Building a System of Trust

Ten Hidden Secrets of Success in Employee Owned Companies

By Martin Staubus and Robert Porter Lynch

The great potential of employee ownership to improve business performance lies in its capacity to bring people together to work as a team toward shared success. At role-model employee-owned companies, we see people cooperating and collaborating, contributing their best efforts and ideas toward the goal of organizational success. This highly productive style of operating is actually held together by a key hidden element: **trust**.

It is trust that is the foundation of all cooperative relationships, whether in business or in our personal lives. When we advocate "creating an ownership culture," trust is the indispensable element.

One of these role-model companies is SRC Holdings, Inc. (formerly known as Springfield Remanufacturing), where CEO Jack Stack describes some of the components of a trust system:

> "It comes from being honest with people, from telling them about the realities of business, from having principles and sticking by them, from trying to be fair … by keeping our promises one another, by living up to our mutual commitments. We've treated people like the capable, intelligent adults we know they are … we've created a society built around rules we all know and understand." There needs to be a fundamental change in the way people think about the business and its future….starting with the people at the top."[1]

Where does the high level of trust at these companies come from? What accounts for it? It may look very elusive, but in fact there is a clear framework that describes and accounts for the level of trust that exists in any organization. Here are some of the key elements that comprise a "Trust System:"

#1. Shared Vision and Purpose

In any organization where there is strong trust, there is invariably a strong commitment to a vision that creates value, meaning, purpose, and commitment.

A shared strategic vision aligns teams onto one central target. This enables trust by ensuring that everyone has the same ultimate agenda, going in the same direction for the same reason. If there are diverse and conflicting agendas at work, the collaborative process required for personal commitment and innovation will be stifled.

Every person in a successful, high-performing business must know the answer to the foundational questions: Why does this organization exist? What are we trying to accomplish?

The commitment to a powerful vision that defines the organization's purpose constitutes what might be considered "institutional trust," the faith one has in the organization, its goals, its operational integrity, its honesty, and its value in the eyes of its stakeholders.

Every person holding down a job has a heart and soul that yearns for knowing that their daily labor contributes to something much more valuable than just a dollar in their pocket. They want to know that their job has some value, some meaning and purpose. This can range from the villainous (such as a crime ring) to the honorable (such as fixing truck engines,

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[1] Jack Stack, A Stake in the Outcome.

shuttling passengers, moving trains, etc.) and extending to the noble (such as finding a cure for cancer, or reducing the impact of global warming). High trust organizations are very clear about their honorable purpose.

#2. *Balancing Self Interest versus Greater Good*

When a team starts with Honorable Purpose, they agree to do the right things for the right reasons. Honorable Purpose means we think consciously about balancing our own personal self interest with the needs of others in our realm of influence.

No business or economic system can thrive over the long run if it places overwhelming emphasis on self-interest, as epitomized by the "greed is good" mantra on Wall Street that brought down the entire world's economic order in 2008. On the other hand, neither have economics systems flourished that over-emphasized the total sacrifice of personal gain in favor of the greater good of the whole. There must always be a balance between the two, and most individuals are fully cognizant and capable of accepting and supporting this balance.

If however, the organization gets out of balance – a union strikes for its self-interest knowing the organization cannot afford its wage demand, or a leader strips the value out of a company by taking an inordinate amount of compensation, or a department refuses to cooperate with another, the imbalance will end in mutual disadvantage.

There is nothing inherently wrong about self interest. But if everyone works exclusively in their narrow self interest, severe problems can erupt. In such a dog-eat-dog world, trust diminishes as everyone withdraws into their turtle-shells to protect their individual interests. We trust people whom we can count on to respect our interests as well as their own – our "mutual" interests -- or put another way, the "good of the organization." Balancing self interest with mutual interests is the essential commencement of trust building.

It is here that employee ownership makes a unique contribution – it holds the possibility of actually aligning self interests with what's in the greater good of all the stakeholders.

#3: *Honoring Differences, Respect & Integrity*

Most organizations tend to minimize, obscure, or disparage differences or impose control over differences by demanding "oneness," or punishing those who do not conform. In high trust environments, honorable differences are cherished and deeply respected. At Southwest Airlines, Colleen Barrett, President Emeritus states: "We want our employees to be themselves – this is a great freedom – we don't want them to fall into cookie-cutter molds, we hire them as individuals, we want them to be themselves, and share that personality with their teammates and customers, not play a role, to be like they are at home."

By encouraging and reinforcing an individual's value as a contributor, team trust is built. And, by respecting others, the leader in turn earns respect. When you hear or read the word "trust" you will very often see it linked to the word "respect." Here is Jack Stack:

> For "management to have credibility … there must be a minimum level of mutual respect and trust. People have to feel that, whatever your faults, you have some sensitivity to them and their problems, you value their contributions, you'll offer them a fair shake.[2] You can't have trust without honesty and openness."[3]

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[2] Jack Stack, The Great Game of Business, p 39

This is the essence of a high-trust organization – one that cherishes differences in thinking, while being intolerant of dishonorable actions.

In turn, trust builds in an organization when people begin to see that their leaders are worthy of being trusted. That's when pride grows – pride in the leadership's character and competence, pride in the organization's vision and purpose, pride in their team-mates commitment to mutual interests and the greater good, and thus the ultimate trust – trust in oneself.

#4: Building Strategic Partnerships

Companies at loggerheads with their employees, as exemplified by labor strife, are not capitalizing on the value of seeing their employees as partners in their future. High trust organizations see their employees – and their customers and suppliers too – as strategic partners in the business. Here are some of the characteristics of strong partnerships:

Strategic Thinking:

While making money is essential in any business, great partnerships are always looking one step ahead to find the new opportunity, to seize the moment when the winds will change, to design the future. Great leaders have a sense for timing their moves when the market is ready, not too early, but certainly not too late. They think of ways that will create a more powerful destiny.

Investment in the Future

"Pay forward" is our motto for making a commitment to our destiny. Companies that put their money where it will be needed in the long run build a foundation for growth, and demonstrate to their workforce that success is the result of investing for tomorrow.

Joint Planning

People support what they help create. When people are consulted and their ideas are valued, this builds trust – and a stronger commitment to the future.

Contribute and Build on Ideas

Ideas are the fuel of the innovation engine. When someone offers an idea, reinforce a culture that encourages others to build on the idea. If everyone builds on other people's ideas, joint imagination light-bulbs are turned on like spontaneous combustion. It's not nearly as important who originates an idea as how many people contribute to its evolution into action.

No Evaluation or Criticism

Negativity, judgmental critiques, and skepticism all contribute to a culture that discourages "creationship." This does not mean one cannot evaluate, judge, or look at something with a critical eye – these are analytic techniques. What we mean is that one must use these analytic techniques in a positive, exploratory, open, and constructive manner, not in a way that places the evaluator in a superior position of critic.

No such thing as Failure, Only Learning and Results

Be careful not to punish failed attempts at creative solutions. Be sure to encourage learning from failures. Remember, high performance teams fail more often than low performance teams; the difference is how they learn -- then innovate from what they learned.

A Culture of Exploration, Discovery, and Invention

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[3] Jack Stack, A Stake in the Game, p 48

Creative inquiry starts with forming questions. This triggers joint exploration of possibilities, releasing deep creative energies from within, resulting in more and more mutual innovation. As a Cornell University study observed: "It starts with a pervasive attitude of constant improvement….People may be happy, but nobody is satisfied with how things are....Nothing is ever truly finished--only in stages, because in the process of building and using what we create, we already see ways to make it better….The culture, from top down, has to encourage and embrace constant questioning, exploration and experimentation."

#5: Joint Operating Principles

While values are important in the design of a trust system, they tend to be heady and philosophic, lacking a practical perspective. What's more useful is to have the values brought down to an earthy level by letting work teams develop their own day-to-day operating principles.

> "Communities are built around rules [which] may be explicit or implied, but they're understood by everybody. They provide the glue that holds the community together, you can't violate them without doing a tremendous amount of damage. We'd built our community around a common understanding that we'd all share whatever wealth we created. That was our bargain, and our people lived up to their end of it. "[4]

At the level where teams or alliances actually function, it's essential for those who are interacting to develop a set of operating principles that guide their moment-to-moment interactions. These Operating Principles need not be long or legalistic; they serve as a "social contract" that respects and honors what each person and function brings to the whole. It represents the "spirit" of their agreement to work together. The operating principles provide direction, maintain a unified focus, and help to enable the interactions to be creative and to bend and flex when faced with adversity.

#6. Hiring, Promotion & Rewards

> "Hiring and Promotion is the most important thing we do to preserve our culture. We hire great people, then teach them the airline business. If you are willing to give 100%, the company will give you 100% back."– Colleen Barrett, CEO Emeritus, Southwest Airlines[5]

Southwest has a very tight hiring policy that screens out people who do not have a strong desire to co-create, engage in teams, and build trust. This prevents many problems from occurring, problems due to a simple mistake that the vast majority of companies make every day – hiring on the basis of expertise, neglecting the two dimensions of character and collaboration.

Companies that are not as rigorous as Southwest in making sure that new hires have the right character and temperament for their culture eventually find that some of the people they hired just don't fit and must be released from employment, regardless of their competence. They just seem to lack the "collaboration gene." Most people however, are adaptable, and with training, can learn how to function well in a collaborative and trusting environment. Hiring, promotion, and retention must be weighed heavily on character, not just competence.

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[4] Jack Stack, A Stake in the Outcome, p 185
[5] Colleen Barrett, Speech to NCEO Conference, April 22, 2009

#8: The Power of Metrics

You get what you measure.

Set up the metrics to reinforce your architecture of trust. In other words, what is measured should reflect the key elements of the system of trust, such as achievement of goals towards the strategic vision, or behaviors that reinforce honorable purpose, or key decisions to choose the greater good over self-interest.

> "Records are important. Every record represents an opportunity for management to complement people, to make them feel good, to build confidence and self-esteem. Celebrate every win, even small ones… people will follow it up with another one, and another, and another. They're solving their own problems … [not] delegating problems up to their managers. What's important is to make sure to ….choose a goal that people can meet if they do things right. [6]

#9: Standards of Excellence

Performance standards are also essential to building trust. When standards fall to anything less than "high" and the lapse goes unchallenged, members of the team realize it's okay for someone to give substantially less than 100% of their best effort. As soon as we believe that someone else is slacking off, we either do the same or become resentful and therefore distrusting. This is the "force of gravity" that pulls things down to the level of mediocrity. It triggers two simultaneous downward spirals –first, an avalanche of distrust and disrespect, and second, diminished business performance, each feeding on the other.

#10: Open Book Management

Open book management is a process of delivering ongoing business performance data to employees so that they can better respond and deliver what the organization needs. After all, people can't fix problems that they are unaware of, or take advantage of opportunities they aren't privy to. But there is more to it. If management isn't willing to share the performance data with the employees, what does that say about the level of trust in the organization? Jack Stack sums it up well:

> Just by implementing a well-designed open-book management system, companies demonstrate trust and respect, and then the educational process kicks in, transforming both the culture and the behavior of employees – not all of them, but a certain critical mass. Along the way they become extremely possessive of, and deeply loyal to, the company and its culture … The numbers … serve as the bond, the basis of trust ."[7]

Conclusion:

How important is trust? Simply put: without trust, the performance potential of an employee-owned company is severely diminished because the capacity to create competitive advantage through collaborative innovation is never realized.

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[6] Jack Stack, The Great Game of Business, p 47-50, A Stake in the Outcome, p199
[7] Jack Stack, A Stake in the Outcome, p 13.

Shared aspirations to build and operate a great company, founded on a culture of trust as we have described, is the key to unlocking creative genius and synergist teamwork among people. Southwest Airlines founder Herb Kelleher says it this way:

> "The intangibles are more important than the tangibles…. Someone can go out and buy airplanes from Boeing, but they can't buy our culture, our esprit de corps…. I've tried to create a culture of caring for people in the totality of their lives, not just at work…. There's no magic formula. It's like building a giant mosaic – it takes a thousand little pieces…. You have to recognize that people are still most important. How you treat them determines how they treat [customers.] "

The art of building trust, then, should not be something that "just happens" reactively, thoughtlessly, or invisibly. Trust manifests in its greatest glory by design, not by accident. If we don't consciously build a trust-based system of operating, we spin erratically and unpredictably, handicapped in a world of distrust.

In our fast-changing business world that now requires firms to continuously adapt, adjust, innovate and improve, it is imperative that the people of your organization have a robust capacity to make interactive decisions, form teams and forge alliances to make use of their respective strengths and offset weaknesses, and take risks that are impossible in low-trust environments. A high-trust environment thus spawns a massive competitive advantage, enabling teams to make rapid decisions without the need for a legal contract every time someone tries to make a decision.

The old-style command and control approach to management – issuing orders and edicts from the top and demanding rigid compliance – can't keep up.

> "When you intimidate, when you treat people badly, you lose power… Loudmouths talk about winning through intimidation. Not only are they dead wrong, but they are promoting one of the most destructive myths in American business. The Big Lie is the notion that you can manage effectively by forcing people to do things they really don't want to do."[8]

We need not take the emotions out of business to create trust – because trust is an emotion, just as is fear. While fear causes people to withdraw, withhold, undermine, and generate suspicion, trust does just the opposite. It is both the grease that makes things work smoothly, and the glue that binds.

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[8] Jack Stack, The Great Game of Business, p 25, 27, 36