

THE EMBEDDED MARKET · CHAPTER ELEVEN

The Hard Conversations

Chapter Eleven of The Embedded Market

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Chapter Eleven of The Embedded Market

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A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

There is a moment in every attempt to open a voice channel when the work stops being a method and becomes a conversation. A leader has run the embeddedness audit and found that the board hears about the firm's suppliers only as a cost line. A buyer has read chapter 5 and wants to tell a supplier of eleven years that the next quarterly meeting will not be about price. A finance director has to explain to a sceptical chief executive why a quarterly review is going to spend ten minutes on what nobody has said. A parent wants a teenager to know that a worry brought home will not be met with a lecture. Each of these conversations is short. Each is harder than it looks, because the other person is listening less to the words than to what they predict. A supplier who has been squeezed for a decade hears the word partnership as the opening of a negotiation.

CHAPTER ELEVEN

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The moment before

There is a moment in every attempt to open a voice channel when the work stops being a method and becomes a conversation. A leader has run the embeddedness audit and found that the board hears about the firm's suppliers only as a cost line. A buyer has read chapter 5 and wants to tell a supplier of eleven years that the next quarterly meeting will not be about price. A finance director has to explain to a sceptical chief executive why a quarterly review is going to spend ten minutes on what nobody has said. A parent wants a teenager to know that a worry brought home will not be met with a lecture.

Each of these conversations is short. Each is harder than it looks, because the other person is listening less to the words than to what they predict. A supplier who has been squeezed for a decade hears the word *partnership* as the opening of a negotiation. Helper and Henderson's account of General Motors in chapter 5 is, among other things, the story of a firm whose purchasing director announced "an enlightened era of mutual trust and confidence" while one of its own purchasing agents said, in the same trade article, that efficient purchasing still meant "a lot of vendors fighting over a job." The words were sincere. The people who heard them had a history that said otherwise, and they believed the history.

This chapter is about five such conversations: with a board, with staff and their representatives, with suppliers and partners, with a family, and with a sceptic. Each section sets out the situation, what tends to go wrong, and words a reader can adapt and say aloud. The words are scripts in the plainest sense: a place to start, to be put into your own voice. None of them works as a performance. Each works only if what follows it is consistent with it.

What the research says about the other person

Three findings, set out earlier in the book, govern every conversation in this chapter, and they are worth gathering in one place.

The first is that people who could leave are more willing to speak. Caryl Rusbult and her colleagues, testing an expanded version of Hirschman's model in 1988, found that better outside alternatives encouraged exit and also voice.[43] Speaking costs less when leaving would not be a catastrophe. A conversation that implies the other party has no choice will get compliance, and sometimes neglect, rather than voice.

The second is that what a leader visibly does matters more than what they say. James Detert and Ethan Burris, studying 3,149 employees and 223 managers in a restaurant chain, found that managerial openness was more consistently related to employees offering improvement ideas than the more celebrated behaviours of inspiring leadership, that the relationship ran through employees' sense that it was safe to speak, and that it was strongest among the best performers.[44] Every script below therefore ends with a commitment the speaker can be seen to keep.

The third is that the channel matters, not only the climate. Richard Freeman's 1980 study found that workers with a formal grievance procedure quit less often than comparable workers without one.[45] A conversation that opens a channel without saying where it goes, how often, and what happens to what is said in it, has opened very little.

A fourth finding, from Brian Uzzi's study of twenty-three apparel firms in New York, belongs here as a caution.[46] The benefits of close relationships rose to a threshold, and beyond it reversed: firms that were too closely bound to too few partners became closed to information and exposed when a partner failed. Not every hard conversation is about opening a relationship. Some are about widening one that has become too comfortable to tell the truth.

One: the board

The situation. A board meets four or six times a year. It receives papers prepared by management, hears presentations, asks questions and approves decisions. It hears the firm's customers, staff and suppliers mostly as figures: revenue, turnover, cost. In Hirschman's terms, it hears almost entirely through exit.

Santa Anna's *Conscious Governance Models* describes a second difficulty, internal to the board itself. It describes the new member who senses that the real decisions are taken elsewhere, and says that such a member "experiences a quiet erosion of trust." And it names what boards most need and least often have: "This capacity for principled dissent is absolutely essential in governance, where groupthink is perhaps the single most dangerous dynamic." The same book observes that by the time a quarterly board has deliberated and communicated its decisions, "the landscape has already changed."

What tends to go wrong. A leader brings voice to a board as an initiative, with a slide and a programme name. The board hears a cost and a management fashion. Or the leader brings a single dramatic complaint, and the board hears an anecdote, which it is right to distrust.

What works better is to bring the board a pattern from its own organisation, in the form of a question it is entitled to ask, and to ask for a standing place on the agenda rather than a decision.

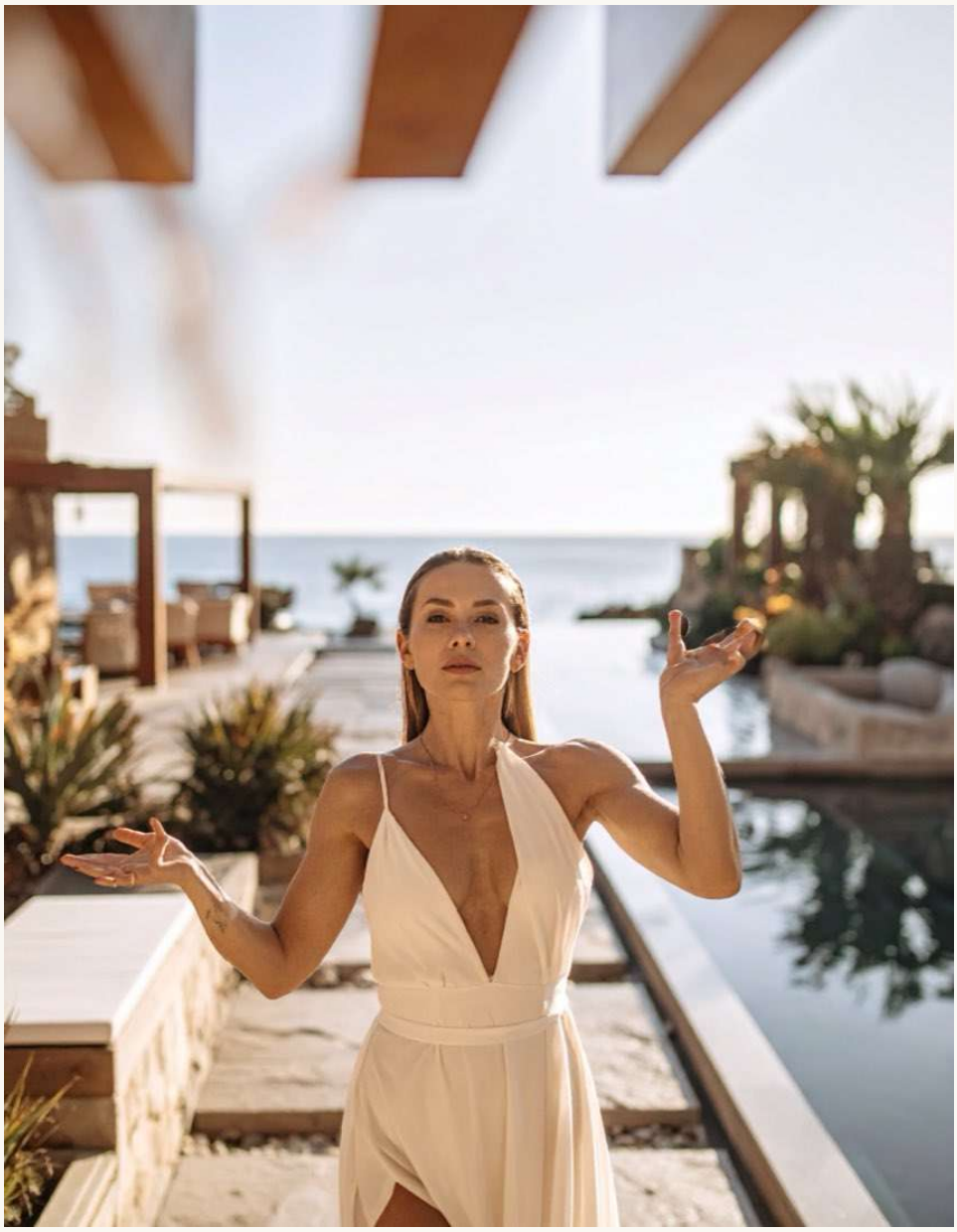
Words to adapt.

> *"Every paper this board receives tells us what has already happened: who left, what it cost, how the numbers moved. I want to add one short item to each meeting that tells us what we are being told before it shows up in the numbers. Ten minutes. Three things a customer, a supplier or someone on staff has raised since we last met, what we did about each, and one thing nobody has raised that we think they should have. I am not asking the board to approve a programme. I am asking it to hear the organisation in a second way, and to judge after a year whether it has been worth the ten minutes."*

And, to invite dissent inside the room:

> *"Before we vote, I would like one person to make the strongest case against this, and I would like it to be someone who does not already disagree. If the case is weak, we will have lost two minutes. If it is strong, we will have found it here rather than later."*

What follows the words. The ten-minute item appears at the next meeting, every time, including the meeting where there is bad news in it. A leader who brings only the comfortable voices to a board has taught it to distrust the item. The first time the item carries something embarrassing, and the leader presents it without defending against it, is the meeting at which the board starts to believe it.



Two: staff and their representatives

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Two: staff and their representatives

The situation. A leader wants to hear more from the people who do the work, and there is a history. There may be a union, a works council, a staff forum, or nothing formal at all. There may be a memory of a survey whose results were never shared, a restructuring announced after a consultation that changed nothing, a person who spoke up and was moved aside.

Luminous Moral Development puts the question that every one of these histories answers: "How many people stay silent in the face of wrongdoing because the power dynamics in the room make speaking up feel dan-

gerous?" In most organisations the honest answer is not known, because the people who stay silent do not report it.

What tends to go wrong. The leader treats the existing representatives as an obstacle to be gone around, and invites staff to speak directly. Representatives hear an attempt to undermine them; staff hear an invitation that their representatives have not endorsed, and wait to see what happens to the first person who accepts it. Helper and Henderson describe a version of this at General Motors in 1984: the company proposed teams and joint problem-solving, a leaked memo suggested the purpose was to reduce headcount, and for years afterwards many union leaders believed lean production was a way to speed up the line.

What works better is to go to the existing channel first, to name the history before anyone else has to, and to offer something that costs the leader before asking for something that costs the staff.

Words to adapt, to representatives:

> *"I want people here to be able to tell us what is wrong earlier than they do now, and I know that the last time management said something like this, it did not end well. I am not asking you to vouch for me. I am asking you to help design how it works, and to hold us to it. Here is what we are committing to first: every concern raised through any channel gets a reply within five working days, even if the reply is that we have not decided yet, and you will see the log of every concern and every reply each month. If we miss that, you will know before anyone else."*

To a team, after the channel is agreed:

> *"If you see something that is going wrong, I would rather hear it from you this week than read about it in a resignation letter next year. You will not be asked to fix it as the price of raising it. You will hear back within five days about what happened. If I get that wrong, say so, and that counts as voice too."*

What follows the words. The first concerns that arrive will be tests: small, safe, sometimes trivial. Treat them with exactly the seriousness of large ones. The log is shown. The replies arrive on time. Santa Anna's *Organizational Soul Work* gives the discipline for the moment a hard truth finally comes: resist the reflex to explain or fix. "When a truth is named and immediately followed by a solution, the system doesn't fully receive the truth." Receive it first. The fix can come tomorrow.

Three: suppliers and partners

The situation. A buyer wants to separate the conversation about problems from the conversation about price, as the supplier voice protocol in chapter 5 sets out. The supplier has been through annual tenders, re-

verse auctions and price-down letters, and has learned that information shared with a customer tends to come back as a demand.

What tends to go wrong. The buyer says *partnership* and *trust* in the first minute. The supplier hears a negotiation opening. Or the buyer runs the first problem conversation well, and then a colleague in purchasing uses something said in it to argue for a lower price in the next round. One breach closes the channel for years.

What works better is to promise less than the supplier expects, in writing, and to keep it in a way the supplier can check.

Words to adapt.

> *"I want to try something with you that we have not done before, and I would rather underpromise. Four times a year, separate from any commercial meeting, I would like forty minutes with your engineers and ours about what is not working, what you can see coming, and what you would change in our specifications if you could. Nothing said in those meetings will be used in a price negotiation. I have put that in writing, and the head of purchasing has signed it. If you ever think it has been broken, tell me, and I will tell you what I found."*

And the question that does the most work, at the end of every such meeting:

> *"What have you stopped telling us, and why?"*

What follows the words. The written undertaking is kept in front of everyone in purchasing, not only the buyer who made it. The supplier's early warnings are counted and acknowledged once a year. Uzzi's threshold applies here: the buyer keeps more than one source for the parts that matter, and talks to both. A relationship that has become the only one is a relationship that has stopped being able to say hard things, because both sides have too much to lose.

The same protocol, slightly adapted, serves partners who are not suppliers: a distributor, a funder, a co-venturer, a joint team in another firm. The structure is the same. Keep the problem conversation apart from the commercial one, promise less than expected, show what happened to what was said.



Four: the family

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Four: the family

The situation. Every household has a culture of voice, whether it has thought about it or not. Somebody notices that money is tight before anyone says so. A child senses a worry and decides not to mention their own. A partner learns about a debt from a statement rather than a conversation.

Ecstatic Economics asks the question that opens this conversation, in its chapter on money and the body: "When you discuss money with a partner or family member, what happens to both of your bodies?" For

many people the honest answer is that something tightens before a word is said. That is the price of voice in that house, and it was set long before the conversation began.

What tends to go wrong. A parent or partner announces openness and then meets the first difficult disclosure with alarm, a lecture or a solution. The disclosure is not repeated. Or money is discussed only in crisis, so that the subject itself becomes a signal of danger.

What works better is to make the conversation regular, small and dull, so that it does not have to wait for a crisis, and to receive before responding.

Words to adapt, between partners:

> *"I would like us to spend twenty minutes on the first Sunday of each month going through where the money went and what is coming up. Not to judge, and not only when something has gone wrong. If either of us is worried about something, that is where it goes, and the other one listens all the way through before saying anything."*

To a child:

> *"If something is bothering you, about school, about friends, about anything, I want to hear it. I will not be cross that you told me. I might need a minute to think before I say anything, and that is all the minute means."*

What follows the words. The first Sunday happens, and so does the second. The parent who has promised not to be cross is not cross, the first time, even if the news warrants it. Chapter 12 takes the household conversation further, into the providers and institutions a family depends on.

Five: the sceptic

The situation. Somewhere in most organisations there is a person, often senior and often right about many things, who regards all of this as cost and sentiment. The chief executive who wants numbers. The finance director who sees forty minutes of engineers' time per supplier per quarter. The colleague who says that people complain too much already.

What tends to go wrong. The advocate argues values against numbers, and loses, because the sceptic is responsible for the numbers. Or the advocate overclaims, promising returns the evidence cannot support, and the sceptic is right to discount everything else they say.

What works better is to agree with the part of the objection that is true, to bring the narrow evidence honestly, and to propose a test the sceptic can judge.

Chapter 13 sets out the objection from efficiency at full length, and grants most of it: for a great many transactions, a price says almost everything that needs saying, and an arm's-length market is the right membrane. The argument for voice applies to a narrower set of relationships, the ones where what needs to be known has not happened yet.

Words to adapt.

> *"You are right that most of what we buy should be bought on price, and I am not proposing to change that. I am proposing that for the twelve relationships where a failure would hurt us most, we find out about problems before they reach the numbers. The research I can point to is narrow but consistent. Suppliers selling to both Toyota and an American carmaker cut their defects for Toyota by half over six years, and by about a quarter for the American customer, according to the study Helper and Henderson cite. Workers with a grievance channel quit less often. That is not a promise about us. So here is the test: we run this for two quarters with those twelve, we count how many problems were raised early and what they would have cost late, and you decide whether to continue. If the count is zero, we stop."*

What follows the words. The count is kept honestly, as chapter 10 describes, including the quarters where it is disappointing. A sceptic who sees an advocate report a weak result without spin will trust the next strong one. And a sceptic who is right should be thanked for it, in public. That is voice, too, and it is the voice most organisations find hardest to receive.

Conscious Governance Models names what lies underneath all five conversations. Voice, it says, cannot be only procedural; it must be cultural, "a genuine collective commitment that truth-telling is valued even when it is uncomfortable." The scripts are procedure. The culture is what the speaker does the week after.

What these conversations cannot do

No script repairs a history by itself. Helper and Henderson's account of General Motors is sobering on this point: the firm's supplier scores improved through the 1980s and then, by 1993, suppliers again felt GM could not be trusted. Credibility built over years can be spent in a quarter. The conversations in this chapter open a door. Whether anyone walks through it depends on what happens the first few times they do.

Nor do the scripts substitute for structure. A board item, a reply deadline, a written undertaking to a supplier, a monthly household meeting: each is a small piece of institution. Chapter 9 sets out how to build them in sequence, and chapter 10 how to tell whether they are working.

And the research behind the chapter is narrow. It comes from particular places and periods: a restaurant chain, American labour markets in the 1970s, apparel firms in New York, the car industry. It describes a consistent pattern, not a law. The scripts are ways of testing the pattern where you are.

The Tool: The Conversation Card

One card, index-card size, prepared before any of the five conversations in this chapter. Allow twenty minutes to write it. Keep it, and look at it again a month later.

1. Name the history. In one sentence, write what the other person has learned from the last few times someone in your position raised this subject. If you do not know, write *unknown*, and plan to ask.
2. Name the true part of their objection. Write the strongest form of what they are likely to say against you, and underline the part of it that is true.
3. Write the promise, smaller. Write one commitment you will make in the conversation. Then cut it until you are certain you can keep it every time for a year. A reply within five working days is better than an open door you cannot staff.
4. Write the first sentence. Write the sentence you will open with, in your own words. It should name the history or the true part of the objection before it asks for anything.
5. Write the question. Write one question you will ask and then stop talking. The most useful in this chapter is: *What have you stopped telling us, and why?*
6. Write the proof date. Write the date by which the other person will be able to see whether you kept the promise in step 3, and how they will see it: a log, a reply, a meeting that happens.
7. One month later. On the back of the card, write what happened to the promise, and whether the other person has said anything since that they would not have said before.

Reading the card. A card whose promise was kept, and whose back records a second conversation the other person started, describes a channel that has opened. A card whose promise was missed is the most useful card in the set: it shows where the next conversation has to begin, with the miss, said first and plainly.

Your page — run the The Conversation Card here, dated.

A note on method

The account of General Motors' supplier and labour relations draws on Helper and Henderson's NBER working paper, cited in chapter 5; the quotations from GM's purchasing director and a purchasing agent are as they report them from a 1982 *Iron Age* article. The Toyota defect figures are theirs, citing Dyer and Hatch (2006).

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