

1 The Value and Importance of Relationships

Creating value, managing risk, achieving performance in a fast-moving business environment, improving wellbeing, building social capital, developing nations: all these challenges are affected by the health or otherwise of relationships.

Politics could be described as ‘the art of relating’,¹ and is concerned with the nature of the relationships between the individual and the state and between different interest groups, and in enabling those relationships that produce social goods, including health, welfare, education and security. Political leaders who stand at greater or lesser turning points in history – for example Oliver Cromwell, George Washington, William Beveridge, Margaret Thatcher or Nelson Mandela – have changed the pattern of relationships within and between nations in their reforms of constitutions, welfare, industrial relations, or relationships between ethnic groups. Reforms to public services are, fundamentally, about reshaping the relationships between the users and providers (professions and organisations) of services, and the relationships associated with the funding and accountability of those services.

Similarly, business decisions are essentially no more than choices about who to relate to (as customers, suppliers, employers, partners or investors), how to make entering these relationships more desirable, and how to make them more valuable. The processes of accessing resources (whether finance, people, ideas, or things), and producing and supplying goods and services include investing,

¹ Althusius published his *Systematic Analysis of Politics* in 1603 in support of the small city states and self-governing territories of the Holy Roman Empire. The ‘art of relating’ summarises his redefinition of politics as ‘the art of associating men for the purpose of establishing, cultivating and conserving social life among them’. F. S. Carney (ed. and trans.), *The Politics of Johannes Althusius* (London: Eyre & Spottiswoode, 1995), p. 12.

borrowing, buying, selling, recruiting, or serving. These are all about the kinds of relationship between individuals and groups of people that define purpose, and create and distribute value and wealth.

The most important personal decisions are also fundamentally relational. Relationships are a key determinant of our wellbeing. Identity, security, purpose, belonging and happiness are all bound up in the relationships we forge and sustain. Choices about who we live with (or how we relate in the case of given relationships), work with and spend time with shape our lives.

When a relational risk is not seen, banks can go bust. When the relational dynamics of organisations are not understood, value is destroyed. When the relational impact of policy is not considered, social costs increase. Relationships are inherent in much of what we are about as human beings and as leaders of organisations and communities, but we don't always see things in these terms. Therefore, we begin by reviewing some diverse perspectives on the importance of relationships.

Relationships are a Fundamental Reality

Relationships, though, are not just about functional outcomes. They also describe the fundamental reality of existence. Margaret Wheatley, author of *Leadership and the New Science*,² argues that relationships exist at every scale in the way the universe works. At quantum level, what appear to be the most fundamental particles only exist, and are only visible, in relation to other particles: 'Everything in the Universe is composed of these "bundles of potentiality" that only manifest their potential in relationship.'³

There has been a long tradition of seeking a richer account of persons-in-relation in politics, as a way between the polarities of capitalism and communism – hence the comment of J. H. Oldham: 'There is no such thing as the isolated individual. Reality is the lived relation.'⁴ But this tradition has been masked to a great extent by the dominance of individualism in western culture. Descartes' aphorism 'I think therefore I am' is perhaps the best-known statement

² M. J. Wheatley, *Leadership and the New Science: Discovering Order in a Chaotic World*, 3rd edition (San Francisco, CA: Berrett-Koehler Publishers, 2006).

³ M. J. Wheatley, 'Relationships: the basic building blocks of life', 2006, www.margaretwheatley.com/articles/relationships.html, accessed 15 October 2013.

⁴ J. H. Oldham, *Real Life Is Meeting* (London: Sheldon Press, 1942), p. 31.

in western philosophy, drawing on a long tradition of understanding what it means to be a person.⁵ Yet people are clearly more than just individuals. In his book *Herd*, Mark Earls argues that individualism is a cultural ideology that pervades and shapes our way of seeing the world⁶ and that ‘we are a we-species who do individually what we do largely because of each other’.⁷

Organisations, too, particularly in the West, are often based on the priority of the individual, ignoring the fact that we self-organise around relationships. Margaret Wheatley suggests that ‘our neatly drawn organisations are as fictitious as building blocks are to physicists’ and that ‘the only form of organisation used on this planet is the network – webs of interconnected, interdependent relationships’. The lines and boxes of organograms are imaginary; ‘the real organisation is always a dense network of relationships’.⁸

To those living and working in more relational or collectivist cultures this may be obvious. But to many of us it is still worth noting that organisations are, fundamentally, expressions of relationships, rather than relationships simply being the connections between the assumed fundamental reality of individuals and organisations.

Relationships Create Value

For an organisation, value is derived from assets and the future profits they may generate. In the 1990s there was a rapid growth in interest in new forms of capital, with new elements and models almost continually being proposed. Physical and financial assets are complemented, variously, by human capital (e.g. training and skills), emotional capital (e.g. brand affiliation),⁹ intellectual capital (e.g. knowledge)¹⁰ and spiritual capital (e.g. religious

⁵ For example, the sixth-century philosopher Boethius (480–525), whose writing influenced much medieval thought, defined a person as ‘an individual substance of a rational nature’: originally ‘Rationabilis naturae individua substantia’. Boethius, *De Persona et Duabus Naturis*, c. 2.

⁶ Mark Earls, *Herd: How to Change Mass Behaviour by Harnessing Our True Nature* (Chichester: John Wiley, 2007), p. 92.

⁷ Earls, *Herd*, p. 5.

⁸ Wheatley, ‘Relationships’.

⁹ E.g. K. Thomson, *Emotional Capital: Maximising the Intangible Assets at the Heart of Brand and Business Success* (Oxford: Capstone Publishing, 1998).

¹⁰ There is now an academic *Journal of Intellectual Capital*. Management books on this include, for example, T. A. Stewart, *Intellectual Capital: The New Wealth of Organizations* (New York: Doubleday, 1997).

values).¹¹ The wealth of a community is also derived from every one of these or their equivalents. The literature on each has grown rapidly alongside a range of metrics and consulting processes.

All these categories, however, focus on one thing: relationships. In an increasingly knowledge-oriented economy, for example, intellectual capital – the knowledge of products, processes and clients – may be a far more significant component of a company's valuation than its physical assets. In determining the value of intellectual capital to an organisation, however, two relational factors need to be considered which affect its robustness: stability and participation. The degree of stability within organisational relationships is important because intellectual capital can easily walk out of the door: whole teams with all their proprietary knowledge and client relationships can be poached. Buying in intellectual capital serves little purpose if the people are placed in an environment in which innovation and creativity cannot flourish – which is determined by the degree of participation embedded in the relationships. Relationships are therefore part of the content of intellectual capital. But not only this, the nature and quality of relationships are instrumental in an organisation's ability to retain and realise the value of intellectual capital.

The term 'social capital' has been coined to capture the vital contribution that relationships and social networks make to the value of an organisation, a community or a nation. Robert Putnam is one of its best-known advocates, defining social capital as 'the features of social organisations such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit'.¹² Putnam describes the core insight as 'extremely simple: like tools (physical capital) and training (human capital), social networks have value'.¹³ The importance of these networks has been established in a wide range of contexts including income, health, crime, national development, democracy and economic performance.

Social networks are valuable because of the existence of relationships: networked people have access to resources held by others; people without the relationships don't. A classic study on 'the strength of weak ties'¹⁴ demonstrated this

¹¹ E.g. D. Zohar, *Spiritual Capital: Wealth We Can Live By* (San Francisco, CA: Berrett-Koehler Publishers, 2004).

¹² R. Putnam, 'Bowling alone: America's declining social capital', *Journal of Democracy*, 6 (1995), pp. 65–78.

¹³ R. Putnam, 'E pluribus unum: diversity and community in the twenty-first century', *Scandinavian Political Studies*, 30 (2007), p. 137.

¹⁴ M. Granovetter, 'The strength of weak ties', *American Journal of Sociology*, 78 (1973), pp. 1360–1380. In the current social capital debate this may be linked to the benefits of bridging relationships as opposed to the narrower, stronger and more exclusive bonding relationships.

with respect to people's ability to find jobs. The wider the network, in this case, the quicker and easier it is to find employment. Specifically, Granovetter's study found that opportunities were *more* likely to be found among a person's 'weak ties' – friends of friends, acquaintances and less well-known connections – rather than within existing close relationships. Broad social networks are valuable, even if you don't know a lot of people well.

Value is also derived from the quality of relationships – visible in such norms as trust and reciprocity – that enables those relationships to be mutually beneficial. If our relationship is good you are more likely to help me out with my IT problem, and I am more likely to give you a lift to the station. Knowing someone who has no inclination to help and cannot be trusted is not seen as valuable. In this way, social networks create benefits in the wider community. In *Bowling Alone*,¹⁵ Robert Putnam gives the example of the benefits he receives from neighbourhood relationships that reduce crime, even if he is often absent and not an active contributor to those relationships.

In organisations, trust and reciprocity and organisational stability have direct benefits: teams work more efficiently; resources are better shared to deal with issues; retention is improved; and the organisation becomes more resilient and adaptable. Yet, paradoxically, when an organisation's processes and structure are being re-engineered, the cost of breaking up the existing social networks is often not accounted for when assessing the anticipated efficiency gains.

Don Cohen and Laurence Prusak make the following case for investing in social capital in their book *In Good Company*. Social capital can benefit organisations through:

- Better knowledge sharing, due to established trust relationships, common frames of references and shared goals.
- Lower transaction costs due to a high level of trust and cooperative spirit (both within the organisation and between the organisation and its customers and partners).
- Lower turnover rates, reducing severance costs and hiring and training expenses, avoiding discontinuities associated with frequent personnel changes, and maintaining valuable organisational knowledge.
- Greater coherence of action due to organisational stability and shared understanding.¹⁶

¹⁵ R. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000).

¹⁶ D. Cohen and L. Prusak, *In Good Company: How Social Capital Makes Organizations Work* (Cambridge, MA: Harvard University Press, 2001), p. 10.

Relationships are a Source of Competitive Advantage

The central importance of relationships in achieving competitive advantage is well summarised by Waterman: ‘the key to strategic success is mainly this: building relationships with customers, suppliers and employees that are exceptionally hard for competitors to duplicate.’¹⁷ The benefits can be summarised as shown in Figure 1.1.

It takes time and effort to build relationships, in contrast to products that can be copied and potentially produced at lower cost. This is true whether we are talking about the social capital internal to an organisation and which

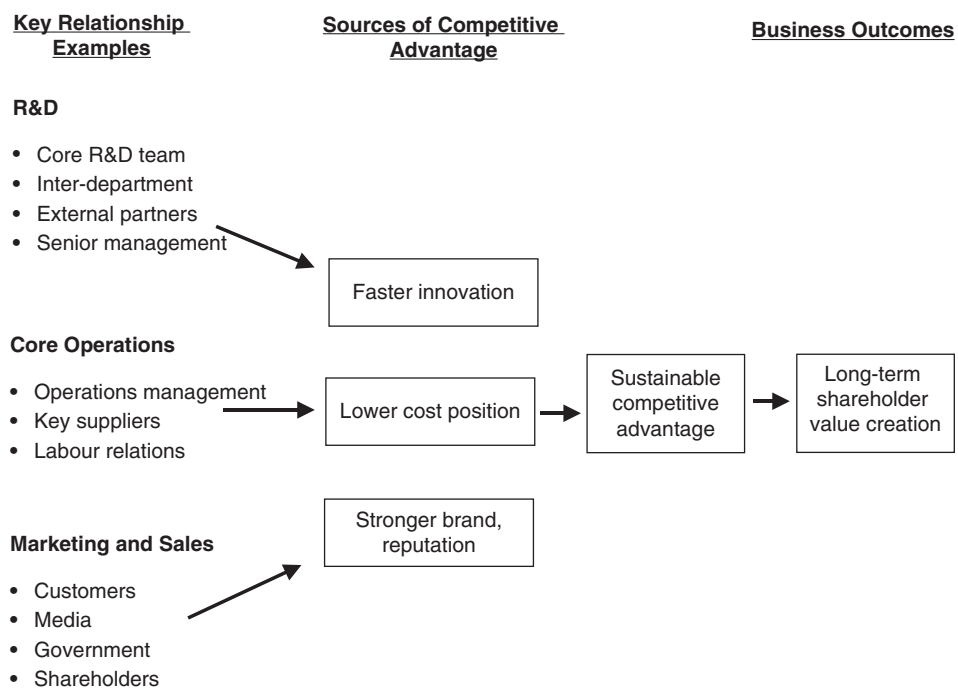


Figure 1.1: The connection between key relationships, sources of competitive advantage and outcomes.

Source: J. Rushworth and M. Schluter, *Transforming Capitalism from Within* (Cambridge: Relational Research, 2011).

¹⁷ R. Waterman, *The Frontiers of Excellence: Learning from Companies That Put People First* (Boston, MA: Nicholas Brearey Publishing, 1994).

underpins other types of capital, or the relationship between the organisation and its customers, suppliers and partners.

Relationships are also at the heart of those businesses that have risen to the top in the competitive dotcom field. Although the rise of dotcom companies was often primarily seen in terms of the adoption of new technology, the successes have been those that have changed the dynamics of relationships with customers, among social networks, or between providers and users of information. As they have matured, it is the relationships that have been developed or enabled, as much as the uniqueness of the technology, which keeps them at the top.

Moreover, this is not just a business issue. Voluntary sector organisations may need to compete for funding, contracts, public influence, or staff. In each of these areas it is often the quality of relationships that is a key ingredient in their ability to achieve their goals and thus make them attractive partners and fundable propositions.

Relationships are a Key to Better Risk Management

Relationships are assets and opportunities, but also a major risk factor. When relationships go wrong lives can be lost, environments damaged, reputations diminished, careers ended and value destroyed. As Chapter 11 shows, if you examine any business or public service failure you're likely to find weak, ineffective or dysfunctional relationships playing a dominant part.

Relational risk takes many forms. The relationship itself may be a source of risk as has been seen, for example, in scandals surrounding the care of children, elderly people or people with disabilities. Control systems may fail as relational weaknesses result in actions not being questioned or protocols neglected. Nick Leeson, the rogue trader who famously broke Barings Bank, described the ease with which he concealed his losses: 'they never dared ask me any basic questions since they were afraid of looking stupid.'¹⁸ The relationship between London managers and Singapore traders was not up to managing the risks. Conflict within teams can impair performance and profitability. Staff may leave or strike. Customers may go elsewhere.

¹⁸ N. Leeson, *Rogue Trader* (London: Little Brown, 1996), p. 161.

Models for analysing adverse events identify a number of types of poor conduct that increase risk: poor communication; poor leadership; conflict in interpersonal relations; poor preparation, planning and vigilance; lack of exposure to new ideas, systems and processes; and disempowerment.¹⁹ While financial risk may be evident in the balance sheet and profit and loss accounts, data on the nature and extent of relational risk is typically far less evident until much too late.

Relationships are a Goal as well as a Means

For some organisations, relationships are more than a means to getting things done. They are also the thing that needs to *be* done – the end as well as the means. Public sector organisations, charities and social enterprises often have goals that are both defined by and dependent on relationships. A criminal justice system, for example, should be seeking to repair the relationships between victims and offenders, and between offenders and society.²⁰ The ability to do this depends on the relationships within prisons and between agencies such as police, courts and probation.

Some businesses define their purpose in relational terms. The John Lewis Partnership, for example, a large UK-based retailer, describes the partnership's 'ultimate purpose' as 'the happiness of all its members, through their worthwhile and satisfying employment in a successful business'.²¹ Moreover, the resources (knowledge, finance, or connections) needed to achieve complex social outcomes are never (or rarely) located within any single profession or organisation. The capacity to make a difference therefore depends upon the contribution of others, not least the users of services. Relationships become the essential mechanism by which the necessary resources are both brought to bear and used effectively.

For example, reducing teenage pregnancy rates has been one of the key targets for UK health services in recent years. Many vulnerable young people

¹⁹ R. Helmreich, 'On error management: lessons from aviation', *British Medical Journal*, 320 (2000), pp. 781–785; J. Higgins, 'Adverse events or patterns of failure', *British Journal of Health Care Management*, 7 (2001), pp. 145–147.

²⁰ See, for example, J. Burnside and N. Baker (eds.), *Relational Justice: Repairing the Breach* (Winchester: Waterside Press, 2004).

²¹ John Lewis Partnership, 'Our Principles', last modified 16 September 2015, www.johnlewispartnership.co.uk/about/our-principles.html.

have limited contact with, and trust in, statutory services, particularly if they have been truanting from school and involved in criminal activity or anti-social behaviour. Statutory agencies may simply not have the relationships with the young people that are needed if they are to make a sufficient difference to pregnancy rates. A voluntary sector youth worker may, however, have known them for several years and gained their trust. The partnership between statutory agencies and voluntary or third-sector organisations may therefore become a key element in the ability of both to achieve their goals.

Relationships are a Skillset

While the language of capital has been used to describe the importance of relationships for organisations, ‘intelligence’ has been used to focus attention on the relational skills and capacities of individuals. Daniel Goleman²² popularised the idea that emotional intelligence (EQ) is more important for leadership success than IQ: that self-awareness, self-regulation, empathy, motivation and social skills are more important than intellectual ability.

A significant (and earlier) description came from Salovey and Mayer, who defined emotional intelligence as ‘the subset of social intelligence that involves the ability to monitor one’s own and others’ feelings and emotions, to discriminate among them and to use this information to guide one’s thinking and actions.’²³ The thinking and language of emotional intelligence has pushed soft skills and the ability to relate to other people up the agenda. Education, recruitment, training and promotion are all now influenced by the recognition that the ability to understand both self and others is essential.

Claudio Fernández-Aráoz, a senior adviser to the leading executive search firm Egon Zehnder, summarises his conclusions about the importance of emotional intelligence in his book *Great People Decisions*:²⁴

- EQ counts more than IQ for success, and the lack of EQ is very highly correlated with failure in senior managerial positions.

²² D. Goleman, *Emotional Intelligence: Why It Can Matter More Than IQ for Character, Health and Lifelong Achievement* (New York: Bantam Books, 1995).

²³ P. Salovey and J. D. Mayer, ‘Emotional intelligence’, *Imagination, Cognition, and Personality*, 9 (1990), pp. 185–211.

²⁴ C. Fernández-Aráoz, *Great People Decisions: Why They Matter So Much, Why They Are So Hard and How You Can Master Them* (Hoboken, NJ: John Wiley, 2007), p. 140.

- If only two broad categories can be achieved in a search for a top manager, then experience plus EQ is in general the most powerful combination for achieving success.
- The traditional combination of relevant experience plus IQ (with limited EQ) is much more likely to produce a failure than a winner.

EQ does not, however, amount to the same thing as Relational Intelligence. EQ typically takes self-awareness as a starting point from which to build towards collaborative goals. In particular, it has focused on how individuals develop *themselves* in order to understand, motivate and lead others. Relational Intelligence, which incorporates these self-development ideas into a broader framework, focuses on developing an organisational culture within which relationships flourish.

Relationships are the Cornerstone of Wellbeing

Well-being can't be measured by money or traded in markets. It can't be required by law or delivered by government. It's about the beauty of our surroundings, the quality of our culture, and above all the strength of our relationships ... What makes us happy, above all, is a sense of belonging – strong relationships with friends, family and the immediate world around us.²⁵

Concepts of happiness and wellbeing are now at the fore of public debate, including the introduction of new national measures of wellbeing in the UK and elsewhere.²⁶ Wellbeing is a complex mix of subjective feelings ('happiness') and more objective indicators of, for example, physical and mental health, as well as the experience of meaning and purpose. While those on higher incomes tend to report higher levels of wellbeing than those on lower incomes, financial security does not compensate a loss of close, supportive relationships. Being separated (rather than married), for instance, decreases happiness by four times as much as losing a third of family income.²⁷

²⁵ D. Cameron, 'David Cameron's speech to Google Zeitgeist Conference, Europe 2006', full text available at *Guardian*, 22 May 2006, www.theguardian.com/politics/2006/may/22/conservatives.davidcameron.

²⁶ Office of National Statistics, 'Measuring National Well-Being', last modified 22 October 2015, www.ons.gov.uk/ons/guide-method/user-guidance/well-being/index.html.

²⁷ R. Layard, *Happiness* (London: Allen Lane, 2005), p. 64. Data from the World Values Survey that covers 90,000 people in 46 countries.