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Cooperative Entrepreneurship

Creating a Bold New Future for Growing Businesses
By Robert Porter Lynch & Christine Adamow

WORKING Title & Cover



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Dedication

*To Our Parents who so diligently and lovingly instilled the values
and character within us to make this book possible*

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Foreword

By[Suggest Tom Stallkamp or Jack Stack]

Why everyone should read this book

Collaboration is a better way to do business, pure and simple. The old way of beating up on suppliers, playing your cards close to the chest, working in highly distrustful relationships, and picking each other's pockets is neither smart business nor energizing. When I served as EVP of Procurement and later as President of Chrysler, we implemented many ideas similar to the ones in this book – it worked.

In the automotive industry, because of the high levels of supplier content, long lead times, integration of components, inventory control, and rapid response needed to changes in technologies and customer preferences, managing the supply chain is one of the most important and challenging management functions. While some of the suppliers are large conglomerates, many others are small and medium sized family businesses.

In the early 1990s, Chrysler Corporation was faced with mounting losses, an aging line of cars, and uncompetitive costs structures. Japanese rivals were continuing to take large chunks of market share. Eighty percent of a Chrysler's vehicle content sourced from suppliers, making cost issues essential to Chrysler's very survival.

However, years of intense cost-cutting negotiations had only produced a frustrated relationship between procurement and its suppliers. Chrysler was losing money and the suppliers were running on razor-thin margins while seeing their receivables stretched inordinately. Chrysler was confronted with a crucial decision: find a new way to get its costs in line or face eventual bankruptcy.

Contrary to the way our peers a Ford and General Motors were handling suppliers by squeezing our vendors with ever-increasing

1 adversarial negotiations tactics, we embarked on a bold strategy on
2 the opposite course – collaborating with suppliers as if they were
3 members of our team, engaging them in early involvement in car
4 design, utilizing their research and design capabilities, providing
5 long term contracts in return for their commitment to continuous
6 improvement, and sharing the rewards for joint cost reduction. Our
7 SCORE (Supplier Cost Reduction Effort) program saved Chrysler
8 over \$5 billion during the 1990s, thus making a major contribution
9 to saving the company and serving as a model for what
10 collaboration can do.

11 Suppliers were bought into the new car design cycle far earlier.
12 The result was dramatic; the cycle-time to bring a new care into
13 production was reduced by more than half, enabling Chrysler to
14 beat its rivals to market with new exciting designs. By collaborating
15 with suppliers and sharing the rewards, a continuous stream of new
16 design innovations were brought to Chrysler far in advance of those
17 ideas being provided to competitors. But more: because we were
18 willing to break with tradition by sharing both risks and rewards,
19 Chrysler suppliers were willing to make substantial investments in
20 much needed research and development, resulting in a tremendous
21 savings for Chrysler.

22 One might think that the suppliers would be reluctant to absorb
23 such steep costs. To the contrary, the suppliers actually became
24 more profitable because the supplier’s financial coffers had been
25 drained the hidden costs of adversarial relationships between
26 buyers and sellers. Everyone benefited under the new collaborative
27 approach.

28
29 The important insights contained herein:

30 This book is unique because it is both strategic and
31 practical. It outlines not only the compelling forces that are
32 forcing us strongly to entertain the idea of collaboration, but it

1 also is written from the entrepreneur's point of view – the
2 daring generation of leaders of smaller businesses that will set
3 the tone for other larger, but less venturesome companies.

4 The Capitalistic System as we've known it is ready for a
5 shift to a new level of thinking – a reframing of the old paradigm
6 in a way that, to those who embrace the challenge, will provide
7 great wealth and personal satisfaction.

8
9 This is not just an idea, it works!

10 Fortunately, the last fifteen years has shown an explosion
11 of collaboration and connectivity. Along with the profusion of
12 networks and alliances has come a portfolio of learning from the
13 failures and the successes.

14 This book, though short, will help the reader understand
15 the big picture, the ways to get started, and the pathway to
16 success.

17
18 This book will give you the beginnings of the purpose,
19 strategies, and colorful dimensions of the future of
20 entrepreneurship.

21

Introduction

by Scott Welch – [or another person]

About fifteen years ago, I was ready to turn our family owned insurance agency over to my two sons, Todd and Glen, both of whom were in their late twenties. I was quite proud of the business; we had a hundred highly motivated employees, were well organized, and had a great reputation as fine company to work for and do business with.

Imagine my surprise when they said “Dad, thanks but no thanks. We applaud you for the great job you’ve done, but this business is broken. The customers always seem dissatisfied whenever they file a claim and their costs are always escalating. The agents are playing ‘steal the other guy’s customer.’ The insurance carriers are distrustful of us and have shackled us. There’s just a big bureaucracy out there and it’s getting worse. Everyone’s unhappy. Why would we want to carry this forward into the next generation of our family. We just don’t think we’d be happy.”

This caused me to sit bolt upright in my chair. I knew they were right. Why would I want to leave my children a pile of aches and pains, with no prospect for a cure. The industry was sick and we had no prospects for a better future.

We had a choice – sell the company and get out, or strike a course radically different from the safety of a tried and true path (that was leading slowly into an abyss). With naivety and innocent exuberance we quickly launched on a course to work with our customers and insurance suppliers to fix the problem and promptly ran aground – we were on the rocks on each side: with customers on one side that neither trusted nor liked us, and insurance carriers that automatically assumed we were dishonest and incompetent.

What you will learn

In this book we will reveal to you not just the road to success, but also the bruises and crack-ups we had along the way. But most importantly, we’ll share with you what we learned and, from an in-the-trenches perspective, the leap you need to make along with the

principles and practices that make collaborative entrepreneurship work.

We're sharing these ideas not to toot our horn (because as you'll see, in many cases we blew the wrong note) but because we, along with many of the Charter Partners members, believe this is the best way to do business. But more ... we believe the entrepreneurial spirit is the spirit of America - the spirit of teamwork and innovation. When we see the high failure rate of small startups, it saddens us to think of the lost money and the dashed dreams of its founders. We sincerely hope that this book will help make more young businesses successful, if even in a small way.

One important mandate of our non-profit Charter Partners Institute is to help young rising entrepreneurs still in high school and college start off on the right track. For those of young hearts and energized dreams, this book may inspire you and propel you into a world of business where you can ethically and honorably serve others and make money too - something we think is a compelling reason for choosing the road of entrepreneurship.

How to Engage the Business World

There are many myths and deceptions in business today. Too many people for too long have been caught in Wall Street's propaganda that business is about creating shareholder value, the purpose of business is to make money, we should beat up on our suppliers for the lowest price, and greed is good. We take issue with these misconceptions because they terribly distort the realities of the entrepreneurial world and would like to carve out a different proposition:

- The Purpose of Business is to meet customer needs and opportunities profitably
- Both shareholders and employees (as well as customers, suppliers, community and mother earth) are key stakeholders who must mutually benefit in the game of business.
- Business is more than work; it's the place where you can find meaning and purpose in your life; it's the place for creativity, teamwork, and even some fun.

- Sharing ideas and resources between entrepreneurs is a powerful opportunity to expand, grow, and reduce risks and costs.
- Great business is also an honorable game.
- Collaboration is not the end of competition, it just frames cooperation as a powerful means of creating competitive advantage.

This new world of cooperative entrepreneurship is still in its early stages, but it is here to stay, the way of the future, the new thinking that will create the new rules of engagement.

The Value of Ethics and Trust

When I started in the business world in the 1950's, we lived in a slower, more predictable world. Today everything seems to accelerate at breakneck speed. Some things seem quite evident at this new speed - that to compete in a fast moving, rapidly changing world requires a new way approach to business to be competitive. Let's face it, the old rules came from an era of the mechanical era and the industrial age. Then the era of cut-throat business, while never vaunted, was still prevalent.

Today's digital age requires new assessment of the role of ethics and trust. One thing that's so evident to me - a "digital immigrant" - is the speed of innovation has accelerated beyond my conception. If we are to innovate quickly, we must collaborate and co-create together. To do this well, ethics are essential. But good ethics are not enough. We must be able to trust people because trust is more efficient and effective than having to carry a lawyer with us everywhere we go to protect and defend our interests. In other words, trust is a competitive advantage in this sped-up business world. This means we need to hold high standards in business more than ever before if we are to effectively join forces with other companies to create that all-important competitive edge.

Even more than before, personal relationships will become a true source of ideas, inspiration, and support for entrepreneurs as they team with others who can provide complementary strengths and resources.

Trust Tour

The Trust Tour was designed to take the conversation from my family dinner table about Think, Team, Trust out into the world. I think it is vitally important for these concepts (aka values) to be embraced in the office, in the manufacturing plant, on the plant floor, in the truck, on the sales calls, really everywhere; politics, sports, medicine, etc. If we could do that, we could have a better world.

So we decided to take the show on the road. Our mission is to put love back into all areas of your life and work using these values. People need to feel that doing the right thing is okay, that you don't have to cheat or be dishonest to win.

During the Trust Tour we hand out the "Trust Towel" and the "Trust Scale". The Trust Scale lets you see where you are in a trust spectrum and shows you ways to improve your level of trust and connection. The Trust Tour is something we want to share with everyone and it can certainly start with reading this book. You'll get a chance to understand how impactful this is in Chapter 6.

What Collaborative Entrepreneurship is Really About

I've loved being an entrepreneur - every day has been fun, challenging, and filled with new learning. As an entrepreneur we must have a wide range of skills and competencies. But as my sons have demonstrated, the new entrepreneurial world adds some new and exciting dimensions.

Because we are now more connected, it's not as lonely being an entrepreneur. And because innovation is the number one force in creating competitive advantage, the idea of invention is more important than ever. But innovation is more complex, more integrated, more connected than before, hence an overwhelming need to collaborate in a way many of my generation are unaccustomed to doing. This is where today's entrepreneur is breaking new ground, pioneering in powerful new ways.

The Edison Influence

Thomas Edison has had an enormous influence on all our lives today. His breakthroughs in electricity are the foundation of modern electronics. We also think that Edison was ahead of his time in his use of collaborative innovation as well. What's not well known about Edison is his prolific use of teams to come up with many of his inventive breakthroughs. The Welch family has used Edison as an inspiration and you will see many of Edison's quotes peppered throughout this book.

For a similar reason we also went back to the well for a companion who helped us create Charter Partners in the early days: Robert Porter Lynch. His work in strategic alliances and collaborative innovation helped spur our thinking then as it still does today, thus we have asked him to join us as a collaborating author.

Together we are all delighted to join you as part of your "mastermind" team to help you launch or grow your business.

-- Scott Welch

Chapter 1

Changing World of Business

Pickup the newspaper or listen to the t-v and you can't miss the messages: Wall Street Meltdown, Teenage pregnancies and suicides are up, the high school drop-out rate is nearing 30%, most marriages end in divorce, anti-depressants are the most prevalent pill sold, business executives and government officials are being sent to jail, banks are collapsing driven by greed, drive-by shootings and gangs are plaguing inner city streets, child pornography infiltrates the home of pre-school children via the internet, priests are molesting children, schools are being shot-up by deranged students, global warming threatens the planet. The list goes on.... and some of the things on this list were virtually unheard of fifty years ago.

These are serious signals that something is amiss in our land. The very things that made America great are in serious trouble. We're concerned that if we continue down this path, America may soon become a mediocre country.

World and Capitalism in Chaos?

But are these the signs of doom? We think not. These are the signs of a major shift in the way we think, work together, and create. Before every major shift in history, the signs look chaotic as the rules of engagement change.

There are positive signs as well. More and more people are searching and yearning for new answers. The book stores shelves are filled with answers to perplexing spiritual and personal questions. The green revolution has begun. Our water is cleaner. Our cars are safer. Women and minorities have their rights protected like never before. Health care is far better, although too expensive and not universal. People are living longer. Cures are being found for diseases. We are connected to others fast and inexpensively. Success is available to anyone who wants it and is willing to work for it.

Knowledge is now a commodity accessible to anyone in any part of the world, no matter their financial or social position.

What's really happening? Are we in a time of despair or hope? Descendance or ascendance? Anxiety or opportunity? Survival or thrival?

What the Conflicting Signals Mean

Are these indicators an early warning signal of the fall of American System?

Pessimists would say yes, and if we become disillusioned, lose our guidance system and our values, yes, it's the beginning of the fall.

Optimists (which we are), say no, these signals are the signposts of a new way of engaging in the world; these are just the signs of the old forms and structures shedding their skin, or perhaps more like the caterpillar coming out of its cocoon to become a butterfly.

Amidst the chaotic signals a distinctive new form of business and economics is arising -- one that's not based on the old foundations of the industrial revolution where financial capital was the fundamental basis of economic and commercial power. We are experiencing and caught in the transitional shift between the Eras of Industrialization, Information, and Innovation. It's like trying to ride in a horse, a car, and an airplane simultaneously. (To understand the shift better, in the next chapter we will delve much more deeply into the implicatins of these changes.)

The new Era of Innovation is beginning to bloom in full glory like a field of flowers in spring. It's a new age of speed, creativity, and integration unlike any that has previously existed on the planet.

But for many, it is a confusing time because many new structures and strategies are appearing that have no precedent. And these are confusing to some, but a great opportunity for others. Let's take a look at some of these changes:

Shift in Organizational Structures

The last fifteen years has shown a massive flattening of organizations; less hierarchical, more fluid, fewer layers of bureaucracy.

Similarly, there's been a phenomenal growth in strategic alliances. Never before have companies, even arch-competitors formed so many cooperative agreements. Toyota has a joint venture with General Motors; airlines have alliances with former competitors; pharmaceutical companies team up with bio-tech companies to innovate new products; networks are formed to create new software; innovation is done collaboratively on a global basis.

Collaborative Innovation

Competitive advantage is what causes any company to grow and succeed. In the old industrial age, money and size were the greatest sources of competitive advantage. But now, in today's fast moving, rapidly changing world, the most sustainable source of competitive advantage is innovation, specifically collaborative innovation. This compels you to collaborate to innovate, because in today's complex world, no one person or company has the complete solution or capacity. Today, more than ever, competitive advantage can come from collaborative advantage.

What is innovation? Simply stated, it's any new strategy, system, structure or process that adds new value to a company. It can come from anywhere. In your organization, it's not limited to the technical people, because, as you will read later, eighty percent of innovation is non-technical. And it can come from your business network of suppliers, distributors, and customers. If you have no innovation, you will not succeed as an entrepreneur in today's world.

Financial Capital Replaced by Intellectual Capital

Collaborative innovation thrives not so much on financial capital but intellectual capital, and this is available to anyone, large or small. It comes not just from you but from your team and the teams of others in your network. That's what's both challenging and exciting, and what makes this new world so filled with opportunity -- if you can "capitalize" on it.

New Thinking of the New Era

This shift brings along with it some new thinking - its not just a retread of an old tire - its new to this world. Here are some of the

things that are really different today than in the old world of just a generation ago.

Old: Competition → New: Coopetition

The word “coopetition” is not even in Webster’s latest edition. It means that competitors can actually work together cooperatively to produce something unique, such as Microsoft working with Apple, or the airlines coordinating routes together. It’s the way of the future in many industries. Cooperation doesn’t mean the end of the competitive spirit – it means you will be forming teams of companies – alliances and networks – to compete against other teams of companies.

Old: Isolated → New: Connected

The older generation of companies battled each other for the biggest piece of the pie. Suppliers and customers were seen as adversaries who struggled with each other to gain advantage. Negotiations were often based on the win-lose premise that if you left anything “on the table” for your supplier or customer you were a loser. Now see ourselves as connected. Our most strategic customers and suppliers are our potential allies to link a value chain that successfully challenge our competitor’s value chain.

Old: Hierarchical → New: Networks & Teams

Not many years ago the accepted organizational structure was to have hierarchical with very rigid structures. That worked well in a slow moving industrial world. Today’s organizations are not just flat, their interconnected, cross-functional, and highly interactive. These model the functions of neural networks, like the human brain – multi-functional, rapid response, integrated, knowledgeable, and creative.

Old: Horde Intellectual Property(IP) → New: Share IP

Today a vast array of lawyers are trained to guard your intellectual property (such as patents, etc.) with a massive stack of paperwork and the threat of litigation. While this is

not “wrong,” it misses the point that today’s entrepreneur must be agile and fast. It’s just as important to get your ideas into the marketplace fast before someone in China does. What’s more, you’d better be working on the Next Generation of the idea as you’re rolling out the first generation. If you don’t, the competition will. Your best IP protection is rapid proliferation and regeneration.

Old: Distrust → New: Trust

In the old world of business, (and a lot of it still lingers in this world), the term “its just business” means “I have the right to take advantage of anyone I want, anytime I want, for any reason I want – it’s their responsibility to look out for themselves.” In the hyper-connected world, this won’t do. If you can’t trust a transaction, there’s a big world out there of honest people who can quickly replace the scoundrel. Trust becomes a competitive advantage because it creates security in a uncertain world, accelerates responsiveness, and generates the foundation for co-creative innovation.

Old: Slow → New: Hyper-Speed

The old adage: *He who hesitates is lost* is the by-word of the new millennium. If you are one who suffers from analysis paralysis, then beware! Intuition and speed are keys to future success. If you’re too intellectual, you will take the time to “take the square root of the logarithm of the ...”.and get beaten by the faster implementer. As Phil Knight said; “just do it!”

Old: Money → New: Creativity

The old idea of the power of money has probably always been a half-truth, half-myth. Here’s why: Yes money can buy you some power, and you will always have to pay strict attention to cash flow, but, like the old Beatle’s song, it can buy you love or the business equivalent – passion. Turns out that highly passionate, creative people make more happen with less than wealthy bureaucratic thinkers

Old: Improvement → New: Breakthroughs

In the past, making small improvements to products once in a while was considered a notable achievement. The goal was predictability – do the same thing over and over again in the highest volume possible. Today this can be a tragic flaw in thinking. There's a cadre of millions of entrepreneurs all over the world looking to create a breakthrough. If you don't, someone else will. Thinking outside the box is essential or you'll get stuck providing an obsolete product or service.

New Rules for a New Paradigm

This fundamental shift is a new form of business. Some think of it as capitalism with a heart and soul; others think of it as collaborative commerce; still others see it as a totally new form of economics. While the verdict is still out as to what we should call this new economic model, there is one thing for sure: it calls for a new approach.

With these changes also come a new set of rules – rules that were nearly invisible in the past. These are the new rules of engagement for a new world. We will explore these new rules in more detail later in the book. For the moment, begin to with these three basic themes:

- Think collaboratively to innovate, not just analytically, but intuitively
- Team within your organization and outside with suppliers, with customers, and honorable competitors.
- Trust is a competitive advantage in a fast moving, rapidly changing world

Essence of Successful Entrepreneurs

Every entrepreneur likes being in control of their company, and presumably their destiny. But being “in control” doesn't mean ruling with an iron fist, nor acting like a dictator. Today, control looks different, and it's certainly not enough to create success.

Today's entrepreneur must have an agile mindset to win. Yes, there are some of the mechanical things about business that must work, such as balance sheets, needing a business plan, and so forth.

Our Simple Definition of an entrepreneur: *Someone with passion who takes risks in pursuit of a goal or dream.*

But the spirit of entrepreneurship is shifting, the rules for winning are changing, and the character type is also refocusing.

What is the role for entrepreneur in the emerging world? Do you have what it takes? Do you have the inner drive? Let's see....

√ **Do you have the Passion?**

Ask anyone who's been around successful entrepreneurs and you can't miss the one thing they all have - passion, commitment, energy, focus and drive. No one has to wind them up in the morning. No one has to tell them what to do. They start the day energized. If this is you, read on. If not, perhaps this isn't your game.

√ **What drives you to start a business?**

Most people think that entrepreneurs start businesses to make money. While money is always a powerful driving force for entrepreneurs, most actually start a business because they want to *control their destiny*, to be their own boss, to do something they couldn't do inside a big corporation. Do you have that inner desire? Is there something you need to do? or prove? or excel?

√ **Creative Destruction**

The term "creative destruction" refers to having a better idea, an advantage that enables you to jump ahead by doing something better, or cheaper, or faster, or differently, that ultimately makes the old way obsolete. Do you think you can do something it better? Does your competitive spirit like to challenge the status quo?

There is a way to do it better - find it.
-- Thomas Edison

√ **Do you like Calculated Risks?**

Contrary to many myths about entrepreneurs, most aren't river-boat gamblers or casino players. Entrepreneurs are willing to take calculated risks, but by betting on what they consider favorable odds where they think they have the edge - in location, timing, creativity, resources, vision, information, or something else that makes their chance of winning better than just shaking the dice. What do you think gives you the edge?

√ **Learning from Mistakes**

Are you willing to take a risk, lose, and not get bent out of shape, but instead rethink the venture, try again, wiser with the same spirit as the if the second try was as fresh as the first?

√ **The Power to Co-Create**

Because the realm of enterprise is changing so fast, to be successful in today's game, you'd better be creative. The best entrepreneurs have an idea a day. Not every idea is a good one, but if you have an idea a day, and only one in ten is good, then you'll have a good idea every ten days. Now suppose you can use the power of multiplication by unleashing the co-creative energy within your organization so that everyone becomes an "idea engine."

Menlo Park Lab: This laboratory will create one minor invention every ten days, and a big one every six months.
- Thomas Edison

Now you've got a powerhouse of collaborative innovation at work for you. Now go one step further - unleash the co-creative energies of your suppliers and customers, and then watch the sparks fly!

√ **Can you Lead a team?**

Are you an Organizer? The best entrepreneurs are not one-person shows, they love to create high-performance teams. They don't need to command as much as coach. And they like teamwork, not individual super-stars.

√ **Trust Building**

Great companies are spawned from powerful internal teams founded on deep levels of trust. If you know how to build trust, and select people for your team that can engender trust, then the right chemistry is there to grow a business. Trust is a character trait that can help propel you to success.

√ **Empowering People**

Great entrepreneurs are empowerers, not emperors. They build organizations of highly capable people who are extremely trustworthy and internally motivated.

√ **Growing Things**

Sure, all entrepreneurs like to make money, but money is not the real objective, its just one very important measure of success. Ask a successful entrepreneur what turns them on and they'll tell you: "I love to grow a business," or "I love to see our customers happy," or "When my staff is performing at its peak, I get a real rush." If this applies to you, you are an entrepreneurial candidate.

In the following chapters we will outline for you how you can build this new venture of the future

What's "Winning" in the New Game?

A young aspiring entrepreneur stated that he wanted to start his own business because he had an intense desire to "win."

I asked him "What does 'winning' mean?" and he responded with a puzzled look, as if I must be a bit strange to suggest the question.

So I offered: Are you looking to be *highly profitable*?

He said: "*Of course*".

Do you want to beat the competition?

"*Naturally*," he responded, "*I'm an intense competitor!*" he said with a knowing smile.

"Do you want to make money?" I asked.

"*Sure, lots of it*" he declared.

"What if you were unhappy the entire time?"

"*Oh?*" he reflected.

"Would you beat up on your employees to get there?" I queried.

Silence as he thought.

"Would you cheat your suppliers or customers to achieve your goals?"

No answer as he studied the issue.

"What if you polluted the earth to make your goals?"

"*I see your point*," he said a little sheepishly. "*In other words, there's more to business than making a buck.*"

Chapter 2 – Collaborative Commerce

by Robert Porter Lynch & Todd Welch

The road took a sharp turn on our journey to the future, and many of us didn't recognize it when it was happening, we were so dizzied by the speed and complexity of the change. In surveys done in the last five years,ⁱ senior executives (45-65 years of age from every size and type of business) were asked to plot a curve given a simple set of instructions – on the graph, using 1970 as a baseline, as time has progressed to the present “what does the rate of change, complexity, and speed (illustrated on the vertical access) *feel like*? The participants were instructed to chart their own personal point of view, not what they had read or been told by someone else.

The “Shift”

Astoundingly, 80-90% responded with a curve that looked like Figure 1.ⁱⁱ

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 stand-alone and predominantly hierarchical. 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.

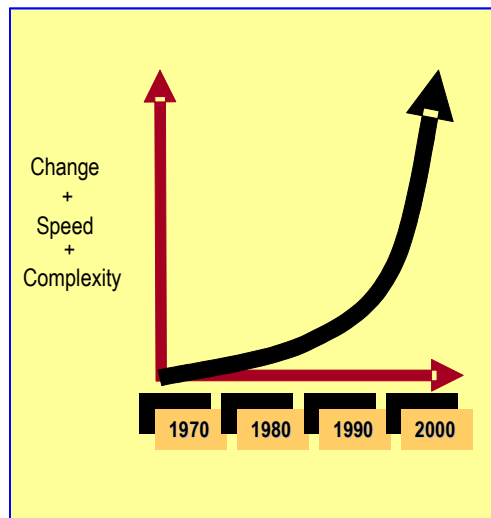


Figure 1: Rate of Change, Complexity, & Speed

Then hell broke loose. Fired by massive forces of change -- the compounded impact of the internet, computers, software, globalization of business, cell phones, and information technologies, what was once a somewhat predictable world almost instantaneously suffered a tectonic shift, becoming fast, discontinuous, and unpredictable. Long-term strategic plans were suspended, sales forecasts scaled into shorter horizons, and alliances burgeoned to enable adaptation to the shift.

There is no time in the history of the world when this type and magnitude of sustained change has occurred in such a short period of time.ⁱⁱⁱ

In the face of this massive shift in speed, complexity, and change, everyone in business needs to ask the question: "So what? What's different today that wasn't true or important ten or twenty years ago?" If you haven't asked this question, we strongly urge you and your team to do so, because the answers may astound you.

It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.
-- Charles Darwin, English naturalist

At Charter Partners, when we saw the "shift" occurring, at first we didn't know or understand the implications. Now, we think we have a better grasp on what it means, and should cause us all to reconsider how we think about and operate our businesses.

Simply put:

The future isn't what it used to be!

We're in a period of business evolution that requires massive re-adjustment and reassessment of our priorities, styles of leadership, assumptions about people, and methods of interacting. Every entrepreneur must now consider how these issues impact his or her business.

Revolution in Innovation

Rapid change is the compelling reason to focus on innovation. Without innovation, any business is faced with becoming extinct, and faster than ever before. Thus innovation becomes essential for

business survivability. We believe there is new fundamental rule for businesses today – both large and small:

*In a fast moving, rapidly changing world,
the most sustainable source competitive advantage is
collaborative innovation.*

Massive advances in computer and telecommunications technology have driven powerful shifts in business and economics. We are still trying to absorb the meaning of these changes. But, to the chagrin of many who seek a stable world, the old rules are being rewritten daily. Some of the new rules will astound the older generations, but, ironically, two things that were treasured in the past -- trust and relationships, will be more important in business now and in the future.

*Ideas are the fuel of innovation engines.
Best of all: the fuel is free.*

Hierarchies are dinosaurs

The hierarchical organization as we've known it is a hand-me-down from the Roman legions. It worked well in slow moving environments. However, in a fast moving world, connected networks that function more like the neural networks of the brain are more efficient. Yet our organizations are not changing at the rate of speed of the environment around them. Adapting to fast-changing conditions involves working closely and cooperatively. Even the U.S. military now understands this – the role of a private in a combat-centered battlefield network is far different today than in the Vietnam era; he's no longer a "grunt;" he's an integral part of the battle system: thinking, sensing, innovating, and acting. So too, in your entrepreneurial organization, should your employees be part of the "network."

Need for Collaboration

With the advent of the internet, powerful communications, and a major shift to greater connectivity between customers and suppliers, our new world of global enterprise is now far more integrated, accelerated, and connected. This calls for a new type of business –

one that is highly cooperative. For the older generation, cooperation may come as a shock. The premise of the past was that the “John Wayne style” hero was the epitome of the heroic entrepreneur. Independence is no longer a sustainable strategy for success. This doesn’t mean we think the individual is obsolete or that individual initiative is a relic of the past – quite the contrary! But it does require the individual entrepreneur to think in new, connected and strategic ways.

Entrepreneurship is more Important than ever

Rapid action, less bureaucracy, and working on intuition is more prized now than in the days of slower bureaucratic corporations. Quick decision-making, agility in organization, creative solutions, flexible roles, fast alliances, and willingness to take calculated risks are the hallmark of the successful future business.

Information is a Commodity

In the past, access to deep knowledge was the privilege of the college educated. Today the internet has changed all that. Any young child with a computer and access to the world-wide web can have just about as much information as the Harvard MBA. So it’s not about the information; today it’s about ambition, creativity, organizational ability, and willingness to take risks.

Strategic Alliances & Networks

Unlike the prior age, where stand-alone companies produced nearly everything they needed to sell, this new era demands that we focus on what we do well. Successful companies are now learning the importance of being integrated, connected, networked, and allied with their customers, their delivery systems, and their suppliers. Even giants like P&G, IBM, and Cisco Systems now pride themselves in the innovation flows that come from their alliance partners.

Power of Intellectual Capital

Information is now a commodity – available, cheap, and accessible by anyone. Money is accessible to those who have initiative and a truly good idea more prevalent than ever (even though we never seem to have enough of it). What becomes most *valuable* in the new era of

innovation is the single thing which creates the most *competitive advantage* – and that’s *intellectual capital*. The game every entrepreneur must play is establishing a sustainable competitive advantage to keep his or her business alive. The way this is done is different today than it was a generation ago: it’s unleashing the collective creativity of your entire organization – internally and externally with your suppliers and customers.

Collaborative Innovation

If innovation is the most important means of creating sustainable competitive advantage in a fast moving, rapidly changing world, then how do we maximize our competitive advantage? By out-innovating the competition. But any entrepreneur, if operating solo, is destined eventually to run out of ideas. All the brain-power of Edison and Einstein combined would not be enough to produce the quantity of innovation required, given the rate of change around us. This should lead anyone to the inevitable conclusion: we must *collaboratively* innovate to win in the game.

The best way to have a good idea is to have lots of ideas

-- Linus Pauling, Nobel Prize-winning scientist

Leveraging Resources

Just ask any business, from the largest multi-billion dollar global giant to the smallest local sole proprietorship about resources: they will all say they don’t have enough resources – money, people, time, or information. Studies have shown that companies with too many resources usually squander them – it’s the resource constrained

At Charter Partners, we pool our resources together between honorable competitors to gain major advantages in the marketplace. The key to collaborative competition is honorable interaction, and carving

companies that tend to be most successful. Just look at how the lack of resources forced Apple Computer or Toyota to be resourceful, gaining enormous competitive advantages using ideas against brawn. Companies, from large to small are now learning to cooperate to compete, thus leveraging their resources enormously.

Teamwork Inside and Outside

Leveraging resources and generating intellectual capital requires a little rethinking of what we do and how we do it. Teamwork used to mean getting people to work together *within* our organization, usually within a small part of our business. While this is still true, a larger truth prevails today: we must make teamwork fulfill the goal of making our organizations more efficient and effective; more innovative and agile; more connected and faster. But we can't limit the idea of teamwork to something within our companies – teamwork has to happen across boundaries: with our suppliers and our customers. Without seeing our company as part of an alliance network of suppliers and customers, we run the risk of thinking too tactically when competitors are jointly playing a strategic game.

Teamwork & Trust Create Competitive Advantage

In the game of business, where resources are limited, risks are many, and the competition is fierce, teamwork and trust are a powerful hidden competitive advantage because they are difficult for the competitors to see, never mind duplicate. Teamwork means people are energized and synchronized; they can trust each other to perform and they help each other out; they build on each other's ideas; they sense what's happening around them and call each other into action quickly. By building a group of highly energized, coordinated people synergize together, co-create, and coordinate with utmost precision (what's called *synchronicity*). Without trusting, the thinking and teaming parts of the equation won't compute. What's interesting about trust is that it was much more a part of capitalism during the pre-industrial (agrarian/merchant) era, and it will be an even greater asset to a business in the future, because it enables high levels of speed, innovation, and integration – all major assets in our new, fast moving world.

New Economics

While digital technologies not only have impacted every aspect of business, they have highlighted a dimension of economics that had hitherto never been explored.

To understand the new economics, you must first think outside the box. Everything you learned about traditional economics works only part of the time. (If you took a course in economics in college, please put it aside for a few moments until we explain) First, there are actually two different types of economic systems running simultaneously at all times – one is quite evident called the economics of expendables. The other less tangible, called the economics of expandables. We'll show you the difference and how they impact on your business, your thinking, and your bottom line.

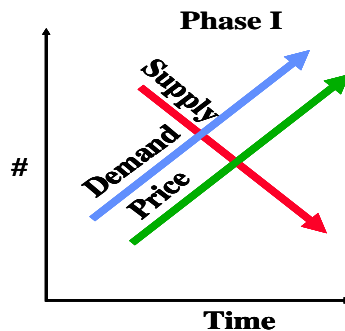
Economics of Expendables

This is really easy to understand, and the basis of all traditional economics.

Expendable resources are *depleted and decrease upon usage*.

Let's use gasoline as an example of an expendable. In this case, all the normal laws of supply and demand prevail. When you use a gallon of gasoline, the gasoline is gone forever – kaput. Each gallon of gas you use diminishes the supply of gas. As demand goes up, supply goes down, driving the price up (Phase I Figure 2 below).

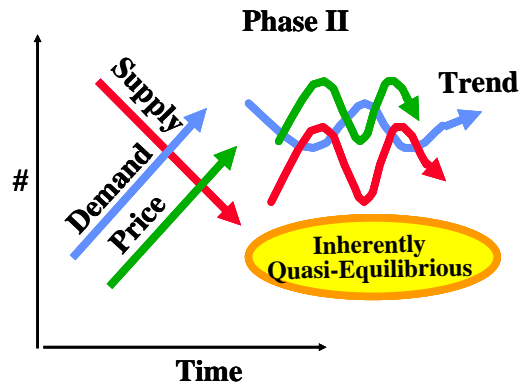
Figure 2 Economics of Expendables Phase I



If demand reverses course downward, supply increases, and price goes down. During the time the gasoline sits in your car, the utility (or value) of the gasoline remains stable.

As price is driven up, suppliers are encouraged to produce more, which increases supply, which in turn drives down prices. Eventually some zone of equilibrium is achieved in which prices and supply and

Figure 3 Economics of Expendables Phase II



demand tend to stay within a range. (Phase II Figure 3 demonstrates this graphically.)

That's pretty obvious and pretty simple. Here's where things start to get really interesting:

Economics of Expendables:

This is what you weren't taught in school, and can't see as easily, but you know it from experience. Economists were puzzled by it when they saw productivity increase dramatically in the 1990's, but couldn't explain it with traditional thinking. Here's why: Unlike expendables (which adhere to the universal price laws of supply and demand)

Expendables are not limited by supply, and demand (usage) does not increase their price, but it *does* increase their value.
Expendable resources regenerate, or multiply the more they are used.

This is why $1+1=3$. Let's look at an example of the economics of expendables in practice. Take Edison's invention of the phonograph

a hundred years ago as an early technological example in the “analog age.” Once Edison created phonograph technology, the production of a single record could be reproduced at an extremely low incremental cost of production, though selling for a premium. Unlike consumables, playing the record did not “use it up;” the more it was used, the more utility was derived.¹ Phonographs were then superseded by radios, which extended the range and utility of phonograph records even further.

Software is a modern and extreme version of this phenomenon in the digital age. Software is inherently an expandable resource. Using it daily does not diminish its size or impact. To the contrary, using software creates more value every time it is used -- therefore it expands. It’s best used when shared, transferred and transmitted; hording it diminishes its value; using this resource brings it to life. Capturing the learning and sharing the knowledge generated by software only makes it more valuable, reaching more people, and generating more future possibilities. Software is inherently invisible, being only a series of magnetic imprints on a media. A disk or CD costs virtually nothing to produce (the CD or Disk’s value is less than \$1, and an Internet download is almost free), but the software may be valued at

Some examples of Expandables

- » Software
- » Digital Technologies
- » Networks & Information
- » Innovation and Breakthroughs
- » Teamwork & Cooperation
- » Communications
- » Caring, Happiness, Compassion
- » Co-Creative Innovation

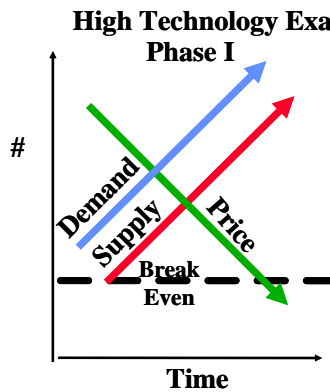
¹ Note: There is an in-between zone which includes extendables (or durables) such as telephones, radios, houses, washing machines, cars, antiques, fine art, tools, and so forth, that have very long life spans, not being “used up” for a long number of years, and having very low cost per usage. *Replenishables* also fall into this zone because nature puts them back as we use them. For both extendables and replenishables, their incremental cost of production does not exhibit the same dramatic cost advantages of one of our latest digital technologies such as software or the internet, but yet provide massive economic advantages over expenables.

tens or hundreds of dollars, or more. In this software example, the incremental cost of production of the next package of software is so low, that the cost is next to negligible.

Therefore, a unique dynamic occurs: In the first phase of evolution, as demand for software increases, the supply of software (being easily expanded) can increase along with demand while cost drops dramatically for the software developer (because the incremental costs of production are virtually nothing compared to the sales price). If there is competition present the retail price to the customer may also drop. As the first phase of evolution progresses, still more competitors may enter the market, further depressing price and driving profits below break even.

This same phenomenon has brought the music industry to its knees as songs are exchanged over the Internet or on flash drives for free, making their price infinitesimally low. Figure 4 demonstrates what happens on the supply, demand, and price curves.

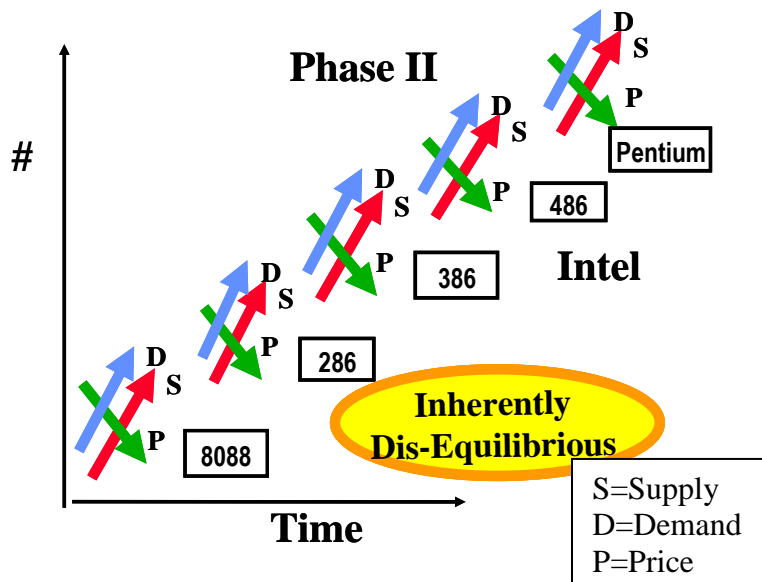
Figure 4 Economics of Expandables Phase I -- Software



This situation creates a vexing dilemma for many businesses in the digital arena. In order to keep prices from being driven lower and lower, two options exist: either attempt to control the market through a monopoly (as Microsoft has done) or innovate faster and faster (as Intel has done in computer chips or Apple has done with the iPod and iPhone).

The monopoly option, calls for buying competitors or driving competitors out of the market, thus creating an artificial price level substantially above the breakeven point. Microsoft has chosen this route successfully, forcing Netscape into oblivion and has made Bill Gates one of the world's richest men. But seldom can this strategy

Figure 5 Economics of Expandables -- Intel Example



last forever. Microsoft's Office Suite, which retails for \$400 is now forced to compete with Sun's Open Office, which downloads for free; and because Firefox's Internet browser is free, Microsoft's Internet Explorer is also free. The other option calls for a regenerative strategy by which a new and better version of the technology is created rapidly to obsolete the earlier version, thus creating the second phase (or generation) of the evolution. Figure 5 illustrates the strategy of Intel from the perspective of the economics of expandables (note: silicon, the major component of a computer chip, is one of the most abundant minerals on the earth.) Moore's Law (proposed by Intel's CEO Gordon Moore in the 1970s), the demands the capacity of a

computer chip double every eighteen months, and the price per byte will drop by one half. Intel created this “law” to drive regeneration.

Other computer chip manufacturers are forced to adhere or to beat Moore’s law, thus they track along this second regenerative phase, which is inherently dis-equilibrrious (unstable, erratic, unpredictable) because the more demand, the lower the incremental cost of production for the next chip, hence the lower the actual cost of the next chip. The regenerative economic strategy enables competitors to survive only if they innovate quickly. Those who fail to innovate will be caught in a price war that strips them of the financial resources necessary to invest in the next round of innovation.

For Intel, this price/demand/supply relationship will burn itself out every 18 months (Moore’s Law), unless Intel creates a totally new level of chips. The 8086 chip of the early 1980s had had to be supplanted by the 8088, then 286, then the 386, then the 486, then the Pentium I, II, III, IV, V, and onward. While Microsoft has employed a mixed monopoly-regenerative strategy, Intel has chosen a largely regenerative strategy.

The Internet is another example: The more demand for the internet, the more supply, and the lower the incremental cost of providing the service. Cable companies, having a monopoly on connections to a home or office can artificially keep the price of internet connectivity high. On the other hand, Cisco Systems, which provides the hardware that underpins the Internet, must keep innovating with a regenerative strategy lest its competitors carve out market share in a price war.

Now, for the leap: What other phenomenon demonstrate virtually unlimited supply, while its frequent use does not “use it up?” How about *creativity*, or *trust*, or *teamwork*, or *communication*? Creating demand for cooperation, and developing skills in cooperation does not “use it up;” but instead, the more it is

If you have an apple and I have an apple and we exchange these apples, then you and I will still each have one apple. But if you have an idea and I have an idea and we exchange these ideas, then each of us will have two ideas.

-- George Bernard Shaw

used, the more utility it generates – thus becoming a “regenerative system.”

What we must know is when the system of economic scarcity is in play, and when we are engaged in the system of economic regenerativity. In the long run, an investment in a regenerative system plays much better dividends for the larger community than in a scarcity system (although scarcity systems can create short term aberrations in which large amounts of money can be made or lost for those trying to maximize their self interest, as Wall Street has done for years).

We must be able to distinguish between expandables and expandables when engaging in any collaborative relationship because the laws that govern one run counter the laws that govern the other, but *both are true and both mutually exist in our world*, and each has its applicability to totally different circumstances. To treat each with the same principles and rules of usage confuses and limits possibilities for collaboration to utilize the unique power of expandables.

This problem manifests quickly when miserly minds can't acknowledge the laws of expandables. Their limited understanding is often reflected in contracts for intellectual property, where negotiators can tussle for months and even years over ownership rights, or in chasing the lowest cost for a component, overlooking the potential of a supplier to provide innovation or other value-based services. Their hoarding and protectionist mentality blocks them from realizing that, if sharing of intellectual property rights occurred, or if they worked for mutual advantage, both sides would create more new ideas and command a more sustainable joint competitive advantage.

Unfortunately, the Economics of Expandables are not well quantified, analyzed, or studied, and therefore does not form the foundation of traditional economic thinking. What also sets the Economics of Expandables apart is that it is highly dependent upon the establishment of a regenerative system to support it.

Accessing the expansive possibility of sharing begins with the mutual belief that “the more you give, the more you're going to get.”

When both partners hold this belief, it manifests. The general rule for the Law of Expandables is:

Sharing Expands, Hoarding Contracts

Collaborative mind-power thus creates its own “regenerative energy,” or a form of “synergy.”

Is Capitalism Dead?

No, quite the contrary. Capitalism is very much alive. What’s happening is that, just like capitalism in the previous eras, it is transforming to fit the new Era of Innovation. This is why we use the term Collaborative Commerce, to distinguish the new Capitalism from the old forms. (Some people call this capitalism with values, or with a heart.) There are a number of things that will be significantly different, and many people will be quite confused, because during any time *between* eras, the rules of a fading era will conflict with the rules of an emerging era, creating a duality that looks like a set of contradictions.

To help understand this shift in capitalism, a very short (and thus generalized) historic background is helpful. Let’s take a quick look at where our commercial models came from and how they’ve shifted:

The History of Business (in a few pages)

Capitalism

The basis of modern economics is rooted in Adam Smith’s classic book, *Wealth of Nations*, which advocates that money and self interest was the basis of economic power. He wrote his treatise in 1776, during a pre-industrial era where commerce was highly localized. Most business was done on the basis of trust with people who knew each other, lived in the same community, and whose reputation was vital to their ability to transact future business.

Soon thereafter, the early 1800s brought the Industrial Era. Wealthy business constructed vast empires in textiles, steel, chemicals, and railroads. Labor, then seen as a commodity, could be used to run machines. Sweat shops emerged, business exploited labor, especially children, and the environment became polluted.

Robber-baron capitalism concentrated enormous wealth in the hands of a few, making the rich richer and the poor poorer.

An uncontrolled rollercoaster of prosperity and depression ruled the economies of Europe and North America for over a century. Boom times were followed by depressions as the banking system cycled from greed-driven profit-making then recoiled as the bubbles burst (the Great Depression of the 1930s is a good example, as well as recent housing market crises).

Imperialistic nations spread capitalism across the globe in search of undeveloped nations whose natural resources could be exploited. During the Industrial Era, the major issues of the time were very much guided by how the political systems responded to economic forces.

Capitalism, which in the preceding Agricultural/Merchant Era had been localized and composed of small and medium sized businesses, changed dramatically. Business became more remote, distant, and transactional. Contracts and legal protections were required as the business community became more far-flung.

Communism

Exploitive capitalism triggered numerous reactions. Karl Marx wrote the Communist Manifesto in 1848 to counteract robber-baron capitalism. Marx proposed a communistic system that returned all the wealth and control to the working class, framing this as the struggle between labour and capital. Marx's proposed that labour, not capital, was the rightful foundation of economic wealth and that, to protect people from the robber-barons, a new social and economic order was necessary.

By 1848, Europe was awash in riots and revolutions as the workers revolted against capitalists, giving birth to the labour union movement. Russia, in 1918, and later China, adopted Marx's system.

Socialism

Less extreme responses to exploitive capitalism focused on enabling government to control the economic system, and balance the interests of labor and capital, under the name of socialism. Not willing to give up their power and privileges, the capitalists in control were forced

by to make economic concessions and reforms as labour unions pushed for child protection laws, anti-trust laws, and safety regulations. Many countries in Europe followed this route.

Government-Disciplined Capitalism

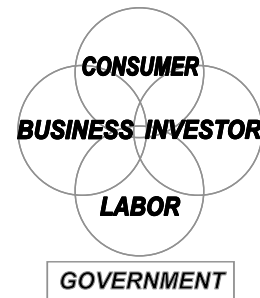
It's important to understand that capitalism is essentially an alliance of four powerful interests: business (providing goods and services), labor (producing goods and services), investors (providing capital to grow businesses), and consumers (to buy goods and services). When this alliance works efficiently, in alignment and balance, capitalism is a highly productive system.

Unfortunately, this alliance has a strong tendency to get out of balance and alignment. Historically there have always been some businesses that have tried to sell consumers defective products, polluted the environment, and abused its labor force. Similarly, the investment community, made up of banks and Wall Street investment houses, has often let greed (and its flip side: fear) reign, pushing businesses to incessant

profits at the risk of its own health. Some labor unions have been led by those who let power go to their heads, thus destroying the delicate balance calling strikes that drove their businesses into oblivion.

Government is the only force that represents the silent voice of consumers and the greater good of the whole. Thus it is the only entity that has the power to balance and align the system ensuring the four interests are working together effectively. In this way government acts like a system integrator and creates a "level playing field."

In North America, during the 20th century, government corralled exploitive capitalism with laws governing child labor, anti-trust, tax, pure food, and the environment. Labor unions counter-balanced abusive businesses, and political parties emerged to represent the interests of labor and capital. When labor abused its power, government stepped in, sometimes with the National Guard, to force labor to end strikes on the railroads or air traffic controllers. After the



Great Depression of the 1930s, new laws were put in place to prevent the excesses of the financial investment sector of the economy.

Left and Right Wing

In the United States, politicians built power-bases around either labor (left wing) or capital (right wing). Today's Republicans and Democrats trace their philosophical roots to either the capital or labor sides of this historic battle. Today Republicans tend to adhere to conservative values, while Democrats are now more associated with social consciousness. However, in any political campaign, business and investors will typically place more contributions in the hands Republicans, and labor unions will typically finance Democrats.

Understanding the Global Meltdown of 2008

Capitalism is a *system*. To understand why the system collapsed in the fall of 2008, one must understand a few basic things:

First, all systems must have balance and alignment. For example, your own human body is a system. If the digestive system stops functioning, you starve and die.

Second, the interests of those that comprise the system are not the same: Consumers want the best value for the purchases; businesses want to sell products and services competitively at a profit; investors want to make money, and labor wants to earn a living and have job security. (This is admittedly a bit oversimplified for sake of brevity)

Third, the system is has some unholy elements in it. A small minority of those in the system (driven by greed, fear, or power), are prone to abuses. When they are not disciplined, the abuses can throw the entire system into disarray.

Fourth, the system is analyzed predominantly by economists, who hold the false belief that people make rational decisions. But worse, a segment of these experts believe in *free markets* which they erroneously predict will automatically self-correct^{iv}. The free market economists advocate governments play a minimalist role in balancing the system. Free market economists fail to understand that markets cannot act rationally because they can

be abused and be unduly influenced by the emotions of greed and fear (opposite sides of the same coin), and that there are members of markets who will unscrupulously attempt to manipulate the market forces for their own self interest.

To understand the current economic meltdown, it's also valuable to get a historic perspective on the factors that have caused debacles like this in the past. This type of economic crash has occurred every 20-30 years (or more) sometimes with catastrophic effects. There have been crashes like this in Europe and the United States in 1636, 1694, 1721, 1792, 1797, 1819, 1825, 1847, 1847, 1857, 1873, 1890, 1893, 1907, 1929, and now. In the last several decades Japan had a total meltdown of its financial system in the 1990s, and we experienced smaller regional or industry specific crashes in the U.S. the 1980s in real estate, silver, and internet stocks.

To create the "Perfect Storm" Financial Panic, there are common elements in each and every one of these historic economic disasters:

1. Easy Credit which artificially increases the supply of money in the economy
2. Speculative Greed of Investors which is fueled by easy credit by Banks
3. Dalliance between Investors and a Target Business Sector, which becomes the "Darling of Wall Street Analysts" who hype stock in that sector
4. Frenzy to Over-Build/Buy as the bubble increases due to Crowd Contagion
5. False Sense of Security that the underlying value of the speculative target/asset is stable and sound
6. Delusion that the Financial & Investment community can regulate itself (or that competition will cause it to self regulate)
7. Lack of Transparency into what is really happening and who's really driving the market, thus the collapse comes as a surprise
8. Failure of Government to see reality and protect the interests of the common person by regulating the system to ensure fairness, stability, and security

The Free Market Delusion

It's in the nature of speculators and the finance community to "make money" (a euphemism for "greed"). Beginning in the 1970s, free market economists began advocating the diminishment of government's role in the economy, except by regulating the monetary supply through the Federal Reserve. Government took its eye off the ball, and the economy went on a speculative spree, this time focusing on real estate. The forces to create "perfect storm" financial panic were quickly coming into being, much like a hurricane forms in the ocean.

Wall Street had a love affair with the free market economists, promoting their philosophies, their books, and their strategies. All over the globe, the delusionists began to drink their own bathwater. They loaned more, then used the over-inflated real estate as false security. It had happened many times before, and not very long ago in Japan and Norway, and in Texas and New England. But greed overpowered rational thinking as the frenzy continued^v.

We then let Wall Street control our thinking about economics and capitalism, control the measures of success (companies must make growing profits every quarter) and control the rewards and punishments (if you don't meet Wall Street's "expectations" we'll kill your stock value and arrange for you to be bought by a hostile entity).

Return of Robber Baron Capitalism

There are many (but certainly not all) in both the financial/investment and business sectors whose primary objective goes beyond the running profitable ventures. For this small minority, their purpose is to make money at all costs, including pillaging customers, consumers, employees, suppliers, pensioners, and small investors. These few consider that the purpose of business is to maximize the making of money - this is the gentleman's term for *greed*.

The problem with greed is that its underlying cause is *fear* of not having enough. Thus greed is insatiable as long as the fear exists. This greed drives massive desire for immense material accumulation, far beyond anything a human being needs to live happily. While greed (inherent in a few who operate within any capitalistic system) cannot be cured, it can be curbed by sensible policies and legislation.

The term “free market” is a misnomer. When free markets become a “free-for-all” melee that gives unhealthy advantage to the big and the unethical, the system is out of balance. The self interest of the greedy can destroy the greater good of all, including the self-centered.

During the period leading up to the 2008 Meltdown, banks , driven by the drum-beat from their Wall Street brethren for ever-increasing profits, learned a cruel way of making money. First, they took a legal, but unethical avenue, issuing a mountain of credit cards to those lower income people who couldn't afford them, and charged exorbitant rates the moment the holder got behind in their payments. They enticed people with low initial fees, then hit them hard with interests rates and penalties beyond usury. It was certainly unethical, but legal. If some people defaulted, it was offset by the money they made on those who struggled successfully to keep up with their payments.

What the banks learned from their credit card experience was how to entice people into a bigger game – buy a house on credit through sub-prime lending. Then hit the low-income sub-prime homeowners with an Adjustable Rate Mortgage that would produce higher returns several years later. This was a hurricane ready to to make landfall with explosive force.

Role of Government

Because government's view of their role was jaded by the eloquence of the free market economists, Washington looked the other way and provided vehicles for buying the subprime mortgages, the house of cards continued on, until as one bank then another failed, the whole system came crashing down, taking with it nearly every legitimate business and worker, and pension-holder as innocent victims.

Free markets must mean freedom for the most creative to innovate freely, not be gobbled up by the dinosaurs of a by-gone age. The intrinsic value of something (like a home) must not be driven to speculative exorbitances to salt the meat of those hungry to make just another buck.

Imagine a competitive contest like a football game without rules and a referee. In short order chaos and calamity would prevail. There would be carnage as the playing field became a gladiatorial slaughterhouse.

The proper role of government in establishing “fair markets” is to act like a referee in a sports contest – interpreting the rules of fair play, enabling competitive performance to be rewarded, and impose stiff penalties for those that play below the belt, thus preventing the manipulation of markets by the powerful and the greedy, and protecting the investments of society: the small businesses, the workers, and the home owners from manipulation, speculation, and deflation.

Keeping the balance between self interest and the greater good of the whole is the worthy and rightful role of a government committed to honorable purpose.

Capitalism is not an “evil” system – in fact it has stimulated tremendous competition to create wealth that has grown a prosperous middle class that is the core of civilization.

Cooperative Commerce

Industrial Era in the U.S. lasted from the early 1800’s through the 1970’s². (see Figure 6)

During the Industrial Era, it became clear that the two extremes: Dictatorial Communism and Exploitive Capitalism were becoming extinct because they did not work. The systems in the middle: Government-Guided Socialism and Government-Disciplined Capitalism were producing far better results for all people.

Labor strife diminished, people became conscious that the environment needed to be protected. Tax structures were reformed as the disparity of thinking between the “haves” and the “have-nots” diminished. Distinctions blurred between right and left wing ideals.

² Note: different countries enter and exit eras at differing times and rates, and residue from one era often continues into the next

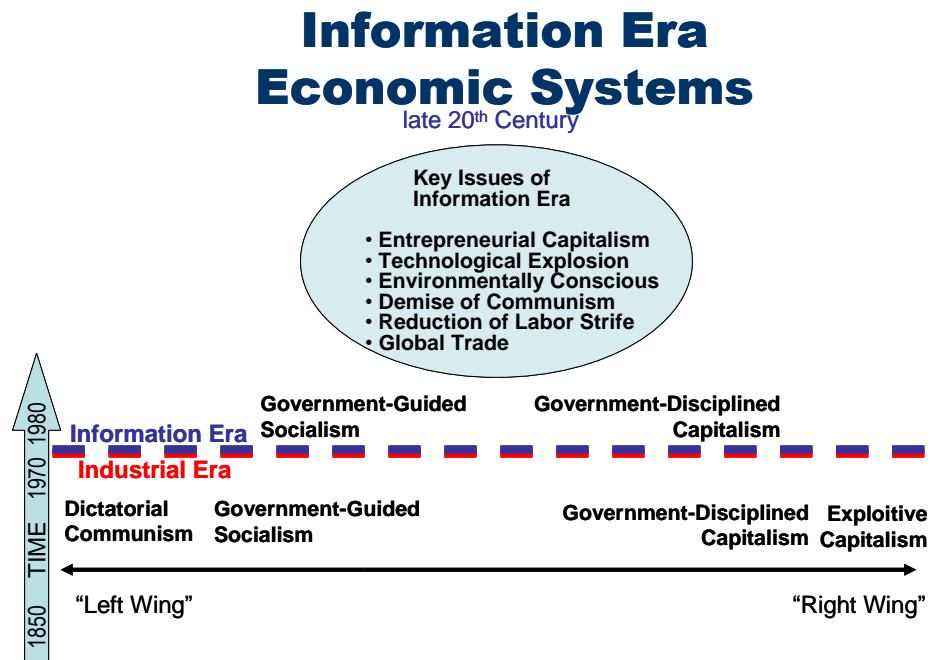


Figure 7 Shift from Industrial to Information Era

With this shift came a globalization of economies, and also a reframing of the rules of business. Money was less a precious resource, information became a commodity, and educated people became more valuable as we shifted to an economy based more on services and less on manufacturing.

A new entrepreneurial capitalism emerged that enabled small companies to grow rapidly (for example: Microsoft, Apple, Google, etc.) and the owners accumulate great wealth because the foundation of competitive advantage shifted from large behemoths to agile, fast, and innovative entrepreneurs.

With this shift, many industries of the earlier Industrial Era were diminished significantly, such as steel, railroads, machinery, and textiles.

Innovation Era of Capitalism

Unlike past eras that enjoyed long lives, the Information Era proved to be short-lived, just a twenty year transitional step-stone setting the stage for the Era of Innovation.

This newest era is something uniquely different, but still remaining grounded on the capitalistic side of the fence. (see Figure 8 below). New capacities and integrations between computers and telecommunications have enabled networking of companies in ways never imagined just a few years ago. Competitors that used to be arch-rivals are now collaborating.

New Innovation Era of Collaborative Commerce

early 21st Century

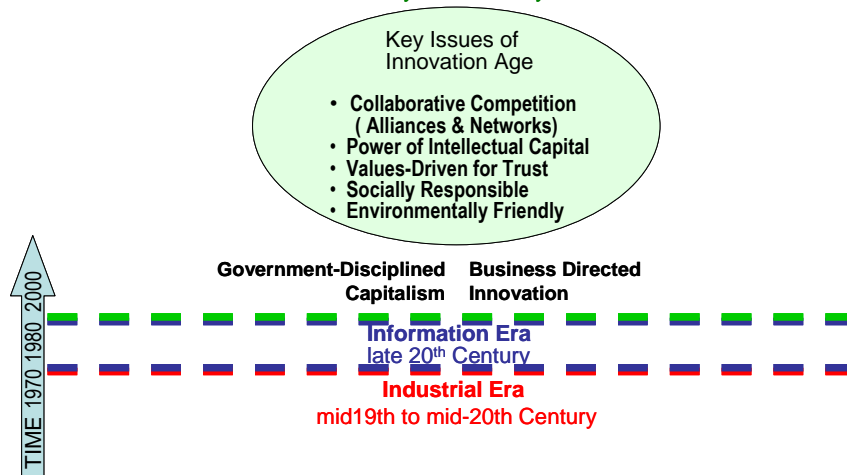


Figure 8 -- Emerging Themes of the Innovation Era

Financial capital, once the source of power in business, is being replaced by intellectual power. Workers, who once were treated like replaceable parts, are now being seen as a competitive advantage, being encouraged to work smarter not harder, using their ideas more than their brawn. The emergence of the service economy now balances the manufacturing economy, thus encouraging more thought-generated ideas from the workforce. Social responsibility is considered to be an integral part of a business' mandate. Environmental

consciousness has evolved into environmental responsibility as the threat of global warming looms large.

During this new era, government's role is emerging both as a disciplinarian to prevent abuses, and as a facilitator to create economic and competitive advantages for its constituencies. To deal with the need for speed, integration, and innovation, many businesses are aligning their strategic direction using alliance-based business networks (eco-systems). The power of the eco-system will be dependent on their focus of alignment, global reach, their agility, and their ability to innovate rapidly.

It is this new Innovation Era of capitalism we refer to as "Collaborative Commerce" to distinguish it from earlier forms of capitalism. It's new, it's unique, it's guided by somewhat different rules and principles, and it's actually very energizing.

Caught in the Gap Between the Shifts

The rapidity of the shifts between the Industrial, Information, and Innovation Eras over the last thirty years has caught many by surprise and has confused many because what was considered truth in one era becomes a myth in the next.

Many academicians are still teaching old management principles that were very true just a few years ago. For example, one esteemed professor of business confidently stated recently (referring to supply chains):

- *Power is the primary basis for relative strength of the buyer-supplier relationship....*
- *In a world of scarcity, win-lose negotiations is the best approach because win-win is a fuzzy fallacy*
- *It's not in the interests of buyer & seller to maximize their mutual benefit*
- *Exchange is at the heart of all human existence*

He is clearly grounded in the thinking of the Industrial Era advocating strategies and practices that would fail dismally in the Innovation Era.

pockets wheeling and dealing with other people's money. But small and medium-sized businesses are usually guided by more purposeful people who find the reason for their business is to provide a product or service they believe in at a profit. Their businesses run not on shareholder value, but on cash-flow (just ask anyone who's had to make a payroll). What's more, try motivating an employee on Monday morning with a rousing speech about how he or she is going to work all week just to serve some unseen and unknown shareholder. Reality: Making money for shareholders is just one measure of our success. - its not the purpose of the business, nor is it the motivation of most entrepreneurs or employees.

The Future of Business

In this new Era of Innovation, cooperative entrepreneurship will flourish based not on massive size or money, but how well you can collaborate, innovate, integrate and accelerate.

However, the changes required in thinking about collaborative commerce will require new approaches to the ideas of deregulation and government discipline.

Deregulation is a wonderful philosophy in a perfect world where all the players are honest, fair, and ethical. Unfortunately we don't live in that world. Government discipline is required to ensure the alignment between entrepreneurial self interest and the greater good of the society in which businesses exist. Recent debacles such as Enron and WorldCom, or the Wall Street meltdown^{vi} illustrate how those with insatiable greed can take advantage of other peoples' money and trust in the most ignominious ways. The role of government in the emerging Era of Innovation must be two-fold:

1. to provide (with the input of ethical businesses and community stakeholders) coordination, guidance, and propulsion for sound business initiatives
2. to act as disciplinarian to ensure standards, ethics, fairness, and safety - that of "guardian" to ensure high levels of trust.

We encourage you to read Chapter 6 on Trust to see our system of how to rebuild trust in our business world.

Moving Forward

In the following chapter, we will show you how we have actually created real competitive advantage using the principles of collaboration. You will see it has been an exciting and rewarding journey.

ⁱ During the last 5 years, RPL, in speeches, seminars, and workshops, asked over 10,000 executives across the US and Canada about how change, speed, and complexity has changed. Between 80-90% of all audiences responded with the curve noted.

ⁱⁱ 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.

ⁱⁱⁱ The only possible exception to this type and magnitude of change might be the Second World War. However, the difference is that after the war, the world basically resumed its prior ways, whereas in this current change, the entire world is shifting its perspective, behaviors, priorities, and rules of engagement. George Santayana's admonishment that "Those who do not learn from history are doomed to repeat it," may not prevail in this environment where there is no precedent for the change.

^{iv} (On October 24th, 2008 in Congressional testimony, former Federal Reserve chairman Alan Greenspan expressed astonished dismay that bankers could not self-regulate their propensity to be extremely greedy.)

^v Charles McKay wrote in 1841 about the *Madness of Crowds*, that peer pressure can influence people to make ridiculous decisions, stirring up a feeding frenzy that warps even sane minds and lures intelligent, well-meaning people into foolish judgment. This can be kept alive by ideologues, like free market economists, who believe that the market is an accurate judge of real value. While the market *can* be a judge of value, it is often skewed by greed, corruption, and manipulation that highly distorts *intrinsic* value.

^{vi} The Wall Street Meltdown of 2008 is a perfect example of *Greed Gone Bad*. We let the fox get into the henhouse during the mortgage boom when money managers sold mortgages to people at adjustable rates they knew people couldn't afford and financed homes to speculators when there was no rental market to lease the properties. This was simply bad business, and the place

where government's role should have been to replace greed with sanity. Government failed, pure and simple. In the new, emerging era, government's role will become clearer, as it learns it must replace systems based on trickery with honesty, complexity with simplicity, obscurity with transparency, and deception with trust. The games of shorting, derivatives, hedges, and unbridled speculation that artificially drove up the oil markets in the summer of 2008 must be curtailed as part of the reforms. The financial industry has lost sight of its fiduciary responsibility to protect the capital of people's 401K and pension funds to prevent further abuse. Self interest is the reason why capitalism has beaten communism as an economic system. But it was no robber-baron capitalism that prevailed, it was government-disciplined capitalism where unrestrained self-interest was bridled by the higher principles of the greater good, much like a spirited stallion is turned into a thoroughbred racehorse.

Chapter 3 Creating the Cooperative Future

Case Study #1: The Story of Charter Partners

In March 1986, we found our well organized insurance agency in the middle of a crisis that could jeopardize our future. The cover of Time Magazine read:

"Sorry, America, Your Insurance Has Been Canceled"

Our insurance agency, Bowers, Schumann and Welch, had been in business for nearly 20 years and had developed a reputation of being an organization you could trust. As a matter of fact, nearly three out of four small businesses and nonprofit organizations in our region were insured through our family business, an unbelievable market penetration.

We moved about town feeling proud of our family and our reputation. This knowledge and pride caused us to hold ourselves to a certain standard as we interacted with the community.

Schools in Crisis

This insurance crisis hit schools particularly hard; rising rates many times the cost of previous years.

The battle lines were drawn. In school board meeting after board meeting we watched my father as he explained to old friends and clients why the rates had gone up so dramatically. Nearly every morning we started our day with the family name in the newspaper associated with an unreasonable insurance rate increase. Our business was in crisis; our family reputation was in crisis.

The Challenge:

This is the point where the power of cooperation enabled people to stand up and make a difference. We watched and learned as my

father invited every frustrated and angry school into a joint meeting at our office. At the meeting we remember everyone venting their frustrations.

The Key Question:

Dad had always taught us that great learning is tied to the questions you asked. If you asked good questions that engage people and get them to go to the core of an issue, everyone learns something and they get to co-create solutions. This is a very empowering process, but we wondered how he would respond to such a hostile audience.

Dad did something we considered genius, which was to ask the participants how he could help them as a group. It was a simple question with very interesting results.

They responded by suggesting that the insurance companies were taking an unfair view of these schools because they were all lumped together, both rural and urban, high and low risk schools.

After discussing the issue this newly formed group decided to look at their losses and collectively see if they had a better than average experience rate. Over time a few of the low performing schools dropped out.

The remaining schools worked with us to form their own insurance company. Dad went from zero to hero; we were impressed.

Today there are several hundred schools involved and insurance rates have been stabilized.

Lessons Learned:

We soon learned from this experience that there is great power in collaboration, particularly if we had a crisis on our hands that caused people to want to change their ways. They had more power over their destiny by working together than by being independent victims of a larger force.

We also learned the power of integrity and commitment to the greater good of all could actually help their individual self interests.

With this lesson we were able to repeat the process with many municipalities achieving equal success.

Condominium Insurance

As a young man, Todd had heroic aspirations to follow in his father's footsteps. He recalls:

The Challenge:

I loved being an entrepreneur and I planned to bring together other entrepreneurs to collaborate on their insurance.

Dad and my brother Glen said, "It can't be done". They believed it was the non-profit component that allowed the schools and municipalities to work together and my focus was on competitive businesses.

The challenge was laid forth and I believed success was within my grasp.

I began with condominium property managers. Condos were a relatively new concept in the 1980s. In a fast growing industry, the condo managers were aggressive, their competitive instincts were fierce, and there was not much love lost among these rivals.

I sensed this wasn't going to be easy when the meetings got tense. Frankly, I didn't have a good idea of what to do or how to do it, and they knew I was grasping. This seemed to amplify their own nervousness and frustration about being in the same room together, and they seemed to turn their anxiety squarely at me.

Key Questions:

At this point I was almost ready to give up when I recalled dad's focus on questions. At that moment I decided to stop making suggestions and throw the issue back into their minds for a joint solution.

I asked them simply: What can we do together?

They began to lay out a plan and a program of action. Soon we had the "Manager's Insurance Council" underway in a collective buying program. It was highly successful and very lucrative for us, and saved them a bundle of money - a real win-win. It worked for 16 years and during those years hundreds of thousands of dollars in insurance were reduced and stabilized. Wow!

Lessons Learned:

This was our first foray into the private sector using the collaborative strategy in a highly competitive environment. However, despite their competitiveness, we sensed they could still work together if there was some value that would benefit their self interest as well.

The beauty of a cooperative model is that it works so well that you can screw it up pretty badly and still have a good outcome. Even though we started not knowing exactly what we were doing, the group was successful.

However, the going was very rough at the beginning because the wrong chemistry was present at the early stages. There was one very antagonistic manager that riled others and agitated the group. It wasn't until he was asked to leave the group that we could proceed. What's more, a strong champion had to emerge in the group that truly believed in the strategy and was respected by all. This person was essential to build trust and unity in the group. Some people just seem to have the "collaboration gene" and others don't. If it's not present, then that person really doesn't belong. One person who doesn't fit the ethics or the chemistry can disrupt the entire group.

The concept of "honorable competitors" also began to emerge. There is a big difference between an honorable or dishonorable competitor. Honorable competitors show mutual respect for each other and do business in an ethical manner. When dishonorable competitors are present, the dynamics are thrown into reactive chaos. Fear takes hold as the honorable competitors become filled with anxiety in the presence of a predator.

We also began to understand how the peer process must be present - each person in the group must be of equal rank and have decision making authority.

Waste Haulers*The Challenge:*

I was elated and wanted to take on the next mountain. The most difficult market in our area was the Waste and Septic Haulers. Here is a group only a mother could love. These are the toughest guys in

Chapter 3: Creating the Cooperative Future - Charter Partners 5

the business and everyone knew they'd never work together. It would mean they would have to rise above their individualism and long held grudges to consider the long term benefit of group collaboration.

"No way - No how", Glen and Dad counseled, and once again I set out to prevail over their cautions.

When we brought this group together, initially things seemed to go fairly well. The prospective members sat quietly in a U-shaped conference room and I told the story of what's possible. At the end of the presentation I was hoping for a round of applause.

Instead, a gentleman to my left stood up, pointed to another fellow across the table and exclaimed: "That SOB's father firebombed one of our trucks in 1955 and I'll be damned if I sit in the same room as him".

My first thought was "Dad and Glen were right."

Key Questions:

Because this group was a cottage industry of rough and tumble haulers, the most important question we could ask this group was *how to build trust*. They were clear about it, saying "No Bull!" "Just tell the truth.

Lessons Learned:

However, this group did form and we learned the need to create a common culture within our groups that allows for free exchange of information without fear that it will be used against you.

The group actually had a wonderful sense of humor, which helped build a sense of camaraderie. When we asked them to pick a name for the group, someone suggested "#1 & #2 Business." They all laughed and someone else suggested Septic Hauler's Insurance Trust, but the acronym was a bit too much.

Eventually they decided to go in the opposite direction, and call themselves WASH, for Waste And Septic Haulers. WASH is still one of my favorite groups to work with.

Trust Towel

The Trust Towel developed as a result of identifying the need to create a common culture among our partner companies. Its genesis sprang from an experience Scott, Glen, and Todd had while in beautiful Ojai, California learning from Ichak Adizes about change management.

We found it difficult putting competitors in the same room. There was an inherent distrust. One time a member spoke of how he couldn't trust another because 30 years before the competitor's uncle blew up one of his trucks. In another session a member became quite upset when his father told a story that was untrue. The son picked up a napkin and threw it at his father, exclaiming: "No More Bull!" We need to tell the truth here, we must be honest!"

What a great idea, we thought; we need one of those to help engender trust among our members.! Just as soon as we returned home we designed our own napkin which actually was a small golf towel to display the critical aspects of creating trust in our meetings. We talked about what other values were important to build a common culture.

Trust Towel grew to six symbols that represent areas that if violated break down trust. Our goal is to avoid these trust busters. On it we imprinted symbols which represented important aspects of culture.



NO BS The first version of the Trust Towel had only one symbol, the bull with a line through it; we called it the BS rag. During our meetings if someone thought you were not being honest they could throw the towel at you, in jest. This was done to emphasis how serious we are about truth, honesty and trust. We introduced it in our meetings and it became instantly popular.



RESPECT TIME. Time is the one precious resource we all receive at the same rate. Life is short and time is incredibly valuable. We agreed to start our meetings on

time, make sure that each meeting has valuable content, and end the meeting at the agreed upon time. This requires a commitment from all the participants. We all were aligned on the concept is that if one person is late then you have a “dime waiting on a penny,” thus taking away from the value of the whole.



NO INTERRUPTIONS, PUTDOWNS, or SWEARING Another experience we had was the interruptions of people answering their cell phones, text messaging or just excusing themselves in the middle of the meeting. These drove everyone crazy. Put downs can be very hurtful, even when delivered jokingly and we decided they could not be tolerated if we are serious about building trust. Swearing was offensive, disrespectful and poisoned the creativity in the room.



NO WHINING. People who are negative, whiners or complainers take down the energy of the whole room. It just sucks the life right out of a good idea. We all understand the need to whine once in awhile but it must be followed with the contribution of a solution thought. Some considered whining a form of self-centered manipulation.



TALK TO PEOPLE, NOT ABOUT PEOPLE. Sometimes after a great, energizing meeting you might wonder why the ideas didn't come to fruition. Many times it is because of a conversation nobody knew about. Undermining after the meeting is often carried out because of a lack of trust that is displayed during the meeting as a reluctance to say what you really mean. If it needs to be said it should be said directly.



NO SURPRISES. Our final symbol came from my father. Partners don't surprise partners. Don't walk in and say, “I quit” or “I spent the money without advising you” etc. This happens all the time in business; it's a real Trust

Buster.

These are the six rules of the Charter Partners Trust Towel which help us to build a common culture with our partner companies

If during the course of the meeting any tenets listed above are violated, the violator is asked to contribute a minimum of one dollar to the Charter Partners donation bucket placed in the center of the meeting room. At the end of the meeting, the facilitator will forward all monies in the bucket to Charter Partners. Charter Partners will donate all of the money to the charity, chosen by consensus.

Over the years we've distributed over 10,000 Trust Towels to people who have attended our Trust Tour (see www.TrustTour.com)

Development Center

Mike Vance, who later became one of our advisors, was speaking in Orlando on the topic of innovation and creativity. My father encouraged us to find out more about this man who had worked for Walt Disney and was now one of America's top speakers. I remember that during the seminar we sat enthralled listening to Mike tell one amazing story after the other.

One story that stood out was about "repotting" yourself. Mike put forth the idea that as you grow your business it can get root-bound just like a plant that has outgrown its pot. He suggested you must constantly monitor the size of your pot and repot yourself when necessary.

When we arrived home we took this repotting idea and developed a satellite office that was dubbed the "Development Center". It was here that we would bring together the ideas that would move our business forward into the next decade. We were able to gather information from all over the country about the future of the insurance business, finding out what was working and what was

My partners and I started the agency in 1967. When I asked my partner, Leonard Schumann, "What should I tell the customer who was not covered for his collision loss?" His answer was simple and prophetic: "Tell him the truth." We did and we kept on telling the truth. How else could you be defined as an insurance agency? - Scott Welch

not.

It was during this time that we identified that trust was the missing link in the insurance transaction. Imagine that! in an industry that was built on the idea of a trusting relationship it was the missing component!

Charter Partners came from the idea that there was a lack of trust in the insurance industry. The solution? We needed to create trust and what better way than through partnerships. But it had to be with partners who could trust one another. Quality companies run by entrepreneurs, who wanted to do the right thing. Competitors sat down side-by-side, shared ideas, and mutually benefited. It worked and Charter Partners was born.

The System is Broken

From the Development Center, the idea of Charter Partners began to emerge. Once we realized trust was missing, we were challenged to examine the insurance system carefully to see what else was missing.

Because trust was missing, other key elements were dysfunctional. By 1994 we had realized how broken the insurance system was. Here's what we were looking at in the Commercial Property and Casualty Insurance business:

- 40% of all the customer's had fled standard insurers and were using alternative/self insurance
- 20-25% annual churn rate among the customer base as agents raided each other's customers, causing high costs of sales and service, and an attack on agents by their insurers
- The Insurance Industry, which collects premiums (underwriting) and invests money from these premiums in short term securities in the stock market (financial investment) had not made a profit on the underwriting side of their business in

fifteen years (a trend that was to continue for another ten years).

- Not a single insurance policy anywhere was delivered on time with no errors.
- Everyone was carving up a diminishing pie.
- No one was satisfied: not the insurers; not the agents; not the customers. In fact, high customer dissatisfaction was the norm.

We concluded no fine-tunings of the insurance system would fix the problem – it needed a massive shift in thinking and structure. We drew a picture of the relationship in the value chain. It was supposed to function fluidly and collaboratively like Figure 1:

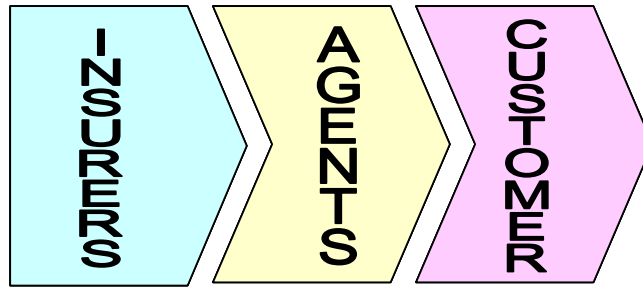


Figure 1: The Ideal Insurance Value Chain

Instead, it was misaligned, filled with adversarial relationships, and processes. We drew a picture that looked like Figure 2:



Figure 2 The Realities of Our Value Chain

This illustrated the need to create a totally new system of insurance, and a new architecture for running it. It became clear that our current insurance agency, Bowers, Schumann, and Welch was part of the old world. A new entity, Charter Partners, must be created to reflect the new idea in the world of Collaborative Commerce.

We did a careful analysis of the how a premium dollar would look, comparing the current adversarial, dysfunctional system, and a collaborative system and the numbers were astounding - in fact so powerfully different between the systems that we had to tone the numbers down in the presentations for fear that no one would believe us. Figure 3 illustrates this analysis.

◆ SYSTEMS PERFORMANCE

Industry Before		Charter Partners After
\$1.00	Premium	\$.95
.71	Claims	.50
	Claims Expense	
.15	Commission	.12
.21	Company Expense	.14
<hr/>		
<.07>	Profit	.19
+ .09	Investment Income	+ .08
<hr/>		
+ .02	Total	+ .27

Figure 3 Before and After Systems Performance Analysis

We knew we had a winner; we just had to find a partner in the insurance industry that would handle this business.

The Flea Dances with the Elephant

After learning the lessons of how to form collaborative groups we were poised to form Charter Partners as our own insurance company with approximately 300 entrepreneurs.

Insurance carriers did not understand the concept of empowering their clients to form these groups and have influence and control over

the money. We searched and searched and then went underneath the insurance carriers into the ones who insure the insurers – the reinsurance companies. After a long search, we came upon Ken LeStrange, a senior executive at American Reinsurance (AmRe).

Ken was unique. He held the same vision as we, and he believed in the long-term partnership with honesty and integrity at its core. He believed, as did we, that the bidding and frictional costs that were inherent in insurance could be substantially reduced if we could collaborate with long-term partnerships throughout the value chain. We applauded his vision and embraced his company. Ken was a great champion, someone we trusted and believed in deeply. We were able to successfully launch Charter Partners, and we grew phenomenally fast. AmRe made money, we did, and we saved a bundle for our customers. We called this the Triple Win.

However, in the process of developing the details of this work the reinsurance company was changing, the management team we'd been working with at AmRe shifted and with it their commitment to our project. This at the same time that our network was still in its infancy of collaborative entrepreneurship, and, along the way 9-11 tragedy affected the financial services industry.

But something more fundamental happened. AmRe was bought by KKR, a speculative investment buyer that wanted to pump up the profits to gain a fast buck. Pressure was put on Ken LaStrange to make AmRe look traditional so that another suitor could be found to feed KKR's thirst for money.

What transpired wasn't pretty. AmRe had made promises of financial security to our network of 300 member companies, but they then changed the deal after a year and a half of conversations and implementation strategies. We then spent the next year and a half rearranging and renegotiating with each individual company to the new deal.

AmRe's lawyers, unbeknownst to us, were trying to button down any potential risk to be sure that another buyer wouldn't balk at our part of their business.

KKR then flipped AmRe to Munich Re at a very large multiple, making millions in the deal, but leaving Ken LaStrange and Charter Partners high and dry. We didn't see it coming but we should have

had we been more sensitive to the twists and turns of the mergers and acquisitions game.

Things got worse for us and AmRe. The new buyers were from Germany and they didn't have a clue about how this new collaborative relationship endeavor worked. When we tried to explain it, they just rolled their eyes like we were creatures from an alien land.

The end of the road came when Munich Re again changed the entire contract at the last minute, making it totally unworkable, and they knew it. Their attorneys had invoked death by a thousand cuts. We were left us with no time to find and develop a new partner. After thirty years of running a successful family-owned insurance agency, and fifteen years working on building a coalition of 300 companies that understood the collaborative strategy and philosophy, the carpet was pulled out from underneath us.

Two-thirds of the members had to go elsewhere to get their insurance needs met and two-thirds of our revenue and employees disappeared along with them. Our profits disappeared. We were deeply disappointed.

The Double Bladed Axe

The management team at Munich Re threw away a highly profitable business simply because they couldn't understand it. What's worse, they had no consideration for what their reaction would do to us and our three hundred members. As our members went into a tailspin looking for new business, we went into the red.

That was bad enough. But it was the signal for our bank, PNC, to bail out too. After having done millions of dollars of business with PNC over the last decade, we expected they would show a little loyalty and compassion as we worked to rebuild our business. PNC abandoned us in the most distant and unprofessional way.

On a June morning, amidst the paperwork, electronic and hard-copy mail, phone calls to return, and project deadlines looming, one piece of paper stood out among the rest. Our VP of Finance, Pattie Cowley looked over our monthly interest-only line of credit statement from PNC. This statement's said the amount due was

\$350,000. Obviously a mistake -- that amount would be the entire outstanding line of credit.

Pattie made a call just to let them know the error. The gentleman who was assisting her indicated he would have to call another office to get some answers. Pattie then called our local branch manager to see if he could help while waiting for the call back. The branch couldn't help her either. Normally, this would be a quick call to our assigned bank representative, but since he left to fight the war in Iraq eighteen months earlier, a new representative had not been assigned to us. Pattie was sure that after more than twenty years with PNC, that this was merely a clerical error and that all would be fine.

The next day, Pattie received the call back and was told our account was still 'in review' due to the long relationship with the bank. The gentleman told me that we'd be contacted shortly by our new banking representative. It seemed a bit odd. Back in April we sent all of our information to the bank. But we brushed it off because, although late, this was standard operating procedure. We were thinking that it would be great to be assigned a new rep and this issue will be resolved...finally.

Later that day, Pattie received another call from PNC Bank from a gentleman introducing himself as our new representative. She explained to him the current error on the statement that prompted her call. He stated that he would make the correction and she should disregard the incorrect amount. Great, this guy is working for us.

Further, he asked to come out and meet with us, suggesting that one of the owners of Charter Partners accompany Pattie. When Pattie advised him that she was leaving on vacation, he said the meeting could wait until her return. Hanging up the phone, Pattie thought it was a very pleasant conversation. She was feeling that the old great PNC service we were accustomed to over the many years of doing business with them was back.

We prepared for the meeting knowing that we would have some explaining to do as we took the loss in the previous year. Having made a good profit so far this year and projected into the future, we believed would make the bank feel secure. We had always been current with our payments; our track record was quite good.

Our new representative arrived at the meeting and to our

surprise brought his boss with him. Great, they are really trying to make up here for lost time and service to their long-time client. He explained that they were from a division called Special Assets. Even better, after all, we knew we were special!

After pleasantries we exchanged, they proceeded to tell us that they were just the messengers and that they were terminating our relationship, period. We were stunned!

They explained being terminated was due to the loss last year, combined with the fact that we were on the “list” of bad industries they didn’t want to deal with anymore. Insurance was a “bad” industry? Doesn’t everyone have some sort of insurance? How could it be “bad?” It was their job in Special Assets to bring the relationship to closure.

No, we weren’t really great or special, this was a “euphemism” to disguise the fact they were in the business of creating extinct relationships.

Shocked, we asked questions and tried to negotiate with our banking “partner”. However, we were told the decision was made and that was that. Our line of credit (which was supporting the insurance company) is closed. We were history with them; we had been nullified.

Never once were we asked about our potential for the future or our strategy to stay profitable. All our correspondence was referred to their attorney! We weren't even allowed a conversation with them about our honorable intentions; we were no longer partners after thirty years and without a single preliminary conversation.

We bring this to light because we know this has happened to countless small companies throughout time. Our company survived and we're growing again and we have an even better strategy. But doing business must be based on relationships built on trust, not on attorneys and cold transactions.

Lessons Learned:

We learned a lot from these two situations, the hard way. We’d been coached to be sure there’s a senior level executive who is sponsoring and championing the alliance that when a small company works with a large company. That we had in Ken LaStrange.

But, what we didn't understand was how much a relationship can change as soon as the M&A (Mergers and Acquisitions) deal-makers get in the game. They are interested in neither strategy nor innovation, just reducing risk and boosting earnings, because that's how corporate valuation is measured. Essentially, the M&A wheelers and dealers cut the knees out from our champion and put him in an untenable position. He didn't want to admit it, and we think he wasn't fully aware of how his power was being eroded.

More importantly, once AmRe was flipped, the new owners, being foreign, had even less an appreciation of our uniqueness. They were control-freaks more interested in commanding a situation rather than sharing rewards with an alliance partner. Since they had no understanding of our type of arrangement; it was easier to surgically remove us than sponsor us. We should have seen this coming ahead of time, the signals were there. But we were optimists and we thought our champion still had the power to protect us.

What we learned from our thirty year relationship with PNC Bank was sad. When we started with the bank, the financial industry was based on trust, character, and relationships. PNC kept the illusion of a relationship, but banking, has tragically changed. In our business, building trust on your word is still the way we do business. When we form our groups of businesses, we carefully assess the character and trustworthiness of the members. That's good business, and the best way of reducing risk in any financial arrangement.

Banks have become depersonalized behemoths, getting larger, but not more engaged. PNC is an old bank with a long history. Several years ago it dropped the word "Trust" out of its name, and then adopted a depersonalized set of letters. In 2003, PNC settled securities fraud charges with a fine of \$115 million after fraudulently transferring three quarters of a billion dollars in bad loans and investments to hide them from investors. That should have been our warning signal that something was amiss at the bank; bigger wasn't better. In dad's generation, there was an adage that every good business needed a good banker, lawyer, and accountant on their team. The former seems harder to get in today's world. The horrible crash on Wall Street shows us that the finance industry is all-too-interested in making money for itself, and not protecting the money

of those who invest in the bank, as the shareholders of Wachovia, Washington Mutual, Lehman Brothers, and many others woefully know.

Doylestown Lumber and Mill Works by Tom Kardish, Owner

Life can be very tough for a small to mid-sized business owner in tough times and it can be very, very lonely.

The amazing thing about Charter Partners isn't the fact that 70 companies came together and somehow were resolute enough to create an insurance company. It is the fact that these disparate group of companies from septic haulers to fire extinguisher servicers actually created a community in which the individuals genuinely care about the group - and each other.

In my instance I have been trying to buy out a partner for 2 years. Just try to find someone to lend \$6 million to any business these days, let alone a lumber yard. Despite a solid niche business, on prime real estate, the constant rejections got me down - to the point where I didn't know if it was all worth the effort. Who could I talk to? Who knew how to understand both the financial decisions as well as the emotional pulls that may be diametrically opposed? Well - your fellow business owners - that's who.

An intervention was held with the owners of porta-potty, line striping, trucking, and fuel oil dealers - you get the idea. In this secure group of non competitors an atmosphere of trust allowed the sharing of financials, options (including selling or shutting down), hopes, dreams, motivations and fears. though with any intervention the end result is up to me, at least I feel secure in knowing I've bared my soul to several very smart and understanding people and wasn't told I was crazy. Final chapters have to be written - but then with most of us it will always be the case. If nothing else, I feel better about trying to push the big rock up the hill, and at least I know I have any number of folks I can call for advice.

Growing Future Generations of Entrepreneurs

As Charter Partners grew we believed in giving back to our community. We were concerned that entrepreneurship wasn't addressed in the high schools. We really didn't think much of the teaching method of people reciting back to the teacher what teacher asked then to memorize. This was what we referred to as the "dirty little pitcher" style of teaching where the teacher was like a big pitcher of knowledge.

During the course of the year, the teacher his or her knowledge into the head of the students. At the final exam, the students poured all there knowledge back into the teacher. In the end all you had was a bunch of empty, dirty little pitchers, and the teacher was fulfilled (refilled).

We thought there was a better way. We partnered with Warren Hills High School in Washington, New Jersey implementing an idea we thought would help young entrepreneurs.

The idea was for a hands-on entrepreneurial experience. The students would start a real company, using real money with real success or failure. The teacher's role would be to act as facilitator and maintain the continuity of the business from year to year. This meant that the students were free to go about learning in their own time and way without interference from the adults. The adult responsibility was to create an environment that was *just in time learning*.

Ralph Fiore, a teacher at the high school, was willing to champion this innovative program and took on the task in his spare time. He realized that such skills cannot be taught in any traditional classroom or even project-based experience. The program, called *WINGS*, focused on learning creative initiative, critical thinking, and recruiting teams for an idea because those are the skills that make entrepreneurs really unique. For example, students were asked to start a business that filled a need in the community that they felt passionate about.

The students were also asked them to work cooperatively in a team. What we did not do was teach them about business plans, marketing, sales or finance. As the students began their business

they struggled with solving key problems and started looking for help.

The Next Generation of Cooperative Entrepreneurs

I wasn't a very good student. It's not that I couldn't have been; it's just that I wasn't engaged. It appears to me this is a common affliction of entrepreneurs. I look back now and realize my performance was a reaction to the environment. Frankly it was boring; every day sitting in rows with our backs to each other listening to the teacher talk. I couldn't find a way to apply the teaching - it all seemed disconnected to my interest and my skills and my life. I did what I had to but mentally I checked out.

Why can't school be a place to learn about how to work with your peers and use each others knowledge?

I recall sitting next to Tracy Williams, who is now Director of Duke University Integrative Medicine. Our last names, Welch and Williams, were alphabetically close so we were assigned to sit one behind the other.

Today, 25 years later, Tracy and I are still good friends and we share solutions on some of our most complicated challenges. However, if during our high school careers we have even tried to collaborate on difficult assignments in class it would have been cheating. We probably would have ended up in the principal's office suspended, certainly embarrassed.

I believe that something is wrong when our schools are teaching separation at a time when the world is dependent on innovative teams for the future. Think about it. Shouldn't our schools be creating an environment where students can learn how to innovate in trusted teams? This industrial aged model of sitting in rows, memorizing data that is most likely readily available on the internet is outdated. - Todd Welch

At this point we introduced the concept of *the teacher will appear when the student is ready*. The teacher's responsibility was to facilitate bringing together the knowledge of successful entrepreneurs at just the right time and using them to answer key questions. This is the

moment when the student is most eager to learn and is hungry for the knowledge provided by the mentor.

Over time Ralph learned to challenge the students to take the lead, and then let them learn from mistakes – coaxing from time to time but providing answers only when the students had a specific need.

The Warren Hills activity grew from six founding students and a volunteer teacher working after school to a series of accredited courses that now attracts more than one third of the student body, operates six businesses (always in transition), and earns a profit of about \$20,000 yearly -- just in the one high school! More than 2,000 students have participated since it began in 1995. In 2007 Ralph Fiore received the Leavey Award for Excellence in Private Enterprise Education, conferred by the Freedoms Foundation at Valley Forge, for his work with WINGS.

FAIL FASTER

Think about how you learn. For most of us we learn by failing. Did you miss the target on the first try and tried again until you succeeded? That's what I mean by failing as a method of learning. We tend to fear failure rather than celebrate that we have had a learning experience and see failure as the natural organic universal system that it is.

Today the rate of change is accelerating exponentially faster every day, therefore the only way to have success is to fail faster; if you fail slowly you will surely strangle and die.

To avoid failure means you're not risking the new experiences it takes to find the path to success.

Innovate, learn, keep moving, and keep failing. We need to teach in our schools the ideals to fail faster on the way to succeed sooner. - Todd Welch

WINGS takes Flight

The WINGS program was truly inspiring. We believed we had created something quite worthwhile, and it should be multiplied. This led to forming the Charter Partners Institute, (CPI) which is dedicated to growing young collaborative entrepreneurs. By pairing of a team of passionate entrepreneurs with dedicated mentors, we've been able to create a learning environment that young adults find exciting and engaging.

What started as a program for students to learn about a cooperative form of entrepreneurship has emerged as a very successful method to teach critical thinking, teaming, and innovation skills that are needed by all graduates in today's economy. Students do learn things about running a small business, but the deeper learning is much more important — and unique. CPI's focus is to help students fully experience what it takes to:

- Evaluate underlying issues to Identify Needs and Diagnose the real problem
- Respond to their Curiosity, Intuition, and Passions
- Pursue a Mission that reaches beyond their demonstrated capacity and experience
- Let them learn to Navigate Ambiguity, Manage Risk, and Learn from Failure
- Pull together and work with a team to Collaboratively Co-create a bigger, better, more successful outcomes
- Nurture and value Respect and Trust

Lessons Learned

Each year we learn a bit more about how to nurture budding entrepreneurs. Some of the things that made the biggest difference:

- Learning needs to be hands-on, where teams of students pursue a project that requires integrating, applying, and balancing many topics and perspectives.
- Students need to pursue projects or ventures of their own choosing, built upon their passions and intuition. (not assigned by the teacher).

- The projects or ventures must incorporate new dimensions and challenges for which there is no obvious or previous solution. (not predictable expectations)
- Teams and mentors need to be chosen by the students, so they have the experience of selecting the right team members and convincing them to join their effort.
- Facts and techniques are best learned in real time as they are needed.
- This kind of learning requires passionate engagement rather than passive compliance.

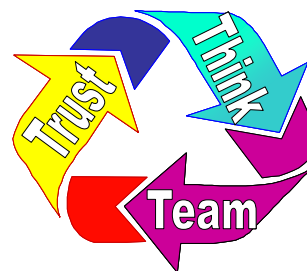
THINK, TEAM, TRUST

What makes a truly great company? This question will be debated for decades. Certainly the normal response is true:

- *Creates Value for Customers and Itself*
- *Adapts with the Times*
- *Innovates and Uses Its Resources Better than Competition*
- *Sees itself in a Value Chain or Network, etc.*

While we don't quibble with these, based on what we learned from the Charter Partners experience and WINGS, we think that underneath -- at the core of a successful entrepreneur -- are three things that underpin truly great companies and leaders: the core values of think — team — trust:

- always *THINK* about better ways to get things done,
- build unassailable *TEAMS* to increase performance and innovate faster,
- recognize that maintaining *TRUST* is critical for collaborative opportunity.



We've spent fifteen years to come up with a new way to engage a three hundred year old industry. We aimed at putting trust back into insurance and hit a bigger target behind it - Cooperative Entrepreneurship. This is the journey we would like to take you on in the next chapters.

Declaration of Interdependence

Co-created by our Members and the Charter Partners Management Team modeled on the language of the "Declaration of Independence of the Thirteen Colonies," signed July 4, 1776 by the founding fathers.

The document celebrates the independence of the American family business owner -- but also salutes the value of collaboration. A key statement in the document is: "We...the business owners of the Charter Partners Community in the United States of America, do declare that we are independent; but are also connected freely, in shared interests, and thus are interdependent." Below is an excerpt from the Declaration of Interdependence:

In the course of business events, it becomes desirable for entrepreneurs who own successful privately held family or independent businesses to create a business community that connects them with each other, and to assume among the powers of the economy the strong position to which the laws of economics entitle them. We hold these truths to be self-evident:

- That business owners are endowed with certain fundamental privileges, and among these are ownership, meaningful work, and the freedom to pursue the benefits of entrepreneurship.
- That privately held businesses represent the spirit and strength of America.
- That we want to remain independent, seek to grow as people, and aim to lead our businesses to greater success to support our families and our employees.
- That we have in common the value of integrity, the exercise of which creates an environment of mutual trust and respect.
- That we willingly join together to work interdependently to seek results not possible on our own.
- That alliances among business owners yield the power of shared knowledge, and result in the co-creation of products and services that serve us and that each business owner knows he or she can trust.
- That cultivating and supporting the next generation of entrepreneurs is essential.
- That we have a spirit of learning, contributing and having fun, and that we compete on bringing our own best ideas to the community.
- We, therefore, the business owners of the Charter Partners Community in the United States of America, do declare that we are independent; but are also connected freely, in shared interests, and thus are interdependent.
- As a community of business owners, we have full power to collaborate, share, teach and learn from each other, establish commerce, pursue mutual ambitions, and to do all other things which business owners may of legal right do.
- And for the support of this Declaration of Interdependence, we pledge to each other our mutual trust and respect.

Created and ratified January 2005 by Members of the Charter Partners Community

Add new Case Studies

Chapter 4

THINK

Thinking is the most powerful force any entrepreneur possesses. How and what you think literally defines who you are as a person, as a leader, and as a business decision-maker. How you think will define your passion, your ability to invigorate your organization, and your capacity to turn adversity into advantage. It's one of the few things you, as an entrepreneur, really control, and it is one of the hardest to master.

Great entrepreneurs are multi-dimensional thinkers - they are thinking in several frameworks - never too linear, never lingering too long in one area hence never excluding other critical perspectives and thus avoiding being blind-sided.

Here are some of the ways your brain is best engaged.

Think Customer

There are only three legitimate ways to get money into a business¹ - Borrow (Debt), Sell Shares (Equity), and Sales (Revenues). Of the three, only Sales creates a positive impact on profit. This is why we put this issue first, because it means you must put the customer first.

The biggest mistake entrepreneurs make is trying to sell the customer what the entrepreneur thinks the customer needs, versus selling what the customer wants. You don't sell vitamin pills to people with headaches, even though they might truly need a good dose of vitamins. You might be able to sell them both a painkiller and

I never perfected an invention that I did not think about in terms of the service it might give others...

I find out what the world needs, then I proceed to invent.

I won't invent something people won't buy.

- *Thomas Edison*

¹ Government Grants could be considered a fourth way, but this is the exception not the rule

a vitamin, if you can link the two issues together. Always bear in mind the question: "What does the customer experience when they deal with me or my organization?"

OUR CUSTOMER

- Our Customer is *the most important person* to the business -- in person or on the phone. Our Customer is not just another number, but a real person who expects and deserves the *best from us*.
- Our Customer is not dependent upon us, we're dependent upon them -- *they alone pay our salaries*.
- Our Customer is not an interruption in our work -- they are the *essence of our work*.
- Our Customer is an *honored and treasured friend* -- they give us the opportunity to provide them an exceptional product or service, in a pleasant manner, by friendly folks, in exchange for their payment.
- Our Customer is not someone to argue or match wits with -- *nobody ever wins an argument with our Customer*.
- Our Customer is never a complainer. When we err, and they complain, they are taking the time to become *our advisors*; they don't want us to fail them, for our success is their success.
- Our Customer, *when satisfied, tells four_others* -- and when dissatisfied tells 10 to 15 others. Without satisfied Customers, we would have to close our doors.
- Our Customer expects us to *be easy to do business with*, we should never create obstacles and unnecessary difficulties.

Figure 1: The Value of Our Customer

Figure 1 is a set of principles that have been advocated for years. We've used them in our businesses and we think they are just as applicable and universal as when they were written, perhaps fifty years ago. Be easy, fair, and enjoyable to do business with.

Think Value

To be successful at the game of business, you must be intimately aware of what creates value for the customer and for your own company. Value is not the same as cost. For example, buying a low cost pair of shoes is seldom a wise decision because invariably they will create some kind of problem - uncomfortable, unattractive, parts fall off or split, and so forth. The higher quality shoe usually costs less per wear than the cheap shoe. But all-too-often we use the cheapest supplier, not the one that will provide us the best service, the best quality, and most consistent stream of innovations.

Value also changes over time. Twenty five years ago, the value of electronics in a car was limited to about 1% of the total car's value, located principally in the radio. Today, electronics constitute twenty five percent or more of the value of the car, a dramatic shift.

If a customer doesn't perceive the value, then it might not be as valuable as you think. What good are the bells and whistles on many of today's gadgetry if the customer can't understand or use them?

Think Ahead

This is a fast moving, rapidly changing world we live in. Successful entrepreneurs have no time to be asleep at the wheel. This means you must be thinking about what's happening now, and what will happen next week, next month, and next year.

What's more, you must think about what your competitor is thinking - the one who is always ahead of the curve, coming up with new innovations, leveraging resources best, and building the best reputation with the customer base.

PLANNING

Before everything else, getting ready is the secret of success.
-Henry Ford

Good fortune is what happens when opportunity meets with preparation. -- Edison

Most entrepreneurs get so wrapped up in day-to-day operations, they never take the time to think strategically, thus lose sight of where they're going and thus have no vision. Spend at least several hours a week concentrating and focusing on the planning and strategy.

Great entrepreneurs develop a sense of rhythm and timing. They sense the shifts in thinking. They anticipate the market. They create the future rather than become a victim of it.

Think Vision

Entrepreneurs lead not just by giving directions, they lead by vision - a view of the world and their organization's role in it. Edison envisioned a light bulb in every room. Ford envisioned a car for every family. Bill Gates envisioned a computer on every desk-top. As a leader, your vision for your organization is essential, because it will guide your decisions, your customer's experience and your team's execution of the vision. Economics don't create the future, dreams do.

Where there is No Vision, Everything Defaults to Politics

Aim high in life, it opens up lots of possibilities that a low aim cannot achieve. By aiming high, people understand the bigger picture, the loftier goal, the nobler purpose (see more in next chapter on this).

If you shoot for the moon, you might only hit a mountaintop.

But if you shoot for our foot, you're sure to hit it.

Think Abundantly

Those who think abundantly create more with less; leverage their resources better; see more potential in their teams; engage their customers to understand needs and problems better; connect with their supplier to find new sources of innovation and value; build solutions rather than wallow in problems. Abundant thinkers don't get dragged down by criticism, but instead thrive on possibilities for the future.

Think Passionately

Neither excellence nor innovation are birthed from a disengaged heart. Great entrepreneurs are passionate people – they live their lives fully for what they are committed to. They sell what they are passionate about.

Where does this energy and passion come from? *Belief*, pure and simple.

When vision and belief are united, all sorts of energy is liberated in pursuit of a goal or dream. Yet, if what you are doing is something you don't believe in, the effort is half hearted, others don't join you, and the results are typically mediocre.

The passionate thinker is the positive thinker that finds solutions because they believe life is a puzzle or a riddle to be figured out. The positive and passionate leader is not a fuzzy optimist, nor a compulsive perfectionist, but a person that is spurred on by obstacles and undaunted by the possibility of failure.

Think Quickly

As an entrepreneur, speed is what you have that large corporations lack. Big companies have money, but they also have layers of bureaucracy and slow decision-making.

As an entrepreneur you must act with expediency. Be sure you maintain a culture of urgency to get things done. Complacency is boring and leads to mediocrity, which soon sours into failure.

Think Innovatively

The world is changing at a very rapid pace – far faster than at any other time in history. Every entrepreneur has a choice – fall, victimized by changes, or rise to the heroic path thus creating the future. This is not easy, and it means mustering the forces of innovation within your own span of influence.

Most innovation² is not technical – there are several different types of innovation, (see Figure 2 below) many of which even the least educated in your can engage in because all it takes is ideas, which lie dormant ready to be unleashed in everyone. Here are the different types of innovation:

- *Technology Invention* creates something new and scientifically unique, typically something that is patentable.
- *System Solutions* address a complex problem with an integrated set of answers to what was previously a fragmented difficulty.
- *Product Improvements & Integrations* make an existing product work better (such as simpler, more comfortably) or make one product work better with another product.
- *Process Improvements* might not be evident to the customer, but they make the delivery of a product or service more efficient, time or labor consuming, or faster.
- *New Business Models* enable a company to sell or deliver in a completely new way that creates significant competitive advantages.
- *Market Extensions* enable selling something new and different (often with an alliance) to your existing customer base.

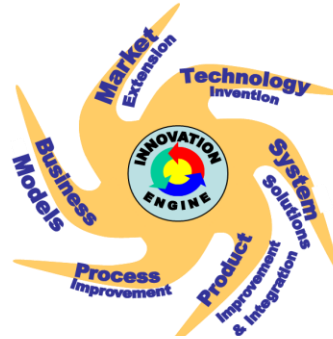


Figure 2: Six Different Types of Innovation

Notice that only technological innovation focuses in the realm of scientific capability; the other types of innovation do not necessarily require a technical degree or engineering capability. This means that everyone can, and should, be an innovator.

²All-too-often *invention* is confused with *innovation* – resulting in both a mystification and exclusion of non-technical people from innovation. *Invention* is a sub-set of *innovation*; *Innovation* is far broader.

Consider turning your organization into an “engine of innovation.” Why? Because innovation is an extremely valuable asset to any corporation; it's probably the most powerful and sustainable source of competitive advantage available. And most importantly, the essential resources for innovation are readily available – they exist within rapid reach – your employee’s ideas! And, if you reach a little farther, you can look to your suppliers and customers for innovation as well.

*The Innovation Engine's fuel is IDEAS, which are free.
Just imagine an engine running on FREE FUEL!*

With the right encouragement and nurturing, ideas pour forth from people's minds. Then by corralling these ideas with a commitment to implementation, your company can become the most innovative and exciting in its sector.

Innovation is a critical difference between business success and failure; it's one of the most important elements in creating wealth. First a foremost, this means making everyone in your organization a member of the innovation process. Because ideas are free; engage and challenge your organization to contribute ideas every day. Create a culture that thinks innovation.

Innovation tends to follow a serendipitous path. You can expect that co-creative spirits will generate new, but unpredictable, ideas, solutions, and opportunities. As people generate new, as yet unseen, opportunities, they become invigorated. Size doesn't matter; innovation is a result of desire, not money, nor number of employees, nor market position.

In times of crisis and change, ideas don't stop.

Think Collaboratively

There was a time not long ago when the statement to “think collaboratively” seldom appeared in books on business. That's because the idea of independence was highly linked to the Industrial Age. However, that era has gone, and now that we are in the Innovation Age, no entrepreneur is any longer an island unto themselves.

Cooperation is a state of mind, not just a set of actions. To think collaboratively means you think in terms of teams (see next chapter), you think of connectivity, of communications, and of consequences. This level of collaboration even means there are excellent times when you should cooperate with honorable competitors (this will require a powerful level of trust which we cover in Chapter 6).

Today every entrepreneur is connected in some way to a network, to a customer, to a group of products, to an alliance, or to a unique supply base. To act independently can spell the kiss of death.

Without cooperating with their value chain (suppliers and customers) the level of service and their competitive advantage can be severely limited. See your organization internally and externally, as a series of alliances (see chapter 7) that can engage in new innovative thinking.

People Support What They Help Create

Think Co-Creatively in Questions

Because innovation and collaboration are essential ingredients in entrepreneurial strategy, it's essential to think co-creatively – in other words, to use others to trigger creative thinking. This is done not with answers; instead *think in questions* which engage other people's thinking, such as:

What if...?

...we could redesign this to function better?

*... no one had told us this is how it had to be,
what would it look like?*

*... someone from another planet saw this,
what would they think?*

*... we stood a ten (or fifty or a hundred) years in the future and
looked back at this moment in time.*

How could...?

... we take half the complexity out of this?

... we make this easier to use?

... we reduce the risk of doing this?

Where else...?

- ... could this idea be applied?*
- ... does a solution to this type of problem exist?*
- ... are we experiencing this situation?*

Who might...?

- ... want to do this with us?*
- ... want to pay for this?*
- ... also have this problem?*

Why should...?

- ... someone want to pay for this?*
- ... we invest time and money in this?*
- ... a customer choose us over the competition?*
etc, etc.

Questions are essential because they touch people's creative spirit; questions pull people together, focus energy, and enable everyone to participate and engage. Questions tend to open new thinking, which often generates another set of questions, which encourage further investigation, and thus more innovation.

Questions create Openings -- Answers Close Options

Think Like a Genius

When we advise you to think like a genius, you might respond: "wait a minute, I know I'm not a genius!" That might be true, but we, as the authors of this book can personally attest that while we are not geniuses, we have all studied the principles and ideals of people like Thomas Edison, Leonardo DaVinci, Walt Disney, and many others.

When confronted with a problem, ask a simple set of questions:

- If (fill in the name you choose) had this problem, what questions would they be asking?
- How would they see and state the problem?
- What might they offer as solutions?

By spending time reflecting on how other geniuses saw problems, addressed adversity, created thought-questions, and engaged teams,

we can increase the chances of thinking “outside the box.” Study greatness and some of it will certainly rub off.

Think Results, Not Perfection

Thomas Edison's first light bulbs were functional, but didn't throw brilliant light. Similarly, Henry Ford's Model Ts were quite basic and certainly not as good as today's luxury cars. The first TVs were small, with fuzzy pictures, and not color. The first modern computers were starkly basic. The first version of software may still have many bugs.

Imagine what would happen if the best entrepreneurs tried to be perfectionists. Someone else would have captured the market as the perfectionist kept reinventing in an endless cycle, but never producing a dollar of revenue.

Get results fast, learn, experiment, then create the next improvement. Be sure you know what is good enough and what should be left to the next version, edition, or next year's model.

COMMITMENT

I have more respect for the fellow with a single idea who gets there than for the fellow with a thousand ideas who does nothing.

Many of life's failures are people who did not realize how close they were to success when they gave up.

Nearly every man who develops an idea works at it up to the point where it looks impossible, and then gets discouraged. That's not the place to become discouraged.

Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time
-- Thomas Edison

Think Metrics

Using units of measure is one of the great but unsung techniques entrepreneurs use to great advantage. Let's illustrate with an example: In 1962, virtually every national politician was urging the country:

“Let's win the space race!”

This fuzzy statement had a hollow, vague ring to it; did anyone have a vision or a plan?. Then President Kennedy said;

"We'll send a man to the moon and bring him back alive by the end of the decade."

Kennedy's proclamation was altogether different; it implied a strategic plan. Why did it have such a profound impact on the country and the free world?

Because it had clearly definable measures built in:

- We'd send a man, not a dog or a monkey or a machine;
- We'd aim at the moon, which was two hundred seventy five thousand miles away;
- The man would return alive (implying uninjured);
- It was to be completed in eight years.

This memorable little phrase could be uttered in less than five seconds; it mobilized a nation.

Be sure to avoid vague ambiguous pronouncements that do nothing to trigger the action component of people's brains. For example, let's compare two statements:

1. Our mission is to become the leading company proactively promoting competitive opportunities for world class customer satisfaction
2. We will reduce our customer's costs of operations by 30% and increase the delivery speed by 20% in 2 years.

The first statement is fuzzy-wuzzy and ineffective in defining the result, clarifying the direction, or motivating anyone - but we see these every day in mission statements. The second statement quickly raises the next questions of mental engagement: *Really? How are you going to do that? Can you deliver? Tell me more.*

When thinking in terms of results, speak in terms of metrics. Always try to include the metrics of real performance. Use these questions to trigger the best metrics:

- How Many?
- How Often?
- How Soon?
- How Much?
- How Good?
- How Fast?

These questions will then define the “elements of victory” that will let you know whether you are really winning the game.

Think Focused

Ask any venture capitalist what makes a successful entrepreneur. The one criteria they will always identify is *focus, focus, focus*.

Don't try to do too many things, or be too broad, or be all things to all people. Successful entrepreneurs have limited resources, so they focus on what's achievable, what's possible, what's going to create leverage to make the next thing happen, what's going to bring in cash flow.

When you broaden your scope too far, resources that are already stretched are expended to the breakpoint; people don't know what their priorities are; thus synergies that are essential for success are squandered.

FOCUS

As a cure for worrying, work is far better than whiskey. I always found that, if I began to worry, the best thing I could do was focus upon something useful and then work very hard at it.

When I have fully decided that a result is worth getting, I go ahead of it and make trial after trial until it comes.

I owe my success to the fact that I never had a clock in my workroom.

-- Thomas Edison

Think Simply

After all this advice, this next piece of guidance will look somewhat contradictory, but it's not. All the holistic thinking ultimately needs to be boiled down to something that can be grasped and stated simply. If it can't be said in words that most people can

grasp, then it won't connect to both their brains and their hearts. Simple statements do not necessarily mean the whole issue is simple.

For example, when Einstein figured that $E=mc^2$, that was a very simple equation for calculating energy based on mass and the speed of light. The formula to prove this relationship is quite complex, but the idea is simple. Today's computers are extremely complex devices, but the interface with the user is now relatively simple.

Think Positively

The most controllable resource you have is your ability to think. Using it well will yield tremendous success and wealth. But be careful how you use this facility. It's too easy to let the mind become cynical, negative, critical, greedy, or arrogant. The world is littered with failures who took this route. Some have even ended in prison.

One mistake is frequently fall into the trap of becoming the "devil's advocate" or to play "resident cynic." This almost always backfires because it sends mixed signals to your organization.

It's better to let others, such as your financial and legal people be your resident skeptics.

But a big word of caution here: never let an ardent cynic or chronic blamer into your organization - they will undermine and destroy your positive energy and sap the spirit from your teams.

Note that "cynics" are different from "skeptics" in that the cynic is psychologically negative, and cannot be convinced; whereas the skeptic is willing to change their mind, usually with the aid of a good rationale.

Blamers are looking for someone to bring down. Their incessant complaints and negativity will kill trust, enthusiasm, and teamwork in others.

ATTITUDE

My philosophy of life: Work and look on the bright side of everything. -- Thomas Edison

You can do anything if you have enthusiasm.
Enthusiasm is the yeast that makes your hopes rise to the stars. -- Henry Ford

Whether you think you can or think you can't, you're right.

Great entrepreneurs are not necessarily the most intellectually brilliant people, but they are great experimenters, great motivators, and great organizers. Success lies not just in thinking with your brain, but also thinking with your heart, rising to overcome adversity, and inspiring others to join your energy.

It is this positive attitude that becomes infectious and has a multiplying effect on our organization - its leaders and its teams.

As entrepreneurs, we encourage lots of thinking, but it isn't enough if you don't have a great team. The next chapter will give you insight to create a powerful team.

Chapter 5

TEAM

Many entrepreneurs get so wrapped up in their vision and passion that they forget the essential importance of building and growing a team. What separates highly successful entrepreneurs from those that almost make it is their ability to create an energized, dedicated, innovative team that produces great results, is willing to make sacrifices for the good of the organization, and retains it's best people because the love what they do and who they do it with.

Why Teamwork

Ask any sports coach if he would prefer players that engaged as a team, or an assortment of superstars. They will choose the team players. A

good illustration of teamwork versus superstar was the 2004 Olympic basketball tournament in Athens. The U.S. Team, stacked with superstars, lost to Puerto Rico by nearly twenty points in the first game, for the most lopsided defeat in the history of U.S. Olympic basketball. This Dream Team of Superstars then lost to Lithuania and Argentina. The humiliation was due to individual competence being defeated by teams with passion, coordination, and commitment.

VALUE OF PEOPLE

You can take my factories, burn up my buildings, but give me my people and I'll build the business right back again. -- Henry Ford

Synergy and Synchronicity

This Olympic example superbly demonstrates the lack of *synergy* and *synchronicity* that's necessary to generate great teamwork. Synergy occurs when the whole is greater than the sum of the parts. In mathematics this is expressed as $1+1=3$ (or more). Synergy enables a team to produce more than the sum of the individuals. Synchronicity is precision timing and anticipatory coordination that enables great teams to work in unison, both physically and mentally.

Symptoms of Poor Teamwork

Surprisingly, many organizations suffer from poor teamwork but have tolerated it so long it feels normal because it's become an old habit, an accepted practice that goes with their organizational territory. Do any of these indications occur in your realm?

- Schedule is always behind
- People don't make or keep commitments
- Blaming is Prevalent
- Responsibility is not clear or overlapping conflicts
- Arguments and frustrations abound
- Meetings are unproductive
- People are caught in power struggles
- Priorities are confused or conflicted
- Some people just don't perform
- Crisis arise that should have been foreseen
- Communications are erratic at best
- Distrust is prevalent
- Lots of complaining
- It's always someone else's fault
- You expect the "excuse du jour"

If many of these symptoms are showing up in your organization, then probably other more severe problems are evident that can be traced back to poor teamwork. Here's how to get at the cure:

Inspired Leadership

Leaders play an enormous role in determining the future success or failure of their business. There are fundamentally two key things a leader must pay attention to in business – strategy and operations. A leader with the best strategic plan but a team that cannot produce great results will fail.

The role of a leader on the strategic side of the equations is quite different from their operational role. (see figure 1 below) . Leaders whose organizations stay small get trapped in the idea that they are

the sole source of knowledge, direction, and passion. They direct

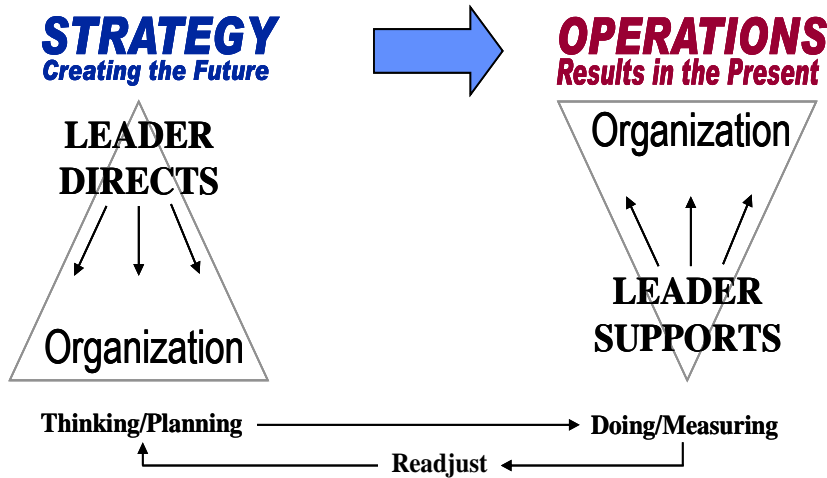


Figure 1 -- Role of Leader Shifts from Strategy to Operations

every move within their company, and become overwhelmed in micro-management.

Strategic Leadership in a collaborative environment means paying attention to mission, vision, and competitiveness, then shifting perspective to Operational Leadership, which means providing support so that the teamwork can flourish, thus unleashing the power and energy of your people.

Most people will do what you expect of them, if you let them know what it is.

If you expect them to say "no" they will probably accommodate you.

-- Scott Welch

Have a Shared Vision of an Honorable or Noble Purpose

A noble purpose articulates the strategic vision that unites a team. People are naturally enthused when they are focused on a cause that's greater than their individual self interests. An honorable purpose does not have to be something as grandiose as saving the world; it can be very practical, like "produce more efficiently, while

having a great team spirit." Without a purpose or cause, then work is tedious, laborious, a struggle. It need not be such.

There's a universal vitality that bubbles up from an organization when they focus on a dynamic and inspiring common vision.

And the converse is also true when organizations adopt fuzzy or ambiguous visions. When you hear a company saying something bland like: "We will be the leaders in our industry," you know the whole organization will be sucked into a bottomless "vision vacuum." By saying nothing, making no commitments, and inspiring neither the organization's stakeholders, nor its customers, nor its suppliers, the result will be equally dull.

Devoid of a powerful vision, everything defaults to politics as functional differences divide stakeholders against themselves.

As the adage from Alice in Wonderland states:

*"If you don't know where you're going,
any road will get you there."*

And that road will be fraught with in-fighting, subversion, despair, and confusion, all of which will ultimately lead to the ruin of your team and your company.

Contrast the weakness of a faulty vision with the motivational force of a more commanding perspective: "Our team will create 10 new innovations each year that will reduce the costs to our customers by 25%, while accelerating their throughput by 50%."

By having a powerful central vision and value proposition such as this, team members align by focusing their differences on how to achieve the joint goal, rather than arguing amongst themselves as to whose way is the "right way." A shared vision helps ensure synchronicity.

Powerful visions are all founded on a strong belief in the ability to discover the unknown, accomplish the seemingly impossible, and overcome the apparently unattainable.

Mutually Designed Plan

Great teams have a committed buy-in into how their joint work supports the larger organizational vision and, additionally, they have a role in designing the plan of work.

People Support what they Help Create.

When the people who will execute the plan participate in its creation, the chance of it being operationalized increases dramatically. This avoids the problem of people saying after the fact: "If someone had asked me ahead of time, I could have told them that problem was insurmountable or could be solved easier another way." When conditions change, they will be more flexible in re-setting the plan.

Clear Measurable Goals

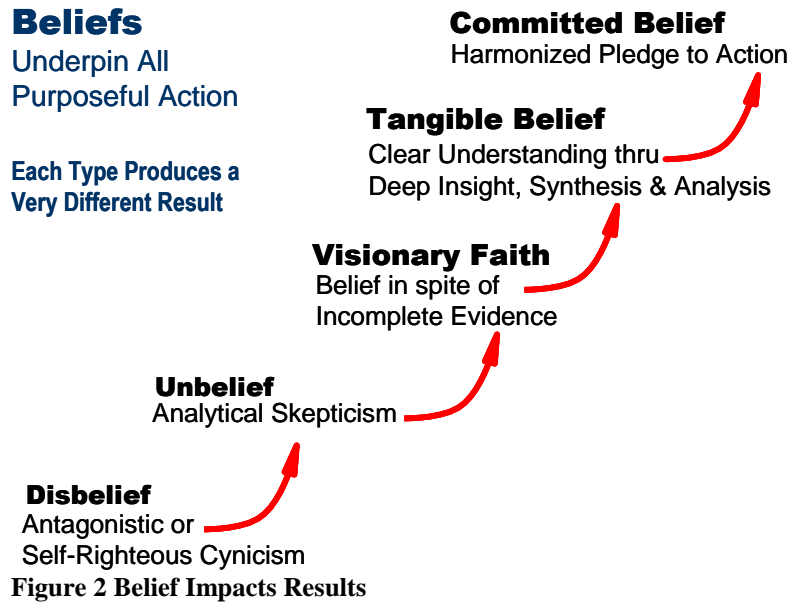
Without a clear objective, people on the team may either default to inaction, or set independent goals, or work in their own self interest. Having a clear goal that is measurable and achievable is essential.

Teams thrive on measures. A goal without measures is like a car without a driver. Measures set the direction, speed, and reality of the destination. Chose goals that trigger people's desire to innovate.

For example, when Lance Armstrong, then recovering from cancer, had a visionary belief he could be the best bicyclist in the world, he decided to start riding forty miles a day. Then he increased the metric to riding that distance in a prescribed time period. Then, successively, he increased his performance by cutting five minutes off the time, then another five minutes, until he hit a world-class stride.

Committed Belief

Great results start with people who believe they can do something together they never would have thought they could do alone. Look at any sports team that went from worst to first in one year. It all happened because the coach got the team to believe in itself. Figure 2 illustrates the different types of belief that might manifest itself in your organization.



If a team has even one self-righteous cynic on it, you can be assured the team will fail, because the cynic will quickly convert any resident skeptics to their side, who will in turn, find all the reasons why something won't work, and then the team commences its irretrievable downward spiral.

Visionary belief results from people who have faith that something can and will happen in spite of the lack of clear evidence. Often they have a "hunch" or inspiration or believe that a set of values will guide them to the "promised land." This can be positive, and powerful, but may also lead to getting trapped by practical matters.

When insight, analysis, and concentrated thought are applied to visionary beliefs, then a dramatic shift occurs that makes the visionary belief transform into a tangible belief. This is usually the stage where people really think goal is possible. When enough people reach a critical mass, it then can transform to a committed belief that everyone will engage with fervor and alignment. Commitment is an essential ingredient in building trust and synergistic action.

An example of using beliefs is what's now called Moore's Law. Gordon Moore, CEO of Intel, in the early 1970's stated:

The capacity of a computer chip would double every twenty-four (now eighteen) months, and the cost per byte would drop by one half.

At the time he said this, it was merely a visionary belief, but he and his research team had some tangible evidence that it was possible, at least in the near future. After several rounds of chip development, the entire organization, and then the entire industry made a commitment to this result. Today the growth of the computer industry has been largely due to the exponential growth of chip capacity, which, in turn, enabled software and the internet. (In Chapter 2 we examined how this approach created wealth through the Economics of Expandables)

Acknowledge Peoples' Needs

Leading on the operational side of the business means ensuring that people's attitudes and behavior enable the production of superior results.

People need to be recognized, acknowledged, and rewarded for their work. There are a lot of invisible heroes on teams. In fact, many times there are people acting in role as facilitators, catalysts, networkers, integrators, and communicators that did not do the bulk of the actual work but made the work for others easier or more productive. The relationship issues - trust, camaraderie, and empathy become more important in today's age of innovation because people are not "replaceable parts" like in a machine, they are the intellectual capital that generates the ideas that fuel the engine of innovation.

Most companies create performance systems that emphasize being visible to get ahead. This can create internal competition rather than cooperation. Be sure each member of the team knows clearly that good teamwork will get recognized and rewarded. Determine how the credit will be allocated, what will be the rewards system, and what will be the measures of success. So often we don't reconcile our rewards systems with our measures; we tell people we want one thing, and then measure them on another.

Unknowingly, many leaders unintentionally betray their subordinate's expectations for being acknowledged and rewarded for excellent work, innovative thinking, and willingness to take risks for the greater good of the organization. When these expectations are unfulfilled, their morale takes a long, low road to disappointment and despair. The potential climate of excitement and innovation yields to an attitude of complaint, blame, and resentment. In this swamp of despair the betrayal, criticism, and manipulation breeds like a mosquito.

Selecting Team Players

High performance teams are created by design, not by accident. Here are a few of the things to consider when choosing who should be hired in your company and who should be on a team:

Bring out the best in others:

Team players have their egos under control; they reinforce others, and help others perform. The team winning is more important than a single individual getting the credit.

My best friend is the one who brings out the best in me. -- Henry

Importance of Character:

In today's world, we put an over-reliance on competence, and not enough on character. While an individual's competence is important, it should not garner more than 50% of the decision to choose someone. Having a balance between character and competence helps generate trust because most teammates want to be sure they can trust both the motives and abilities of another. If in doubt, choose character first. Competence can be trained into someone, character cannot.

Work Ethic:

People with a good work ethic (not workaholics) are essential. Others must feel that everyone is pulling their weight. A strong work ethic will pay dividends over and over, and energize others on the team to do the same. A poor work ethic from just one person will create resentment, disappointment, and even hostility.

WORK ETHIC

Opportunity is missed by most people because it comes dressed in overalls and looks like work. -- Thomas Edison

Opportunities will not overlook you because you are wearing overalls – Henry Ford

Genius is 1% inspiration and 99% perspiration!
-- Thomas Edison

I never did anything worth doing entirely by accident... and almost none of my inventions came about totally by accident. They were achieved by having trained myself to endure and tolerate hard work. -- Thomas Edison

I never did a day's work in my life, it was all fun.
– Thomas Edison

There is a joy in work. There is no happiness except in the realization that we have accomplished something.
—Henry Ford

Positive and Caring Attitude:

This speaks for itself. Don't consider hiring anyone with a poor attitude – period. Cynics and Blamers will destroy teams, poisoning the well of prosperity, causing others to wallow in mediocrity and despair. When adversity strikes – and it will – those with a positive attitude will find lift people's spirits. Others on your teams will face catastrophe or calamity in their lives. Those with empathy and caring will come to their aid in their time of need.

Being positive and caring starts with everyone on your leadership team. If you inappropriately critical and condescending, that signal will be amplified and magnified throughout your company.

Creative and Resourceful:

Seek people who use their imaginations. They will get jobs done with limited resources and always seek to improve upon what others will accept without questions. They like to make a difference in their world. Creative people look for solutions when others are stumped or stupefied. Insist that teams continually do more with less.

Integrators

Be sure at least a quarter of the team can translate across the team boundaries, or have experience in more than one of the specialties represented on the team. A lot of business takes place across boundaries, either functional boundaries such as sales and service, or specialty boundaries such as engineering and finance, or organizational boundaries such as departments or suppliers. Those people who are natural integrators love crossing boundaries and are especially valuable on cross-functional teams. They pay attention to the communication, coordination, and commitment that can easily “fall through the cracks” in organizations.

Having Fun

Foster a climate in your organization where passionate, caring people can also have fun. Not only does it generate energy, but humor also stimulates neuro-transmitters in the brain to generate innovation and think positively. The other side of fun is that the right team players can also laugh at themselves when they do something foolish or make a mistake. This sense of humor can be extremely valuable in high-tension situations that would otherwise turn into negativity, criticism, or conflict.

Create a sense of Family

Let’s face it, most of us have families that are not always as functional and fulfilling as we wished. As a leader and entrepreneur, you have the opportunity to design and build an organization that can serve as a surrogate family – the family people wished they had.

Being part of a family meets a very basic need for companionship, fellowship, and friendship. People want to belong to something of which they are proud.

Hiring the Right People

Great companies have learned that great teamwork starts with recruiting and hiring. Southwest Airlines and Toyota hire only a very small percentage of the applicants because they are looking for specific character traits that produce a high performance team.

Rules of Engagement (or Operating Principles)

For a team to organize and get into action quickly it needs more than just a plan; it needs clean ground-rules that let everyone know how people will interact, what's fair, and what's out of line. These rules or principles are essential, because, when someone violates the rules, there's a reasonable rationale for instituting corrective action.

The rules or principles are not simply imposed on a team, but should be generated by the team members themselves (Remember: *people support what they help create*). This will give greater meaning by establishing a “contract of mutual expectations” to guide decision-making in situations of ambiguity, provide a standard for the quality of interaction, and help bring new people on board. Other than rules of engagement, it's best to give people a goal, and then keep other rules to a minimum.

Figure 3 illustrates an example of Rules and Principles of Engagement that another team have created.

Charter Partners Trust Towel as a Meeting Tool

Getting people from diverse groups together proved no easy task when we first started.

Quickly we learned we had to set up some rules that honored and respected people. We created the Trust Towel (see Chapter 3 for a picture) to visually display the critical actions required of people to generate trust in a meeting. These were;

1. **Time:** Be on Time, Take Breaks, End on Time
2. **No Bull:** Be Honest, Tell the Truth
3. **No Interruptions:** No Cell Phones, Talking over People, or Put-Downs
4. **No Whining:** Contribute to the Solution
5. **No Whispering:** Talk to People, Not About People
6. **No Surprises:** Partners Don't Surprise Each Other

If someone violated a rule, they had to put a buck in a bucket. The first year we collected \$2.500.

Example of Rules of Engagement & Core Values
Our Core Values of our Team are:

- **Focus:** *On the Customer and
Creating Superior Added-Value*
- **Commitments:** *Meet Commitments and Milestones on Time*
- **Communications:** *Open & Honest, go past meeting halfway*
- **Changes:** *Notify Quickly & Honestly, Face Reality*
- **Decision Making:** *Quickly, Team Ownership*
- **Champions:** *Stay ahead of things, sustain momentum*
- **Relationships:** *Build solid, long-term relationships based on trust*
- **Problems:** *Address problems before escalation, fix quickly*
- **Ethics:** *Environmental Responsibility,
Highest Business Ethics*
- **Support:** *Help each other out when necessary*
- **Spirit:** *Create opportunities for growth & breakthroughs*
- **Fairness:** *No one benefits at expense of Others*
- **Flexibility:** *Change with the times and new pressures*

Figure 3 Core Values as Operating Principles

Anticipate Breakdowns

It may surprise some people, but high performance teams have more breakdowns than low performance teams. This is because they push the edges farther and faster. Low performance teams stay low because when a breakdown occurs they quickly shift to the

When something goes wrong you most likely had at least three opportunities to avoid or prevent it.

When you look back you will remember these hints, you just were not alert to them.

-- Scott Welch

blame game, make excuses, and start attacking each other. Teams that blame each other inevitably either fail again and again as the crumble as a team, or they simply don't take risks or give everything they have so they can't be blamed. What do high performance teams do differently?

- First, they anticipate the breakdowns ahead of time. They predict where the breakdowns will occur
- Second they have contingency plans and response plans in place to prevent it and to manage it if it happens.
- Third, they have early warning signals identified that give them lots of lead-time if a breakdown is emerging.
- Fourth, they make a commitment to learn from the breakdowns by turning them into an opportunity for a breakthrough. This means they purposely avoid the blame game if someone falters or there is a big failure.

Four Questions to turn Breakdowns into Breakthroughs

Ask:

- **What's Possible?**
- **What's Missing?**
- **What Shifts in Thinking are required?**
- **What should we learn from this?**

Conflict Transcendence

Whenever disagreement arises, great teams are careful to focus on ideas and issues, steering clear of entrapment games, such as "so and so would never have screwed up like this," or "you must be an idiot!" that will rapidly descend into the pits of defensive self-righteousness and intractable conflict.

Conflict is the inevitable by-product of all change, and any proposition of new ideas will generate some amount of conflict as people's internal sense of stability is disrupted. The objective is to prevent the conflict from degenerating into blind fear and inflexible rigidity. As one team leader articulated:

SEEK SOLUTIONS

*Don't find fault, find a remedy
– Henry Ford*

Without conflict there will probably be no buy-in. Conflict is just a tool to get people talking and debating an issue from one side or another. It promotes the kind of understanding necessary to be successful in this business. I just have to be careful I do not take conflict personally as an attack on myself.

The Value of Differences

The fundamental reason why teams are formed is to access a capability within other people, groups, or organizations, thus finding the magical synergy -- the $1+1=3$, meaning the whole is far greater than the sum of the parts.

To do this one must be able to capturing the value of differences. Lying within these inherent differences is the promise of the team to create bold new futures, or conversely, to implode upon itself if differences turn destructive.

Unfortunately, for all-too-many organizations, differences become corrosive, disputes become angry, self-protection arises from distrust, and polarization rigidifies points of view.

Some turn to lawyers to generate reams of legal documents to create surrogate contractual trust. Others stand their ground more firmly, often with dire consequences - liberals versus conservatives, Protestants versus Catholics, Muslims versus Jews, capitalism versus communism, blacks versus whites - and the list goes on.

The difficulty in managing differences has gone on since the beginning of recorded time. The Bible is filled with these conflicts, Chinese and European history records centuries and centuries of warfare as the battles have continued throughout the course of human history to the present day. It doesn't have to be this way.

Synergizing Differentials

While synergizing differences has proven to be one of human-kind's most monumental tasks, it can be surmounted.

DIFFERENT POINTS OF VIEW

If there is any one secret of success, it lies in the ability to get the other person's point of view and see things from that person's angle as well as from your own.

-- Henry Ford



Figure 4: Synergy Spectrum: Options to Engage Differentials

one our most rewarding victories. The Synergy Spectrum (Figure 4) demonstrates how synergistic, co-creative teams cherish differences, rather than just tolerate them.

Conflictive team cultures simply want to destroy and obliterate any difference. Coexistentive team cultures pride themselves in tolerating differences, which is simply not enough to create a great team. Traditional approaches for teams have focused on tolerance and acceptance (sensitivity to differences, cross-cultural training, understanding linguistic nuances, and acculturation) in managing personal and cultural differences. Cooperative cultures feel good about their teamwork and are far more productive. Most people are completely satisfied to reach this level. However, this type of team can easily be caught flat-footed when something new is thrown their way.

Build a Synergistic Culture

There is an even greater level to achieve - it's the range of Co-Creation. At this level people recognize that innovation is essential for great teams in today's ever-changing business environment. The Co-Creative team honors and embraces these differences because they recognize the fundamental premise that all innovation comes from differentials in thinking. At this level, deep human energy is liberated, fear of judgment, criticism, and disrespectful behavior is taken out of the team's worries, and humor, joy, and a strong sense of belonging trigger the co-creative spirit.

Synergy of Honorable Differences

Synergy does not just occur as a natural byproduct of a relationship nor from a tough legal agreement, nor by dint of a dream. Rather, it must be designed with architectural aplomb. But more: synergy must be activated by a powerful set of actions founded upon the understanding of how differentials produce the 1+1=3 effect.

***If two people in the same room think alike,
one is unnecessary when it comes to innovation.***

The eminent psychologist, Carl Gustav Jung foresaw the potential of relationships when he said: "The greater the contrast, the greater the potential. Great energy only comes from a correspondingly great tension between opposites." Joel Barker, in his groundbreaking work on paradigms, recognized that new paradigms originate from outsiders who think differently, not from insiders who see their world from an old and tired perspective.

Each of these men understood the profound impact of differences on the co-creation of bold new futures. Invariably, however, old ethnocentric habits or business culture often attempts to invoke its mighty and frequently destructive hand. Some team members may begin by making judgments regarding the other side's culture, branding it as strange, wrong, inefficient, bad, or unproductive. As soon as this begins, fear, uncertainty, doubt, and distrust begin to fester, and then the team begins to unravel. This calls for strong action by the leader.

Adept relationship managers, leveraging their vision for the team, will call for creating a "synergy of honorable differences" in which differences are respected as source of innovation, cherished for their ability to break paradigms, and expected to produce creative solutions. Your ability to create this new "super-ordinate" culture within the organization and between you and your suppliers and your customers enables the relationship to produce at higher performance levels than either individual member can achieve alone.

Because complex organizational relationships are difficult to command in the traditional sense, the mechanisms for leadership and

control are dramatically different compared with most conventional hierarchies.

Great relationship managers tend to be “integrators,” possessing outstanding skills in bridging differences through their ability to translate across cultural boundaries. The greater the differential between cultures, the greater the need for highly skilled integrators.

Often the effective integrator will develop principles and values for the team that forge unity of vision and purpose. Integrators empower those around them by recognizing that “people support what they help create.” Thus, they use techniques to unify team members, rather than divide them, to bring out the best in others.

The co-creative spirit has an internal compass that points to synergy in lieu of conflict. This does not mean disagreements and breakdowns do not occur. But rather that these circumstances are opportunities for improvement, situations for turning breakdowns into breakthrough, conditions for shifting to higher orders of thinking. Disagreement does not naturally gravitate to conflict, but becomes a transcendent experience to turn the passion of argument into the passion of creation.

Instead of taking “positions” on issues – a certain sign that conflict is brewing – the effective leader seeks to find mutual interest, joint advantage, shared vision, common values, and combined strength to stake out a new future and a shift in thinking.

The synergistic leader will not be a great compromiser between the diverse elements, however, unless every other avenue has been explored. A compromise is usually seen as a poor second choice, the forsaking of a dream. Forging a new unity from seemingly diverse values and thinking will be the synergistic champion’s first choice. This unity becomes a new standard of excellence, a fresh breath of interaction, better than the old way, thereby creating a super-ordinate culture for the relationship.

Synchronicity

Anyone who has traveled to Switzerland will notice immediately that Swiss churches are different from other churches in other lands. What’s different? A clock is embedded in every steeple. Why? To keep the culture synchronized.

According to historical reasoning, Switzerland should never exist. A country made up of German, French, and Italian cultures would ordinarily tear itself up. The importance of synchronicity is that it enables coordination, encourages cooperation, and stimulates co-creation.

Though not the sole reason, synchronicity contributes enormously to synergy. The Swiss have a mastery in the area of synergizing differences.

Sharing Expands Possibilities

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1=3$ proposition. The only way to attain such gain is through co-creative sharing. Teams are built on the fundamental premise that sharing of ideas, mindsets, and skill-sets will expand the possibilities and rewards available to all.

Teams can produce fundamentally more than single individuals because, when functioning well they harness the synergies of differences and they capitalize on the Economics of Expandables. To reiterate from Chapter Two:

Expendable resources disappear, deplete, or decrease upon sale, consumption, or usage (such as oil, food, minerals, etc); and adhere to the universal price laws of supply and demand.

Expandable resources multiply, regenerate, or increase the more they are used (such as software, co-creativity, cooperation, teamwork, trust, etc); are not limited by supply; and demand does not increase their price, but does increase their value.

The Economic Laws of Expendables run counter to the Laws of Expandables, but both are true and both mutually exist in our world.

Accessing the expansive possibility of sharing begins with the mutual belief that "the more you give, the more you're going to get." When both partners hold this belief in an environment of trust, it manifests.

The general rule for the Law of Exp~~and~~ables is:

Sharing Expands, Hording Contracts

Sadly, in a world where certain resources may have been scarce, hording is a common practice, based on the limiting belief that hording will control resources, thereby maximizing returns. While this may valid regarding limited resources, it's unfortunate when people then create a culture around hording everything, thus cutting themselves off from the laws of abundance.

Ask yourself the question: "What kind of team relationship will emerge if sharing is not a fundamental value?" If the answer is filled with fear, distrust, or uncommitted action, the team will bear shrunken and shriveled fruit.

With all this in place, there is one more dimension that is absolutely essential for teamwork and leadership. There is probably no greater way to unleash the power of a team than by building a deep sense of trust with the team. The importance of trust is so essential that we have devoted the entire next chapter to it.

**People Making a Difference means
TEAMWORK.....**

- Key to providing good products and services to our Customers.
- Means thinking about your other teammates as much as you think about yourself.
- Only way to succeed when you are under pressure
- Not just a nice word, it is the fundamental value upon which good companies are built.
- Requires high levels of cooperation, consideration, and communication -- you must value these immensely to achieve the expectations of our Customers and your fellow teammates.
- May not come naturally -- it is an art requiring practice, thought, discussion, planning, and more practice.
- Means being vocal about your expectations for your own performance as well as the performance of others -
- and very carefully listening to the expectations of your teammates.
- Means doing whatever is necessary to get the job done, regardless of position or job description.
- Foundation of the collaborative innovation which will help produce the competitive advantage that will keep us and our customer in business for years to come.

True professionals always give 100% effort, not because they are paid for it, and not because others expect it of them, but because they expect it of themselves.

***Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work.
And the only way to do great work is to love what you do.***

The Architecture of Trust

by Robert Porter Lynch *with contributions from
Todd Welch and Paul R. Lawrence*

In the business world, we soon learn how expensive distrust is. Every transaction, every conversation, every move we make seems to be distrusted until we prove we can be trusted. Sadly, many say it's getting worse. Mistrust causes everything to be more complicated, slower, and far more fragmented. Distrust hurts our businesses, adding extra costs to everything. Just take health insurance – distrust adds at least 20-30¢ to every dollar of health cost, for which we receive no health value in return.

Distrust is an incredible competitive disadvantage. What's more, distrust puts a major limitation on collaborative innovation, internal teamwork, and external our relationships with suppliers, customers, stockholders, and our community.

Profusion of Distrust

Trust in America is declining; the evidence is everywhere.

Recent polls show that by a margin of nearly 3 to 1 we distrust the media and unions, and by 4 to 1 distrust politics and big corporations. The majority of Americans trust neither Congress nor the Food and Drug Administration. If distrust were a disease, we'd call it an epidemic.

Ultimately, no amount of pages in a legal contract can substitute for or replace weak trust. It's the single most important thing that separates relationships that thrive from those that fizzle. Yet trust is too often just taken for granted.

If trust is the key to rapid decision-making, building teams, and creating competitive advantage through collaborative innovation, why, then is, trust so low, and what can we do about it? First, we think there are several reasons for high distrust:

Trust determines the destinies of people and the course of nations.
Paul R. Lawrence

Trust is the Foundation of all Enduring Relationships

1. We've distrusted for so long, like cynicism, it becomes a habit. To start trusting again is risky, making us vulnerable. It's easier to be skeptical; reserved; protective. After all, if we expect little, then we're never disappointed.
2. As a civilization, we really don't have a good concept about trust itself. Go to the bookstore and look for books on trust; you'll quickly see how little we seem to know about trust. You can learn more about obsessive-compulsive disorder or bi-polar disorder than trust. Reading over scanty literature, one is somewhat shocked to see how little we seem to know about such an important subject that impacts our daily lives, at home and at work. Just look at television – show after show is fraught with betrayals, lying, cheating, stealing, crime, personal manipulation, and greed, but little to show how to cure the illness. You don't take courses in any level of school on the subject of trust. But the converse reality is equally distressing. We have entire professions in law, accounting, and negotiations promoting or reacting to distrust.

Causes of Trust and Traps of Distrust

What causes distrust?

In a word: *fear*; in particular, *fear of being taken advantage of or fear of being put in a disadvantageous position, or fear of being hurt emotionally or physically or fearful insecurity.*

To have trust, at a minimum, one must sense that there is a level of safety in the relationship -- that one will not be worse off for having this interaction. (As we will see later, deep trust requires more than safety.)

Just as the elimination of a disease does not cause happiness, neither will the elimination of distrust create solid trust – it just brings everything to “neutral.”

Several approaches to create trust -- ethics and values -- have been emphasized for years, but they have not made an impactful difference. Here's why:

Ethical “Dilemma”

The lack of ethics will cause distrust, but the presence of ethics does not necessarily cause trust. Good ethics implies “I won't do something

wrong;” it takes the fear out of the picture. But it doesn't mean “I'll be effective,” nor “use sound judgment,” nor “be collaborative,” nor “compassionate,” nor “spontaneous.” Other things are necessary.

Values

Many corporations have placed strong emphasis on values in their companies. One can find “values statements” posted in their corridors and placed on placards to remind employees of their dutiful responsibilities and give guidance to their decisions.

However, ethics and values all are abstracted *philosophic* approaches that provide a somewhat abstract view of the real world, but don't deal with the moment-to-moment actions of individuals as they interact with one another. It is all-too often that these personal confrontations go awry, while never violating ethics or values, sending trust into the proverbial pits.

By examining *how* distrust occurs, the concrete *behaviors* become evident. Changing the actual behaviors of people does more to shift trust positively than to talk abstractly or symbolically about it.

Trust by Design - Coming out of the Trap

Probably the most challenging and elusive objective of any leader is to create a dynamic synergy¹ within their organization - whether it be between business units, within teams, or across corporate alliances.

Traditionally we have often erroneously thought that synergy is derived from organizational or financial structure. However the long string of failed acquisitions is convicting testimony to this illusion.

Why have so many attempts at achieving synergy failed? Most leaders know intuitively that the magic moments of synergy, however fleeting, are an indication that synergy is truly possible. Sports coaches call those magic moments “being in the *zone*.”

We believe that this elusive synergy is actually a powerful force within the human spirit and can be created *and* replicated regularly by accessing the right combination of innate human drivers and building a systematic foundation of organizational culture that supports, reinforces, and maintains trust. What's more, there is a large body of

¹ from the Greek: Syn – to join, and Energos – energies,

organizational evidence to support this assertion. The good news is that a system of trust has an underlying architecture behind it, which means trust's great value can be designed reliably into most any organization.

However, as a culture, our civilization is surprisingly deficient in the practices and methods of building trust. For many it's an either/or situation - either I trust or I don't trust. Because we haven't a solid approach to either maintaining high standards of trust, or fixing trust when it's broken, we stay trapped in a small game when the stakes are high.

We don't advocate blind trust, which would be foolish in today's world, but instead "designed trust," which will enable you to reach new heights in relationships, while keeping you safe against those who should not be trusted.

To reclaim our birthright to seek joyous fulfillment of life, and feel safe in a sustainable community of trust we need a *design* for trust, a working *architecture* that provides a framework for daily usage and simple strategies for creating trust, along with best practices and tools for application in your daily life.

The word "architect" means a master craftsman who understands and can apply the laws and principles of design. A great architect of buildings creates a structure that looks beautiful, functions purposefully, and doesn't crumble under stress. We think it is essential for you to be the architect of your life and your business, and for you to understand how trust is built, what will destroy it, and how it functions. When you understand the basic architecture of trust, you can then discuss it intelligently with others and make choices openly to engage in productive relationships, or disengage from poisonous ones.

How Design Empowers

When you understand design principles, you become empowered. Just as a nurse becomes confident when she understands how to help a patient become healthy, or a mechanic becomes proficient when he learns what makes a car function, or a construction contractor joins forces with a master architect to build a great structure, so will you become better at trust building when you become adept at its inner design.

What's more, by becoming fluent in designing trust, you can take trust from the vagaries of intuition to new level where you can have a highly insightful conversation with others.

Architecture of Trust

Because there has been no clear “architecture” or “system” for trust, it has fallen into a vague and ambiguous area where the mindset for trust is fuzzy, the skill-set is deficient, and the toolset inadequate.

We found that there were three key issues that created distrust, that when addressed in a systematic way, changed the ability to generate positive and sustainable trust considerably:

- Self Interest versus Greater Good
- Positive and Negative Interactions
- Commitment to Operating Principles

By focusing on these three issues, we can create a much more systematic “architecture” of trust.

To help our business world better position itself to rebuild the trust that's so lacking, yet so needed, we began designing an Architecture (or System) of Trust which we've found extremely useful and we'd like to share it with you. It consists of ten elements:

1. Drivers of Behavior
2. Balancing Self Interest versus Greater Good
3. Honorable Purpose
4. Integrity & Truth
5. Spectrum of Trust
6. Economics of Trust
7. Laws and Principles of Trust
8. Operating Principles
9. Rewards, Consequences and Metrics
10. Trust Diagnostics

Trust Element #1. DRIVERS OF BEHAVIOR

First it's necessary to understand how humans behave and what drives performance. Essentially humans are imbued with four innate "drives" (see Figure 1) based on Darwin's concepts²:



- ◆ Drive to Acquire - to aggrandize, command, & control
- ◆ Drive to Defend - to protect, thwart, & resist
- ◆ Drive to Bond - to engage, cooperate, & team
- ◆ Drive to Create - to build, learn, & invent

Each individual has their own unique blend of these drives and typically manifests them in manner learned from their unique experiences in life. However, the culture of the immediate organi-

² This approach to leadership is explained in *Driven, How Human Nature Shapes Our Choices* (Lawrence & Nohria, HBS, 2001) and Paul Lawrence's forthcoming book drawing on the insights of Darwin. Lawrence proposes that all human behavior is generated by four basic drives (or ultimate motives). These are the:

1. **drive to Acquire** (dA) essential survival resources (food, water, shelter, sex, etc.)
2. **drive to Bond** (dB) with others in long-term mutual caring relationships.
3. **drive to Create** (dC), invent, learn, comprehend, improve, and
4. **drive to Defend** (dD) from all threats one's physical self, one's loved ones, valued possessions and basic beliefs,

These drives are insatiable and independent of one another in the sense that fulfilling one does not inherently contribute to the fulfillment of the others. This means that the drives can often be in conflict, but, with the help of the human brain's prefrontal cortex, these conflicts can be resolved by the selection of the course of action that best satisfies all four drives.

zational environment has a major effect on these drives, either by reinforcing or suppressing one drive over another. That's why the same individual may behave quite differently in different organizations, or why changing leaders can produce radically different results within the same group of people.

An organizational culture based on fear and control will trigger the Acquire and Defend drivers, resulting in an organization that has fiefdoms and power-struggles as territorial battles and rivalries emerge between business units, functions, or buyers and suppliers. This type of culture produces very poor alliances. Also, this type of company's acquisitions are typically failures because they can't integrate the innovation streams and creative teams into the acquiring company.

On the other hand, trust-building targets the bonding and creative drives (hence the term "collaborative innovation") that are so essential to a modern corporation.

Trust unleashes human energy, enabling the creative drives of individuals to align and bond.

Thus teams and alliances are able to produce extraordinary results far beyond what can be achieved when distrust is activated by the *acquire* and *defend* drives.

One key element to understanding the trust dynamic is the critical recognition of the differentials between individuals. While most organizations tend to minimize, deny, obscure, or disparage differences or impose control over differences by commanding oneness, disciplining deviants, or punishing those who do not conform. In high trust environments, *honorable* differences are cherished and deeply respected.³

³ (Note: the pivotal term here is *honorable*, meaning that people with different points of view are seen as holding the potential for collaborative innovation, because all innovation comes from differentials in thinking. Remember the adage: *If two people think alike, one is unnecessary if creativity is paramount.* However, not all

By enabling, encouraging, and reinforcing an individual's value as a contributor to collaborative innovation, team trust begins to manifest. And, by respecting others, the leader earns respect.

This fundamental role of honor – to respect the value of others and more: to treasure honorable differences among others as a never ending source of creative energy. This is the essence of an innovative organization – one that cherishes differences in thinking and keeps those differences from devolving into arrogance, insularity, and ego battles arising when the drive to *Defend* runs rampant.

Leaders of great organizations become intolerant of dishonorable actions, not for ethical or philosophical reasons, but because

Dishonor is a poison that kills co-creative energy

The Leadership Compass acts as a navigational instrument for leaders to determine a course to achieve strategic objectives. In a fast moving, rapidly changing world, where flexibility and adaptability are strategically essential to success, setting a course that stimulates both the drives to *Create* and *Bond* results in building both trust and collaborative innovation, and thus is far superior to one that activates the *Acquire* and *Defend* drives.

Toyota's innovation engine, the produces millions of improvement ideas annually from its internal staff and its supply chain is based on the premise that one hires (internally) and allies (externally) based on character, and competence is trained in later.

Just as individuals manifest their unique drivers, so do organizations – we often refer to this as “culture:” a set of patterns of behavior and organizational processes that are measured and rewarded, giving each organization a unique fingerprint. A leader must be especially cognizant of his or her molding of these drivers because they have a massive impact on outcomes. For example, the dominant and controlling (Acquire & Defend) nature of General Motors toward its suppliers during the last two decades created a severe competitive *disadvantage* compared to

differences are honorable, such as if one person or party advocates the destruction of the other)

Toyota's use of a far more advantageous collaborative innovation (Bond & Create). This is evident in the 2004 PPI report that stated the trust level with GM was so low that innovation flows of suppliers were being directed to Toyota and Honda, and away from GM.

Trust Element #2. BALANCING SELF INTEREST VERSUS GREATER GOOD

The nature of capitalism has generated adverse reactions ever since Adam Smith attempted to address the issue of self interest in the *Wealth of Nations* in 1776.

Putting it simply, no 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 2008.⁴

On the other hand, neither have any economics systems flourished that over-emphasized the total sacrifice of personal gain in favor of the greater good of the whole. Communistic and socialistic experiments of the 19th and 20th centuries are all strong testimony to the fallacy of this other extreme.

What is clear, ever since the Greeks brought up the dilemma of addressing self-interest versus the greater good over 2300 years ago is that 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 (all manifestations of too much *dAcquire* or *dDefend*)

The basis for trusting someone is not simply ethics and honesty. For example, much of the shenanigans on Wall Street that brought

⁴ Certainly this is not unique in the annals of capitalism - the same difficulty caused the Great Depression, and many earlier "Panics," such as that of 1907, 1893, and 1873. However, capitalism is not the sole owner of this plague, as oligarchies in England, France, and Spain all created prior to the Industrial Revolution.

down our financial system were done legally and perhaps even ethically. Yet something fundamentally important was painfully missing.

What was so critical was how the financial sector dealt with their self interest – it got out of hand, and damaged the financial stability and economic prosperity of the entire world.

We trust people who we can count on to look out after our interests as well as their own – our “mutual” interests, or put another way, the “greater good.” Balancing self interest with the mutual interests of the greater good is the starting point to begin trust.

When each person or organization acts to maximize the amount they get from negotiations with their customers or suppliers, without consideration of another person's or organization's interests, they are working in their *self interest*. There is nothing inherently wrong about self interest, it's part of any capitalistic system. The drive to *acquire* one's basic resources is obviously essential to survival. But if everyone works *exclusively* in their narrow self interest, severe problems can erupt: oceans get over-fished, park lands become developed, unions and management lock horns, air becomes polluted, societies and communities fall apart, economic systems and civilizations break down as each entity is out to maximize for itself.

Most people are
10,000 times more
interested in them-
selves than they are in
anyone else. It goes
downhill from here.
-- Mother Teresa

In this kind of a dog-eat-dog world, trust diminishes as everyone withdraws into their turtle-shells to protect their individual interests. In the early twentieth century of exploitive robber-baron capitalism, government was compelled to step in to act as disciplinary “referee” when labor strikes threatened to shut down the country or big businesses created monopolies that endangered the greater good of the public. Self-centered decision-making created untenable societal situations, and only government was left to ensure the mutual benefit.

In the new paradigm of collaborative commerce, to keep the system running fast and efficiently, trust-building is essential. With trust, businesses are empowered to cooperate more, make interactive decisions, form teams and forge alliances to make use of their respective strengths and weaknesses, and take risks that are impossible in low-trust environments.

In other words, our internal organizations, and our external value networks run far more productively and creatively with trust. When trust withers, the people are forced to withdraw into their shells to protect their self interest.

A great leader has a powerful option at their disposal – to openly address the self-interest – greater good issue directly and openly. By engaging any team, alliance, union, or board of directors in an open discussion about the great the need for balancing these two issues forthrightly. Strategic alliances have a particular advantage here because no party controls the other, thus forcing the issue of mutual interest. Southwest Airlines, which is partly employee owned and unionized, does this with alacrity. However, when United Airlines became employee owned, they failed miserably as their unions carried their historic culture of pressing for self-interest into negotiations against other unions.

Similarly, when one hears the admonition that the purpose of a company is to “create shareholder value,” but the workers have no stake in the game, the self-interest of the shareholder outweighs the self-interest of the worker toiling daily. The imbalance causes poor performance and poor morale. We never heard of a worker being motivated to go to work in the morning and give his best performance in order to create value for an unknown shareholder.

The open discussion about balancing self-interest with the greater good is a real trust builder. However, in highly distrustful organizations, it may be difficult to accomplish, in which case the next approach may yield better results.

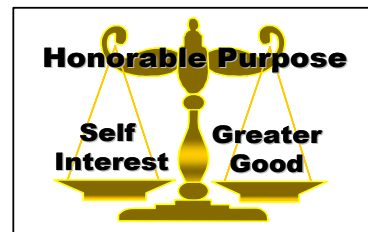


Figure 2: Balancing Self Interest & Greater Good

Trust Element #3: HONORABLE PURPOSE

How does anyone know when the balance between self interest and the greater good is right? When people focus only on the greater good, they don't satisfy their own needs. Communism tried to focus on the greater good, and ended up serving neither the greater good nor the needs of the individual.

We believe this is best addressed first by facing the issue from the perspective of “Honorable Purpose.” Honor is such a foundational element to society that it was recognized by the Greeks and early Romans as one of the critical elements to their civilization. Let’s examine the meaning of “purpose.”

When we start with Honorable Purpose, we do the right things for the right reasons. Honor is

HONEST PURPOSE

The object of all work is production or accomplishment and to either of these ends there must be forethought, system, planning, intelligence, and **honest purpose**.

– Thomas Edison

Let's look at the meaning of “Honorable Purpose” in some depth:

Definition: Honorable from Latin: Honor (same root as Honest)

- Honest in principles, intentions, and actions; truthful with integrity, upright, not disposed to cheating, deception, or fraud
- Courage; fidelity; especially, excellence of character; high moral worth; virtue; nobleness; integrity; uprightness; fairness, trustworthiness,
- Self-respect; dignity; dignity, or distinction; noble, illustrious, or distinguished, without pretensions
- In accordance with or characterized by principles of honor

Definition: Purpose from Latin: *propositum*

Noun

- The reason for which something exists or is done, made, used, etc.
- The object toward which one strives
- An intended aim, result, goal, design or desire that guides your planned actions
- Determination; resolution

Verb

- To reach a decision or to resolve
- To set as an aim, intention, or goal for oneself
- To intend; to propose, to design to perform or accomplish

the *means*, and Purpose is the *ends*. Honorable Purpose means we think consciously about balancing our own personal self interest with the needs of others in our realm of influence. (see Figure 2)

To be a trusted cooperative entrepreneur requires the foundational principle of honorable purpose, because neither internal teams nor other businesses in the value chain will, in the long run, desire to

work with you without a bond of trust. Yes, you can do business in a distrusting environment, but it will be less effective, less fulfilling, and filled with far more inefficiency, strife and angst.

When an entrepreneur focuses on “honorable purpose” the critical issue is not “am I going to be successful?” but “what service or value will my company provide to others.” It is far more important to aim at the customer's needs first in a way that is honorable and purposeful. It may surprise many that most entrepreneurs don't start their businesses primarily to make money; rather it is to control their destiny first, make money second. It's at this decision-point every entrepreneur must face the issue of Honorable Purpose.

When a company purposefully produces inferior products or ones that will harm people or the environment, or makes claims it knows are unsustainable, then it violates the standard of Honorable Purpose. Eventually trust will erode in the eyes of its customers, its brands will become worthless that no amount of advertising will cure.

Procter and Gamble's Moments of Truth

Test of Honorable Purpose

P&G advocates that there are two “moments of truth” that occur whenever a customer buys a P&G product:

1. When the customer *chooses* the product from the array of options on the shelf
2. When the customer *uses* the product

The customer must be completely satisfied during these moments of truth, or else the brand does not engender trust.

When a Politician or Public Servant takes office or appointment, the public trust expects he or she to weigh the balance scale fare to the side of the Greater Good, and sacrifice their Self Interest to an extent that only excludes personal health and family well-being. Public officials and servants often do not comprehend this expectation, and thus disappoint the democracy that elected them and, in the worst extreme, violate the public trust.

Trust Element #4: *INTEGRITY & TRUTH*

Creating trust is not easy because it often means forsaking the expediency of perhaps lying a little here, cheating a bit there, deceiving by creating an illusion or implication, or avoiding the truth to hide under the disguise of silence. However, the consequences of twisting the truth, failing to keep one's word, or pushing the blame onto others will be, in the long run, devastating, no matter what the short term advantage.

Integrity is required, which is more than just being honest or trustworthy. Integrity means being true to oneself, true to one's deepest values, true to one's word, to one's conscience, dedicated to telling the truth.

The benefits of integrity are ultimately both a liberating freedom and a divine blessing.

Integrity marvelously liberates us to live our relationships forward into the future, enabling us to experience the present moment cleanly and without fear that our past will undermine us, corrode our vision, and erode our energy.

The lack of integrity inevitably forces one to look back over one's shoulder, haunted by a past filled with historic baggage which will harbor tomorrow's illness, or threaten to destroy one's false illusions that were invented to disguise the sordid realities of a disingenuous life. For those who live with integrity and honorable purpose, their word is their bond, thus engendering loyalty and respect in those who engage with them.

Integrity becomes a divine gift by enabling us to touch the deepest yearnings of others around us, thus creating a new set of possibilities filled with hope and inspiration. Integrity is thus expansive, allowing us to become more than ourselves, to create with others, to empower others.

Personal and Organizational Integrity

Trust is activated in four critical dimensions within the organization, and each of these reinforces the other.

Of all the differences between man and lower animals, the moral sense of conscience is by far the most important.

Charles Darwin

- Trust in Leader
- Trust in Organization
- Trust in Team
- Trust in Self

We call this “Quadractive Trust.” If one does not trust the leader, the organization’s values, or their own teammates, it is difficult for any individual to trust their own judgment when everyone around them is second-guessing, manipulating, playing political games, or finding fault.

Performance standards are also essential. When standards fall to anything less than “high,” people on the team realize they are not all giving 100% effort, and, as soon as we believe that someone else is not pulling their weight or they are slacking off, we either do the same or become resentful and therefore distrusting. This is commonly referred to as the “force of gravity” that pulls things down to the level of unacceptable mediocrity. It is a force that every leader must be ever vigilant against.

William Bratton, Police Commissioner of NYC responsible for reducing crime in the city by 75% in the 1990s made it a policy to make ALL crime unacceptable, including J-walking and graffiti, letting it be known that only the highest standards would be acceptable.

Trust Element #5: SPECTRUM OF TRUST

First, think of trust and distrust as a spectrum ranging from severe distrust to highly committed trust, as illustrated in Figure 3. We call this the “spectrum of trust.” Along this spectrum lies hideous destruction or resurrective possibility.

Sadly, many relationships devolve into relative obscurity because the participants do not have an “architecture” to design the trust part of their relationship.

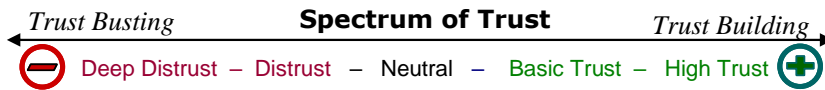


Figure 3: Spectrum of Trust

Next, to begin to create the architecture, we're going to tilt the

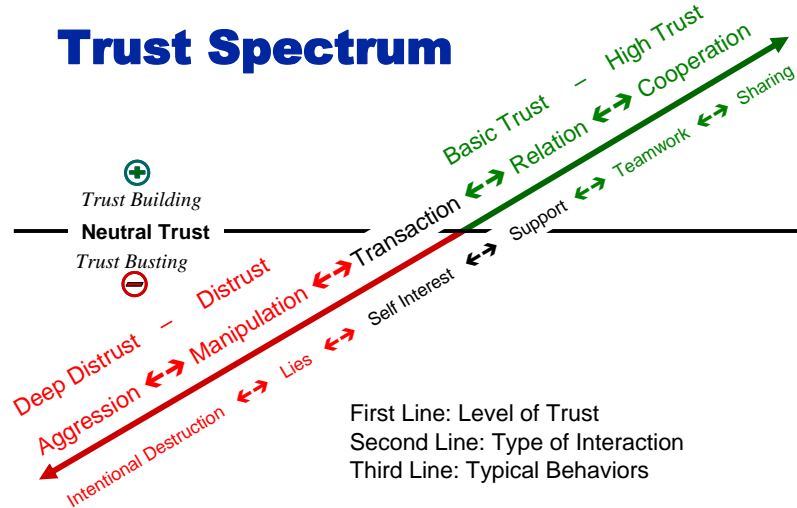
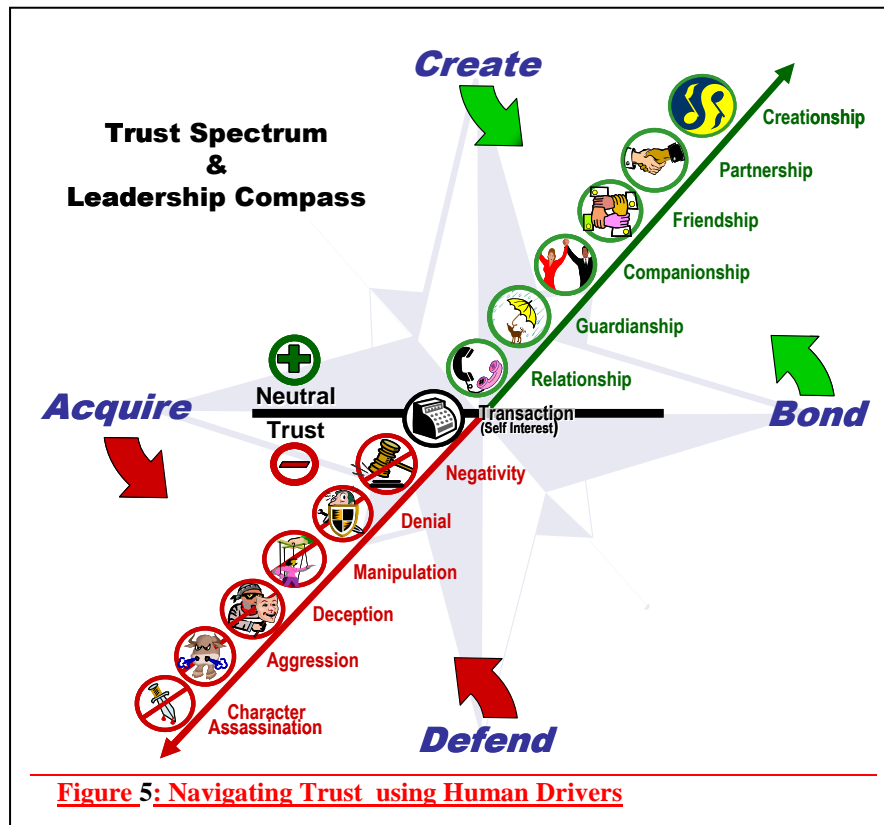


Figure 4: Spectrum of Trust

spectrum a bit -- simply to enable us to illustrate some more detail about what goes on in these zones. (see Figure 4) This also gives us the opportunity to tie the Trust Spectrum framework to the Leadership Compass (Figure 5).

All too often, the relationships with people stay in the middle zones or just below the neutral trust line of self-interest for protection. We also refer to actions that are "neutral" trust as "transactions."

Certainly you've actually experienced positive trust at sometime in your life. The first form of trust usually occurs when you were born -- you bonded in a trust relationship with your mother. Then, hopefully, you had a similar trusting relationship with your father, siblings, and grand parents.



As you grew older, some relationships emerged that were highly cooperative, such as friendships or on sports teams. Perhaps at times you shared material possessions or share your deepest emotional senses with a loved one. Some people envision and reach into the highest form of trust where they engage in the synergisticⁱ process of co-creation.

At the lower end of the Spectrum are highly distrustful types of relationships. This zone represents the type of situation where people attacked one another either verbally or physically, they manipulate or deceive one another.

In the area of distrust often people retaliate tit-for-tat with equally or more intense forms of distrustful behavior.

The Spectrum of Trust is essentially tool to illustrate the journey from the darkness of deep distrust to the light and wealth of real trust.

Spectrum/Scale of Trust

To continue with this journey, we are going to build out the Trust Scale with a description and symbols of the behaviors associated with the types of trust and distrust. (see Figure 6)

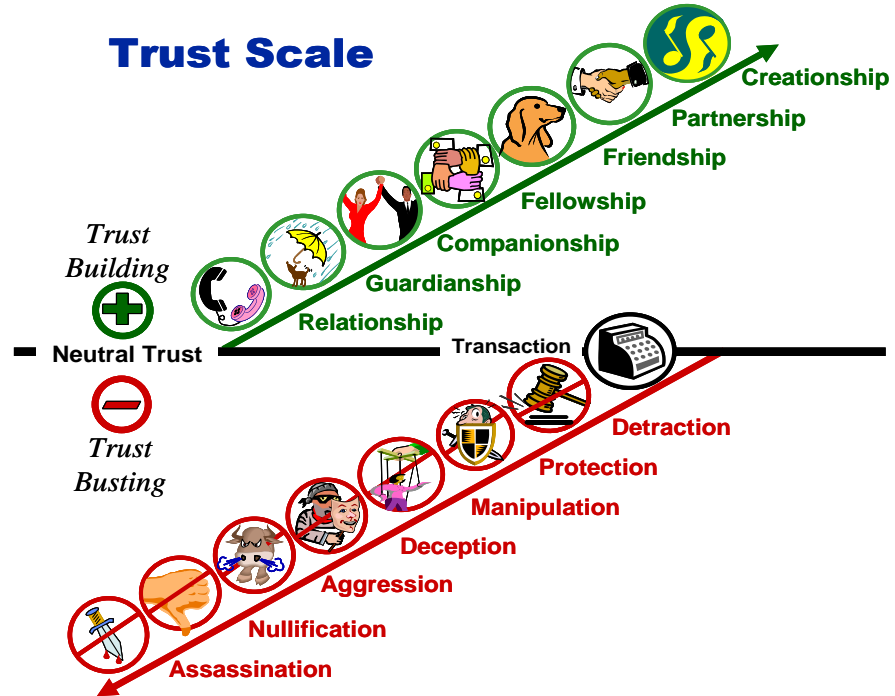


Figure 6: Trust Spectrum Co-Created by Robert Porter Lynch & Todd Welch

We will alert you to the dangers and consequences along the road, highlight the signposts pointing in the right direction, provide a compass to guide you, and give you insight on what to do if you get ambushed, or if your old habits get you trapped in a swamp.

To start we'll explore the lower zones on Scale of Trust. (Later in the chapter we'll explore the upper zones.)

Negative Zone of Distrust -- Trust Busters

The multiple ways we've learned to "bust trust" are so well defined in our society they should be considered an art forms. In fact, there are professions that have made distrust their point of focus. The Legal profession, in large part is engaged in protecting their clients from the harm of distrust. Many professional labor and procurement negotiators in the business of squeezing the other side in a manner that creates enormous amounts of distrust.

Below we outline the levels of distrust so that you can identify them and talk about what type of distrust exists when it manifests. In this way, by having a *language* (words and pictures) and an *architecture* (framework) you can begin to discuss in vivid detail what you are experiencing, and, once we outline the positive side of

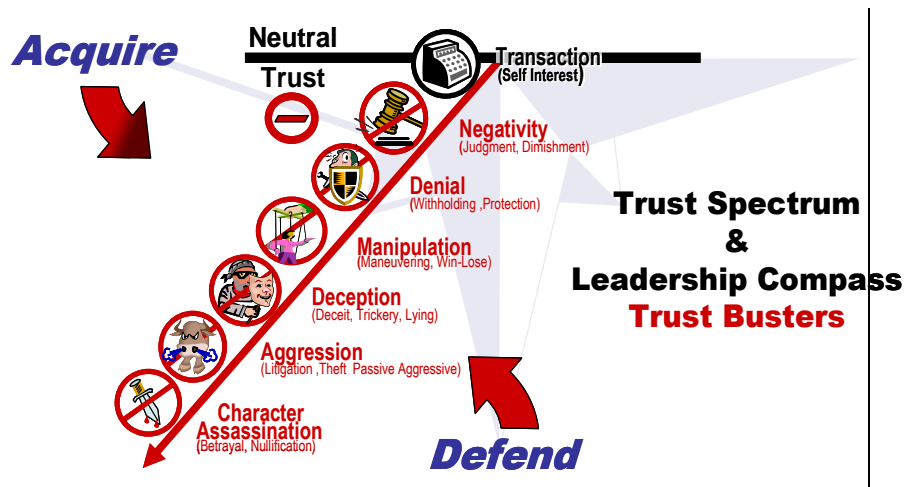


Figure 7: Spectrum of Distrust

trust, what you want in the relationship.

We've found that when you have a picture in your mind of what is happening in the distrust zone, you then have a means of bringing the behaviors out in the open. Here's a brief description each of these types of Trust Busters (there are more than these seven, but these are the most prevalent):

Assassination and Betrayal



While murder may be the ultimate assassination, it certainly is not the most common. Instead, the most typical form is *betrayal*. This is undoubtedly more subtle and more insidious – more like cancer. Talk to anyone around you, and ask them “Have you ever been betrayed?”

Then watch their response. Usually it’s one of intense emotional pain. Everyone has their stories, and their deep pain associated with the betrayal. Their hurt is carried around like a private wound, often with guarded silence as they suffer in the quietude of self-imposed exile. Other's turn betrayal into blame, or worse, revenge.

The history of western civilization oozes the blood of betray. Betrayal is perhaps the oldest sin on the planet. The Old Testament tells of the betrayal of God by Adam and Eve, followed by the betrayal of Abel by Cain, who took betrayal to the ultimate level, slaying his brother for his own self interest. Similarly, many stories of the New Testament are filled with betrayal, the selling of Christ's life for thirty pieces of silver being the most memorable.

Greek literature and Roman history are filled with many stories of betrayal. The medieval legend of the fall of King Arthur's Camelot is due to the betrayal of Lancelot, followed by his own son Mordred. At the end of the middle ages, Machiavelli wrote his famous advice to enable his reigning prince to combat a society filled to overflow with betrayal. Shakespeare, writing four hundred years ago described the betrayal of Caesar by Brutus with the renowned comment:

*How many ages hence shall this ... be acted over
in states unborn and accents yet unknown!*

In America, the names Benedict Arnold or Lee Harvey Oswald or Richard Nixon are immediately associated with betrayal.

Purposeful betrayal is all too common in our daily world today. Its corrosive force destroys teamwork, co-creativity, and the spiritual sense of community. In response to betrayal, people typically withdraw into their protective cocoon, or the opposite, fight with a vengeful energy that creates no possibility of reconciliation. When done unintentionally, betray usually takes a variety of forms, such as selfishness or insecurity, and often manifests as creeping dissent, an

angst of complaint, blame, undermining, resentment, negativity, fault-finding, character assassination, and endless complaints. It's in this swamp of despair that betrayal breeds like mosquitoes – small, hard to see, but voracious, ugly, and disease ridden.

Like the smoker who gets a momentary nicotine high, the leader or family member who feasts on a diet of cynicism, and rule by fear may get an emotional power-high, but in the long run, with each passing day, sustainable energy is drained from those around as they wallow in depressive counter-attack, surreptitious spying, cavorting, and deceit.

When this behavior occurs at work, daily routine becomes nothing more than bitter-sweet travail with neither victory nor valor, nor honor, nor heroics. In the family, betrayals ultimately lead to divorce, delinquency, despondency, depression, destructive revenge, or even death.

When done intentionally, the result is usually far more insidious, destructive, and often horrifying. If the ghosts of archetypical betrayal are prolific in your organization, look to the top where their spirit may reside. And also look within to see if you are trapped in a culture of intrigue, innuendo, and doubt in which you've become one of the principal or supporting actors.

Nullification



Have you ever been shunted aside, zeroed out, made meaningless, or marginalized? That's nullification, and it's not pretty. When someone walks out on you, turns their back, or storms out of the room, you are being nullified. How much trust do you have in that person?

Many religious groups use this technique to ostracize those who've broken their rules; Catholics can be excommunicated, Jehovah's Witnesses can be disfellowshipped; other's call it "shunning."

Nullification can happen passively – when you are not responded to in a meeting or your request for assistance falls on deaf ears.

To illustrate the power of nullification, studies have shown that it's more damaging to an infant to neglect them than abusive violence.

Nullification is destructive because it directly thwarts a vital desire in everyone: the need to be needed and the need to make a difference.

Aggression



Aggression is the use of someone's power in a way that seeks to threaten you. Typically aggression will take the form of a "game."

One game is called "persecutor - victim - rescuer." In this game, the professional victim is actually the aggressor in disguise as the victim. They are seeking someone to act as a rescuer, but really as an ally to get even with their prosecutor. On your gallant horse, ready and willing to right the wrongs of the world, you get trapped in their game.

Another aggression game is 'passive-aggressive.' This is a subtle trick - a means of trapping you into thinking things are alright. Because outright aggression is pretty obvious, highly intelligent people quickly learn it's frowned upon.

So they develop a trickier game: they become obstructionists by offering resistance that shows up as helplessness, procrastination, upsets, hurt feelings, resentment or inaction even after multiple requests to stop.

Sometimes the passive-aggressive person has developed such a habitual use of this trick that they are no longer conscious that they do it. For example, the passive-aggressive might be habitually late to anything they don't want to engage in.

Beware of the passive-aggressive - they are usually highly intelligent, often outwardly successful, and very observant of your behavior. They see you as a threat to their position as the best, most powerful, or smartest.

In contrast, the outwardly aggressive person believes the best defense is a good offense: take the initiative to demonstrate superiority, strength, and power. It often takes the form of a big ego disguising a very deep sense of insecurity. The insecure egoist will destroy trust by always putting themselves and their agenda first.

They will bellow, bluster, and "b-s" their way through or into any situation, always looking out for number one. Or they may play symbolic power by sitting higher than you at a meeting, or telling stories about their aggressiveness, or speaking crassly in public, or insisting their answer is the only right one, all simply to demonstrate vividly their power.

Often this person is angry and manipulative, using their power to aggrandize themselves at your expense. No deal with them is ever complete because, even if you have a contract, they only intend to abide by it if in their interests. For them, it's either my way or the highway; and "he who has the gold, rules."

All-too-often this person either has a strong legal team behind them or they are the lawyer. Litigation, or the threat of litigation, is their path to getting their way.

Deception



The purpose of deception is to twist the truth. It takes a variety of forms, from the innocuous to the sinister. Sometimes it's so subtle that you might not notice. Subtle forms of deception create illusions intending you to believe something is totally true when it's not. Not giving you all the information you should have is deception. Making you believe something with a half-truth is another example.

Another form of deception is the put-down. Have you ever accused someone of having "rocks for brains?" That's a put-down that is only intended to demean someone, to make them less than human. It twists the truth to make someone else insecure, uncertain, and unconfident.

A more insidious version of distortion typically takes the form of gossip, negativity, bad-mouthing, personal attacks, blaming, and forming cliques that twist the truth with the purpose of excluding or discriminating unnecessarily against another. The intention might be more sinister, linked with another form of trust-buster: Assassination – usually character assassination.

While lies are always dishonorable and destructive, in their worst form, they can be downright evil, done to harm, hurt, or damage another person. Lies often place the victim in the unenviable position of having to defend themselves against some allegation that was never true in the first place. The victim then has to go to inordinate lengths to prove that something never happened. Theft is also an ugly form of corrupt deception resulting in a physical loss of a possession.

Manipulation



The mind of the manipulator has determined they cannot expect the world to respond in predictable and reasonable ways, so they have to trick their world into responding opportunistically to their advantage, because the lack of trust does not allow it to respond predictably. (This obviously sets up a circular, self-fulfilling prophecy.)

The most recognized manipulation game is whining or complaining. This is a way of attacking others by focusing attention on how everyone else is wrong, bad, guilty, or incompetent. The whiner is seeking to get their own way by maneuvering others into the “bad guy” role or the rescuer. They often get away with it because it is easier to placate them than to establish more trusting roles.

Surprises are one of the other ways the manipulator operates. Sometimes the surprise is actually somewhat innocent – they simply have their own self-interest at heart, and don't care an iota about you. In a sense, you didn't exist or weren't important enough to even show up in their mind as something to consider. But the result is quite disturbing, creating a “them up – me down” condition of distrust. Our response may be to “get them back” by out-manipulating the manipulator, or perhaps by playing people off against one another, such as using nullification or litigation against them.

At the more sinister level, the manipulator may be actually plotting against you to gain position, authority, or power. Then the manipulator becomes the betrayer.

Regardless of the motive of the manipulator, our egos are designed to protect and defend us against attack, and anything that looks like an incursion on our ability to thrive will be experienced as an attack, prompting a fear response and then either a counter-attack, formation of alliances to defend our position, or a flight from the situation.

Protection



Protection typically takes two forms, active and passive. Active protectors will often hide behind mountains of legal agreements, non-disclosures, red-tape, and anything that will cover them in the event of a collapse or blame

from above. By being overly protective often they actually create the distrust that they attempt to protect themselves.

Passive protectors withdraw, flee, hide, or remain silent – they make no commitments, avoid interaction, and take no risks. Passing the buck is a good way to keep out of the line of fire for the protector. Ducking issues and not making commitments is a form of protection. Bureaucrats are professional protectors, deflecting responsibility with obscure rules, convoluted processes, and abstract reasoning.

Other protectors are gate keepers. The secretary that won't let anyone get to the boss is a great example. Unfortunately the boss never gets to see the world of possibilities because he or she is so well protected.

Detraction and Judgment



The chronic evaluator is typically judgmental, overtly critical, overly analytical, or highly skeptical. They are quick to find something wrong, play holier-than-thou, or subtly find a way to make themselves seem stronger or make you look reckless, inexperienced, unworthy, or just not part of the club. Critical evaluation is a “one-upsmanship” play that seeks to invalidate another person.

Evaluators would rather find fault and deny you rather than join forces to find a better solution. The worst of the evaluators are the cynics who are intensely compelled to say no, and cannot look at the world from a positive point of view. Beware of the cynics – if they are part of your organization they will poison the well of success.

The negligent form of evaluation is the simple act of disrespect by not giving you fairness or consideration or respecting your time and energy. Thus the detractor is so engaged in critical judgment they deprive themselves of engaging your creativity and experiencing your skills. Nor can they tap into your unique talents, insights. (We don't mean to imply that you should never carefully evaluate people nor make judgments. We only want you to be careful not to be so judgmental that you shut yourself off from a positive relationship.)

Transaction – Neutral: Neither Trust Nor Distrust

To understand a transaction, think of the last time you went through a toll-booth on the turnpike or bridge or when you paid the attendant at a parking garage. That was a transaction, pure and simple. You did a simple exchange of value: your money for use of their road, bridge, or parking lot. Now, can you remember the name or face of the tollbooth attendant? Probably not, because you had a transactionary experience, one based simply on exchange. There was sufficient trust to do the exchange, but certainly if there were a significant amount of money at stake, you would have wanted either the safety and security of a strong relationship based on trust or a good contract. When you buy a house or purchase a car, you do so in a transaction. Often the bank and the seller are not people you know well. But they attempt to protect their loan with a pile of contracts.

This is why we put transactions right on the neutral trust line – neither trust nor distrust. Transactions happen every day: at the grocery store, at the mall, at the gas station. When shopping, we put enough trust in the “brand” or the store’s reputation to complete the exchange of goods or services for money, but not enough trust to engage in any form of deeper relationship.

This is the arena where the “deal” takes form. Contracts are the presumed basis for creating the safety and security necessary to transact very large deals. The use of the word transaction is important, because it connotes an action across a boundary. And a deal is something you do in a card game where the interests at the table may be competing, and certainly have little or no trust for each other.

A large part of our legal profession is based on transactionary trust, and even lower levels of distrust. Just look at the documents needed to buy a house today; it's voluminous. Twenty years ago the number of pages needed in a house closing was about one third what we need today, and we still have slimy dealings going on in the housing industry. The size of the closing documents is a reflection of the untrustworthiness of the housing industry.

Positive Zone of Trust -- Building Relationships

Unlike the Zone of Distrust, the Zone of Trust is based on Laws and Principles, Honorable Purpose, and Balancing Self Interest with the Greater Good. In this zone, life and business becomes filled with opportunity and creativity – the essence of the entrepreneurial spirit. Trust in the traditional sense means:

1. *Reliance* based on certainty, predictability, unquestioning belief, faith or hope in or upon something: to have trust in one's parents.
2. *Security* or *Assurance* or *Dependability* based on a feeling of security, usually with good reasons, definite evidence, or past experience: to have confidence in the outcome of events.
3. *Commitment* or *Dedication* to a purpose or cause or something large, important, or vital

While these three terms are a reasonable way to define trust, we think it is too vague and too ambiguous to be useful. Many others define trust at level we think is just a very minimum: trust is the absence of fear that you might intentionally hurt me. We think this is just a place to start the trust journey -- simply a beginning – there's a lot more that higher orders of trust can offer.

After all, the system of distrust in this world is so well defined and refined, it presents a formidable obstacle to creating trust. We think it's necessary to become far more specific when creating a System of Trust based on sound architecture, best practices, and clarity of purpose.

In this section we'll explore trust, from the minimum positive levels of relationships to the highest order: what might be called *synergistic trust*. Knowing what type of trust is either appropriate in a relationship or desired by someone is essential to your ability to design and discuss how to get there.

Remember, people yearn for trust; it's the natural state of human interaction. We were born into a trusting relationship with our parents. People who had normal childhoods all remember the time when they were young, when the world felt safe, when they were secure in the presence of others.

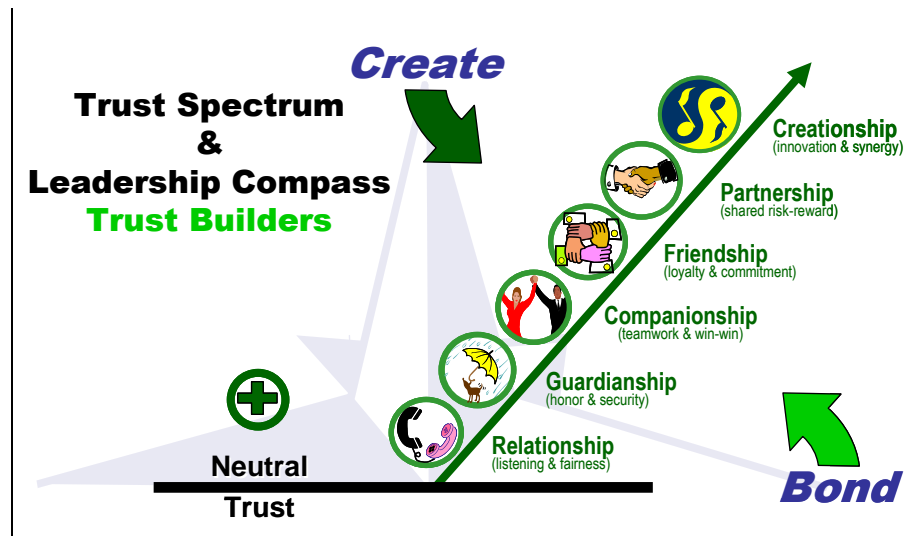


Figure 8 Trust Building Relationships

Distrust is not natural; it's a learned predicament!

We're going to continue our journey into the exciting and fulfilling range of Trust Building as we construct a real "architecture" that you can count on to produce predictable and positive results.⁵

We'll start at the lowest end of the Positive Zone of the Trust Scale and work our way upwards – all with the underpinning of "honorable purpose."

Relationship



Did you ever look up the definition of "relationship" in Webster's dictionary? The definition is so obscure it will shock you. It says a relationship means "to be related." No wonder we are so poor at forming relationships – we don't even know what we're talking about! We can't even

⁵ Note: all the words in the positive Zone of Trust end with the suffix "ship" which derives from the old Anglo word "skap" which meant to be created or ordained with something valuable

define what we mean by a “relationship,” nor what we want, nor how they function.

This is where the entrepreneur's trust journey must begin – start with building trusting relationships with other people. You can begin with your leadership team, or anyone you choose. Start at home with your spouse or children, it will pay dividends.

The first element to building a relationship is to be sure the other person knows you are listening -- not judgmental listening -- but connected listening that simply validates the other person. Figure 9 illustrates the difference between judgmental listening and listening to build a relationship.

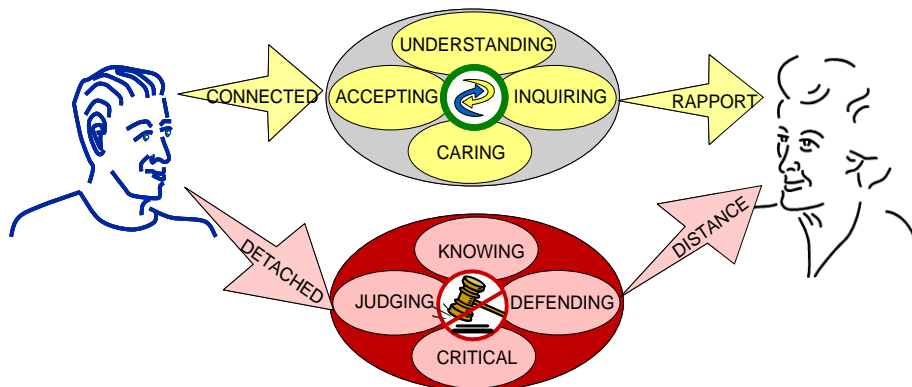


Figure 9: Listening to Build a Relationship

When we listen with compassion, learning, and constructive inquiry, we begin to build trust. People feel like they are receiving *support*.

Listening and inquiring with interest and compassion means you start with an open mind and a caring heart -- no assumptions and no expectations, which impairs our ability to see things as they really are.

The most difficult issue is if the person that you are listening to responds with criticism, judgment, and defensiveness. This is challenging because your immediate reaction is to defend, counter-attack, or blame – don't do it, because it will send the relationship into the death-spiral of distrust. Stay in the trust zone.

How Others See Us

If we saw ourselves as others see us we would surely change.
-- Scott Welch

Perhaps you can suggest that when the other person is blaming, judgmental and critical, they are not providing the responses that will build trust nor will it produce a productive relationship. Be the light, the inspiration. But don't tolerate abusiveness or unreasonableness.

Continue to ask open, non-judgmental questions. These are far more important than demonstrating that you have all the answers or making demands, or being filled with criticisms. The idea is to draw people in -- curiosity opens awareness of discovery.

Some of the types of questions you might ask are:

Creative Possibility

What's the possibility of?

Is there an analogy that.....?

Interrogatory

Who? What?

Where? When?

Why? How?

Opening

Could you tell me more?

What do you think about...?

What did you experience?

Action

Will you do?

What did you expect?

Can you get?

All the time you are listening to gain understanding and insight (neither judgment nor evaluation nor manipulation):

- Listen with Compassion for Connection
- Listen for Insight and Intention
- Listen with Acceptance and Support
- Listen for Validation
- Listen for Underlying Meaning
- Sense Opportunity and Possibility
- Sense for Shifts in Thinking
- Sense Desire, Vision, and Goals
- Sense Unique or Unmet Needs

When building a trusting relationship the minimal boundary conditions must be satisfied – both parties must honored and respected, you can be counted on understand my personal interests, needs, and concerns, which gives the assurance that ultimately I will be better off from having trusted you. If this does not happen, then the relationship is broken and you have fallen below the line into the Zone of Distrust.

Guardianship



The next level of trust provides *safety* and *security* to the other person. (This level may embrace the prior level, but goes a step further.) A guardianship can be one-way, much like a parent provides to a child, or a mutual guardianship like soldiers on a battlefield. As an employer, every entrepreneur has a duty and responsibility, both morally and legally, to protect their employees' safety on the job, pay their unemployment taxes, protect their civil rights, and provide a work environment free of harassment. In return, you expect employees to maintain a guardianship over the work-place by not stealing, reporting hazards, creating ideas to improve your competitive advantage, and contributing to the well-being of their teammates.

Those who don't feel safe in your presence will be protective or fearful. As human beings, we aren't wired to trust what we fear. A Guardianship means knowing that you won't intentionally hurt me. Safe means they must be emotionally safe and physically safe. But at a deeper higher level, it's *reliance* -- knowing that:

- you will be there to protect me from harm
- you will be there when I need you
- you won't sacrifice me for your self interest
- you can be counted on to protect my best interests as well as your own
- you won't be negligent
- we can count on each other to protect each other's safety

At the Guardianship level, the issue of honor and integrity becomes critical to building trust. It's knowing that I will not just

respect you, but more: I will honor your essence and defend you from attack by others, and I can expect the same from you.

In a business relationship, a Mutual Guardianship means I stand guard over for you to defend you against attacks, lies, dishonesty, and manipulations; and I can expect the same from you. We will be mutually honest, forthright, and truthful.

Companionship



Being a companion means I trust you enough to be in your presence a significant part of my time. In business, this takes the form of working well together in teams -- "teamship." Each individual must feel safe and secure, but also know that we are symbioticⁱⁱ – we can work together productively, our breakdowns will not be destructive, we can share our thoughts, workspace, and concerns without fear of retribution, disrespect, or dishonor. Our group truly acts, thinks, and sees itself as a team. In a companionship or team, we contribute to each other's well-being by keeping the business successful, thus preserving my job, my employers business, my security, and my family's future.

To create confidence in one another, the idea of mutual interests becomes paramount and win-win is essential. Every decision considers what is in the interests not just of the individual, but in the greater good of the company, the team, and the future of the business.

We begin to see the world through a common vision and aligned interests. We expect there will be reciprocity: we share ideas, build together, and give at least as much if not more than we expect to take back. When everyone begins to give more than they expect in return, the symbiosis of an organization is taking its first step to transforming into a synergistic organization.

Fellowship



This means much more than "membership" to an organization, company, or club; it's more than a company picnic or sales rally. Fellowship implies a powerful attraction, commitment, and buy-in to the

values, hearts, and minds of the other members of the community (common-unity). You might think of fellowship as “belongingship.” It's the group you connect with that feels like your extended home. You feel nurtured, a sense of comradeship – this is my place, my people, my “tribe,” my family away from home where we have a shared dedication to common interests.

In the best companies, fellowship is quite dramatic and evident. When you fly Southwest airlines, the sense of fellowship manifests itself in the teamwork, dedication, and sense of humor of the employees. The U.S. Marine Corps has mastered the art and science of creating fellowship. The most successful churches are dedicated to building a sense of fellowship because of its spiritual connotations.

At the level of fellowship, having a powerful set of common values, a sense of purpose, and a unique frame of reference to view the world generates a dedication and energy that is difficult to defeat. Lou Gerstner, in commenting on his transformation of IBM in the 1990s, stated that the powerful culture, sense of community, values of fair play and hard work, and ethical standards of IBM were the foundation which kept the company from shattering when its business strategies needed a massive shift.

Great entrepreneurs will capitalize on building fellowship not just because it produces great results, but because it tends to endure the ups and downs of business, like a gyroscope keeps steady when the world rocks around it.

Friendship



For this level of trust, we use the symbol of the dog. Why? Because the dog is actually a creation of the human being; 10,000 years of selective breeding of what started off originally as a wolf has left us with what we want in humans and can't seem to get. Ask any dog owner, particularly women, what they like in their dog. Typically they will say:

He's always there for me, always happy to see me, loyal, faithful, protective, never carries a grudge or the baggage of unfulfilled expectations, playful, makes me smile.

In other words, the very qualities we wish we experienced in other people! What we are really saying is that dogs are more trusting/trusted than people! (Are we really saying we should be more like dogs?)

The language of friendship is not words but meanings.
-- Thoreau

When we build trust at the friendship level, we embrace all the prior levels of trust, but add some very energizing and vitality- creating forces into the relationship.

To give counsel as well as take it is the nature of true friendship -- Cicero

First is deep compassion. We are never judgmental nor distant. For a friend, we are always present and always committed to their best interests. When they're in difficulty, we help them; when hurting, succor; when in doubt, counsel; when confused, clarity, when self-deceived, honesty.

Friendship is the only cement that will ever hold the world together
-- Woodrow Wilson

Next is protection. When our friend is attacked or harm comes their way, we respond with aid. If they have done something wrong, we stand by them to help them right the wrong. When unfairly accused, we defend them. This is what loyalty is all about.

Friendship often also implies a playfulness that brings out the child within. This playfulness brings us back to our days when we had fewer worries, less concern about achievement or looking good. At this level of trust, we can let our egos melt away and engage at a more soulful level.

To a friend's house, the way is never long.
-- Viola Lynch

In a friendship, trust enables our goals and fears, our deepest yearnings and our personal limits/failures to be put out in the open with no sense of diminishment. We are willing to be open and transparent with no hidden agendas because the trust is firm and strong.

Friendship is composed of a single soul inhabiting two bodies.

Did you ever wonder why many of us have so few real friends. You've heard the term "fair weather friend" -- a person

He who hath many friends hath none.
-- Aristotle

who is there for you only in good times. But woe the day when you hit a personal crisis -- maybe a divorce, or an illness, or a financial disaster - the presumed friend is gone with the wind; you had a relationship that you falsely elevated to friendship status.

*Trust the man who:
lays down his self-interest for that of another,
tells the truth when it's not to his advantage,
and honors his highest values in times of chaos and strife.*

Partnership



A partnership is an alliance designed to respect and cherish the differentials in thinking and capabilities between two or more people or organizations. It's the synergy between differing strengths and the alignment of common purpose that makes a partnership most alluring. You see this in business all the time. For example, one person does outside sales, another keeps the finances on track, while another runs operations.

Based on our years of successful alliance formation, we know the level this takes is a step above the rest. Great partnering relationships require a number of things to make them work effectively:

Strong Trust

No legal agreement can make a partnership or alliance work. It must function because the parties can trust at the highest levels of integrity. Diminish the trust, and the relationship rapidly deteriorates.

Committed Champions

Passionate leaders who stand for the greater good of the partnering arrangement are essential to hold the vision and the values high above the rattle of daily strife. Absent the person with the honesty and integrity to stand for what's right over what's expedient, and the venture will soon shatter.

Shared Vision

Trust is built by the power of the commitment to a shared view of the unfolding of the future. Martin Luther King forged his civil rights

alliance with the dream: "I have a dream that my four children will one day live in a nation where they will not be judged by the color of their skin but by the content of their character" - a nation where blacks could trust they would be treated fairly.

Shared Values:

The winds and tides of change will challenge any business venture. Collaborative entrepreneurs that build their relationships on strong values can endure the forces of a fast moving, rapidly changing world. Often this is the critical "anchor to windward" in a stormy sea that keeps our bow headed safely in the right direction.

Strategic Thinking:

While making a dollar 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, to turn adversity to advantage. Great entrepreneurs have a sense for timing their moves when the market is ready, not too early, but certainly not too late. They trust their intuition to think in 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.

Roy Rogers, commenting on his long marriage to Dale Evans, remarked that a great marriage is not a 50-50 arrangement. Both partners have to give at least 100%. Rogers said both Dale and he were always willing to go beyond: giving 120%.

Joint Planning

People support what they help create. This builds trust because those thus engaged are consulted and their ideas are valued, which, in turn builds even stronger commitment to the future.

Shared Resources

Partnerships and alliances leverage their capabilities by sharing key assets such as technology, customer base, plant facilities, sales forces, and research. By sharing resources, the collaborative entrepreneur gains major leverage of precious resources.

Shared Risk and Reward

By sharing risk and reward, the partnership becomes a high-order trust-building vehicle, because people have “skin in the game.” The more everyone shares risks and rewards, the more powerful the level of commitment. This is why employees who have some level of risk in the future of a company and are rewarded for hard or innovative work are the most likely to help propel a company to success.

Aligned Metrics & Rewards

In business, your measurement system is one of the essential ingredients for success, because people will aim their actions at what gets measured, and thus rewarded. Misaligned metrics cause dysfunctional actions, poor results, and ultimately distrust.

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.

Creationship

For this level of trust we had to create a new word. A “creationship” implies that we can do something extraordinary – we can co-create together. It links the drive to *Bond* with the drive to *Create*.

There are some wonderful examples of this level of experience. For example, if you ever enjoyed the wonderful music of Broadway productions such as *My Fair Lady*, *Camelot*, *Sound of Music*, or *South Pacific*, you have heard and felt the powerful synergy of musical composer teams of Lerner and Loewe or Rogers and Hammerstein. The co-creative force can also be seen in science with the Watson-Krick discoveries of DNA, or in the NASA teams bringing a man to the moon.

Virtually all the great discoveries and innovations in today's world are happening in-between industries and technologies. Take the Genomics Project as an example; it's the confluence between medicine, mathematics, informatics, and computers. Or in an automobile today, 25-40% of its value is now in electronics, (not mechanics), up from just 1% twenty five years ago.

A creationship embraces most of the prior elements of trust building, then unleashes a connection between the hearts and minds of the co-creators – new ideas generate like spontaneous combustion. This is what *collaborative innovation* is all about – generating ideas that can be transformed into new value for an organization.

It's not just about new technologies. Any form of new value can be thought of as an innovation. An integrated solution to a complex problem is an innovation. For example: using software to fill out IRS tax forms is an ingenious system solution. Product innovations can be very simple, such as the cup-holder in a car. Anyone can engage in finding improvements in the process of making or delivering something, such as the elimination of scrap or getting rid of unneeded paperwork.

We will create one minor invention every 10 days, and a Big One every six months.

-- Thomas Edison to his invention team at Menlo Park. 1872

How does this happen? There are things the cooperative entrepreneur should think about to foster creationships:

Purpose and Destiny

Some of the most co-creative people on the planet are those with a deep central sense of personal purpose or destiny; they know why they are on this earth. Purpose gives meaning and value to whatever we do – there is a reason for *being* and *doing* in our daily lives. Destiny means we aim our purpose higher, to achieve something worthy of our collective effort, something we and our children would be proud of. To accomplish this mission, we must engage others. If you have one or more of these rare people in your organization, nurture them.

Contribute and Build on Ideas

Encourage everyone to offer at least an idea-a-day. Ideas are the fuel of the innovation engine. When someone offers an idea, reinforce a culture that builds on the idea. If everyone builds on other people's ideas, refraining from being judgmental, 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.

Noble Cause

People are turned-on by dedicating themselves to a cause larger than themselves. It can be as simple as breaking a time record or cutting out waste. Or it can be greater, like finding a cancer cure.

Synchronicity

Coordinated *timing* creates a sense of unity, teamwork, and synergy. This is *synchronistic trust*. You can see synchronistic trust anytime you watch a double play combination in baseball, or a perfect pass in football. When synchronicity occurs, people's energy jumps higher as they sense confidence in themselves and in their team. Synchronistic timing is an enervating flow and inspiring unity.

No Evaluation or Criticism

Negativity, blaming, judgmental critiques, and skepticism all contribute to a culture that discourages a creationship. Studies all over the world show that the most important thing an entrepreneur can do to build a trustworthy innovation engine is to create a culture in the company that encourages innovation day in and day out. Be sure to focus metrics and rewards on collaborative innovation, not just people working independently.

This does not mean one cannot evaluate, judge, or look at something with a critical eye – these are analytic techniques. What we mean here is that one must use these analytic techniques in a positive, friendly, 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 what might look like a failed attempt 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.

Cherish and Synergize Differences

It's been said that we build communities with people who are similar, but learn from people who are different. The collaborative entrepreneur's task is to join these two forces together – cherish the

differences and build a fellowship that thrives on differences in thinking. Remember, if everyone thinks alike, there is no innovation.

Create a Culture of Exploration, Discovery, and Invention

The most impactful area for an entrepreneur to address is developing an internal culture that produces trust and innovation.

Creative inquiry is the process of 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 support and encourage and embrace constant questioning, exploration and experimentation.

Committed Listening

Shift from the “connected” listening to “committed listening.” In Figure 10 we demonstrate what happens when you shift merely having a relationship where you communicate, to seeking a co-creative engagement with someone.

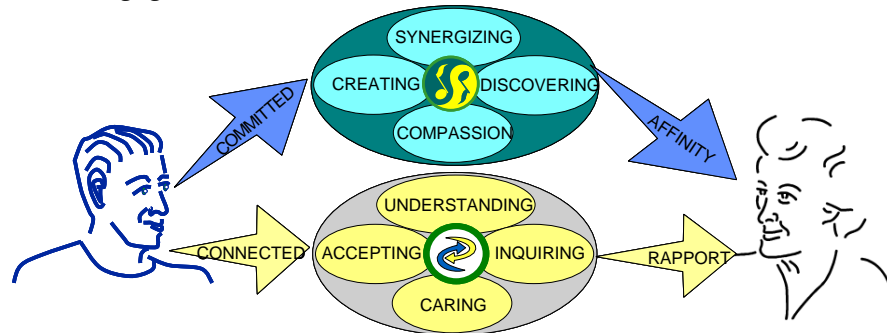


Figure 10: Shift from Connected Listening to Committed Listening

Use Conflict to Advantage

Whenever there is change, conflict is inevitable as systems, strategies, roles, and perspectives shift. Don't shove conflict under the rug, but use it as a learning mechanism. Focus on shifting perspectives; prevent people from becoming entrenched in one point of view.

Foster Champions

Innovation and Co-Creation are challenging and risky ventures. Support the champions of honorable causes, they are the risk takers who are willing to sacrifice security in pursuit of a dream.

Laugh!

A creationship is not all grinding labor. Co-creative teams have fun at what they do and laugh a lot. Research shows that laughter releases endorphins that trigger creativity. When people laugh, they are spontaneously creating in the moment – that's magical.

Building a creationship can be one of the most rewarding and beautiful experiences in life. It can happen between two people, or within a team or an alliance. When people engage in a creationship, they seem to abound with an endless source of regenerative energy. Some people describe this as *entering a fourth dimension* – it's invisible but quite real.

In everyone's life, at some time, our inner fire goes out. It is then burst into flame by an encounter with another human being. We should all be thankful for those people who rekindle the inner spirit. – Albert Schweitzer

You don't have to look too far to find excellent examples. In science, the close friendship between James Watson and Francis Crick led to the discovery of the DNA structure that underpins all genetic science. In aviation, the Wright brothers cracked the code that gave us flight. In dance, no one can overlook the creative energy between Fred Astaire and Ginger Rogers.

Everyone has been entertained by the magic of the Broadway musicals of Rogers and Hammerstein – their joyous and uplifting songs from *South Pacific*, *King and I*, *Carousel*, and *Sound of Music* inspire us years after first produced. They did not, however, only focus on happiness. These musicals also have a deeper purpose, aiming at powerful issues of their time, such as the role of women,

racism, violence, and dictatorships. But it wasn't easy. Oscar Hammerstein was considered a failure when he first teamed with Richard Rogers. However, they had the right chemistry to produce majestic and magical music. Their very close relationship sensed how to architect music and lyrics that embraced the total vision and flow of a show, bringing out the best in the other with mutual inspiration.

Using the Trust Spectrum

It's easy to make most effective use of the trust spectrum - just discuss with another person where your relationship exists now on the scale (it can exist on multiple points), and where you want it to be. Often you may have higher (or lower) expectations than the other person regarding where you want to be. Then discuss what has to change to put things in the zone where you mutually think the relationship can maximize its potential. This will be one of the best discussions of your life.

Shifting out of the distrust mode is by no means an easy task; it's like trying to cure advanced cancer, because distrust has become embedded in the organization's culture.

However, even for the most distressed organization, provided its leadership is truly committed, trust can be rebuilt with this architecture, albeit a long journey.

The trek begins with an honest assessment of where current behavior is now, and where people want it to be. Later, what actions must stop, and what rewards and measures must change.

We ask individuals and groups (teams, alliances, task forces, departments, supply chains, etc.) to identify what type of behaviors are prevalent in their experience, specifically what actions do people take that are either above or below "the belt."

It's disheartening to find that most groups report that the preponderance of business is conducted in the zone of detraction, protection, manipulation, deception, and aggression. In fact, this has been the norm for so long that it's considered acceptable behavior and has become an acceptable art-form in the business world. It is so accepted that it takes someone as nefarious as a Bernard Madoff or any of the array of similar scoundrels who have engaged in blatant deceptive corruption to shock us. We've created professions to

protect us, and negotiations strategies to ensure we never play “above the belt.” These are the symbols of modern era capitalism.

But all is not bleak. More often than not, the human spirit yearns for a higher order, optimism may reign over cynicism. The large majority of executives, when asked what type of business relationship they want, overwhelmingly choose the range from fellowship to creationship, with the most innovative and visionary elevating to the highest orders in on the trust spectrum.

For this reason we are quite optimistic that the *dBond* and *dCreate* forces are, at worst, just dormant in our culture’s collective psyche.

In addition to using the Trust Spectrum, we use other approaches to enable a complete System of Trust to be put into place. This includes such things as changes to Operating Principles, Negotiations Strategies, and the methods for conducting meetings.

Trust Element #6: *ECONOMICS OF TRUST*

Organizations all have an economic dimension, whether they be a company, a government, a church, or a social fraternity. The financial future of virtually every organization is highly dependent upon the level of trust and its economic performance.

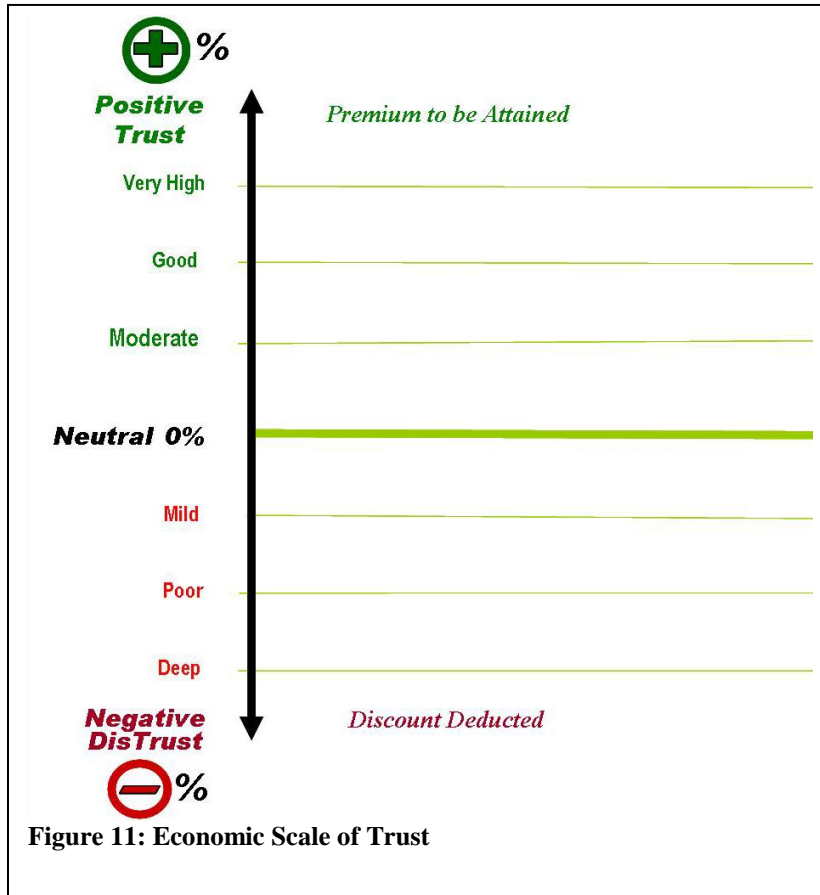
Put simply:

***Organizations with high levels of distrust
suck up time, human energy, and cash.***

The distrust can be from corruption, or it can be from needless argument and power struggles. In any event, when the first three elements of trust of are out of whack (*dAcquire* & *dDefend* run rampant, self-interest dominant, and/or dishonorable purpose), it is certain that the economics of distrust are causing enormous financial drains. These may manifest as lack of cooperation, grievances, complaints, poor communications, theft, sabotage, no innovation, or legal fees, among a variety of others.

To gauge the cost of distrust, we devised a method for any group to understand the economic impact and value of trust. The process is quite simple and most teams get the big picture in a matter of minutes.

Step One: We lay out a simple graph that upon which we will overlay several cost categories:



Step Two: Upon the chart we overlay 15 categories of Total Cost of Ownership, plus one last category: Human Energy. These categories were chosen because they present a comprehensive analytic perspective on critical cost dimensions that are not typically tracked on an expense sheet, but are essential to understanding costs across internal or external boundaries. On this chart we then ask teams to do either:

- Rate an "As It Is" and "Should Be" % for each category, or

- From their experience, chart the difference in cost between a High Trust environment and a Low Trust environment.

(the first set of questions is applicable to a real life situation that is experiencing difficulties, the second set of questions is best for groups planning a collaborative enterprise.)

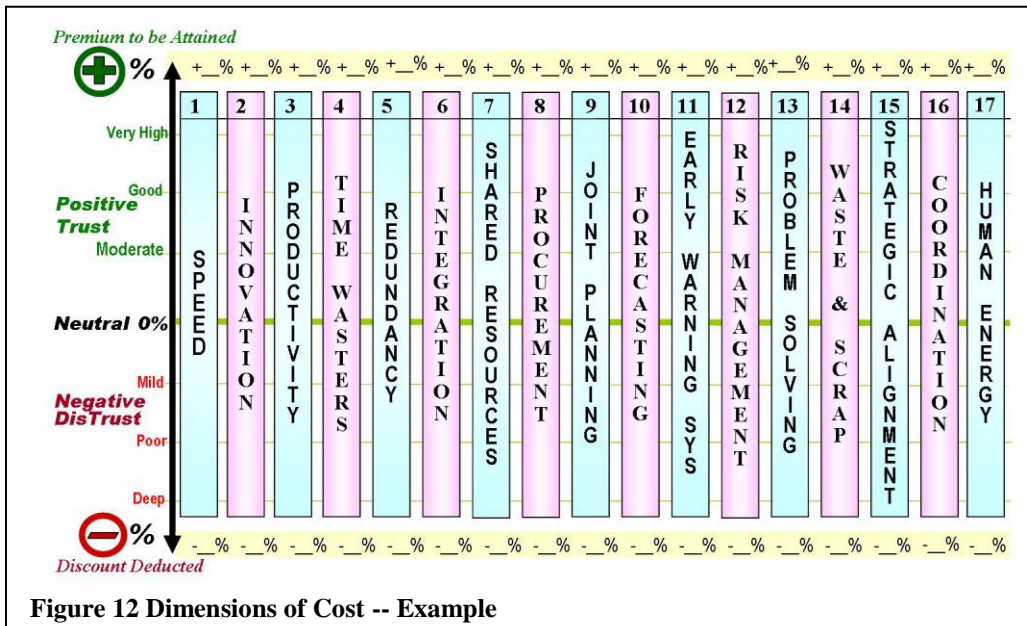


Figure 12 Dimensions of Cost -- Example

Step Three: Plot the Differential between the High and Low for each category, estimating the percentage Advantage of a High Trust System versus the percentage Disadvantage of a Low Trust System. (this is based on past experience, and requires a team consensus regarding the percentage advantage versus disadvantage.) Then the teams are asked to make a rough estimate about what the cost of distrust might be for their particular situation. The chart will typically look like Figure 13.

From our work with a wide variety of teams, the disparity between high and low trust teams can run anywhere from 50% to 165%. When asked to estimate a financial cost/advantage of low trust versus high

trust systems, the numbers are shocking, and, of course, not tracked on a standard expense sheet that has no means of accounting for the costs

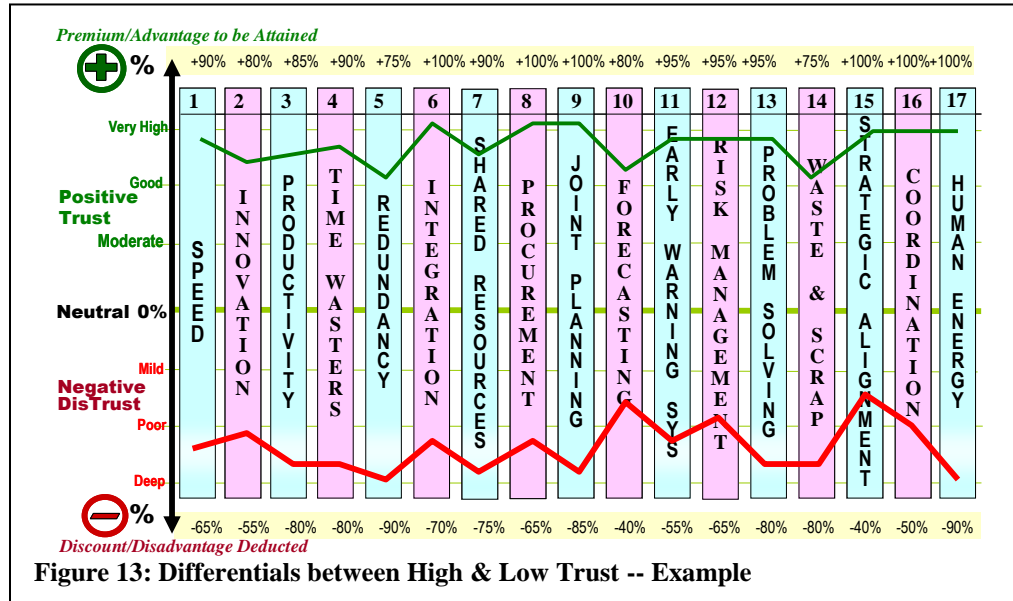


Figure 13: Differentials between High & Low Trust -- Example

of distrust.

The Economics of Trust is a call to action to make people aware of the “invisible” financial penalties that arise from distrustful actions. Having done this exercise with hundreds of people ranging from senior executives to shop floor managers, in a very diverse group of industries, we’ve been quite astonished by the results. Overall, groups conclude that, in their own experience, high trust work relationships often produce over a 100% advantage over low trust situations.

In other words, high trust organizations are high performers, high innovators, and highly competitive. This explains one of the primary reasons why Toyota consistently outperforms its rivals in the auto industry, Southwest Airlines beats its competitors in air travel, and USAA trumps its competitors in insurance. The collapse of the U.S. auto industry in 2008 was foreseen years before when trust between the Big Three automakers and their suppliers, who produce 60-80% of a cars components, began sending their best innovations to the Japanese customers who acted as trusted partners (see Figure 14). The cost of

2004 Findings Annual Supplier Working Relations Study of Automakers

Relations with their suppliers suggest more trouble for US automakers' if they this shift in loyalty is not driven by cost reduction pressures on suppliers, says the study's author, but rather on how the US automakers work with their suppliers across a wide range of business practices.

"The study shows, again this year, that the US automakers' primary orientation is toward cost reduction, they have little regard for their suppliers, they communicate very poorly and they generally treat suppliers as adversaries rather than trusted partners. In all the other industries we've studied such as aerospace, electronics, and computers, no one treats their suppliers as poorly as the US automakers do," said John W. Henke, Jr., Ph.D., whose firm, Planning Perspectives, Inc. conducts the annual study.

As a result of their respective handling of suppliers, there are some profound shifts going on in the industry that can't help but impact the US Big Three's ability to compete going forward, said Henke. These changes are summarized in the following points:

- Chrysler, Ford and GM supplier working relations are falling behind Honda and Toyota at an increasing rate
- Suppliers are shifting resources (capital and R&D expenditures, service and support) to Japanese Big Three, while reducing these for Domestic Big Three
- Suppliers are increasing product quality at a greater rate for the Japanese, don't change the way they deal with their suppliers:

The study shows that US suppliers are shifting their loyalties – and resources – to their Japanese customers at the expense of the domestic Big Three.

Figure 14: Low Trust Predicted Collapse

distrust in the automotive industry added layers of extra cost and poor quality that showed up as warranty costs. When General Motors' warranty costs exceeded their profits for years, it should have been obvious something was amiss.

These data speak to the astounding hidden cost in our organizations – a hidden tax that eats at the potential of both our organizations and the spirit of individuals at work.

But most importantly, nothing ever changes with permanency in any organization unless metrics and rewards change.

Trust Element #7: *SHIFT METRICS & REWARDS*

The stark reality is that no organizational change ever sticks unless there is a symbiotic change in the rewards and measures in an organization. Typically, in organizations with high levels of distrust,

there are also a set of measures and rewards that help lock dysfunctional behaviors in place.

For example, procurement may be rewarded for screwing the supplier, or finance rewarded for stretching payables, or engineering rewarded for mocking operations, or service rewarded for being critical of sales, or management rewarded for demeaning labor, individuals may be measured on their performance, but not teams, and so forth.

Hiring and Promoting is the most important thing we do to preserve our collaborative culture.
-- Colleen Barrett,
President Emeritus,
Southwest Airlines

There are several leverage points with the domain of executives to put trust into alignment with rewards and metrics:

Rewarding Trust

- Recognition of Collaboration
- Promotion
- Consequences for Breach of Trust
 - Not Fear Based, but consequences based
 - Swamp Talk
- Measuring Collaboration
 - Diagnosing
 - Joint Productivity Innovation, not piecemeal
 - Measuring Joint Innovation and Idea Generation
- Hiring, Promotion, & Retention
 - Character First
- Coherent Processes

Aligning metrics and rewards enables everyone to give 100% of their effort to organizational objectives; anything less is a breach of trust.

Trust Element #8: THE LAWS AND PRINCIPLES OF TRUST

Albert Einstein said: *God does not play dice with the Universe.* He meant there is a design that governs our world and causes it to function and respond the way it does.

Understanding the Laws of Trust (see Figures 15 & 16) and the Principles of Trust (Figure 17) will enable you to be the architect that builds relationships at the higher order on the scale of trust.

Remember, however, one violates the Laws and Principles at their own peril. The Laws and Principles are simple guidance to ensure success. Trust requires discipline to adhere to the rules.

While not everyone can or should be trusted, using the Laws, Principles, and Scales of Trust, you can discern how trustable a person might be, and how far you might be able to go to co-create a relationship of synergistic trust.

Some people can be trusted to have a relationship, but not a friendship. Most friends are not suited for a partnership. And only those on the pathway of parallel destinies seem to be best suited for the most powerful creationships. However, this does not imply that elements of friendship, partnerships, and creationships cannot exist in many of your best relationships.

Like the mastery of any art, clarity about how the Laws, Principles, and Levels of Trust impact human behavior will take time and practice, requiring close personal analysis tempered with real honesty, and careful listening for the real meaning. But with practice, healthy compassion, and open communications with others, and being willing to hear what might not be pleasant things from the point of view of others, relationship by relationship, we can, interactively transform our world, and create a rippling effect that changes the world of others.

TEN LAWS OF TRUST

1. Law of Integrity & Truth

→ Trust begins within as a commitment to tell the truth and constitute yourself to your word

2. Law of Honorable Purpose

→ Trust requires a Commitment to Honorable Purpose

3. Law of Safety

→ Trust cannot prevail unless a person feels safe

→ Trust means I believe I will be better off trusting you than not trusting you

Corollary of Fear

→ Fear is the birthplace of Uncertainty and Distrust

→ Fear will trigger rapid action, often reactively or vindictively

→ Fear does not create enduring relationships

3. Law of Primacy

→ The First Impression will color all other impressions

4. Law of Reputation

→ Your Positive Reputation, when conveyed by others with credibility will mean less difficulty earning trust

Corollary of Connectivity

→ It's a Small World; Information travels fast;
There will be few secrets

5. Law of Presumptive Intent

→ People will assume your intent/motives are the same as theirs

→ Your motives will probably be misinterpreted by your adversaries, competitors, and critics

→ The Paranoid will distort intentions maliciously through the Eyes of Fear

Figure 15: Laws of Trust

TEN LAWS OF TRUST

(Continued)

6. Law of Co-Creation

- People Support What they Help Create
- Honorable Differences in Thinking are the Source of all Innovation

7. Law of Consequences

- All Distrust must induce Consequences
- It is not the Magnitude of the Consequence, but the Certainty and Clarity that's Important

Corollary of Unintended Consequences

- Every Action causes a set of Reactions; the Greater the Distrust, the larger the number consequences that will be either unanticipated or adverse to your interests

8. Law of Openness and Design

- Transparency of Interests and Goals and Values is essential for Enduring Trust
- It is better to trust first (unless there is strong evidence that someone simply cannot be trusted) but continue to verify and earn

Corollary of Language

- Trust needs to be discussed and designed openly to (re)establish permanency

9. Law of Wrath

- Let the Sun Not Set on Thy Anger
- Vindictiveness and Manipulation will destroy all future possibilities of trust

Corollary of Forgiveness

- Be willing to Forgive with strong assurances of non-transgression

10. Law of Belief & Evidence

- Trust is Not Permanent unless there is:
 - Powerful Mutual Belief that Trust is Beneficial
 - Conscious Choice to Rebuild Trust when difficulties arise
 - Earned Evidence to Reinforce Beliefs

Figure 16: Laws of Trust (continued)

Principles of Collaborative Trust

- 1. Build a Spirit of Cooperation to Foster Community**
 - Work for the Greater Good, Not Just Your Own Self Interest
 - From Chaos Seek Unity, From Discord Find Harmony
 - Tolerate No Divisiveness, No Polarization, No Back-Biting
- 2. Engage & Embrace Everyone with Respect**
 - Respect Everyone's Need for Solitude, Peace, and Tranquility
 - Respect and Listen to those with a Different View
 - Seek Always to Bring Out the Best in Others
- 3. Build Relationships based on Trust, Integrity, and Ethics**
 - Speak only the Truth, Otherwise be Silent
 - Do what you say you will, Be ethical in your choices
 - If wrong, Acknowledge, Apologize, then take Corrective Action
- 4. Speak Only the Language of Cooperation**
 - Seek Solutions, Not Blame; Inquire, don't Accuse
 - Neither Speak nor Spread any Gossip
 - Give People the Benefit of the Doubt
 - Forgive those who Apologize for their Transgressions
- 5. Disagree without being Disagreeable**
 - Be Critical and Analytical without Criticizing
 - Never Threaten, Attack Issues but not People
 - Do whatever Can Be Done, and Gracefully Accept what Can't
- 6. Bring a Joyful Spirit, Keep a Positive and Caring Attitude**
 - Dwell Not in Negativity, Complain Not about Petty Things
 - Listen with Empathy and Compassion
 - Receive Everyone with a Cheerful Face, a Friendly Word, and Open Arms
- 7. Make it Safe and Secure**
 - Be sure people feel safe from undue Criticism, Manipulation, or Verbal Attack
 - Don't Let Distrustful Acts go without Response/ Consequences
 - Respect the Minority's Needs, even though the Majority Rules
- 8. Foster Co-Creation, Synergy, and Synchronicity**
 - Cherish and Respect Honorable Differences in Thinking
 - Keep Focused on Higher Orders of Thinking
 - Maintain Fairness and Mutuality
 - Keep on time and well coordinated

Figure 17: Principles of Trust

Trust Element #9: OPERATING PRINCIPLES

At the level in the organization where teams, cross-functional groups, or alliances actually function, it's essential for those who are interacting co-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. These operating principles are established to help guide its direction, maintain a unified focus, and to help achieve breakthroughs and to enable the interactions to be creative and to bend and flex when faced with adversity.

Why Operating Principles are so Important

Legal contracts are the traditional way organizations attempt to regulate personal behavior. It's not very effective. Contracts are fixed in time, and thus not very adaptable to changes in operating environments as conditions change. Most contract lawyers, seeking to protect their clients, will insert clauses that shed risk, calling for the "vendor" to hold their client harmless from risks, whereas any alliance will actually benefit from a carefully crafted shared-risk provision.

Legal contracts are best suited for establishing deliverables, and setting boundaries as to what *not* to do, but are ill-suited to promote trust. Moreover, contract law is typically based on adversarial enforcement and becomes a weapon that usually creates distrust.

Operating Principles, on the other hand, serve as a covenant or charter, which is larger than a contract, transcending the contract in breadth of vision, time, and hierarchy of importance. Operating Principles sets the "spirit of intent" of the relationship - becoming the foundation of the team's or alliance's culture of trust and cooperation. In addition, operating principles provide continuity across time, particularly bridging the transitions of new people into the relationship. These tend to embody values, ethics, performance standards, protocols, and hidden expectations which are now brought to light.

Imagine someone new entering a team or alliance. The Operating Principles should state how the founding leaders and operating teams

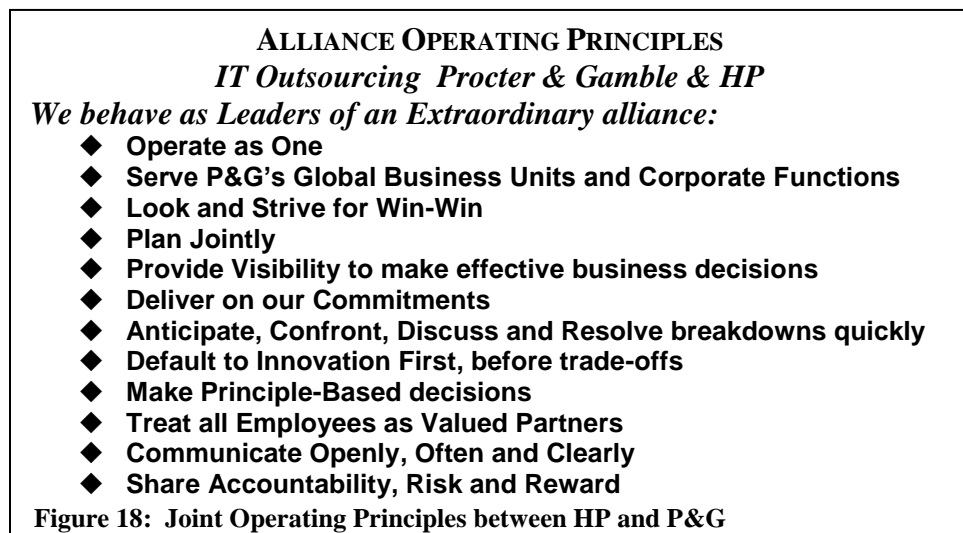
envisioned the heartfelt relationship between the people whose futures would flourish because of the creativity and energy that flowed between them.

A good set of Operating Principles should be concise, articulate, and soulful, embodying the intent of collaborative innovation that transcends any business relationship. This will ensure that each person and group must adhere to a set of standards aimed at honouring differentials between people, unity of vision, coordination of effort, achievement of breakthroughs, personal integrity, and a commitment to drive the shared vision into reality.

For example, when Procter & Gamble decided to outsource its Information Technology System to Hewlett Packard, the lawyers drafted a legal contract 1600 pages long that none of the operational managers wanted to read. It was adversarial, cumbersome, and doomed to create nothing but friction in the \$3 billion arrangement. Worse, it actually was designed to ensure that HP lost money over the 10 year term of the agreement.

Fortunately intelligent minds began to foresee the enormous difficulties that would emerge from a legalistic transaction-based relationship on a service contract that was so strategic to both parties.

In a joint workshop that transformed the relationship from a vendor approach to a strategic alliance, the parties put together a very simple set of operating principles (see Figure 18). P&G then did the



same thing with its outsourcing relationship with IBM (see Figure 19)

Alliance Operating Principles

HR Outsourcing Procter & Gamble & IBM

1. **Build together a “story” of unprecedented level of partnership in this market.** We help each other be the best in our respective industries and markets.
2. **Think Long-term** – We think strategically and long-term in what we do, recognizing that there are no easy shortcuts or easy gains.
3. **Our partnership is led by joint business needs and not by a contract per se’.** We are linked by our commitment to the joint Value Proposition and Business plan. The contract is a framework, not the first or main reference for our partnership. We respect that each party has individual and shared goals and we work together to find win-win ways to pursue them.
4. **Think “win-win”, always.** We seek solutions in the spirit of “what is right” and “what is fair” for both companies. Decisions are made and actions are taken to address mutual benefit for the greater good of the partners.
5. **Focus is on our user and customer** – We are led in our work by the objective to deliver the joint value proposition to our users and customers, meeting and beating their expectations. We empower our customers via a choice of offerings based on productivity, innovation and cost efficiency.
6. **Empower** – We build a culture based on transparency, communication, decision making delegated to the people closest to the decision, right organizational structure and rewards. Leaders are there to remove barriers and enable the two organizations to perform at their peak. We trust each individual knows when to make a decision or escalate.
7. **Build Productive Relationships** –We treat each other with mutual trust and respect as a basis for on-going productive relationships. We have clear roles, responsibilities and work processes we are committed to respect.
8. **Operate with Transparency** – We want a transparent environment to understand other’s needs and issues and determine together mutually possible win-win approaches and solutions.
9. **Communicate frequently and openly** –We agree on frequent, open and direct communications within each organization, as well as across our two organizations, at all levels. Leaders commit to communicate regularly the key decisions taken at Joint Steering Team level.
10. **Focus and Sense of Urgency** – Steadfast and timely progress toward our goals is essential because of the competitive environments we operate in. Decisions are made to respond quickly, soundly and adequately.
11. **Build on the diversity of our cultures** - We capitalize on the strengths and capabilities of both organizations to achieve success beyond what either company could achieve by operating alone.
12. **Drive Innovation** – We recognize that Innovation is to be worked jointly by both parties. We always look for better way of doing things. As partners we remain open to new ideas and seek to understand them.
13. **Build the success of our partnership via our people**, being sensitive to their needs, offering them growth opportunities, and valuing their perspective. We understand and respect the individual personal transition required by our new model.

Trust Element #10: TRUST DIAGNOSTICS

(to be completed)

Trust is a Choice

How much trust exists between people is a choice everyone makes. The problem is that most people make the choice reactively or subconsciously without discussion or interactive design. This is a large mistake that has kept relationships – both personal, organizationally, and even internationally – stuck the mediocrity of mistrust.

The level of trust that exists in any relationship is a *mutual choice*. Rather it's most powerful when it's the result of choice of how you want the world to work. For example: suppose you've had a situation where a business person just betrayed you. You might be thinking: "I didn't *choose* to be stabbed in the back by what I thought was an honest man." True enough, to an extent. But that person did make the choice to betray you either:

- *Intentionally* or *Maliciously* -- it was done after some deliberation or desire to hurt or harm you, or
- *Unconsciously* or *Negligently* -- their mind made a choice to repress any thinking about their motives for action or its consequences, or
- *Reactively* -- triggered and driven by emotions, not rational thought

Also consider: perhaps you set up conditions that drove their choice, or made it easier, or because they felt there would be no dire consequences for the betrayal.

The art of building trust should not be something that "just happens" reactively, thoughtlessly, or invisibly. Be proactive: discuss, design, and destine the relationship to its highest possible level.

Why We Have So Little Trust

Books are written on how to protect yourself, how to get even, how to manipulate others, how to fight wars, how to litigate, how to

intimidate, and on and on. There's so much distrust in the world, distrust seems normal; but it isn't!

Trust is the natural essence of human existence. We were born into trust; we engage in distrust as an act alien to our nature. Eliminating the poisons of distrust only gives us neutral trust, but does not result in great trust. We've learned the hard way, and it costs us dearly in our professional and personal lives.

Thwarting the Beast

While building a system of trust in your organization may be a noble endeavour, it cannot be conducted with naivete. Just as King Arthur's dream of Camelot was destroyed by Machiavellian Mordred, so can such efforts backfire without a healthy dose of reality.

Although we believe about 85% of the population can engage in enervating trust, there are still those who, by force of habit, perversity, mental imbalance, or a betrayed childhood, are embued with sufficient resistance to the guidelines we outline here, as to be incorrigably rooted in some level of distrustful habits.

The prudent leader will not tolerate the nether regions of the trust spectrum, nor interminably attempt to reform the stubbornly resistant cynic. As the Greeks learned several millenia ago, dishonorable Athenians were ostracized by casting a vote (using the ostricon – a large coin-like symbol).

Prolonged tolerance of unethical, distrustful behavior will result in disillusionment and mimicry within the rank and file.

At the outset, the best organizations use hiring practices that prevent the infiltration of those lacking character. Trust is too precious to be sacrificed at the alter of the unscrupulous.

Conclusion: Value of Trust

Too often trust gets caught in the background noise of life. The art of building trust should not be something that "just happens" reactively, thoughtlessly, or invisibly. Trust manifests in its greatest glory by design and by mutual choice, seldom by accident. Yet, if we don't bring trust to the forefront, what has been a seemingly busy, maybe chaotic life will become even more tumultuous as we spin

erratically and unpredictably in a world of distrust. In other words, we neglect the issue of trust at our own peril. Trust, like the muscles on our body, need exercise and coordination. Trust is the most vital thread in fabric of relationships.

Trust is the foundation of all collaborative enterprise. Embedding a system of trust into your organization yields enormous personal and economic rewards. People experience a level of creativity and energy hitherto only known in their dreams. It's not unusual for people to say they have a sense of real meaning and purpose to their work.

Because *fear* is the principle cause of distrust, leaders should be very hesitant to use fear as a means of motivation – its short term gains may be very limiting in the long run.

In a fast moving world, trust and integrity thus spawn a massive competitive advantage, because together they enable the teams to make rapid decisions without the need for a legal contract every time someone tries to make a decision. What's more, trust and integrity enhance creativity, build teamwork, reduce unnecessary transactional costs (such as memos to protect oneself), and make the relationship more fun, thereby building human energy.

Our own journey into the arena of trust has led us to a conclusion about leadership itself that is both straightforward and elegantly simple:

GREAT LEADERS DO THREE THINGS WELL

1. ***Strategic Vision:***
Set an Inspirational Vision, then chart an Innovative Course that generates a Significant Advantage or Improvement over ordinary alternatives.
2. ***Trust:***
Create a Culture/System of Trust that Unleashes and Focuses Human Energy and Co-creativity on achieving the Strategic Vision.
3. ***Operations:***
Establish coherent organizational Processes, Measures, & Rewards that reinforce #1 & #2.

Yes, that's how simple it really is -- Everything else is details.

Distrust is not natural; it's a learned predicament!

Relationships are but a reflection of ourselves.

Rebuilding Trust begins with Healing as its Central Purpose

*If you are a captive in the prison of distrust ...
It's time for your release!*

GETTING WHAT YOU GIVE

It's 1996, the summer Olympics are in Atlanta, Georgia. The gold medal round of men's soccer tournament is being held. It's early evening, humid and hot -- about 95 degrees. Nearly 100,000 people are entering the arena. Kiosks that sell Olympic pin souvenirs are everywhere, and as you look around you see people wearing the pins on their hats and shirts. My family and I had acquired quite a few of these little trinkets.

I am with my boys, who were only nine and seven years old, and my wife. We're making our way into the venue when I notice a young teenage boy, somewhat scrappy and scruffy looking, scoping out a kiosk; I get the distinct impression that his intent is to steal some of these pins. I move my family around him to stay away from the forthcoming "bad news".

As we move into safety a thought occurs to me: We have about 20 of these pins on our hats and shirts so why not just share some of them. I take several pins from my hat and reach over with my hand closed towards the young man. He startles and moves back as if I am going to hurt him in some way. I think he's probably had this experience somewhere in his life.

As I open my hand, he spots the pins and looks up at my eyes. I look back at him exchanging no words. Again I move my hand towards him and as he reaches towards me and he takes the pins. We acknowledge each other again, never saying a word, as he fades back in the crowd. I grab the kids and start walking into the arena.

A few moments later just as we enter the park, I feel a tug on the back of my shirt and I turn around and there's the young man. This time he has, what looks to me, to be a stick about three feet long and is about to hit me. I recoil and then realize that instead of trying to hit me, he was trying to give me something.

I look at his eyes and he looks back at me. I reach out and take what's in his hand. What looked like a stick I then realize is a rolled-up poster. We exchange silent acknowledgements, but again, never a word is spoken. He fades back into the crowd, I look at the poster and I think to myself: "You know, this must be the result of what I gave him, right? He must have felt the need to give me something back."

I then realize that everyone else had one of these posters, they were passing them out for free.

It then dawned on me that this was probably the only thing that this young man had to give. He gave me what he could, all he had to give me. It reminded me our human nature seems to direct us first towards protection but once we establish trust that trust is given in return.

This simple encounter taught me that you **get what you give**.

-- Todd Welch

Chapter 7

Building the Collaborative Eco-System

A Business Eco-System is an economic network of interactive businesses and individuals producing and buying goods and services. This network includes customers, suppliers, distributors, support services, communications linkages, alliances, competitors, employees, local communities, and government regulators. Faced with changing strategic, technical, environmental and economic forces, the members of the eco-system realign, adapt, or decline.

The objective of each business member of the eco-system is to create stronger competitive advantage and deliver greater value by innovating faster, selling more, buying smarter, and leveraging resources, while reducing or managing risks better.

The Future Isn't What It Used To Be

The mid-1990s marked a dramatic turn in the way business was done around the globe. A tectonic shift was brought about by a confluence of forces - the internet, globalization of business, cell phones, and proliferation of computers on every desktop accelerated the speed, complexity, and rate of change in the business world by a massive rate. (see Figure 1) Suddenly, in a brief few years, everything shifted - became interconnected, less rigid, and more uncertain. Organizations, for the most part, have not changed at a rate synchronized to the rate of change around them.

This rapid acceleration in the business world is the equivalent of Einstein's Theory of Relativity:

As Clock Speed Increases, Paradigms Shift

The old, stand-alone, hierarchical companies of our parents (and their great-grandparents) generation are suddenly headed for extinction just as the dinosaurs were wiped out by a meteor. Many, caught in the middle of this shift between the dying and emerging

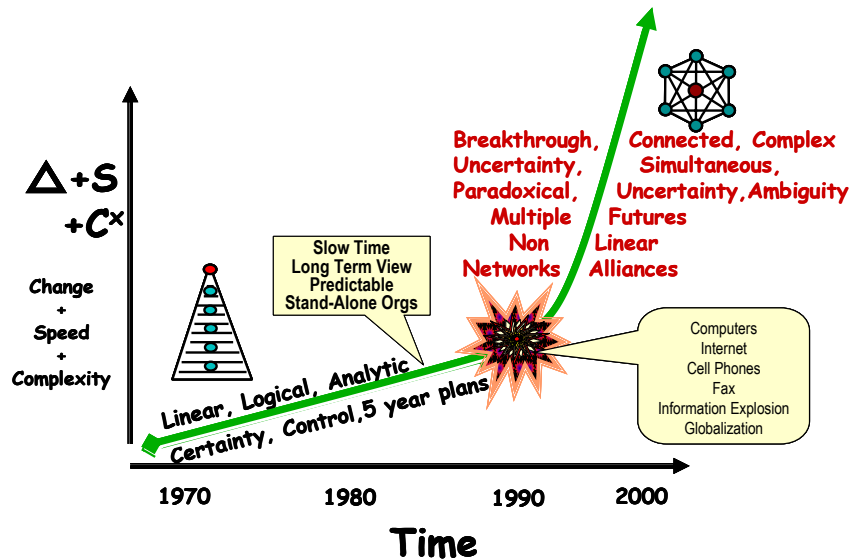


Figure 1: Acceleration of Change, Speed, & Complexity

paradigms (see Figure 2) are confused as the old signposts of stability are crumbling. The old creates the illusion of safety, the new feels

The Dying Paradigm

- Value Chains
- Curves
- Linearity
- Rigidity
- Transactions
- Stability
- Predictability
- Static
- Hierarchies
- Financial Capital
- Analysis
- Independence
- Components
- Low Trust
- Cost
- Information
- Functional Specialization
- Strategic Separation

The Emerging Paradigm

- Value Networks
- Breakthroughs
- Interactivity
- Flexibility
- Relationships
- Agility
- Speed
- Dynamic
- Alliances
- Intellectual Capital
- Synthesis & Genesis
- Interdependence
- Systems
- High Trust
- Value
- Innovation
- Cross-Functional Integration
- Strategic Alignment

Figure 2: Dying & Emerging Paradigms

risky because many of us are not familiar with it. But it's time to cross the bridge into the future because the future is now, and will not be a reflection of the past.

These forces and paradigm shifts are fundamentally different from the past, creating hyper-competition around the globe, and blurring the distinctions between supplier, customer, and competitor.

We have new words, like “co-opetition” (which describes a co-operative relationship with honorable competitors), “market space” (the internet version of market place) and “faciligratation” (to catalyze and integrate simultaneously) among many others.

This shift will radically transform the nature of work, organizational interaction, the way of leading, and the very way we think of business itself. With the exception of war-time conditions:

The emergence of Collaborative Commerce along with the Networked Enterprise is the most revolutionary and complex shift in organizational functioning and structure in the history of commerce.

Themes of the Emerging Era

We see three powerful themes that stand-out in the future of networked enterprises:

Cooperation is essential to manage the new rates of speed and complexity. Because companies will seldom be competing independently, but instead as part of an alliance or network, collaboration mindsets and skill-sets are vital to create the synergies necessary to enable the new forms of competitive advantage. The ability of the network to mobilize cross-functional teams will separate the winners from the losers. High levels of trust are required to facilitate speed and integration requirements.

“FACILIGRATION”

Easing the integration of people, products and services.

The word “facilitator” is very common and generally refers to any activity which makes tasks for others easy. Charter Partners wanted to take it a step further understanding that we also need to integrate. Our Mission is to integrate people, products, and services into a collaborative environment.

The word “faciligratation” describes this process by combining facilitate and integrate.

Co-Creation is the foundation of complex technical integration. The Economics of *Exp~~a~~ndibles* (see Chapter 2) will drive much of the new value generated. This must be framed with win-win negotiations across the network's virtual boundaries, and a shift from transactions to synergistic relationships. Paramount to co-creation will be the eventual solution of intellectual property ownership in a co-created environment.

Connectivity is the infrastructure of the networked enterprise. This means more than the traditional inter-intra net, telecommunications, and use of the world wide web. Connectivity implies tearing down the walls between and within organizations. Value in the new era is created by integration and integrators, alliance managers and networkers, not just functional specialists.

In every commercial sector, the evidence is already clear: the more highly connected and collaborative the company, the more innovative and competitive it is. Toyota and Honda are beating Ford and General Motors. Procter & Gamble is beating Clorox and Lever Brothers. IBM has resurrected from the dead with the medicine of integration, alliances, and the power of the network.

To stay competitive, organizations will need to continually regenerate in vision, core competencies, and delivery of products and services. Cooperation is a mighty competitive advantage because it makes *regeneration* possible through collaborative innovation.

What will be Valued in the Future

Here are some of the things to be alert to as you begin making the shift into alliances and networks.

“Wise Information” will be the “blood stream” that sustains the networked enterprise. This is different from just “data;” it is information that carries value: wisdom to generate innovation, coordinate action, and energize relationships.

Strategic Integration & Synchronization will be the alignment mechanism of human and organizational synergy. Companies will

share strategic information and engage in joint planning as a normal course of action. This will include customers, suppliers, developers, and other support and delivery services.

Speed Of Development & Time To Market will become more important than cost as an economic currency because of the massive market-share advantages that go to companies that are able to be first-to-market with a better product or service.

Idea Generation will become a basic unit of work alongside productivity and quality. Companies that foster new ideas as the fuel for their engines of innovation will continually have massive competitive advantages.

Collaborative Innovation will become the most valued resource as the primary source of regenerative intellectual capital. Being rapidly able to create teams and alliances that synergize differentials in thinking will accelerate speed of development and time to market, with large economic impacts as a result.

Trust will become the foundational measure of cross-boundary interaction. Companies will regularly measure trust within cross-functional teams, across business units, and in their alliances to ensure partnerships and creationships are self-sustaining.

We believe these shifts are inevitable; the only real questions are ones of timing and leadership. It only takes one company in a commercial sector to cross the bridge, and the competitive advantage they generate causes the others to follow.

Competitive Choices

Every entrepreneur is faced with the basic decision of how to create competitive advantage. Let's examine the options:

Compete on Price:

This is always a risky place to stake out the competitive ground, unless you are producing in China or have the clout to drive supplier prices down to a minimum. It can work in protected or local markets, but is usually not the sole reason people buy.

Compete on Size:

While there still is something to be said for being big enough to command market position, the bureaucracy and the overhead size brings is a heavy burden. Just look what happened to bigness in the auto, airline, or steel industries.

Compete by Acquisition:

This may look attractive, but unless you are highly skilled in this game, the statistics show three out of four acquisitions fail three to five years after the deal is done.

Compete by Erecting Barriers:

This strategy can be done at the national level, (such as tariffs, content restrictions, etc.) or through patent restrictions (difficult to enforce globally), or by trying to make your solution or system proprietary (the marketplace is consistently rejecting closed system solutions). Bottom line: Don't put all your eggs in this basket.

Compete by Working Harder:

What entrepreneur isn't already working hours that his or her spouse finds abusive. If you think you can whip your employees into working harder for sustained periods of time, you're just inviting a union to have a party on your front steps.

Compete on Features:

Every entrepreneur dreams of filling their latest gadget with features that could sink a small boat. Maybe it is really the greatest new product since ice-cubes in the summer, but your competitors across the globe will have their engineering teams working overtime to come up with a better model, perhaps with technology they've been developing for years, unbeknown to you.

Compete on Quality:

Good quality is a must for repeat business. This was a very effective strategy twenty years ago when quality standards lapsed, but now quality is to be expected, the price of admission. Keep

quality high, but don't count on it being a sustainable competitive advantage.

Compete on Collaborative Innovation:

We think this is the most powerful and sustainable competitive strategy because it costs little, is difficult to replicate, and is regenerative (multiplies itself in the future). This competitive approach, through the leveraged power of teamwork and alliances, enables a company simultaneously to:

- INNOVATE
- ACCELERATE
- INTEGRATE

We believe the best way to engage in collaborative innovation is to start internally, and then expand the process externally by aligning with other members of the eco-system.

THINK - TEAM - TRUST is a powerful framework not only for propelling your internal organization, but also for extending your reach and leveraging strengths of other companies across the global span of the business eco-system. Here's how to start:

Value Chains

First, think of your company as a link in a "value chain." Suppliers provide you with goods and services that you convert or transform into something you sell to customers.

Suppliers → My Company → Customers

Then ask what the typical relationship looks like in your field or industry between suppliers and customers. Is it adversarial (low levels of trust), transactional (neutral trust), or collaborative (reasonable levels of trust), or innovative (very high levels of trust)?

If your suppliers are just “vendors” and are you just a “vendor” to your customers, then the trust level is probably poor. If you are just a vendor to a customer, at best you are in a transactional relationship with little trust and perhaps little value. If so, you might want to give serious reconsideration to what's really happening in the relationship and use the Trust Scale in Chapter 6 to help correct the problem.

Value Flow

Next, consider how value is measured between businesses. If unit (or component) cost is the primary means of measuring value, then the system is missing. Similarly, think about your suppliers. How much of your total corporate expenses go to suppliers? If more than 30% of your expenses are with suppliers, are you getting a similar proportion of your innovation from them? If not, then your suppliers are just in a transactionary mode. Companies like Procter & Gamble and Toyota get massive amounts of innovation from their supply chains because they ask for it, measure it, and reward it.

By seeking innovation flows from suppliers, you can find new products or solutions that can add to your revenue stream. For example, Crest White Strips came from P&G supplier, which has added hundreds of millions of dollars to the P&G revenue stream.

(You may recall in Chapter 2 we said there are three ways to bring money into your company – debt, equity, and revenues – and that only the latter had a positive impact on profit. Moreover, focusing on revenues means you don't have to dilute your business by becoming overly beholden to bankers or investors and taking the risk that they may not understand or share your entrepreneurial dream.)

On the other side of the value chain, which customers give you the bulk of your sales? Are you a strategic supplier to them? Or just another vendor? When was the last time you spent time with your best customers analyzing how you could provide them with more innovative solutions? Are there other suppliers to your customers that you should be connecting with to provide a more integrated product, service, or solution? What other sales channels could you form alliances with that would give you a quantum leap in sales?

Benefits of Alliances and Value Networks

Alliances enable you to enter the business eco-system, and hold the core architecture for expanded network integration. When you form alliances with more than one company in the value chain, the change from a transactionary relationship to a strategic relationship is the beginning of creating a value network. What's important is the major strategic and economic benefits an alliance can bring:

Strategic Benefits:

- Increase Penetration into New Market Niches
- Expansion of Market Share
- Able to Meet More Customer Needs
- Higher Customer Satisfaction with integrated solutions
- New/Broader Technical Capacity from partners
- Quickly Become "Best in Class" Competitor
- Increase Barriers to Entry by competitors
- Access to Innovation Flows
- Synergistic (1+1=3)

Economic Benefits:

- Require Less Up-Front Cash
- Leverage Precious Resources
- Quicker Time to Market
- Increase Gross Profit Margins
- Decrease Marketing Costs on a Per/Unit Basis
- Less Expensive and Less Risky than Acquisition

Forming Successful Alliances

Alliances are synergistic strategic alignments between companies based on cooperation to produce more value than they could alone. The structural definition of an alliance is rather straightforward:

A cooperative business entity formed by two or more separate organizations for strategic purposes that allocates ownership, operational responsibility, and financial risks and rewards to each member, while preserving their separate corporate identity/autonomy.

However, before you jump into structuring an alliance “deal,” be aware that alliances are *not deals*, they are strategic *relationships* that must function in unique ways to be effective. Here's what really defines an alliance, it's referred to as “Three Dimensional Fit.” (see Figure 3)



Strategic Fit

Destiny: By creating the alliance your long term destiny will be changed for the better. The alliance must create competitive advantage for both companies. Without a common strategy for joining forces, the alliance will be either of little importance or little impact.

Synergistic: This means there must be a clear way producing a 1+1=3 effect. (If you can't figure out the “3,” then that alliance is not the right path). The synergy is usually expressed through a power value proposition and mutually aligned goals.

Regenerative: Contracts are self-renewing and reviewed periodically to realign the interests of the parties as conditions change, thus adapting their strategy and operations to the ever-changing competitive environment. *Continued innovation is essential.*

Chemistry Fit

Collaborative: Each party is committed to a Win-Win approach from the start and their business models are compatible. Maintaining high levels of trust is a priority to ensure the quality of core relationships.

Top Rank Support & Operational Unit Sponsorship: Because alliances are often outside the typical executive's span of direct control, be sure that senior management, as well as business unit leaders really buy into the alliance, otherwise it will be born an orphan.

Strong Champions on both sides are empowered to support and drive the alliance to success and to prevent neglect by the parents at birth.

Figure 3: Three Dimensional Fit

Operational Fit:

Integrated with Tight Operational Linkages: Alliances that operate on the fringes of their sponsoring companies generally wither and die. Effective alliances ensure middle management levels are functionally linked and there is positive interaction at multiple organizational levels. A well conceived governance structure is in place...

Reciprocal Relationships: Alliances thrive on sharing assets, strengths, and information to help expand the realm of possible expansion.

Risks & Rewards: These are shared fairly. (beware if risks are shared, but rewards aren't)

Caution: Don't focus too much energy negotiating the perfect legal contract – there is none. While a contract may be valuable in the event the alliance has to be dissolved or to ensure clarity of the agreement, there is no alliance that ever succeeded because of the quality of the legal contract. Focus on designing the 3-D fit, and the alliance governance system, then think about any legal aspects of the agreement. (see *Business Alliances, The Hidden Competitive Weapon* by Robert Porter Lynch for more information about alliances.)

Alliance Success Factors

Alliances that make rigorous application of best practices have a very high level of success; conversely, those that “play it by ear” or commence as a deal or transaction have high failure rates. Here are the ten critical factors for success:

1. *Powerful Strategy & Value Proposition* with keen awareness of strategic drivers and a deep commitment by all to the common goal
2. *Joint Metrics & Aligned Rewards* which clearly link strategy with desired results
3. *Operational Plan* where roles & responsibilities are specific & clear, and areas of potential conflict clearly defined

4. *Interface Management* where the organizations overlap or interact, with scenarios for handling difficulties, prediction & breakdown scenario planning
5. *Strong Champions* who develop excellent working relationships, and are passionate about the alliance
6. *Trust Building* demonstrated by integrity and honor between all champions, and stability among core teams
7. *Culture of Cooperation* that provides guidelines, norms, & values to create synergy, with no tolerance for bickering
8. *Rules of Engagement* that are fair (win-win), with clear boundaries, secure firewalls, and areas of sharing clearly defined
9. *Contract of Expectations* for handling conflict, clarification of policies, and adhering to the unwritten contract
10. *Governance & Problem Solving Mechanisms* with high standards of excellence & readiness to take corrective action

From Value Chains to Value Networks

As more alliances are formed, the relationships between the companies begin to ascend the Trust Scale (see Chapter 6), from distrust to trust. The more trust in the relationship, the more extraneous transaction costs (such as non-value added work, duplication, and redundancy, etc) are driven out. At the higher order of alliances, flexible, agile, and responsive “creationships” are formed where collaborative innovation begins generating incredible competitive advantages. As the adversarial nature of value chains becomes cooperative, the chains begin to morph into networks, (see Figure 4 for an example from Cisco Systems) where even greater interaction and innovation is then possible.

If used effectively alliances are opportunities to create bold new futures for our entrepreneurial initiatives.

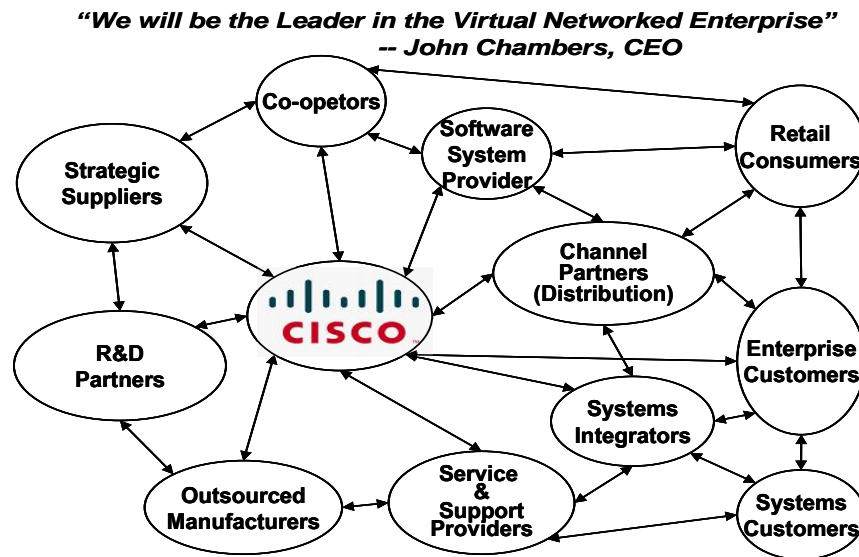
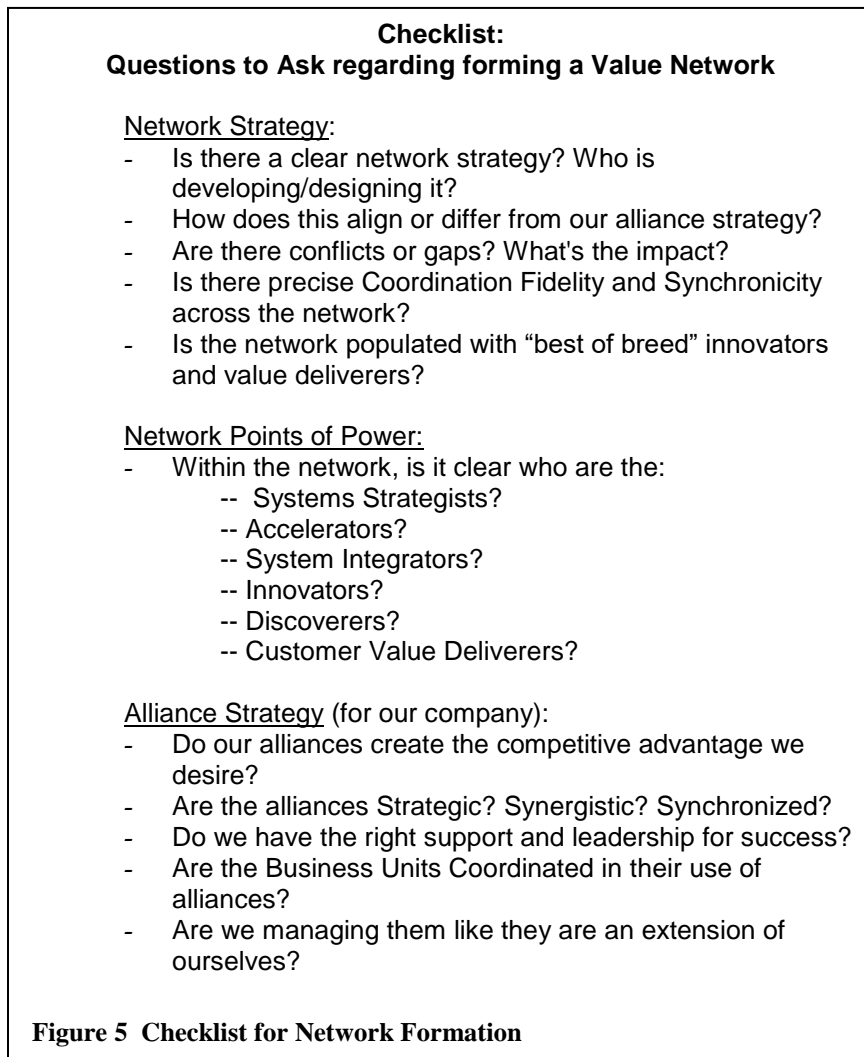


Figure 4 Example of Network Enterprise -- Cisco Systems

Managing Value Networks

Managing within a value network is a new field of endeavor. For many entrepreneurs, the issues of Value Network Management will be far in the future, but for the advanced guard, you are facing them now. As you venture forth into this very new field, be sure to gain clarity by asking some poignant questions. Figure 5 is a checklist of some of the questions you should consider.

As you begin shifting from the old, hierarchical, independent business world into that of collaboration, innovation, acceleration, and integration, you will see how the *Economics of Expandables & Abundance* (see Chapter 2) begin to shift the way you generate wealth for yourself and the world around you. There may be a few missteps along the way as your mind and heart journey down this new road with new rules; but be sure to stay the course and remain true to the principles and practices of Cooperative Entrepreneurship. It's the future; it's fun, and it's profitable as you turn your company into an Engine of Innovation.



Eco-System Fractals

Networks are not new to business. The first networks were electric power networks in the early 1900s, followed by radio networks in the 1930s and television networks in the late 1940s. With

the emergence of the internet and the proliferation of strategic alliances, we have a whole new array of organizational and informational networks in every region and every industry in the world.

If you are not part of one of these business networks you will be alone in a connected world. Buying and selling on the internet is simply not enough. You must be connected in the creation of new value, innovating using a network. Business networks are often called value networks or eco-systems, to take a term from nature. The advantage of networks is that in many cases they can be almost infinitely expanded. A unit of expansion is called a fractal.

No company is an island unto itself;
every company is part of a system,
joined to the network of value creation.

If one person's idea be shared with another,
and then enlarged by again another,
the whole thus benefits.

But yet, should one new idea be repressed
or lost or buried, the whole is lessened,
as if the arm of my friend or my own
were severed and cast away.

Any death in the network of innovation
diminishes me as well as the whole,
because you and I are linked
in multiple and mysterious facets.

Therefore, upon the demise of a creative thought,
never ask to know for whom the bell tolls;
.....it tolls for thee.

-- RPL Inspired by John Donne

COOPERATION AMONG COMPETITORS AND THE BANYAN TREE

I met Gino Niccoli not knowing that he would change my life forever. I was scheduled for a quick interview with this member to get his thoughts on how we could cooperate to do more than just insurance. Gino was a big, hearty man. We sat down in his office and Gino started telling me about his journey.

Gino founded his company and built it to 175 employees; it was, by far, the most successful HVAC (Heating, Ventilating, and Air Conditioning) company in the Lehigh Valley. Gino began to talk about his ideas of collaboration. Before I knew it an hour and half had passed. Gino told about the time Pennsylvania Power and Light (PPL) had come to his office with their attorneys and accountants and told him they were getting into the HVAC business. They intimated that he could either sell his business to them or be put out of business by them.

Gino left that meeting thinking this was not the way he did business and decided he was going to collaborate with other people in his area to overcome this threat. Together he and other independent HVAC companies formed the "Independent Quality Alliance (IQA)". The IQA was successful in buying and sharing resources, they also were able to get employees to collaborate and they began to educate the next generation of technicians.

Eventually the IQA became associated with a local college and formed their own educational organization. It was a perfect recruiting tool and became very powerful and still today, stands for quality. Gino talked about how it was the good guys who were the good guys. In other words, he was willing to collaborate with his competitors as long as they had integrity.

Collaboration didn't mean price fixing or reducing the market, but instead, increasing service, increasing quality, and increasing opportunities for employees. It also led to reducing costs and providing more service to their customers. Gino once described this process at an annual meeting by using this analogy: If you take one stick you can easily break it into pieces, but if you group a bunch of sticks tightly together it's almost impossible to break. This is how Gino saw his group of collaborative businesses, as a big bundle of sticks.

When we began to develop the Charter Partners logo I told this story to our design team. They said it reminded them of the banyan tree. We learned that the banyan tree grows in India and in the Gujarati language, banyan means "merchant", not "tree". These trees can grow so large they create an area of shade where the merchants gathered to do business. – Todd Welch

Chapter 8

Success & Failure – The Real Truth

If you've gotten this far in the book, you're probably thinking that there is much more to the business and economic shift than we've alluded to so far. This shift into cooperative entrepreneurship started before the economic meltdown, which only accelerated the change. Below the strategic and structural storms on the surface there are powerful forces within the spirit of business itself that will influence the future in very fundamental ways.

In this final chapter, we will link this bold new future to deeper wisdom of the ages, because we believe that there are some transcendent truths that apply no matter what era we live in – business and economics may be changing dramatically, but nature of humans is not. In times of change, wisdom is more important than information, government debates, or stock market reports.

Failure is an Illusion

Each of the authors of this book grew up with Thomas Edison as a hero and mentor. One of Edison's statements intrigues us deeply:

*Why, I've not failed 10,000 times,
I now know 10,000 ways not to make a light bulb.*

Most of us would've quit after the 10th, or maybe the 100th failure, but not Edison. Why? How did his mind work such that it propelled him forward when challenged with overwhelming rejection? For business executives and college graduates, the fear of failure is deeper and more pervasive than the fear of death or fear of heights.¹ Franklin Roosevelt had some important insight into this issue which he proclaimed in his inaugural address:

*Let me assert my firm belief that the only thing we have to
fear is fear itself – nameless, unreasoning, unjustified*

terror which paralyzes needed efforts to convert retreat into advance... [Greater] perils ... our forefathers conquered because they believed and were not afraid.

Great fear is most often nothing but a phantom that haunts our souls and limits our potential. Roosevelt advised that we conquer fear not with fearlessness, but with more powerful beliefs.

Studies have shown that the most successful entrepreneurs have typically failed in two or three business prior to their real success.

***The hallmark of a successful person
is not how they dealt with success,
but how they dealt with failure.***

As the poet Rudyard Kipling said:

If you can dream -- and not make dreams your master;

If you can think -- and not make thoughts your aim,

If you can meet with Triumph and Disaster

And treat those two impostors just the same;

If you can bear to hear the truth you've spoken

Twisted by knaves to make a trap for fools,

Or watch the things you gave your life to, broken,

And stoop and build 'em up with worn-out tools;

...Yours is the Earth and everything that's in it,

And -- which is more -- you'll be a man, my son

(excerpts from "If")

Everybody who goes into business wants to be successful. The mistake most of us make are all the failures that play a critical role in every success story. Many of those failures are personal not living up to expectations, not rising to the challenge, blowing opportunities, giving up, falling by the wayside. I'm talking about serious miscalculations, grave lapses in judgment, disastrous blunders, severe disappointments, even betrays...

And yet, as a business, we've grown stronger with every failure.... Success is a series of manageable failures. I didn't see that at first. For a long time I let the failures get to me. I found them very discouraging. They made me question what we were doing. It slowly began to dawn on me, however, that there was an important lesson in the failures.

Ownership Rule: Failures are fine, as long as they strengthen the company. Everything depends on making the company successful.... Rewards only come after success, not before.... You can learn from your mistakes. The company only gets in trouble when people lose sight of the common goal.

You're going to have a lot of failures. We had our full share. But each failure took us a step closer to our dream, which proved to be very good for everyone who persevered.

-- Jack Stack, CEO SRC, from *A Stake in the Outcome*, p 78

Making Commitment Larger than Fear

The truth be told, for most of us our fears remain with us much of our lives. Advising that we must be fearless seldom makes us so.

But are we relegated to a life as cowards? Hell, no!

Courage is not the lack of fear, but making commitment to a vision or purpose much larger than our fears.

Listen to any Congressional Medal of Honor recipient who saved the life of a fellow soldier or sailor. They all say they were scared, but their commitment to their comrade was larger than their fear for their personal safety. These heroes put the greater good ahead of their self interest. That's Honorable Purpose in action.

Fear is a dangerous weapon in business because it has a boomerang effect, often multiplying on its way back in ways we can neither predict nor control. Fear is the root of distrust, thus it will pervasively undermine the innovative spirit in each of us.

For the large part of us, our most creative time of life was as a child, when we had few pressures to perform, few fears of the real world, few worries about how we were perceived by others. Edison could accept ten thousand failures because he had transcended the fears held by most of us. He stayed in his child-like spirit, and made a purposeful commitment to something larger than himself. In this way, there were no failures, just learning and results.

Every human being has three powerful forces (or “drives”) simultaneously at play within them: Ego, Soul, and Creative Intellectⁱⁱ. How these three forces interact determines your life. For most people, these three forces act independently and are thus misaligned, resulting in a helter-skelter life; the truly great have carefully mastered the art of alignment within.

Successful entrepreneurs use their ego drive to push for higher and higher achievement. Their competitive instinct can be used powerfully to improve and to grow continuously, and to lead as a great coach to inspire their teams to execute with great precision.

The entrepreneur’s soul-drive provides a focus on noble cause, compassion, and recognition of the achievements of others. This sets the standard and transfers rapidly to employees who can then pay close attention to the needs of customers, thus maintaining strong customer loyalty and serve. Each employee wants to be in an organization they can trust serving with fellow employees they can trust as well. When strong trust prevails throughout the organization, everyone’s joint energies align with a quantum burst of exuberance and enthusiasm. The entrepreneur that invests in building a system of trust as the foundation of the organization’s culture will reap enormous personal satisfaction as well a financial wealth.

We live in rapidly changing times that requires large quantities of innovation. When an entrepreneur taps into the collective creative intellect of all the employees, the resulting innovation engine can keep the human energy high and the produce a regenerative stream

of new ideas and improvements which continually hone the competitive edge.

In this way the old idea of the entrepreneur as “emperor” shifts to “empowerer.”

True Essence of Success

We've never met an entrepreneur who wasn't interested in success. In our society, we judge money as the measure of success. The insatiable quest to accumulate cash has driven some people into jail, caused financial crises, and led others into bankruptcy.

There is nothing inherently wrong with money, and we encourage people to enjoy their wealth. But the true measure of success is not actually money. Money is just one of the measures. Einstein, a man of preeminent creative intellect and soulful explorations, advised:

***Try not to become a person of success,
but rather ... become a person of value.***

Albert Schweitzer, the great physician of the same era understood the nature of value when he stated:

I don't know what your destiny will be, but I do know that those who will be really happy are those who have sought and found how to serve... By practicing reverence for life we become good, deep, and alive.

Viktor Frankl, a German Jew, survived Hitler's hideous concentration camps by learning about the nature of humanity while being tortured. He later wrote in *Man's Search for Meaning*:

*Don't Aim at Success;
The more you Aim at it, and make it a Target,
The more you will Miss It.
For Success, like Happiness, Cannot be Pursued,
It must Ensur...
As the Unintended Side Effect Of one's Personal
Dedication to a Course Greater Than Oneself.*

These three men knew that success and failure were all illusions that can get in the way of real learning and a higher destiny.

The Nature of Money

Often people have been twisted by the Wall Street mantra that the purpose of business is to make money. This is unfortunate because it perverts the true nature of the world of business. Yes, it is true that capitalism's investment and banking sector's purpose is to make money; but the purpose of business is different - it is to provide goods and services competitively at a profit. Making money for business is one, and only one, measure of success.

SUCCESS, CHARACTER, and WEALTH

Money doesn't change men, it merely unmasks them. If a man is naturally selfish or arrogant or greedy, the money brings that out, that's all... A business that makes nothing but money is a poor kind of business.

Wealth, like happiness, is never attained when sought after directly. It comes as a by-product of providing a useful service.

The highest use of capital is not to make more money, but to make money do more for the betterment of life.

If money is your only hope for independence, you will never have it. The only real security that a person can have in this world is a reserve of knowledge, experience, and ability. Without these qualities, money is practically useless.

-- Henry Ford

Too often, success is little but the agglomeration of material illusions that mask our settling for a dream not noble enough to be worthy of failure.

Your world shifts by replacing hope and success with commitment to purpose and never letting a torrent of fear uproot rationality. In the movie *Grumpy Old Men* the question was asked: "When looking back on your life what do you remember and what do you regret?" "I remember the relation-

PURPOSE

The world owes nothing to any man, but every man owes something to the world.

I pity the man without a purpose in life.

My main purpose in life is to make money so that I can afford to go on creating more inventions.

-- Thomas Edison

ships with people. I regret the risks I did not take.”

What’s more, your work is more than just a job. So too with your employees. They are inspired when their work gives them honorable purpose which provides something meaningful to their lives.

The Nature of Work

How does the cooperative entrepreneur regard the commitment of time and money and the risks involved when it comes to the daily grind of working intense hours? We think Susan Fowler Woodring said it well:

*The master in the Art of Living
Draws no distinction between
His work and his play,
His labor and his leisure,
His mind and his body,
His education and his recreation,
His love and his religion.
He hardly knows which is which.
He simply pursues his vision of
excellence through whatever he is
doing and leaves it to others to
determine whether he is working or
playing.
To himself, he is always doing both.*

If we keep in the forefront of our mind that every moment in business presents a unique opportunity for a precious fruit to ripen, for an idea whose time has come, for a river to flow, for separate

REWARD IN WORK

One might think that the monetary value of an invention constitutes its reward to the man who loves his work.

I can honestly say this is not so. ...I continue to find my greatest pleasure, and so my reward, in the work that precedes what the world calls success.
-- Thomas Edison

The Secret of Life is discovering it's not all about you.
-- Scott Welch

Your Life's Work

It's important that you believe that your "life's work" is important to other peoples' lives or you may as well stay home.
-- Scott Welch

voices to unite into one song, we can truly make our work a synergistic endeavor.

Heroic Journey

Traveling into the future of business is not for the timid, nor for the uninspired. The journey of the cooperative entrepreneur is one of challenges, innovations, and soul-searching. Failures will occur – just fail faster, fail earlier, aim higher, learn more – and realize that failure was just an illusion your ego created.

Those destined to achieve will use wisdom and imagination to a level never experienced before on a sustained basis. Taking the responsibility of leading an organization takes both boldness and humble dignity peppered with a good sense of humor. Brainpower alone is insufficient to drive the innovative spirit; innovation is a discipline of both head and heart. Be the champion of your life, – *believe fully, live fully.*

*Don't be afraid of dying.
Be afraid of an "unlived life."*

Champions are a Precious Resource

RULE #1: Never mistreat an advocate. They're few and far between. They make a difference in your life
-- Scott Welch

The unlived life is not worth examining.
The unexamined life is not worth living.
~ Socrates

Great champions understand that when in doubt about action, it's better to ask forgiveness after the fact than permission before the fact. And support those champions in your organization.

Be committed to attaining extraordinary results. Reasonable people produce reasonable results; extraordinary results flow from persistent visionaries committed to unreasonably worthy goals; their spirit thrives in a perpetual state of enlightened dissatisfaction committed to the idea: "it can be done!"

Several years ago around the family dinner table we had been exploring spiritual questions like “What are we doing here on earth? What’s the meaning of life?”

Kevin, my thirteen year old son, turned and looked me right in the eye with a look that instantly told me I was going to get an amazing answer. “Dad, don’t you know?”

Of course, I felt incredibly ignorant at that moment. My thirteen year-old is about to share with me the meaning of life, so, of course, he had my full attention. Kevin then said,

*The meaning of life is about
learning, having fun, and giving back.*

He then left the room. I sat there stunned, thinking to myself, “that’s the most inspiring answer I’ve ever heard in my whole life.”

Scott and Glen and I hope we’ve done that with this book.

*There are only two ways to live your life.
One is as though nothing is a miracle.
The other is as though everything is a miracle.*

-- Albert Einstein

Life is either a daring adventure or nothing at all.

-- Helen Keller

Who said it best? Einstein or Keller? You choose!

ⁱ Our other deepest fears are the fear of betrayal and the fear of not making a difference. This is why betrayal and nullification are at the very bottom of the trust scale – they represent our deepest fears, which render us impotent.

ⁱⁱ There are actually four forces, the Sex drive is the other, but not the subject of this book