

THE SHAPE OF THINGS TO COME:

BEYOND PARTNERING AND ALLIANCING - THE CULTURE OF COOPERATION

Professor John Carlisle, President, JCP.

John Carlisle and his company in Sheffield have been pioneers in the field of organisational cooperation for nearly twenty years, beginning with win-win negotiations in the Petrochemical and Electronics industries in the early eighties, and currently working with strategic alliances and partnering world-wide. He advises on relationship development in major projects in Hong Kong and South Africa, as well as in the UK, where BNFL is his client.

LEADERSHIP

Towards the end of his long life Dr W. Edwards Deming realised that he had drastically under-estimated the power of the competitive paradigm that pervaded leadership thinking in the eighties. Hence the publication of his Leaders Guide: *Profound Knowledge*, shortly before he died, which was basically a desperate last fling at genuinely implementing continuous improvement in Western organisations.

Cooperation is one key principle in this guide, ie. **Partnering**.

The other is **System**, or holistic thinking. The two are inseparable.

The West's Car Manufacturing industry, as exemplified by Chrysler, was the first sector to attempt to follow the two principles, followed by the Oil industry to some extent. Trailing a long way back, is construction; both contractors and suppliers. Because many construction firms are employed in the oil sector this lagging behind has real implications for the offshore industry. Therefore it is worth reflecting on the recent history of construction.

 The construction industry and its suppliers currently employ 15% of the workforce in Britain; including many who have limited employment skills.

 The construction industry alone accounts for more than 50% of fixed capital investment in the UK

In addition, and this is a subjective comment, the wealth of engineering and construction talent employed in this industry, from constructing oil platforms to building roads, is enormous. It remains one of the great assets of this country; but, it has been tearing itself apart for nearly twenty years. For example, less than 80% of projects are finished to time or budget. Therefore, in 1995, it was estimated that in a typical year there were over a thousand writs issued, claims of £500,000,000 - of which 80% are settled out of court. In addition there is a current trade deficit of £1.8 billion in the import of construction materials and components alone.

As a result, when my company, JCP, was invited by the Reading Construction Forum to transfer our learning about implementing cooperation from the offshore industry to the construction industry we were horrified at what we saw. The clients must take as much responsibility, if not more responsibility for this state of affairs as anyone else - including the oil operators. Consequently in the last two years alone we have worked really hard trying to make cooperation productive, working with about ten thousand people in over eighty projects all over the world, with a combined value of over £8 billion.

THE NEED FOR CHANGE

In the last twenty years the industry has developed a conflict-ridden culture revolving around competitive tendering (aided and abetted by the last Conservative government) and adversarial working relationships up and down the supply chain.

The result has been catastrophic. There has been an average of a 30% over-run on public works, hundreds of firms have closed, and half a million jobs lost in the five years up to 1996. It has also, more importantly, de-skilled its potential labour force, made it itinerant, and abandoned apprentice and other training schemes. Investors have seen construction projects as a bad risk; exemplified by the Channel Tunnel behavioural and programme problems. The following diagram illustrates the problem.

1996	Average Profit Margin	Cost of Conflict	Proportion of GDP
U.K.	1%	7%	6%
Japan	7%	1%	20%

Britain spent one third of what Japan did on an employment generating industry and in so doing dissatisfied the majority of the customers!

REASONS

One of the key issues was this preoccupation with competition based on price, and the vast and costly infrastructure built around setting and meeting competitive tender bids - and dealing with the consequential claims conflicts. This preoccupation with competition was so intense that the industry largely missed major new developments in organisational thinking, coming from the East and from manufacturing in particular. To give an example of the lack of awareness in the philosophy of continuous improvement: at a Civil Engineering conference I attended in 1996 only four of the 118 delegates had even heard of Deming, and none of the students there knew about the concept of Total Quality.

The construction industry as a whole, busy with its internecine wars, had not picked up on the need for continuous process improvement or the need for cooperation, and so the companies drove themselves relentlessly down until they were no longer competitive as world players; or even the industry as an industrial sector in the UK.

Here are some European comparisons:

1. Engineering services time lost, in comparable projects:
Sweden 20%
Germany 32%
Britain 40%

These are all bad results; but Britain is the worst.

2. Range between best productivity and the average: Sweden/Germany 25%
Britain 43%

Richard Lawson, of Bovis Construction Ltd., the author of this research, recommended that in Britain if they could bring the average up to the best practice by paying attention to organisational, motivational and technological factors they would save over 60% in Engineering projects! Not the least of these factors is a greater level of cooperation.

By adopting the ideology of competition we have become less competitive. Sir John Egan, when at BAA, saw this quite clearly in construction, where he estimated three years ago that USA companies could do the work at 65% of the cost of British companies. **This is the Contractor and Supply base the Clients have helped to create!** Someone in the industry needed to do some fresh thinking.

We have seen from the papers presented that there is some fresh thinking; but there is also more of the same dressed up as fresh thinking, i.e. old answers to new questions. The shape of things to come can only present itself as new questions, unique challenges which defy the old answers emerging from the old paradigms. I will attempt to address these.

GLOBALISATION

The biggest challenge that major corporations have to face today is to conduct their businesses within a global perspective. This presents demanding organisational and ethical leadership challenges.

Organisational Challenges

Unless leaders are thinking in a holistic way they are not going to see all the implications of the decisions they are taking (or avoiding).

However, even if they do try to cover all their bets, they may still have to cope with some unforeseen repercussions emanating from across the globe. For example, a young banker in Singapore, acting out his fantasy about the Japanese financial futures, brought down a stately British Bank because of a lack of management controls. The Green Party's success in the German elections caused panic in the world-wide nuclear industry. The Asian slump has radically affected manufacturing in Europe. And the oil price collapse has caused mayhem in the operators' supply chains. (One major service provider to the operators cut their global workforce by a third within a month in 1999 just before the oil price shot up again.)

Finally, just to add to all the confusion, instant arbitrage activities take the money supply into a dizzy orbit, bearing little relationship to the performance of industry. These are the phenomena of the so-called *Chaos Theory*, which is now becoming very real today in the world of work. No wonder there is a spate of mergers and acquisitions (increasing at an average rate of nearly 50% per annum since 1992), as corporations try to develop economies of scale and the flexibility to have some control in this uncertain world. This solution often merely adds to the problem, particularly if the corporate cultures are not compatible, which is why there is an 80% failure rate.

The first victims of these amalgamations are the employees: the second is the supply chain the two key factors behind safe, high quality work.

The contractor industry itself is both initiator and victim of these endless re-organisations.

Ethical Challenges

The People

The waves of uncertainty discussed above are the forerunners of real anxiety in the people who are employed in the industry, many of whom, quite rightly, expected to have jobs for life. It may be clever to trot out airy phrases about "the need to live with uncertainty", "the only certainty is change" etc.; but it certainly is not compassionate, and in the end it may not be so clever after all. The only real business capital is intellectual capital, and putting a verbal gloss on the human cost of setting up organisational laagers is not just morally wrong, it is also wasteful, and has already damaged many companies. This is another, overlooked, version of the flight of capital!

The Countries

Global activity has a very bad press, particularly in the developing world, and it is time we faced our real responsibilities there. Let us examine this word, *capital*, again.

✍ *Natural Capital*, depleted by strip mining forests and mineral deposits, e.g. The Benguet Mining Company in the Philippines which has stripped away trees and topsoil, dumped piles of rock into local rivers, and allowed the cyanide from the gold separation process to flush into rivers. Crops now fail, cattle and fish die and the livelihoods of thousands of local inhabitants are destroyed.

Add to that examples of Shell in Nigeria, Texaco in Ecuador, Exxon in Alaska and a growing picture of global irresponsibility emerges.

✍ *Social Capital*, depleted by breaking up unions, bidding down wages, exploiting but not developing local labour, uprooting communities to optimally locate plant and equipment - and then leaving it to society to pick up the pieces. South Africa, South America, and India provide classic examples, as did Iraq and Iran who were victims in "The Great Game" a century ago when world powers struggled for control of oil in Central Asia. Globalisation is not a new phenomenon; but it is one which is historically very closely associated with the oil and gas industry.

✍ *Financial Capital*, as it takes flight overnight, creates instant national crises, as evinced by Thailand and Mexico.

If globalisation is real then it is a given that we, here in this room, will be directly affected by these activities, just as we are receiving refugees from Kosovo and drugs from Burma via Russia. What comes round goes round, in spades, and very quickly!

WHAT IS TO BE DONE?

1. Change the way we think about the work we do. The impact of the companies in this room is enormous in Britain and the world. Do not underestimate it.

Understand the meaning of Hierarchical or Fragmented thinking, as Deming illustrated it nearly fifty years ago, and change it through undertaking the Relationship Journey (Figure 1). Accept that an overbearing desire for control can completely wreck your judgement about how best to do things, and that utter subservience to shareholder views can cause catastrophic effects to suppliers and communities. If you look at some of the really stupid things some of the merchant bankers and financiers have backed in the past twenty years I wonder why we pay any attention to their judgement at all at times.

The remarkable work some of the oil companies have done through greater cooperation, e.g. Andrews, Shearwater, Wandoo B, and, way back in 1981, the Fife Ethylene plant at Mossmorran, would be beyond the ken of these beancounters.

2. Replace the Hierarchical Paradigm with the System Paradigm, and recognise that by doing this cooperation is a given, and that partnerships need to be forged right down the line to the smallest sub-contractor and the community. This is not new: it is the way the Fife Ethylene Plant was built at Mossmorran nearly twenty years ago: ten percent under budget, ahead of schedule, and with complete buy-in by the local community. There are other examples in the industry of this type of genuinely inclusive behaviour; but they have not been given the recognition they deserved by the leadership of the industry.

In South Africa, the contractor, Gibb Africa, constructs water projects all over the Eastern Cape - a socially explosive area with a highly politicised population. They start by consulting the community very carefully about their needs, hopes and fears, and by working with the influential groups (usually women). They then get the plans agreed and ask for people who would like to supervise, for example, the digging of pipe trenches. The volunteers are vetted, selected as subcontractors, and then trained in basic supervisory skills, including bookkeeping, inventory management and planning. This is done wherever possible.

The outcome is not just a dam or a well supply; but a committed and informed community (with positive implications for maintenance), and a more skilled labour force. There is therefore added value all down the line, and I might add, a real sense of enjoyment on the job and satisfaction at the outcome.

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3. Think Global, Act Local. Keep the whole system in mind when planning; but at every opportunity act with the kind of consciousness that takes into account the local cultures - corporate and community. Again find every opportunity for getting the cooperation of your "partners", by really understanding their needs and taking an interest in their lives.

The Shearwater Project is doing an excellent job of this, and is the best that Shell has done so far. The loyalty to the project is enormous by the contractors and the drillers, and the performance so far is outstanding. But what I found most moving has been the community initiatives like, for example, the art work produced by the pupils from schools in North Tyneside and Hartlepool where the platforms are being constructed (Figure Two).

These children have been around fabrication yards, and because of the way they were treated and the insights to the work of the industry, they now have a deeper understanding of, and a support for, the world of manufacturing. This is the equivalent of the South African example - the building of social capital in favour of the offshore work. A painting called "COEXISTENCE" says it all. Shearwater has succeeded in breaking the mould.

(For a moment reflect on the hundreds of millions spent on the corporate ambulance chasers like Bell and Burson-Marsteller to clean up the images of companies who have caused environmental or community damage. Think of what a tenth of this could do if invested in the kind of prevention activities in the examples above.)

3. Bring Moral Imagination into the work we do. Allow yourself the luxury of thinking of the whole human community when making your judgements. This planet is a masterpiece of co-existence, of system thinking and cooperation. We have just forgotten that. It is time to "re-member" it, body, soul and spirit.

REPRISE

The emphasis in the paper has been on the extent of the journey needed to undo the damage done to our supply system and our community in the last twenty years in particular. It is also on what will happen if we go on just "improving" what we have been doing. There has been no mention of cost reduction per se. That is because the best form of cost reduction is waste prevention. The entire thrust of the paper has been that by system thinking (global consciousness) and cooperation (being human) we can achieve unheard of efficiencies and also make this a better economic society. That should be the shape of things to come. It should be in our hearts. It **is** in our hands!

John Carlisle

May 19th, 1999.

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