressed the Crisis of Purpose by challenging the assumptions leader have (Theory of Knowledge), the Crisis of Interdependence by introducing the economic rationale for cooperation, and now it just remains to address the Crisis of Trust. This means changing the hearts and minds of the leadership, because to trust means to let go, to be vulnerable: in a way, to love.

The last “theory” to make explicit, therefore, is what their picture is of a human being, and what I hope to draw out in this process is the acceptance of two qualities. One: people are developing all their lives, and, two, this development process is one of

body, mind and spirit. The leaders' task is to align these, and the device of alignment is that of demonstrating trust.

In every example of the successful projects I listed there was a distinct increase in the level of trust by the client in the contractor, usually by early involvement in the planning process followed by keeping agreements. This resolved, in the first case, much of the chronic waste – up to 30% of the project cost – and then released tremendous intellectual capital, which added great value to final product. This is particularly the case in Welsh Water; less so in the MTRC in Hong Kong and the Johannesburg Stock Exchange, where the most senior executives simply could not understand the need to be open all the time and to restrain from threats. Consequently all the really great work was done by the key project and site managers, who managed to build a barrier around the relationship by their own personal integrity. But it was a strain, a great and unfair strain, given the huge benefits to the companies. And, of course, there was no real leadership growth at the top.

**Thinking Competence and Behavioural Competence:**

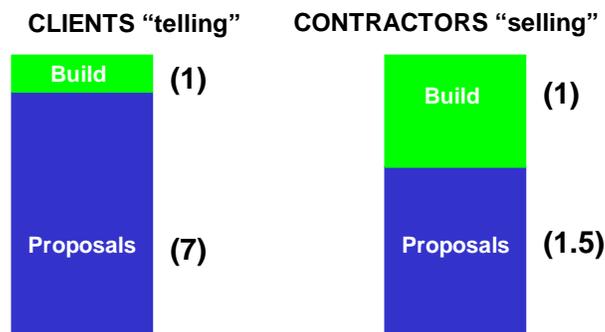
So, how to help leaders let go? First, by completing the System of Profound Knowledge, i.e. introducing variation thinking. You will note how much John Seddon relies on control charts to make his case with his clients in the remarkable work he does. Leaders need to know that they do not know – especially the bright ones. Control charts do this and my experience is that when they become interested and really want to understand the variation issue, then they are actually beginning to accept the intellectual rationale for letting go. It also means they can be helpful in the review meetings all projects have.

The second way of helping them is by making them more competent, behaviourally. Leaders need feedback and “adjustment”. The PDCA cycle works very well at the behavioural level, and, like John Seddon, my first intervention is at the check level. Here is a simple example, for meetings. It is always a shock for the clients to discover how competent they are at “telling”, as Figure 6 (below) demonstrates.

**Figure 6**

**COOPERATION: AN ORGANISATIONAL COMPETENCE II**

**RATIO OF PROPOSALS TO BUILDING BEHAVIOUR**



Additionally, I am now discovering in countries like South Africa, for instance, the lack of competence in negotiating, which is a fundamentally important skill. In fact, it is the bridging skill from hierarchical to integrative leadership, as the Relationship Journey illustrates (Figure 5). Knowing how to negotiate, and how to help lead negotiating teams, is probably the most important skill cluster for any leader of organisations today, and not because it allows you to manipulate or bargain better; but simply, it gives you the confidence to know that, no matter how open and trusting you are, you will not be walked over. Knowing that they can still be in control, without controlling others, is the launching platform for transforming leaders' style from command and control to one which gives and receives respect and heightened performance from everyone in the system.

**Finally:** This paper began by emphasising the negative influence the larger society has on people in business because of its increasing blame culture and dependency syndrome. It was said how difficult the change process is under these circumstance, as the forces of regression are so powerful. Yes, and there lies our greatest opportunity. If we succeed in creating a leadership at work that does release the human spirit, and does enhance the whole economy in so doing, then we will begin to change society as a whole. Our aim should not be just to make organisations more effective. We are here, as Deming was, to change the world. It is the challenge of a lifetime.

JOHN CARLISLE, MAY 26, 2004