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WHITE PAPER

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2. The Case for Collaborative Leadership

Why Collaborative Leadership is so Important

Version 1.3

Purpose

There are three “basic” leadership styles: *adversarial*, *transactional*, and *collaborative*. This paper addresses the following issues:

- Why Collaborative Leadership is so Important in today’s World
- Contrasting Collaborative Leadership to Adversarial and Transactional Leadership
- Case Study: The MegaProject – impact of the three leadership approaches on the key outcome factors: On-Time & On-Budget

The Case for Collaborative Leadership

Contents

The Case for Collaborative Leadership	3
The New Era of Change, Speed, & Complexity	3
Three Basic Forms of Leadership & Interrelationships	3
The Collaborative Leadership Advantage	5
The Difficulty with Command & Control in a Fast World.....	6
Innovation Comes of Age.....	6
What is Culture?.....	6
The Impact of Collaborative Leadership in a Complex World	7
Magnitude of a Typical MegaProject	7
Increases in Productivity	9

The Power of Collaborative Leadership

The Case for Collaborative Leadership

The business world is changing at a bewildering pace. In no other period in the history of human events have we encountered so much change so fast, with the exception of wartime.

What kind of leadership will be most likely to succeed under these volatile conditions?

What is the nature of the challenge leaders face today and into the future?

The New Era of Change, Speed, & Complexity

Change, speed, and complexity are the by-words of our age. In workshops conducted over the last twenty years, our team has asked over fifteen thousand senior executives all over the U.S. Canada, and Europe to graphically express the impact was of the rate of change/speed/complexity since 1970.

Amazingly, for well over 90 %¹ of the executive responses, the curve looks thus:² (see Figure 2: Acceleration Curve in a Rapidly Changing World). The implications of this phenomenon, from a predictable, slow-time world to an integrated fast-time world are massive. It affects every aspect of management. I have other material to help the senior exec manage this shift.

This astounding concurrence represents the dazzling shift that has rocked the very foundations of organizational thinking. But with this shift, executives have been caught flat-footed.

In the first half of this era (1970-1990), the business world was slower moving, a period of relative predictable change, characterized by five and ten year strategic plans and three year sales forecasts. Organizations were stood as independent entities that *transacted* business independently, alone and predominantly hierarchically. The rules of management in this era had been developed from years of experience, handed down through generations of tradition and the esteemed learning from our business schools. The *transactional* nature of business (which had been the principle form of commerce for millennia), set the stage for a predominantly *transactional* leadership style that pervaded the core of many business relations for centuries. The culture of many companies reflected the *transactional* leadership style, and this became the accepted expectation about business.

Counterbalancing the *transactional* approach on the one hand is a *collaborative* style hallmarked by teamwork and trust, and on the other hand an *adversarial* style characterized by a “survival of the fittest” mentality. (see Table 1: Three Basic Styles of Culture & Leadership).

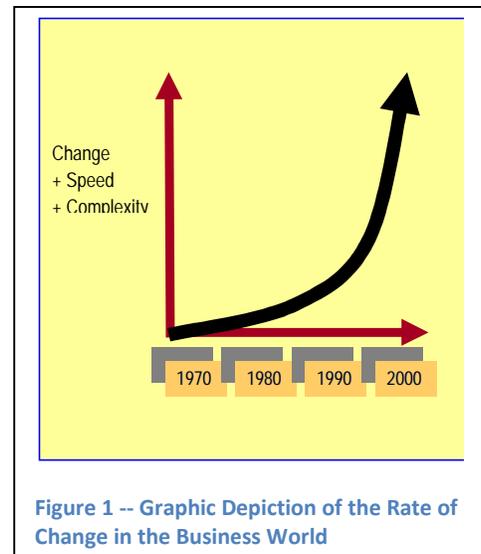
Three Basic Forms of Leadership & Interrelationships

In the most basic analysis, human beings can inter-relate with each other in three fundamental ways:



- **Collaborative** – friendly, open, trusting, engaging, creative, participatory, caring.
- **Transactional** – hierarchical, cautionary, wary, protective, distant, judgmental, contractual.
- **Adversarial** – antagonistic, adversarial, combative, distrustful, threatening, disrespectful.

In Table 1 (below) we outline some of the core believes, values, strategies, and interactions for each.



The Case for Collaborative Leadership

Table 1: Three Basic Styles of Culture & Leadership

	Adversarial	Transactional	Collaborative
Key Beliefs	Business is a "Psychological War Game;" Winning comes from Power	Trading, Bargaining, & Differential Views on Value Produces Economic Exchange	Extreme Value is Generated when people work in teams to Push the Envelope on Performance
Behaviors	Argumentative, Money Rules, Use Age, Experience, Position or Budget to get your way, "dog eat dog"	Squeezing & Positioning enables you to get the best result in Negotiations, throw a bone to sweeten the deal	Co-Creative, Teamwork, Trustworthiness, Highly Ethical & Honest; Maximize what's in the best interests of the whole
Rules of the Game	Pressure others; Winning is a result of Cunning & Craftiness; Hype your importance; Protect your backside; Don't Trust Others or you will get screwed; Everything is Win – Lose	Take advantage of every opportunity, Exploit weaknesses; Timing is critical; Perception is everything; Trust but verify; Use lawyers to ensure protection; Everything is in the "deal"	Create value & competitive advantage by using Teamwork (internally) & Alliances (externally). Close integration between operating units, suppliers & Close attention to customers/client; Strive for Win-Win
View about Risk Management and Creating "Synergy"	Synergy is an impossible dream, (don't even think about it.). Manage Risk with tough contracts & tougher legal team empowered to litigate. Squeeze your vendors, manipulate your customers.	Synergy is derived from High Efficiency. Competitive Advantage & Profit comes from low cost of production. Risk Management, insurance, and shedding risk will limit losses.	Synergy is a result of high levels of trust, teamwork, and alignment of goals & values. Use high trust & teamwork to reduce risk. Work together to eliminate non-value added work. The biggest risk is failure to adapt & innovate to emerging risks and opportunities
Value Proposition	Minimum Required to Close a Sale; Squeeze vendors in supply chain; Buy Low, Sell High	Competitive Price, Acceptable Quality; transact through supply chains	Performance Excellence thru Value-Networks, Good Price, Speed, and Innovation
Framework for Negotiations	Winning is essential for me; I get more if I push, squeeze, and threaten to ensure I leave nothing on the table. I'm stronger if you're weak	What happens to you is your business. Long term relationships are only the product of me getting what I need/want. Switch suppliers to get best deal.	A Win/Win is essential to create productive long-term relationships to mutually thrive. Use our different needs & perspectives as the source of collaborative innovation.
Competitive Advantage	Gained from Size & Money	Gained from Proprietary Information & Bargaining	Gained from Value Co-Creation Teamwork and Sharing
Information Sharing	Horde Information – It is power – others can't be trusted to hold it	Limit sharing of information, consolidate information at the center of power.	The more information people have in the field, the better they can decentralize decision-making and innovate quickly.
Trust Level	Distrust , Deception, Aggression, & Manipulation Prevalent	Caveat Emptor (buyer beware)Trust is elusive and unsustainable	Trust is essential to generating a continuous stream of new value

The Power of Collaborative Leadership

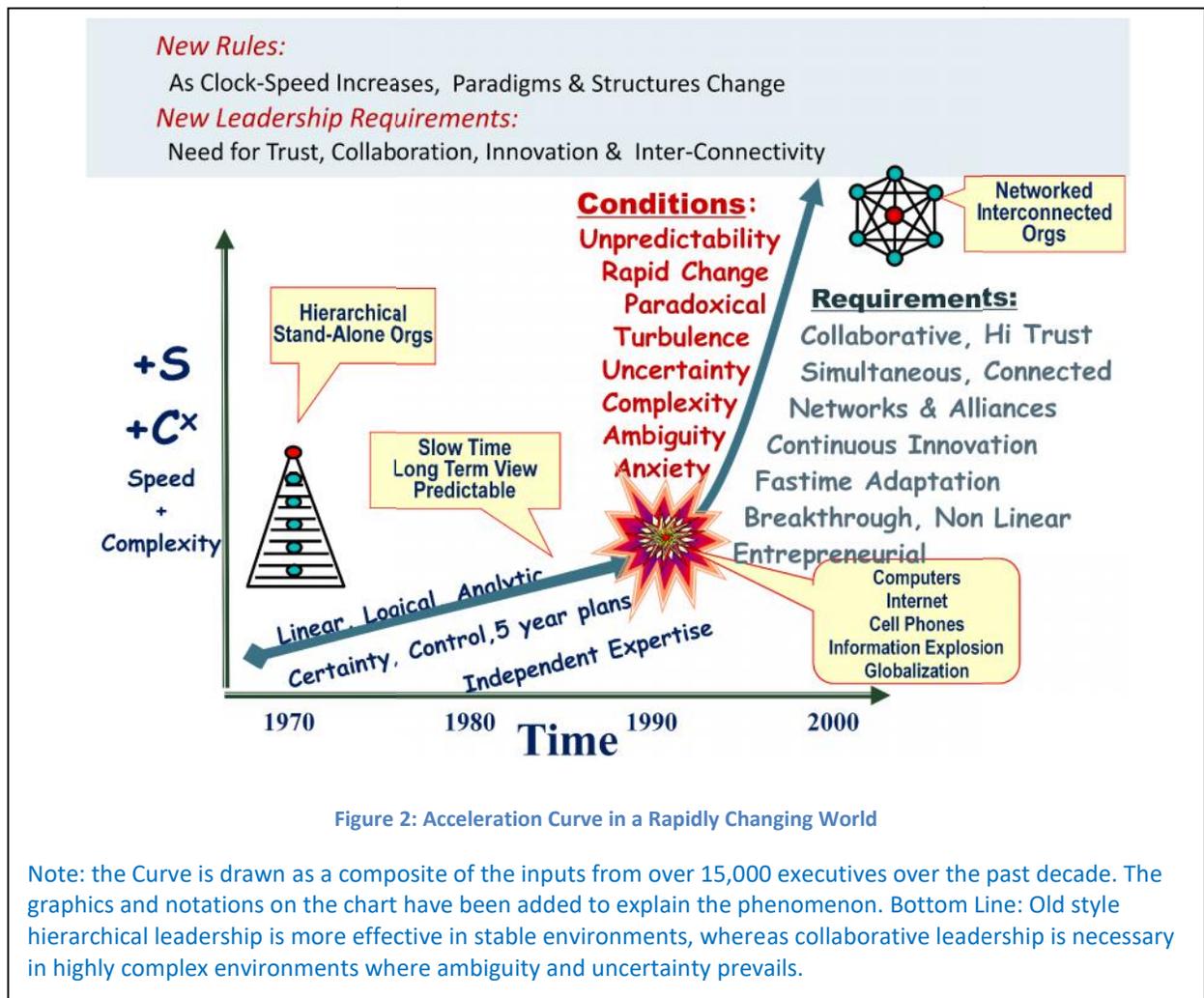
Seldom are the lines delineated as clearly as defined above – many organizations will demonstrate a broad mixture of pockets of all three. Similarly, leaders may create a muddled style of leadership, mixing and matching a wide variety of often contradictory beliefs, methods, rewards and measures.

The Collaborative Leadership Advantage

For decades, there was intense debate about which leadership approach was most effective, with vocal advocates for each school of thought. Each of these cultural “archetypes” has appropriate applications which, if properly used, produce desirable results.

For example, an adversarial system may work well in a prison, but be a disaster in a family. Similarly a transactional system may be perfect for an internet auction, but fail miserably applied to a sports team. And the collaborative system may produce great communities but falter by being too complex when filling up your car for a tank of gasoline.

The stalemate in the debate has been broken. Fired by the forces of change that occurred in the mid-late 1990s, what was once a somewhat predictable world almost instantaneously suffered a tectonic shift, becoming fast, discontinuous, and unpredictable. (see Figure 2)



The Case for Collaborative Leadership

For example, with the magnitude of change and uncertainty, many long term strategic plans have had their time horizons shortened (or even suspended), sales forecasts have been scaled into shorter horizons, and alliances have burgeoned to enable adaptation to the shift. This is expected to continue throughout the century, with little abatement.

In the world prior to cell phones and internet connectivity, business tended to be far more isolated, stand-alone, and capable of determining their own fate. *Transactional* leadership imposed “command and control” authority over mini-empires where the CEO was king.

The Difficulty with Command & Control in a Fast World

But in the new world, with the advent of globalization, computers, and the internet, things began to shift dramatically. Command and control unraveled. With less predictability came stiffer pressures and penalties from Wall Street. Now everything happens significantly faster than just one or two generations ago.

The system of Command and Control, which is inherently hierarchical and thus transactional, suffers immensely when speed and rapid adaptation is required.

And as the world of commerce has become increasingly complex and changing, it has brought with it much higher levels of ambiguity and uncertainty; conditions which demand a *shift in leadership styles and organizational structures*. The *transactional* leadership styles and structures of a past world collapse under the stress of greater needs for integration, innovation and rapid adaptation, and inter-connected decision-making.

Old stalwart bricks and mortar companies are quickly being displaced by highly adaptable rivals like Apple, Microsoft, and Amazon. For the old guard, stock values became volatile, and new companies exploded and often imploded (recall the “dot com bomb” of 2000). Downsizing, rightsizing, and outsourcing, coupled with cutbacks in R&D were made to boost shareholder’s bottom line demands. Criticism was leveled that companies had “hollowed out their core.”

Innovation Comes of Age

In the face of this massive shift in speed, complexity, and change, the need for innovation becomes essential for business survivability. Out of our survey groups, the overwhelming majority concurred that *“In a fast moving, rapidly changing world, the most sustainable competitive advantage is innovation.”*

What is Culture?

While invisible, culture is like radio waves, pervasive and everywhere. Culture tells people what is expected of them, what is valued by leaders, what beliefs they should hold, how people should interact, what they should achieve and protect, how they will be rewarded or punished, and what is important. Culture, more than any other factor (such as personality) will determine human behavior.

Business as usual is a thing of the past.

In today’s complex networked and rapidly changing world, the most effective way to create competitive advantage is through a collaborative approach to business and leadership.

The Power of Collaborative Leadership

Collaborative leaders understand the need for rapid adaption, and call upon their employees, their suppliers, their alliance partners, and their customers to engage in a wide variety of forms of innovation to maintain competitive advantage.

The Impact of Collaborative Leadership in a Complex World

Does collaborative leadership actually produce a substantial competitive advantage? This is one of the most compelling leadership questions of our era.

To compare the impact of *adversarial*, *transactional*, and *collaborative* leadership styles and cultures on complex systems, the author, along with colleague George Jergeas^a analyzed the three approaches on the construction of multi-billion dollar Megaprojects in the Oil and Gas and Transportation industries in Canada. Professor Jergeas had intimate knowledge of ninety large scale construction projects. The standard of success was simple: the ability to deliver the project on-time and on-budget.

A complex MegaProject has a massive set of factors and interfaces that must be carefully managed and synchronized, as described in Figure 3: Typical Magnitude & Complexity of a Megaproject.

Which of the three approaches – *adversarial*, *transaction*, *collaborative* -- was most effective?

The answer is very revealing. There was overwhelming evidence that the neither the *adversarial* nor the *transactional* leadership delivery styles had a positive impact on the outcomes as evidenced in Table 2: Leadership Style/Culture's Impact on Delivery.

In fact, the *adversarial* and *transactional* leadership systems not only underperformed, but consistently produced 50-100% over-time, over-budget conditions – highly expensive while eroding ROI (Return On Investment).

Only the *collaborative* approach produced consistent success. Similar results were produced in Australia³ and the United Kingdom. In the United States, projects initiated with a collaborative approach also consistently came in on-time and on-budget, or better.⁴

High levels of complexity require high levels of collaboration and trust in order to have a fluid flow of interactions across a network of complex interfaces.

Magnitude of a Typical MegaProject

A large scale MegaProject provides a very apropos framework for examining complexity. A typical \$2.5 billion project will contain thousands of complex interconnected interfaces, including

- Engineering Effort
 - 3.5 million man-hours
 - 40 - 50,000 design drawings
 - 10 - 20,000 vendor & shop drawings
- Supply Chain Logistics
 - Organize, order, store and retrieve 80,000,000 material items
- Construction Effort
 - 15 million construction hours
 - Labour force of 8,000 workers with a turnover of 200%
 - Supported by 500 - 800 staff personnel
- Management Effort
 - Managing a craft mix of 8,000 workers working in pairs doing at least two different activities per day results in a never ending 80,000 individual jobs in a 10 day shift.
- Operational Requirements
 - Each job requires a combination of the correct, materials, location, access, tools, equipment, scaffold, safety, quality, rigging, consumables, welding, x-ray and many other inputs to allow the worker to get his job done.

Figure 3: Typical Magnitude & Complexity of a Megaproject

^a Senior Professor of Project Management at Schulich School of Engineering at University of Calgary.

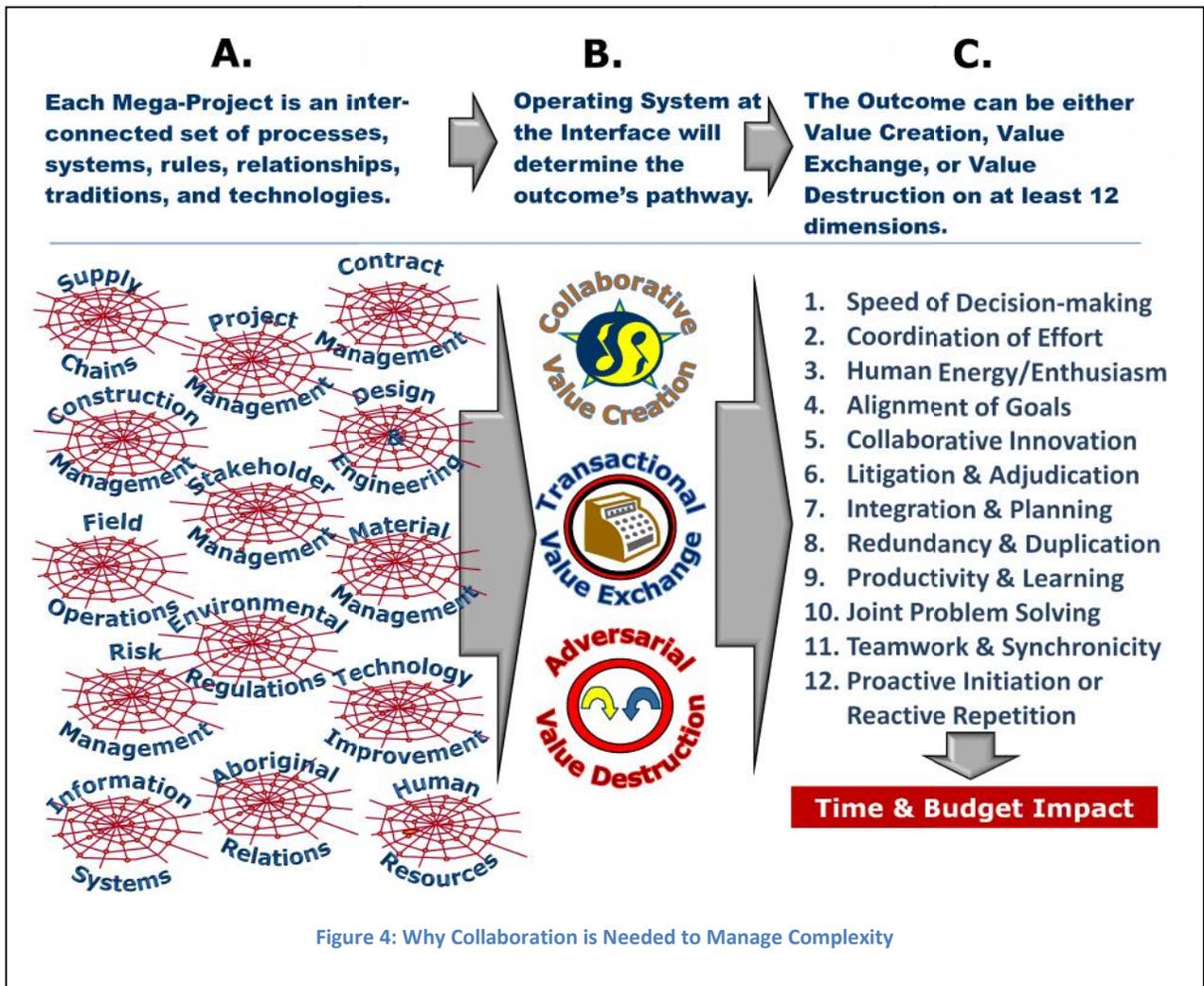
The Case for Collaborative Leadership

Table 2: Leadership Style/Culture's Impact on Delivery of On-Time, On-Budget Performance

Leadership Style/Culture	ADVERSARIAL	TRANSACTIONAL	COLLABORATIVE
% chance of On-Time, On-Budget, On-Target Project Delivery	Under 10%	20-30%	80-100%

Why did the *collaborative* approach have such a significant impact on results?

In Figure 4: Why Collaboration is Needed to Manage Complexity, the nature of a complex system is mapped in Panel A. The MegaProject is an inter-related set of highly inter-dependent networks that must function collaboratively with high levels of synchronicity.



A MegaProject leader has the options of creating either an *adversarial*, *transactional*, or *collaborative* culture (Panel B) in which the networks must function. Additionally the MegaProject, because it exists in a world where there are many uncertainties, ambiguities, and changes (forest fires, supply chain breakdowns, market price fluctuations, acquisitions, and so forth), major adjustments must continually be made to ensure schedules and budgets do not spin out of control. The “culture” serves like the “operating system” – if the operating system is

The Power of Collaborative Leadership

adversarial, all the interactions are filled with aggression, protection, and isolationism, which impacts the 12 factors in Panel C. Similarly, a collaborative operating system will ensure that the interactions are trustworthy, serve mutual benefit, and innovative.

Adversarial leadership introduces immense levels of confusion, self-protection, and rigidity into a complex system that needs just the opposite. *Transactional* leadership, which is inherently hierarchical with one-way communications, does not create the alignment, fluidity, and flow of information and joint problem-solving necessary to manage complexity.

Similar results were obtained when our team developed a complex Supply Chain simulation, which compared *transactional* supply interaction against high-trust integrated *collaborative* buyer-supplier value networks. Over 500 seasoned purchasing managers have gone through the simulation. The results were equally dramatic. Fulfillment rates jumped from 50% to 90-100% when shifting from *transactional* to *collaborative* systems, while costs of running the entire supply chain inventory dropped 50-80%.⁵

Collaborative leaders typically have far more productive, innovative, adaptive, and profitable organizations than their adversarial and transactional counterparts.

Productivity results from people working from many collaborative interactions that enable people solve hundreds of small problems every day – a condition made vastly more difficult in the presence of distrust.

Increases in Productivity

One of the key factors that produce better results in collaborative systems is they are inherently more productive. Consistently studies show adversarial systems result in significantly higher levels of non-value added work, which manifest as labour strikes, siloes that don't communicate across boundaries, slow/poor decision-making, high employee turnover rates, and poor adaptation to change.

Leadership is about people. While "things" can be "managed," "things" cannot be led.

For example, in the airline industry in the 1980's & 90's, CEO Bob Crandall of American Airlines was noted for the worst labour relations in the industry. He referred to his people as "liabilities on the balance sheet," and suffered consistently poor profitability due to work shutdowns. Frank Lorenzo,

a equally combative leader, took Continental Airlines into two successive bankruptcies until its collaborative successor, Gordon Bethune led the company to prosperity.⁶ Southwest Airlines, recognized for its strong *collaborative* culture, consistently outperforms its more *transactional* and *adversarial* competitors.

What all these comparisons of *adversarial/transactional* versus *collaborative* strategies ultimately prove is that high levels of complexity require high levels of collaboration and trust in order to have a fluid flow of interactions across a network of complex interfaces. *Adversarial* and *transactional* systems breakdown under the burdens of complexity and the demands for speed.

The Case for Collaborative Leadership

Creating a collaborative culture aims at trust and teamwork as the central organizing principles.

Endnotes

¹ The only difference among these 90% was the point of inflection where the curve changes direction radically. For those in very rapid change industries, such as high tech, the point was generally between 1986 and 1990. For those in slower changing businesses, such as petro-chemicals the point tended toward 1995-7. The primary reasons for the shift cited by executives were: computers, faxes, globalization, cell phones, then the internet, each compounding upon the other. This curve is a “Baby Boomer” perspective. Ironically, those who entered into the business world after about 2000 draw only the skyrocketing part of the curve – they have no perspective on what the world looked like in the 1960-1980 period.

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³ See AECOM, Australia

⁴ See American Institute of Architects, Integrated Project Delivery

⁵ See Go Productivity, Supply Chain Simulation which resulted in improvements from a baseline of 50% fulfillment to a 95% fulfillment when using *collaborative* systems, while reducing inventories by 60-80%.

⁶ See Bethune, Gordon; From Worst to First; 1995